

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Review Report

Consolidated Interim Financial Statements as of and
for the Three-Month Period Ended March 31, 2015

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Consolidated Interim Financial Statements

We have reviewed the accompanying consolidated interim statements of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of March 31, 2015, and the related consolidated interim statements of revenues, expenses and changes in net position, and cash flows for the three-month periods ended March 31, 2015 and 2014 (the "consolidated interim financial information").

Management's Responsibility for the Consolidated Interim Financial Information

MTA management is responsible for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the consolidated interim financial information in accordance with accounting principles generally accepted in the United States of America.

Auditors' Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated interim financial information referred to above for it to be in accordance with the accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in the notes to the consolidated interim financial statements, the MTA is a component unit of the State of New York. The MTA requires significant subsidies from and has material transactions with the City of New York, the State of New York, and the State of Connecticut, and depends on certain tax revenues that are economically sensitive.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 20, the Schedules of Pension Funding Progress on page 98, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 99 be presented to supplement

the consolidated interim financial statements. Such information, although not a part of the consolidated interim financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated interim 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, applicable to reviews of interim financial information, 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 consolidated interim financial statements, and other knowledge we obtained during our reviews of the consolidated interim 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.

Supplementary Information

Our review was conducted for the purpose of expressing limited assurance, as described under the Conclusion section above, on the MTA's consolidated interim financial statements. The Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, and Schedule of Financial Plan to Financial Statements Reconciliation are presented for the purposes of additional analysis and are not a required part of the consolidated interim financial statements.

The Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, and Schedule of Financial Plan to Financial Statements Reconciliation are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated interim financial statements. Such information has been subjected to the analytical procedures and inquiries applied in the review of the basic consolidated interim financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated interim financial statements or to the consolidated interim financial statements themselves, and other additional procedures and we are not aware of any material modifications that should be made thereto in order for such information to be in conformity with accounting principles generally accepted in the United States of America when considered in relation to the basic consolidated interim financial statements taken as a whole.

Report on Consolidated Statement of Net Position as of December 31, 2014

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of net position of the MTA as of December 31, 2014, and the related consolidated statement of revenues, expenses and changes in net position and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 29, 2015, which contains an explanatory paragraph that the MTA requires significant subsidies from other governmental entities. In our opinion, the accompanying consolidated statement of net position of the MTA as of December 31, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

June 24, 2015

**METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF MARCH 31, 2015 AND DECEMBER 31, 2014 AND
FOR PERIODS ENDED MARCH 31, 2015 AND 2014
(\$ In Millions)**

1. OVERVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

This report consists of five parts: Management's Discussion and Analysis ("MD&A"), Consolidated Interim Financial Statements, Notes to the Consolidated Interim Financial Statements, Required Supplementary Information, and Supplementary Information.

Management's Discussion and Analysis

This MD&A provides a narrative overview and analysis of the financial activities of the Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA" or "MTA Group") as of March 31, 2015 and December 31, 2014 and for the periods ended March 31, 2015 and 2014. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated interim financial statements. It provides an assessment of how the MTA Group's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA Group's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA Group's management that must be read in conjunction with, and should not be considered a replacement for, the consolidated interim financial statements.

The Consolidated Interim Financial Statements

The Consolidated Interim Statements of Net Position, which provide information about the nature and amounts of resources with present service capacity that the MTA Group presently controls (assets), consumption of net assets by the MTA Group that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the MTA Group has little or no discretion to avoid (liabilities), and acquisition of net assets by the MTA Group that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position.

The Consolidated Interim Statements of Revenues, Expenses, and Changes in Net Position, which provide information about the MTA's changes in net position for the period then ended and accounts for all of the period's revenues and expenses, measures the success of the MTA Group's operations during the period and can be used to determine how the MTA has funded its costs.

The Consolidated Interim Statements of Cash Flows, which provide information about the MTA Group's cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

Notes to the Consolidated Interim Financial Statements

The notes provide information that is essential to understanding the consolidated interim financial statements, such as the MTA Group's accounting methods and policies, details of cash and investments, employee benefits, long-term debt, lease transactions, future commitments and contingencies of the MTA Group, and information about other events or developing situations that could materially affect the MTA Group's financial position.

Required Supplementary Information

The required supplementary information provides information concerning the MTA Group's progress in funding its obligation to provide pension benefits and postemployment benefits to its employees.

Supplementary Information

The supplementary information provides a series of reconciliations between the MTA Group financial plan and the consolidated interim statements of revenues, expenses and changes in net position.

2. FINANCIAL REPORTING ENTITY

The Metropolitan Transportation Authority ("MTA" or "MTA Group") was established under the New York Public Authorities Law and is a public benefit corporation and a component unit of the State of New York whose mission is to continue, develop, and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

MTA Related Groups

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City ("NYC") and Long Island.
- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger transportation on Staten Island.
- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

3. **CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

The following sections discuss the significant changes in the MTA Group’s financial position as of March 31, 2015 and December 31, 2014 and for the periods ended March 31, 2015 and 2014. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated interim financial statements and the various exhibits presented were derived from the MTA Group’s consolidated interim financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

Total Assets and Deferred Outflows of Resources, Distinguishing Between Capital Assets, Other Assets and Deferred Outflows of Resources

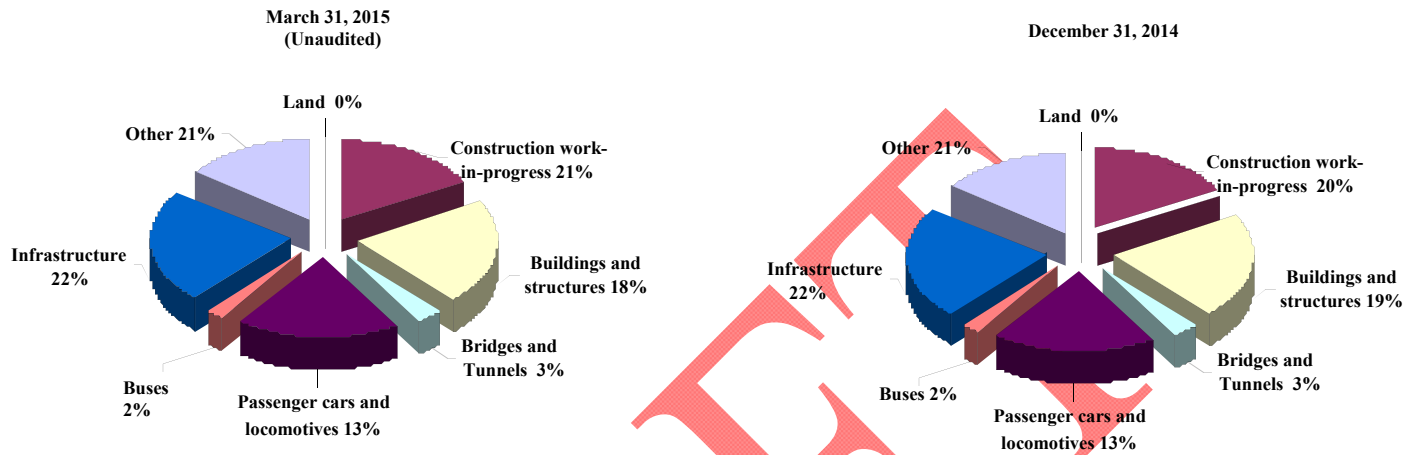
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

Other Assets include, but are not limited to: cash, restricted and unrestricted investments, State and regional mass transit taxes receivables, and receivables from New York State.

Deferred outflows of resources reflect: changes in fair market values of hedging derivative instruments that are determined to be effective, and unamortized loss on refunding.

| | March 2015 (Unaudited) | December 2014 | December 2013 | Increase/(Decrease) 2015 - 2014 2014 - 2013 | |
|---|------------------------------|------------------|------------------|---|-----------------|
| (In millions) | | | | | |
| Capital assets — net (see Note 6) | \$ 59,442 | \$ 59,060 | \$ 56,729 | \$ 382 | \$ 2,331 |
| Other assets | 10,902 | 8,502 | 8,215 | 2,400 | 287 |
| Deferred outflows of resources | <u>1,104</u> | <u>1,066</u> | <u>980</u> | <u>38</u> | <u>86</u> |
| Total assets and deferred outflows of resources | <u>\$ 71,448</u> | <u>\$ 68,628</u> | <u>\$ 65,924</u> | <u>\$ 2,820</u> | <u>\$ 2,704</u> |

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

March 31, 2015 versus December 31, 2014

- Net capital assets increased at March 31, 2015 by \$382. This increase is attributable to net increases in construction work-in-progress of \$677, other capital assets of \$80, buses for \$70, infrastructure for \$63, buildings and structures for \$31, passenger cars and locomotives for \$21, and land for \$7. The increases were offset by a net increase in accumulated depreciation of \$567. Some of the more significant projects contributing to the net increase included:
 - Continued progress on the East Side Access, Second Avenue Subway and Number 7 Extension Project.
 - Infrastructure work including:
 - Repairs and improvements continued at four facilities, namely Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, the Throgs Neck Bridge and the Verrazano-Narrows Bridge;
 - Switch replacement and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas; and
 - Ventilation system upgraded and installed at various facilities.
 - Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and construction of three Montauk bridges.
 - Continued passenger station rehabilitations for Penn Station and East Side Access Passenger station. Various signal and communication projects incurred by the MTA New York City Transit. Rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various stations.

- Other assets increased by \$2,400. The major items contributing to this change include:
 - An increase in current and non-current net receivables of \$1,762 derived mainly from:
 - An increase in due from State and regional mass transit taxes of \$1,490 due to the approval of the New York State 2015-2016 budget in March 2015.
 - An increase in due from other State and local assistance of \$319.
 - An increase in other various receivables of \$22.
 - A decrease in due from Federal and State Governments for capital projects of \$69.
 - A decrease in other current and non-current assets of \$57 derived from:
 - A decrease in advance to defined benefit pension trust of \$44 primarily from the amortization of prepaid pension cost by MTA Long Island Rail Road of \$23 and by MTA Metro-North Railroad of \$21.
 - A decrease in cash of \$39 from net cash flow activities.
 - A decrease in other various assets of \$6 due to the amortization of advances to the Defined Benefit Pension Plan.
 - An increase in material and supplies of \$23 due largely to increases in MTA New York City Transit of \$15 and cumulative increases in other Agencies of \$9 for maintenance material requirements for vehicles and facilities.
 - An increase in prepaid expenses and other current asset of \$9, due largely to prepayment of insurance premiums.
 - An increase in investments of \$695 derived from:
 - An increase in restricted investments of \$947, due primarily to higher debt service funds and an increase in proceeds from the issuance of Transportation Revenue Bonds Series 2015A in January 2015 and Series 2015B in March 2015.
 - A decrease in capital lease related investments of \$2 due to capital lease debt service payments.
 - A decrease in unrestricted investments of \$250, due primarily to the usage of operating funds for agency operations and lower Mobility Tax collections.
- Deferred outflows of resources increased by \$38 due to an increase in fair market value of derivative instruments of \$52 (See Notes 2 and 8), offset by a decrease in the loss on refunding of debt of \$14.

Total Liabilities and Deferred Inflows of Resources, Distinguishing Between Current Liabilities, Non-Current Liabilities and Deferred Inflows of Resources

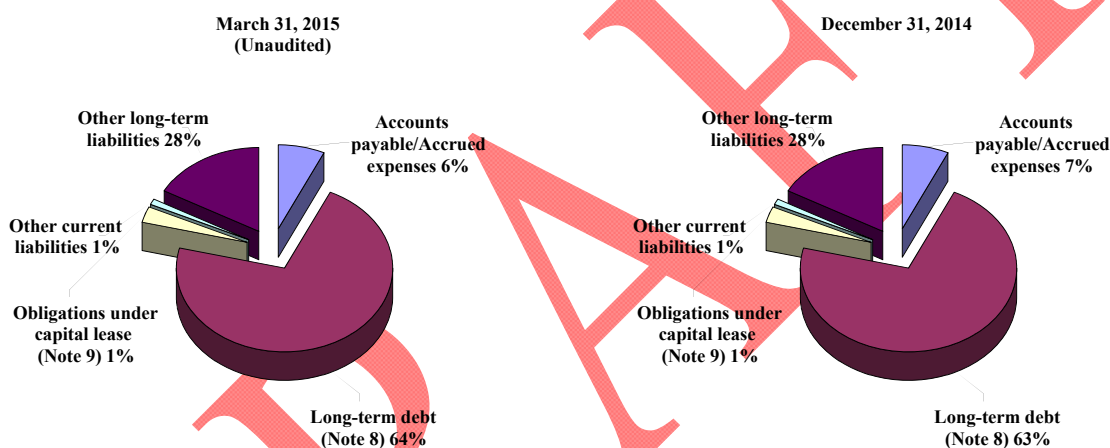
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

Non-current liabilities include: long-term debt, capital lease obligations, claims for injuries to persons, post-employment benefits and other non-current liabilities.

Deferred inflows of resources reflect unamortized gains on refunding.

| | March 2015 | December 2014 | December 2013 | Increase/(Decrease) 2015 - 2014 | 2014 - 2013 |
|---|------------------|------------------|------------------|------------------------------------|-----------------|
| (In millions) | | | | | |
| Current liabilities | \$ 5,435 | \$ 5,273 | \$ 5,142 | \$ 162 | \$ 131 |
| Non-current liabilities | 51,481 | 50,038 | 46,577 | 1,443 | 3,461 |
| Deferred inflows of resources | 34 | 35 | - | (1) | 35 |
| Total liabilities and deferred inflows of resources | <u>\$ 56,950</u> | <u>\$ 55,346</u> | <u>\$ 51,719</u> | <u>\$ 1,604</u> | <u>\$ 3,627</u> |

Total Liabilities



Significant Changes in Liabilities Include:

March 31, 2015 versus December 31, 2014

Current liabilities increased by \$162. The major items contributing to this change include:

- An increase in accrued expenses of \$192 due to:
 - An increase in other various accrued expenses of \$23 mainly due to increases in accruals for capital expenditures.
 - An increase in interest payable of \$348 due to new bond issuances in the later part of 2014.
 - A decrease in the current portion of retirement and death benefits of \$179 primarily due to a payment of \$177 from MTA New York City Transit for the New York City Employees' Retirement System ("NYCERS").
- An increase in unearned revenues of \$80 due largely to increases in MTA New York City Transit for advertising revenue

- A decrease in accounts payable of \$41 primarily due to timing of payments.
- A decrease in the current portion of long-term debt of \$61, primarily from debt service payments on January 2, 2015.
- A decrease in various other current liabilities of \$8.
- Noncurrent liabilities increased by \$1,443. The major items contributing to this increase include:
 - An increase in long-term debt of \$876 due to the issuance of MTA Transportation Revenue Bonds, Series 2015A, and Series 2015B (See Note 8). This increase was offset by retirements and debt payments as of March 31, 2015.
 - An increase in postemployment benefits other than pension liability ("OPEB") of \$510 as a result of actuarial determined calculations as required by GASB Statement No. 45 (See Note 5).
 - An increase in derivative liabilities of \$52 due to changes in fair market value.
 - An increase in other various non-current liabilities of \$5.

Deferred inflows of resources decreased by \$1 due to the amortization of the gain related from MTA's exercise of its early redemption rights on certain transit and commuter facilities revenue bonds previously defeased and escrowed to maturity.

Total Net Position, Distinguishing Between Net Investment in Capital Assets, Restricted Amounts, and Unrestricted Amounts

| (In millions) | March 2015 (Unaudited) | December 2014 | December 2013 | Increase | |
|----------------------------------|------------------------------|------------------|------------------|-----------------|-----------------|
| | | | | 2015 - 2014 | 2014 - 2013 |
| Net investment in capital assets | \$ 22,884 | \$ 22,944 | \$ 22,020 | \$ (60) | \$ 924 |
| Restricted for debt service | 937 | 434 | 478 | 503 | (44) |
| Restricted for claims | 165 | 167 | 135 | (2) | 32 |
| Restricted for other purposes | 994 | 1,011 | 906 | (17) | 105 |
| Unrestricted | <u>(10,482)</u> | <u>(11,274)</u> | <u>(9,334)</u> | <u>792</u> | <u>(1,940)</u> |
| Total Net Position | <u>\$ 14,498</u> | <u>\$ 13,282</u> | <u>\$ 14,205</u> | <u>\$ 1,216</u> | <u>\$ (923)</u> |

Significant Changes in Net Position Include:

March 31, 2015 versus December 31, 2014

At March 31, 2015, total net position increased by \$1,216 when compared with December 31, 2014. This change is comprised of net non-operating revenues of \$2,606 and appropriations, grants and other receipts externally restricted for capital projects of \$469. This increase is offset by operating losses of \$1,859.

The net investment in capital assets decreased by \$60. Funds restricted for debt service, claims and other purposes increased by \$484 in the aggregate, while unrestricted net position increased by \$792.

Condensed Consolidated Interim Statements of Revenues, Expenses and Changes in Net Position

| (In millions) | March 31, 2015 (Unaudited) | March 31, 2014 (Unaudited) | March 31, 2013 (Unaudited) | Increase/(Decrease) | |
|--|---|---|---|----------------------------|--------------------|
| | | | | 2015 - 2014 | 2014 - 2013 |
| Operating revenues | | | | | |
| Passenger and tolls | \$ 1,737 | \$ 1,706 | \$ 1,608 | \$ 31 | \$ 98 |
| Other | 156 | 151 | 138 | 5 | 13 |
| Total operating revenues | 1,893 | 1,857 | 1,746 | 36 | 111 |
| Non-operating revenues | | | | | |
| Grants, appropriations and taxes | 2,744 | 2,725 | 2,555 | 19 | 170 |
| Other | 168 | 182 | 160 | (14) | 22 |
| Total non-operating revenues | 2,912 | 2,907 | 2,715 | 5 | 192 |
| Total revenues | 4,805 | 4,764 | 4,461 | 41 | 303 |
| Operating expenses | | | | | |
| Salaries and wages | 1,363 | 1,256 | 1,203 | 107 | 53 |
| Retirement and other employee benefits | 490 | 472 | 474 | 18 | (2) |
| Postemployment benefits other than pensions | 631 | 595 | 554 | 36 | 41 |
| Depreciation and amortization | 568 | 547 | 532 | 21 | 15 |
| Other expenses | 696 | 675 | 641 | 21 | 34 |
| Operating expenses | 3,748 | 3,545 | 3,404 | 203 | 141 |
| Net (recoverables) /expenses related to asset impairment | 4 | - | 1 | 4 | (1) |
| Total operating expenses | 3,752 | 3,545 | 3,405 | 207 | 140 |
| Non-operating Expense | | | | | |
| Interest on long-term debt | 357 | 335 | 333 | 22 | 2 |
| Change in fair value of derivative financial instruments (Note 8) | - | - | (1) | - | 1 |
| Other net non-operating expenses | (51) | (23) | 57 | (28) | (80) |
| Total non-operating expenses | 306 | 312 | 389 | (6) | (77) |
| Total expenses | 4,058 | 3,857 | 3,794 | 201 | 63 |
| Appropriations, grants and other receipts externally restricted for capital projects | 469 | 413 | 617 | 56 | (204) |
| Change in net position | 1,216 | 1,320 | 1,284 | (104) | 36 |
| Net position, beginning of period | 13,282 | 14,205 | 15,679 | (923) | (1,474) |
| Restatement of beginning net position | - | - | (560) | - | 560 |
| Net position, end of period | \$ 14,498 | \$ 15,525 | \$ 16,403 | \$ (1,027) | \$ (878) |

Revenues and Expenses, by Major Source:

Period ended March 31, 2015 versus 2014

- Total operating revenues increased by \$36.
 - Fare and toll revenue increased by \$31 due to higher ridership and vehicle crossings for the period ended March 31, 2015 when compared to the period ended March 2014.
 - Other operating revenues increased by \$5. The increase was due primarily to an increase in paratransit reimbursement of expenses from New York City and from advertising revenues collected on behalf of all agencies.
- Total non-operating revenue increased by \$5.
 - Total grants, appropriations, and taxes were higher by \$19 for the period ended March 31, 2015.
 - Tax supported subsidies from New York City increased by \$100; this increase was from Urban Tax for \$85 and Mortgage Recording Tax for \$15.
 - Tax supported subsidies from New York State decreased by \$81, due to decreases from Mass Transportation Trust Fund for \$41, Payroll Mobility Tax for \$39, and MTA Aid Trust Account for \$1.
 - Other non-operating revenues decreased by \$14 due primarily to lower subsidies from New York City of \$13 for MTA Bus and MTA Staten Island Railway, from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$2 offset by an increase in Station Maintenance and Use assessments of \$1.
- Labor costs increased by \$161. The major changes within this category are:
 - Salaries and wages increased by \$107, due largely to increases in MTA New York City Transit of \$51, MTA Metro-North Railroad of \$15, MTA Long Island Rail Road of \$14, and other agencies increase by \$27.
 - Postemployment benefits other than pensions increased by \$36 from changes in actuarial estimates.
 - Retirement and employee benefits increased by \$18 due to increased rates for health and welfare plans and due to higher Workers' Compensation reserve requirements based on current actuarial calculations.
- Non-labor operating costs increased by \$46. The variance was due to:
 - Increase in depreciation by \$21 due to additional facilities placed into service.
 - Increase in claims by \$11 due to current actuarial calculations.
 - Increase in material and supplies by \$7, mainly due to ongoing maintenance and repairs for transit and commuter systems.

- Increase in other business expenses by \$21 primarily due to higher operating expenses of \$11 and a reversal of an operating accrual of \$10.
- Increase in asset impairment expenses of \$4, primarily related to the MTA Metro-North Railroad Harlem Line train accident on a highway-rail grade crossing between Valhalla and Hawthorne stations.
- Decrease in electric power and fuel by \$22 due to lower prices in the current period.
- Total net non-operating expenses decreased by \$6 due to:
 - Other non-operating expenses decreased by \$28 mainly due to changes in fair value.
 - Interest on long-term debt increased by \$22.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$56, mainly due to an increase in the availability of Federal grants and MTA bonds for capital projects.

4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Economic Conditions

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being. The MTA's business consists of urban subway and bus systems, suburban rail and bus systems, and bridge and tunnel facilities, all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary MTA system-wide utilization through the first quarter of 2015 declined relative to 2014, with ridership down by 1.1 million trips (0.2%).

This decline was driven primarily by a 4.0 million fall in bus ridership at MTA New York City Transit. Traffic congestion resulting from road construction in New York City has been one explanation of a continuing downward trend in the utilization of NYCT buses; additionally, harsh first quarter weather was an explanation for the fall in first quarter bus ridership: the winter months of 2015 brought significant snowfall totals, record cold temperatures and the "Juno" blizzard in January. February of 2015 was the coldest February since 1948, the first year for which complete data is available, and January and March temperatures were also colder than average. Moreover, March had the greatest total snowfall for that month since 1940. Nevertheless, at all other MTA agencies, with the exception of Staten Island Railway, ridership improved; and vehicle traffic at MTA Bridges and Tunnels facilities increased by 1.9 million crossings (3.1%) through the first quarter, reflecting both growth in the regional economy and a steep drop in gasoline prices compared with the first quarter of 2014.

The average level of seasonally adjusted non-agricultural employment in New York City for the first quarter was higher in 2015 than in 2014 by 107.8 thousand jobs (up 2.7%). On a quarter-to-quarter basis, New York City employment has increased in each of the last seventeen quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

While employment for New York City continued to gain ground, the increase was more dramatic than the broader measure of national economic growth represented by Real Gross Domestic Product (“RGDP”), which expanded at an annualized rate of 0.2%, according to the most recent advance estimate released by the Bureau of Economic Analysis. The national RGDP increase primarily reflected contributions from personal consumption expenditures and private inventory investment, partially offset by a decline in state and local government spending, a fall in non-residential fixed investment and a worsening of net exports. First quarter RGDP growth was slower than the 2014 annual rate of 2.4%; nevertheless, the national economy has now seen expansions in twenty-one of the last twenty-three quarters.

The New York City metropolitan area’s price inflation, as represented by the Consumer Price Index, was slightly higher than the national average in the first quarter of 2015: the overall price level fell both regionally and nationally, but the 0.6% regional decline was not as steep as the 0.7% decline in the average for all U.S. cities. A 22.0% fall in the price of energy products significantly inhibited overall inflation, both in the region and nationally. In the New York-New Jersey-Long Island area, the Consumer Price Index (“CPI”) exclusive of energy products actually increased by 1.7%. Consistent with the fall in overall energy prices, spot prices for New York Harbor conventional gasoline fell by 44.0% from an average price of \$2.740 to an average of \$1.538 per gallon between the first quarters of 2014 and 2015.

In March 2014, the Federal Reserve Bank announced that the Federal Open Market Committee (“FOMC”) would continue targeting the Federal Funds rate to the range of 0% to 0.25%, a range consistent with its statutory dual mandate to foster maximum employment within a context of price stability. The Federal Funds rate has remained in this range since late 2008, as financial and housing market crises deepened. In fact, the Federal Reserve Bank began to pursue expansionary intervention more than a year earlier as a response to the impending economic downturn: since the third quarter of 2007, the Federal Reserve Bank has sought to mitigate the consequences of recession by loosening the tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no scope to reduce further the Federal Funds rate, in March 2009 the Federal Reserve Bank began a program of large-scale purchases of government guaranteed assets. The objective of the program, which was expanded in November 2010, was to raise the price of long-term securities, thereby lowering interest rates in order to stimulate investment in the economy.

In spite of the steady improvement in economic activity in the second, third and fourth quarters of 2014, and signs of improvement in labor markets in the first quarter of 2015, the FOMC elected to maintain an accommodative stance by continuing to target a Federal Funds rate in the range of 0% to 0.25%. Because inflation rates remained below the Committee’s long-term objective, it judged that the Federal Funds rate could remain safely at its current level at least through the April FOMC meeting. In addition to maintaining the Federal Funds rate, the FOMC announced additional measures to foster conditions amenable to financial markets, including the continuation of its policy of reinvesting principal payments from its holdings of agency debt and mortgage-backed securities.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can

thereby impact receipts from the Mortgage Recording Tax (“MRT”) and Urban Tax, two important sources of MTA revenue. After the steady fall in MRT revenues that resulted from the financial and real estate crisis, MTA’s monthly receipts remained virtually flat for three years beginning in the first quarter of 2009; however, a discernible upward trend in MRT receipts began during the first quarter of 2012 and continued through the first quarter of 2015. Mortgage Recording Tax collections through the first quarter of 2015 were higher than through the first quarter of 2014 by \$16.2 (18.9%); and the first quarter of 2015 is the third quarter in a row in which MRT receipts exceeded those of the previous quarter. In spite of the gradual overall recovery of MRT receipts that has been occurring since 2012, average monthly receipts through the first quarter remain \$24.7 (42.1%) worse than their average in 2007, just prior to the steep decline of this revenue source.

MTA’s receipts of Urban Taxes – those based on commercial activity within New York City – have demonstrated a pronounced rise since 2010, increasing on a year-over-year basis in nineteen of the last twenty quarters. Compared to the one year earlier, average monthly Urban Tax receipts in the first quarter of 2015 were higher by \$63.0 (30.7%); moreover, quarterly receipts of Urban Taxes in the first quarter of 2015 of \$268.4 exceeded their previous peak level \$248.1 reached in the first quarter of 2007.

Results of Operations

MTA Bridges and Tunnels - For the three months ended March 31, 2015, operating revenues increased by \$14.5 as compared to the three months ended March 31, 2014. This increase can be primarily attributed to an increase in paid traffic for the first quarter of 2015 that totaled 64.8 million vehicles, which was 1.9 million crossings, or 3.1% higher than the first quarter of 2014. The primary reason for the increase was less severe weather in February of this year compared to last year, continued modest improvements in the regional economy and gas prices that have remained relatively low. Toll revenues reached \$382.7 through the first quarter, which was \$14.6 greater than last year at this time.

The E-ZPass electronic toll collection system continued to facilitate management of high traffic volumes and experienced significant year-to-year increases. Total average market share as of March 31, 2015 was 85.2% compared with 84.1% in 2014. The average weekday market shares were 86.8% and 85.8% for March 31, 2015 and 2014, respectively.

MTA New York City Transit - Total operating revenues during the first three months of 2015, increased by \$12.4 or 1.1% compared to the first three months of 2014. Continued increase in subway ridership is credited for the comparative increase in operating revenues.

MTA Long Island Rail Road – Total operating revenues during the first three months of 2015 increased by \$3.5 or 2.1% compared to the first three months of 2014. A steadily improving economy and service enhancements contributed to the increase.

MTA Metro-North Rail Road – During the first three months of 2015, operating revenues increased by \$4.3 or 2.6% compared to the three months of 2014. This increase is primarily a reflection of year-to-date 2015 fare revenue and ridership increased by 1.6% and 0.6%, respectively, compared to the same period in 2014. The increases in revenue occurred on the Hudson, Harlem and New Haven Lines for non-commutation and monthly commutation.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance (“MMTOA”) receipts each year, with the state advancing the first quarter of each succeeding calendar year’s receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first

quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During March 2015, the State appropriated \$1.6 billion in MMTOA funds. There has been no change in the timing of the State's payment of, or MTA's receipt of, Dedicated Mass Transportation Trust Fund ("MTTF") receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund for the Dedicated Tax Fund Bonds. The total MRT as of December 31, 2014 increased by 0.32% compared to December 2013 from \$365.5 to \$366.6. However, the total MRT as at March 31, 2015 increased by 16.1% compared to March 31, 2014 from \$83.3 to \$96.7.

Capital Programs

At March 31, 2015, \$21,151 had been committed and \$10,077 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$23,689 had been committed and \$22,509 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$21,559 had been committed and \$21,279 had been expended for the combined 2000 -2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

The MTA Group has ongoing capital programs, which except for MTA Bridges and Tunnels are subject to the approval of the Metropolitan Transportation Authority Capital Program Review Board ("CPRB"), and are designed to improve public transportation in the New York Metropolitan area.

2010-2014 Capital Program — Capital programs covering the years 2010-2014 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2010–2014 Commuter Capital Program"), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the "2010–2014 Transit Capital Program") were originally approved by the MTA Board in September 2009. The capital programs were subsequently submitted to the CPRB in October 2009. This plan was disapproved by the CPRB, without prejudice, in December 2009 allowing the State Legislature to review funding issues in their 2010 session. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2010–2014 MTA Bridges and Tunnels Capital Program") was approved by the MTA Board in September 2009 and was not subject to CPRB approval. The MTA Board approved the revised plan for the Transit and Commuter systems on April 28, 2010 and CPRB approval of the five year program of projects was obtained on June 1, 2010. The approved CPRB program fully funded only the first two years (2010 and 2011) of the plan, with a commitment to come back to CPRB with a funding proposal for the last three years for the Transit and Commuter Programs. On December 21, 2011, the MTA Board approved an amendment to the 2010-2014 Capital Program for the Transit, Commuter and Bridges and Tunnels systems that fund the last three years of the program through a combination of self-help (efficiency improvements and real estate initiatives), participation by our funding partners, and innovative and pragmatic financing arrangements. On March 27, 2012, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Programs for the Transit, Commuter and Bridges and Tunnels systems to add projects for the repair/restoration of MTA agency assets damaged as a result of Superstorm Sandy, which struck the region on October 29, 2012. On January 22, 2013, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Programs for the Transit, Commuter and Bridges and Tunnels systems to include specific revisions to planned projects and to include new resilience/mitigation initiatives in response to Superstorm Sandy. On August 27, 2013, the CPRB

deemed approved those amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted. On July 28, 2014, the MTA Board approved an amendment to select elements of the Disaster Recovery (Sandy) and NYCT portions of the 2010-2014 Capital Programs, and a change in the funding plan. On September 3, 2014, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

As last amended by the MTA Board in 2014, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program provided for \$34,801 in capital expenditures. By March 31, 2015, the 2010-2014 MTA Capital Programs budget increased by \$50 primarily due to additional work scope funded through additional grants. Of the new \$34,851 now provided in capital expenditures, \$11,643 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,897 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,865 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$335 relates to a multi-faceted security program including MTA Police Department; \$214 relates to MTA Interagency; \$297 relates to MTA Bus Company initiatives; \$2,076 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities; and \$10,524 relates to Superstorm Sandy recovery/mitigation capital expenditures.

The combined funding sources for the CPRB-approved 2010–2014 MTA Capital Programs and 2010–2014 MTA Bridges and Tunnels Capital Program include \$12,703 in MTA Bonds, \$2,079 in MTA Bridges and Tunnels dedicated funds, \$6,337 in Federal Funds, \$132 in MTA Bus Federal and City Match, \$778 from City Capital Funds, and \$1,528 from other sources. Also included is \$770 in State Assistance funds added to re-establish a traditional funding partnership. The funding strategy for Superstorm Sandy repair and restoration assumes the receipt of \$9,431 in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), \$160 in pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$933 in additional MTA and MTA Bridges and Tunnels bonds.

2005-2009 Capital Program — Capital programs covering the years 2005-2009 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2005–2009 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2005–2009 Transit Capital Program”) were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005–2009 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in April 2005 and was not subject to CPRB approval. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) were last amended by the MTA Board in July 2008. This latest 2005-2009 MTA Capital Program amendment was resubmitted to the CPRB for approval in July 2008, and was approved in August 2009.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provided for \$23,717 in capital expenditures. By March 31, 2015, the 2005-2009 MTA Capital Programs budget increased by \$860 primarily due to the receipt of new American Recovery and Reinvestment Act (“ARRA”) funds and additional New York City Capital funds for MTA Capital Construction work still underway. Of the \$24,577 now provided in capital expenditures, \$11,618 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,761 relates to ongoing repairs of, and replacements to, the commuter system

operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$508 relates to a security program throughout the transit, commuter and bridge and tunnel network; \$168 relates to certain interagency projects; \$7,175 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and No. 7 subway line); \$1,195 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels; and \$152 relates to capital projects for the MTA Bus.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,883 in MTA and MTA Bridges and Tunnels Bonds (including funds for LaGuardia Airport initiative), \$1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, \$9,093 in Federal Funds, \$2,827 in City Capital Funds, and \$1,324 from other sources.

At March 31 2015, \$23,689 had been committed and \$22,509 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

2000-2004 Capital Program — Capital programs covering the years 2000-2004 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2000–2004 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2000–2004 Transit Capital Program”) were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2000–2004 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in April 2000 and was not subject to CPRB approval. The 2000–2004 amended Commuter Capital Program and the 2000–2004 amended Transit Capital program (collectively, the “2000–2004 MTA Capital Programs”) were last amended by the MTA Board in December 2006. This amendment was submitted to the CPRB for approval in April 2007, but was subsequently disapproved. In December 2007, the MTA Board approved a modified amendment; this amendment was submitted to the CPRB for approval, which was granted in January 2008.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program, provide for \$21,147 in capital expenditures. By March 31, 2015, the budget increased by \$581, primarily due to the receipt of ARRA funds, transfers from the 2005-2009 Capital Programs, and MTA operating sources required to fund cost increases for work still underway. The revised budget now provides \$21,728 in capital expenditures, of which \$10,438 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$4,029 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,330 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$203 relates to planning and design and customer service projects; \$244 relates to World Trade Center repair projects; \$982 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program (with revisions through the July 2008) include \$7,387 in bonds, \$7,417 in Federal funds, \$4,561 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,363 from other sources.

At March 31, 2015, \$21,559 had been committed and \$21,279 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The MTA's Variable Rate Debt Portfolio

During the period ended March 31, 2015, deteriorated credit quality of bond insurers continued to put pressure on the auction segments of the MTA's variable rate portfolio. Auctions for all of the \$276.4 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of March 31, 2015, had been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

The February Plan

The February Plan was presented to the Finance Committee on February 23, 2015. It is a re-statement of the 2015 Final Proposed Budget and 2015–2018 Financial Plan (collectively, the November Plan) that were first presented at the November Board meeting, and adopted by the MTA Board on December 17, 2014. The February Plan includes the 2015 Adopted Budget and the 2015-2018 Financial Plan (collectively, the February Plan). It incorporates those actions previously set forth “below the line” in the November Plan into the baseline, incorporates technical adjustments and establishes a 12-month allocation of the current year's adopted budget to facilitate monthly reporting.

Tropical Storm Sandy Update

The total allocation of allocated emergency relief funding from the Federal Transit Administration (“FTA”) to MTA in connection with Superstorm Sandy to date is \$5.39 billion, including \$1.599 billion allocated on September 22, 2014 through a competitive resiliency program. Of the total allocated amount, the FTA has approved and executed four grants to MTA in the amounts of \$194, \$886, \$684.5 and \$787.6 respectively, for a total of \$2.55 billion. As of February 26, 2015, MTA has drawn down \$183 of the \$194 grant for reimbursement of eligible operating and capital expenses. The grant in the amount of \$886 is solely for MTA capital projects and will be used for recovery projects totaling \$802 and for four resiliency projects totaling \$84. As of February 26, 2015, MTA has drawn down \$399 of the \$886 grant for reimbursement of eligible capital expenses. As of February 26, 2015, MTA has drawn down \$17 of the \$684.5 grant executed in September 2014, for reimbursement of eligible capital expenses. The grant in the amount of \$787.6 is solely for MTA capital projects and was executed on February 11, 2015. As of February 26, 2015, there have been no federal drawdowns for that grant. The balance of funds to be drawn down from all four grants is available to MTA for reimbursement of eligible expenses as requisitions are submitted by MTA and approved by FTA. Additional requisitions are in process. MTA will submit grant requests for the remaining \$2.84 billion of FTA allocated and appropriated emergency relief funding in Federal Fiscal Year 2015.

Labor Update

Subsequent to the presentation of the November Plan to the MTA Board, certain of the unions representing employees at various MTA agencies reached agreement.

Metro-North Railroad Labor Agreements. MTA Metro-North Railroad reached agreements with nine¹ of its bargaining units, representing 29% of the labor force, which agreements have a term of seventy-eight (78) months from July 16, 2010, through January 15, 2017, and mirror the LIRR Labor Coalition agreements with regard to both structure and cost. In January 2015, Metro-North Railroad's Association of Commuter Rail Employees ("ACRE") unions representing Conductors, Engineers, Yardmasters, Signal Maintainers reached tentative agreements with the MTA, also for a term of seventy-eight (78) months from July 16, 2010, through January 15, 2017. While these agreements provide an early retirement option to approximately 400 employees hired between 2007 and the present, an option already available to MTA Long Island Rail Road represented employees, this option is fully funded by additional pension contributions and, as such, the agreements are within the railroad bargaining pattern and mirror the LIRR Labor Coalition agreements with regard to structure and cost. They have been ratified by their respective unions and were approved by the MTA Board on February 25, 2015.

In February 2015, MTA Metro-North Railroad reached agreements with its maintenance of way supervisors represented by the American Railway and Airway Supervisors Association ("ARASA"), as well as its bartenders, service workers, carmen, cleaners and helpers represented by Transport Workers Union ("TWU") locals 2001 and 2055. These agreements all have a term of seventy-eight (78) months from July 16, 2010, through January 15, 2017, and mirror the LIRR Labor Coalition agreements with regard to both structure and cost. The ARASA agreement was approved by the MTA Board on February 25, 2015. The TWU agreements are awaiting union ratification. To date, MTA Metro-North Railroad has reached agreement with all of its represented employees except for its track workers, mechanics, and vehicle and machine operators represented by International Brotherhood of Teamsters Local 808. This group represents approximately 12% of the MTA Metro-North Railroad represented workforce.

MTA Headquarters - On December 11, 2014, a tentative agreement was reached with Local 808 of the International Brotherhood of Teamsters, representing approximately 60 clerical, administrative, and communications employees. The seventy-eight (78) month agreement runs from March 1, 2010, through August 31, 2016, and is consistent with the MTA financial plan. The union has ratified this agreement and it was approved by the MTA Board on February 25, 2015. To date, all expired bargaining agreements at MTA Headquarters have been settled. Bargaining has begun with a new bargaining unit represented by the Transportation Communications Union Local 982 representing information technology workers from various agencies that were recently consolidated as an MTA Headquarters department.

MTA Bridges and Tunnels - On January 30, 2015, a three (3) year agreement was reached with the Superior Officers Benevolent Association. The agreement covers approximately 160 Superior Officers for the period from March 15, 2009, through March 14, 2012, and is consistent with the MTA-TWU bargaining pattern for the 2009-2012 round of bargaining. The contract has been ratified by the union and was approved by the MTA Board on February 25, 2015.

On March 17, 2015, a seven year and four month agreement from March 3, 2010 through July 2, 2017, was reached with DC 37 Local 1655, which represents approximately 50 clerical employees. The agreement is consistent with the pattern set by the DC 37 Citywide agreement for the same period.

¹ This includes one bargaining unit of newly accredited Information Technology employees who receive the MTA Metro-North Railroad general wage increases by operation of their current contract.

Fares and Tolls

On January 22, 2015, the MTA Board voted to increase the Authority's Subway and Bus fares effective March 22, 2015. MetroCard seven-day passes increased from \$30 to \$31 and MetroCard thirty-day passes increased from \$112 to \$116.50. The basic fare increased from \$2.50 to \$2.75. The single-ride ticket price increased from \$2.75 to \$3.00. The bonus value increased from 5% to 11%.

On January 22, 2015, the MTA Board passed an increase in the MTA Bridges and Tunnels Crossing Charge Schedule which went into effect on March 22, 2015.

On January 22, 2015, the MTA Board approved the proposal for a MTA Metro-North Railroad fare increase for travel to or from stations located in New York State. The approval provided for an increase of 4%, beginning March 22, 2015.

On January 22, 2015, the MTA Board adopted fare increases for the MTA Long Island Railroad, which became effective on March 22, 2015. Monthly railroad ticket holders began paying the higher fare with their April ticket. Most MTA Long Island Rail Road rail tickets increased an average of 4 percent, depending on ticket type and distance traveled.

MTA Metro-North Railroad Grade Crossing Incident

On February 3, 2015, an MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. The driver of the automobile and five passengers on the train were killed and a number of passengers and the train engineer were injured. The National Transportation Safety Board ("NTSB") is conducting an investigation into the contributing causes of the accident and has issued a Preliminary Report. There is no indication from the NTSB's Preliminary Report that MTA Metro-North Railroad was at fault in connection with this incident. At the present time, there is insufficient information to permit reasonable estimation of the total losses that may be associated with this incident. MTA Metro-North Railroad has insurance for liability claims under the MTA all-agency excess liability policy issued by the First Mutual Transportation Assurance Company, which insurance would provide coverage to MTA Metro North Railroad were losses it incurs in resolving claims exceeds the MTA Metro-North Railroad's \$10 self-insured retention.

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF NET POSITION
MARCH 31, 2015 AND DECEMBER 31, 2014
(\$ In millions)

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|----------------------------------|----------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| CURRENT ASSETS: | | |
| Cash (Note 3) | \$ 272 | \$ 311 |
| Unrestricted investments (Note 3) | 2,711 | 2,966 |
| Restricted investment (Note 3) | 2,032 | 1,107 |
| Restricted investments held under capital lease obligations (Notes 3 and 9) | 2 | 4 |
| Receivables: | | |
| Station maintenance, operation, and use assessments | 162 | 122 |
| State and regional mass transit taxes | 1,625 | 135 |
| Mortgage Recording Tax receivable | 34 | 39 |
| State and local operating assistance | 218 | 8 |
| Other receivable from New York City and New York State | 318 | 260 |
| Connecticut Department of Transportation | 31 | 17 |
| Due from Build America Bonds | 3 | 1 |
| Due from Nassau County for Long Island Bus | 14 | 14 |
| Capital project receivable from federal and state government | 90 | 159 |
| Other | 350 | 330 |
| Less allowance for doubtful accounts | (37) | (37) |
| Total receivables — net | <u>2,808</u> | <u>1,048</u> |
| Materials and supplies | 542 | 519 |
| Advance to defined benefit pension trust | 404 | 448 |
| Prepaid expenses and other current assets (Note 2) | <u>203</u> | <u>194</u> |
| Total current assets | <u>8,974</u> | <u>6,597</u> |
| NON-CURRENT ASSETS: | | |
| Capital assets — net (Note 6) | 59,442 | 59,060 |
| Unrestricted investments (Note 3) | 75 | 70 |
| Restricted investments (Note 3) | 372 | 350 |
| Restricted investment held under capital lease obligations (Notes 3 and 9) | 450 | 450 |
| Other non-current receivables | 573 | 571 |
| Receivable from New York State | 257 | 257 |
| Other non-current assets | <u>201</u> | <u>207</u> |
| Total non-current assets | <u>61,370</u> | <u>60,965</u> |
| TOTAL ASSETS | <u>70,344</u> | <u>67,562</u> |
| DEFERRED OUTFLOWS OF RESOURCES: | | |
| Accumulated decreases in fair value of derivative instruments | 583 | 531 |
| Loss on debt refunding | <u>521</u> | <u>535</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>1,104</u> | <u>1,066</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 71,448</u> | <u>\$ 68,628</u> |

See Independent Auditors' Review Report and notes to
the consolidated interim financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF NET POSITION
MARCH 31, 2015 AND DECEMBER 31, 2014
(\$ In millions)

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|--|----------------------------------|----------------------|
| LIABILITIES AND NET POSITION | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 396 | \$ 437 |
| Accrued expenses: | | |
| Interest | 559 | 211 |
| Salaries, wages and payroll taxes | 371 | 374 |
| Vacation and sick pay benefits | 850 | 838 |
| Current portion — retirement and death benefits | 205 | 384 |
| Current portion — estimated liability from injuries to persons (Note 11) | 412 | 413 |
| Other | <u>1,051</u> | <u>1,036</u> |
| Total accrued expenses | <u>3,448</u> | <u>3,256</u> |
| Current portion — long-term debt (Note 8) | 922 | 983 |
| Current portion — obligations under capital lease (Note 9) | 8 | 10 |
| Current portion — pollution remediation projects (Note 13) | 24 | 25 |
| Derivative fuel hedge liability | 43 | 48 |
| Unearned revenues | <u>594</u> | <u>514</u> |
| Total current liabilities | <u>5,435</u> | <u>5,273</u> |
| NON-CURRENT LIABILITIES: | | |
| Estimated liability arising from injuries to persons (Note 11) | 2,099 | 2,096 |
| Post employment benefits other than pensions (Note 5) | 12,576 | 12,066 |
| Long-term debt (Note 8) | 35,036 | 34,160 |
| Obligations under capital leases (Note 9) | 503 | 505 |
| Pollution remediation projects (Note 13) | 77 | 74 |
| Contract retainage payable | 300 | 296 |
| Derivative liabilities | 483 | 431 |
| Derivative liabilities- off market elements | 108 | 108 |
| Other long-term liabilities | <u>299</u> | <u>302</u> |
| Total non-current liabilities | <u>51,481</u> | <u>50,038</u> |
| Total liabilities | <u>56,916</u> | <u>55,311</u> |
| DEFERRED INFLOWS OF RESOURCES: | | |
| Gain on debt refunding | <u>34</u> | <u>35</u> |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>34</u> | <u>35</u> |
| NET POSITION: | | |
| Net investment in capital assets | 22,884 | 22,944 |
| Restricted for debt service | 937 | 434 |
| Restricted for claims | 165 | 167 |
| Restricted for other purposes (Note 2) | 994 | 1,011 |
| Unrestricted | <u>(10,482)</u> | <u>(11,274)</u> |
| Total net position | <u>14,498</u> | <u>13,282</u> |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | <u>\$ 71,448</u> | <u>\$ 68,628</u> |

See Independent Auditors' Review Report and notes to
the consolidated interim financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PERIODS ENDED MARCH 31, 2015 AND 2014

(\$ In millions)

| | March 31, 2015 | March 31, 2014 (Unaudited) |
|---|-------------------|----------------------------------|
| OPERATING REVENUES: | | |
| Fare revenue | \$ 1,354 | \$ 1,338 |
| Vehicle toll revenue | 383 | 368 |
| Rents, freight, and other revenue | <u>156</u> | <u>151</u> |
| Total operating revenues | <u>1,893</u> | <u>1,857</u> |
| OPERATING EXPENSES: | | |
| Salaries and wages | 1,363 | 1,256 |
| Retirement and other employee benefits | 490 | 472 |
| Postemployment benefits other than pensions (Note 5) | 631 | 595 |
| Electric power | 134 | 130 |
| Fuel | 49 | 75 |
| Insurance | 14 | 14 |
| Claims | 61 | 50 |
| Paratransit service contracts | 92 | 88 |
| Maintenance and other operating contracts | 101 | 101 |
| Professional service contracts | 63 | 63 |
| Pollution remediation projects (Note 13) | 4 | 4 |
| Materials and supplies | 133 | 126 |
| Depreciation | 568 | 547 |
| Other | <u>45</u> | <u>24</u> |
| Total operating expenses | <u>3,748</u> | <u>3,545</u> |
| Net expenses related to asset impairment (Note 7) | <u>4</u> | <u>-</u> |
| OPERATING LOSS | <u>(1,859)</u> | <u>(1,688)</u> |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Grants, appropriations, and taxes: | | |
| Tax-supported subsidies — NYS: | | |
| Mass Transportation Trust Fund subsidies | 141 | 182 |
| Metropolitan Mass Transportation Operating Assistance subsidies | 1,564 | 1,564 |
| Payroll Mobility Tax subsidies | 409 | 448 |
| MTA Aid Trust Account subsidies | 70 | 71 |
| Tax-supported subsidies — NYC and Local: | | |
| Mortgage Recording Tax subsidies | 97 | 82 |
| Urban Tax subsidies | 244 | 159 |
| Other subsidies: | | |
| Operating Assistance - 18-B program | 217 | 217 |
| Build America Bond subsidy | <u>2</u> | <u>2</u> |
| Total grants, appropriations, and taxes | <u>\$ 2,744</u> | <u>\$ 2,725</u> |

See Independent Auditors' Review Report and notes to
the consolidated interim financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

PERIODS ENDED MARCH 31, 2015 AND 2014

(\$ In millions)

| | March 31, 2015 | March 31, 2014 |
|--|-------------------|-------------------|
| | (Unaudited) | |
| NON-OPERATING REVENUES (EXPENSES): | | |
| Connecticut Department of Transportation | \$ 30 | \$ 32 |
| Subsidies paid to Dutchess, Orange, and Rockland Counties | (1) | (1) |
| Interest on long-term debt | (357) | (335) |
| Station maintenance, operation and use assessments | 41 | 40 |
| Operating subsidies recoverable from NYC | 97 | 110 |
| Other net non-operating revenue | <u>52</u> | <u>24</u> |
| Net non-operating revenues | <u>2,606</u> | <u>2,595</u> |
| GAIN BEFORE APPROPRIATIONS | 747 | 907 |
| APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS | <u>469</u> | <u>413</u> |
| CHANGE IN NET POSITION | 1,216 | 1,320 |
| NET POSITION— Beginning of period | <u>13,282</u> | <u>14,205</u> |
| NET POSITION — End of period | <u>\$ 14,498</u> | <u>\$ 15,525</u> |

See Independent Auditors' Review Report and notes to
the consolidated interim financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2015 AND 2014

(\$ In millions)

| | March 31, 2015 | March 31, 2014 |
|---|-------------------|-------------------|
| | (Unaudited) | |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Passenger receipts/tolls | \$ 1,812 | \$ 1,743 |
| Rents and other receipts | 116 | 114 |
| Payroll and related fringe benefits | (2,117) | (2,025) |
| Other operating expenses | <u>(805)</u> | <u>(710)</u> |
| Net cash used by operating activities | <u>(994)</u> | <u>(878)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Grants, appropriations, and taxes | 1,076 | 961 |
| Operating subsidies from CDOT | 22 | 32 |
| Subsidies paid to Dutchess, Orange, and Rockland Counties | <u>(2)</u> | <u>(4)</u> |
| Net cash provided by noncapital financing activities | <u>1,096</u> | <u>989</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| MTA bond proceeds | 1,261 | 436 |
| MTA Bridges and Tunnels bond proceeds | 559 | 332 |
| MTA bonds refunded/reissued | - | (147) |
| TBTA bonds refunded/reissued | (559) | (66) |
| MTA anticipation notes proceeds | 602 | 546 |
| MTA anticipation notes redeemed | (602) | (440) |
| MTA credit facility | (300) | - |
| Capital lease payments and terminations | - | (2) |
| Grants and appropriations | 569 | 478 |
| Payment for capital assets | (871) | (900) |
| Debt service payments | <u>(130)</u> | <u>(149)</u> |
| Net cash provided by capital and related financing activities | <u>529</u> | <u>88</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of long-term securities | (1,666) | (3,149) |
| Sales or maturities of long-term securities | 1,605 | 1,327 |
| Net (Purchases)/Sales or maturities of short-term securities | (615) | 1,553 |
| Earnings on investments | <u>6</u> | <u>8</u> |
| Net cash used by investing activities | <u>(670)</u> | <u>(261)</u> |
| NET DECREASE IN CASH | (39) | (62) |
| CASH — Beginning of period | <u>311</u> | <u>358</u> |
| CASH — End of period | <u>\$ 272</u> | <u>\$ 296</u> |

See Independent Auditors' Review Report and notes to the consolidated interim financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2015 AND 2014

(\$ In millions)

| | March 31, 2015 | March 31, 2014 (Unaudited) |
|--|-------------------|----------------------------------|
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating loss | \$ (1,859) | \$ (1,688) |
| Adjustments to reconcile to net cash used in operating activities: | | |
| Depreciation and amortization | 568 | 547 |
| Net increase in payables, accrued expenses, and other liabilities | 315 | 303 |
| Net decrease in receivables | (62) | (60) |
| Net increase in materials and supplies and prepaid expenses | <u>44</u> | <u>20</u> |
| NET CASH USED BY OPERATING ACTIVITIES | <u>\$ (994)</u> | <u>\$ (878)</u> |
| NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital assets and related liabilities | \$ 599 | \$ 781 |
| Capital leases and related liabilities | <u>511</u> | <u>519</u> |
| TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES | <u>\$ 1,110</u> | <u>\$ 1,300</u> |
| See Independent Auditors' Review Report and notes to the consolidated interim financial statements. | | (Concluded) |

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF MARCH 31, 2015 AND DECEMBER 31, 2014 AND FOR PERIODS ENDED MARCH 31, 2015 AND 2014 (\$ In millions)

1. BASIS OF PRESENTATION

Reporting Entity — The Metropolitan Transportation Authority (“MTA”) was established in 1965, under Section 1263 of the New York Public Authorities Law, and is a public benefit corporation and a component unit of the State of New York (“NYS”) whose mission is to continue, develop and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

These consolidated interim financial statements are of the Metropolitan Transportation Authority (“MTA”), including its related groups (collectively, the “MTA Group”) as follows:

Metropolitan Transportation Authority and Related Groups

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- First Mutual Transportation Assurance Company (“FMTAC”) provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s consolidated interim financial statements because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board (a reference to “MTA Board” means the board of MTAHQ and/or the boards of the other MTA Group entities that apply in the specific context, all of which are comprised of the same persons). Under accounting principles generally accepted in the United States of America (“GAAP”), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organization as a whole. The components do not constitute a separate accounting entity (fund) since there is no legal requirement to account for the activities of the components as discrete accounting entities. Therefore, the MTA interim financial statements are presented on a consolidated basis with segment disclosure for each distinct operating activity.

Although the MTA Group collects fares for the transit and commuter service, they provide and receive revenues from other sources, such as the leasing out of real property assets, and the licensing of advertising. Such revenues, including forecast-increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such services. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Non-operating subsidies to the MTA Group for transit and commuter service for the period ended March 31, 2015 and 2014 totaled \$2.7 billion and \$2.7 billion, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying consolidated interim financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

The Authority applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions— An Amendment of GASB Statement No. 27*. GASB

Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, and GASB Statement No. 50, *Pension Disclosures – an amendment of GASB Statements No. 25 and No. 27*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and RSI. The provisions in GASB Statement No. 68 are effective for fiscal years beginning after June 15, 2014.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The objective of GASB Statement No. 71 is to address an issue regarding application of the transition provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or non-employer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB Statement No. 68 in the accrual-basis financial statements of employers and non-employer contributing entities. This benefit will be achieved without the imposition of significant additional costs. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2014.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. Under this Statement, fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The provisions in GASB Statement No. 72 are effective for periods beginning after June 15, 2015.

Use of Management Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and 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 significantly from those estimates.

Principles of Consolidation — The consolidated interim financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Bus, MTA Capital Construction, MTA New York City Transit (including its subsidiary MaBSTOA), and MTA Bridges and Tunnels for years presented in the financial statements. All related group transactions have been eliminated for consolidation purposes.

Net Position – Restricted for Other Purposes – This category is classified within net position and includes net position restricted for capital leases and MTA Bridges and Tunnels necessary reconstruction reserve.

Investments — The MTA Group's investment policies comply with the New York State Comptroller's guidelines for such operating and capital policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations. FMTAC's investment policies comply with New York State Comptroller guidelines and New York State Department of Insurance guidelines.

Investments expected to be utilized within a year of March 31 or December 31 have been classified as current assets in the consolidated interim financial statements.

Investments are recorded on the consolidated interim statement of net position at fair value and amortized cost. All investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at March 31, 2015 and December 31, 2014.

Materials and Supplies — Materials and supplies are valued principally at the lower of average cost or market value, net of obsolescence reserve.

Prepaid Expenses and Other Current Assets — Prepaid expenses and other current assets reflect advance payment of insurance premiums as well as farecard media related with ticket machines, WebTickets and AirTrain tickets.

Capital Assets — Properties and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives. Expenses for maintenance and repairs are charged to operations as incurred. Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than \$25 thousand. Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less.

Pollution remediation projects — Pollution remediation costs have been expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (See Note 13). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the MTA is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation; the MTA voluntarily commences or legally obligates itself to commence remediation efforts; or the MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Operating Revenues — Passenger Revenue and Tolls — Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income when used.

Non-operating Revenues

Operating Assistance — The MTA Group receives, subject to annual appropriation, NYS operating assistance funds that are recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the MTA's service area.

Mortgage Recording Taxes ("MRT") — Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax ("MRT-1"). MRT-1 is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective September 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax ("MRT-2") of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to nine dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55% to certain transit operations and 45% to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually (subject to the monies being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of March 31, 2015 and 2014, the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0, respectively. Of the MTA New York City Transit portion, the MTA distributed \$0 and \$0 as of March 31, 2015 and 2014, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland ("DOR") Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of March 31, 2015, the MTA paid to Dutchess, Orange and Rockland Counties the 2014 excess amounts of MRT-1 and MRT-2 totaling \$1.2.
- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of 0.625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

Mobility tax — In June of 2009, Chapter 25 of the NYS Laws of 2009 added Article 23, which establishes the Metropolitan Commuter Transportation Mobility Tax ("MCTMT"). The proceeds of this tax, administered by the New York State Tax Department, are to be distributed to the Metropolitan Transportation Authority. This tax is imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district which includes New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This Tax is imposed on certain employers that have payroll expenses within the

Metropolitan Commuter Transportation District, to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The employer is prohibited from deducting from wages or compensation of an employee any amount that represents all or any portion of the MCTMT. The effective date of this tax was March 1, 2009 for employers other than public school district; September 1, 2009 for Public school districts and January 1, 2009 for individuals.

Supplemental Aid — In 2009, several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the AID Trust Account of the Metropolitan Transportation Authority Financial Assistance Fund established pursuant to Section 92 of the State Finance law. These supplemental revenues relate to: 1) supplemental learner permit/license fee in the Metropolitan Commuter Transportation District, 2) supplemental registration fee, 3) supplemental tax on every taxicab owner per taxicab ride on every ride that originated in the city and terminates anywhere within the territorial boundaries of the Metropolitan Commuter Transportation District, and 4) supplemental tax on passenger car rental. This Supplemental Aid Tax is provided to the MTA in conjunction with the Mobility Tax.

Dedicated Taxes — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to the Transit System (defined as MTA New York City Transit and MaBSTOA), SIRTAA and the Commuter Railroads to pay operating and capital costs. The MMTOA receipts are comprised of 0.375 of one percent regional sales tax, regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then-current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (See Note 8), 85% to certain transit operations (not including MTA Bus) and 15% to the commuter railroads operations. Revenues from this funding source are recognized based upon amounts of tax reported as collected by NYS, to the extent of the appropriation.

Build America Bond Subsidy — The Authority is receiving cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series of Bonds issued as "Build America Bonds" and authorized by the Recovery Act. The Internal Revenue Code of 1986 imposes requirements that MTA must meet and continue to meet after the issuance in order to receive the cash subsidy payments. The interest on these bonds is fully subject to Federal income taxation. The "Build America Bonds" program ended on December 31, 2010.

Operating Subsidies Recoverable from Connecticut Department of Transportation ("CDOT") — A portion of the deficit from operations relating to MTA Metro-North Railroad's New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1,

2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100.0% of the net operating deficit of MTA Metro-North Railroad's branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65.0% of the New Haven mainline operating deficit, and a fixed fee for the New Haven line's share of the net operating deficit of Grand Central Terminal ("GCT") calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT's North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100% of the cost of non-movable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65% of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically extended for an additional five years beginning January 1, 2010 subject to the right of CDOT or MTA to terminate the agreement on eighteen month's written notice. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year be subject to audit by CDOT. The audits of 2012, 2013 and 2014 billings are still open.

Reimbursement of Expenses — The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending September 30, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

In 1995, New York City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students (the Student Fare Program). Beginning in 1996, the State and The City each began paying \$45 per annum to the Authority toward the cost of the Student Fare Program. In 2009, the State reduced their \$45 reimbursement to \$6.3.

The 2010 Adopted Budget proposed that the Student Fare Program be eliminated and student fares be phased in, with the first phase to commence September 1, 2010. In June 2010, following fare reimbursement commitments of \$25.3 from New York State and \$45.0 from New York City, the Authority declined to proceed with the proposal to eliminate the Student Fare Program. These fare reimbursement commitments were paid to the Authority during 2013 and 2014.

Policing of the transit system is carried out by the NYC Police Department at NYC's expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The Authority received approximately \$0 and \$1.0 in the three months ended March 31, 2015 and 2014, respectively, from New York City for the reimbursement of transit police costs. Similarly, MTAHQ bills MTA Metro-North Railroad through its consolidated services for MTA police costs in the New Haven line of which MTA Metro-North Railroad recovers approximately 65% from Connecticut Department of Transportation. The amounts billed for the periods ended March 31, 2015 and 2014 were \$5.2 and \$4.7. The amounts recovered for the periods ended March 31, 2015 and 2014 were approximately \$3.4 and \$3.1, respectively.

Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33.0%

of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0% of gross Urban Tax Subsidies, or an amount that is 20.0% greater than the amount paid by the NYC for the preceding calendar year. Fare revenues and New York City reimbursement aggregated approximately \$54.2 and \$49.6 for the periods ended March 31, 2015 and 2014, respectively.

Grants and Appropriations — Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures meeting eligibility requirements. These amounts are reported separately after Total Nonoperating Revenues in the Statements of Revenues, Expenses, and Changes in Net Position.

Operating and Non-operating Expenses — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the MTA (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, subsidies paid to counties, etc.) are reported as non-operating expenses.

Liability Insurance — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2012 the self-insured retention limits for ELF were increased to the following amounts: \$10 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 for MTA Staten Island Railway; and \$2.6 for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 per occurrence with a \$50 annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On March 31, 2015, the balance of the assets in this program was \$99.8.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 for a total limit of \$400 (\$350 excess of \$50). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50.

On March 1, 2015, the “nonrevenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$10 per occurrence limit with a \$0.5 per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police, MTA Metro-North Railroad, MTA Inspector

General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2015, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 per occurrence limit with a \$1 per occurrence deductible.

On December 15, 2014, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$10 per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance. Effective May 1, 2014, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 per occurrence self-insured retention (“SIR”), subject to an annual \$75 aggregate as well as certain exceptions summarized below. The total program is \$600 per occurrence covering property of the related entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

In addition to the noted \$25 per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$362.3 within the overall \$600 property program, as follows: \$32.98 (or 32.98%) of the \$100 layer excess of the primary \$150 layer, plus \$229.33 (or 91.7%) of the \$250 layer excess of \$250, plus \$100 (or 100%) of \$100 excess of \$500.

FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for the perils of Earthquake, Flood, and Wind for the \$600 per occurrence and in the annual aggregate property program.

Supplementing the \$600 per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and are associated with named storms that occur at any point in the three year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent from MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$600 in general property reinsurance are exhausted.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses

exceed \$100 (“trigger”). The United States government’s reinsurance of FMTAC was extended for six years through December 31, 2020.

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any “certified” act of terrorism up to a maximum recovery of \$161.2 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$100 TRIPRA trigger up to a maximum recovery of \$100 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2015. Recovery under this policy is subject to a retention of \$25 per occurrence and \$75 in the annual aggregate in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed \$75 future losses in that policy year are subject to a retention of \$7.5.

Pension Plans — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

GASB has issued Statements No. 67 and No. 68, which will be replacing GASB Statement Nos. 25 and 27. The effective date of GASB Statement 67 (which applies to financial reporting on a plan basis) is the fiscal year ended December 31, 2014. The effective date of GASB Statement 68 (which applies to financial reporting by contributing employers) is the year ending December 31, 2015, although earlier adoption is permissible. NYCERS adopted GASB Statement No. 67 Financial Reporting for Pension Funds, for the year ended June 30, 2014 (refer to Note 4 for further information).

Postemployment Benefits Other Than Pensions — In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (“RSI”) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of GASB Statement No. 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

3. CASH AND INVESTMENTS

The Bank balances are insured up to \$250 thousand in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. Cash, including deposits in transit, consists of the following at March 31, 2015 and December 31, 2014 (in millions):

| | March 31, 2015 | | December 31, 2014 | |
|---|--|-------------------------|------------------------------|-------------------------|
| | Carrying Amount (Unaudited) | Bank Balance | Carrying Amount | Bank Balance |
| FDIC insured or collateralized deposits | \$ 174 | \$ 170 | \$ 157 | \$ 152 |
| Uninsured and not collateralized | <u>98</u> | <u>39</u> | <u>154</u> | <u>99</u> |
| | <u><u>\$ 272</u></u> | <u><u>\$ 209</u></u> | <u><u>\$ 311</u></u> | <u><u>\$ 251</u></u> |

All collateralized deposits are held by the MTA or its agent in the MTA's name.

The MTA, on behalf of itself, its affiliates and subsidiaries, invests funds which are not immediately required for the MTA's operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

The MTA's uninsured and uncollateralized deposits are primarily held by commercial banks in the metropolitan New York area and are subject to the credit risks of those institutions.

MTA holds most of its investments at a custodian bank. The custodian must meet certain banking institution criteria enumerated in MTA's Investment Guidelines. The Investment Guidelines also require the Treasury Division to hold at least \$100 of its portfolio with a separate emergency custodian bank. The purpose of this deposit is in the event that the MTA's main custodian cannot execute transactions due to an emergency outside of the custodian's control, the MTA has an immediate alternate source of liquidity.

Investments, at fair value, consist of the following at March 31, 2015 and December 31, 2014 (in millions):

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|----------------------------------|----------------------|
| Repurchase agreements | \$ 255 | \$ 94 |
| Commercial paper | 1,993 | 1,584 |
| Federal Agencies due 2015 | 909 | 828 |
| U.S. Treasuries due 2015–2021 | 1,623 | 1,592 |
| Investments restricted for capital lease obligations: | | |
| U.S. Treasury Notes due 2015 - 2033 | \$ 198 | \$ 201 |
| Short-term investment fund | 77 | 77 |
| Federal Agencies due 2015 - 2034 | 40 | 40 |
| Other Agencies due 2030 | <u>137</u> | <u>136</u> |
| Sub-total | <u>452</u> | <u>454</u> |
| Other Agencies due 2015-2030 | 111 | 108 |
| Asset and mortgage backed securities* | 28 | 25 |
| Commercial mortgage backed securities* | 61 | 62 |
| Corporate bonds* | 169 | 160 |
| Foreign bonds* | 21 | 20 |
| Equities* | <u>20</u> | <u>20</u> |
| Total | <u>\$ 5,642</u> | <u>\$ 4,947</u> |

*These securities are only included in the FMTAC portfolio.

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the statement of net position. The MTA's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment.

In connection with certain lease transactions described in Note 9, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions, which generate sufficient proceeds to make basic rent and purchase option payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 0.15% and 0.12% for the three months ended March 31, 2015 and year ended December 31, 2014, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at March 31, 2015 and December 31, 2014 (in millions):

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|--|----------------------------------|----------------------|
| Construction or acquisition of capital assets | \$ 2,860 | \$ 2,265 |
| Funds received from affiliated agencies for investment | 554 | 779 |
| Debt service | 938 | 434 |
| Payment of claims | 596 | 582 |
| Restricted for capital leases | 452 | 454 |
| Other | 573 | 528 |
| | <u>5,973</u> | <u>5,042</u> |
| Unrestricted funds | (59) | 216 |
| Total | <u>\$ 5,914</u> | <u>\$ 5,258</u> |

Credit Risk — At March 31, 2015 and December 31, 2014, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

| Quality Rating Standard & Poor's | March 31, 2015 (Unaudited) | Percent of Portfolio | December 31, 2014 | Percent of Portfolio |
|-------------------------------------|----------------------------------|-------------------------|----------------------|-------------------------|
| A-1+ | \$ 909 | 16 % | \$ 828 | 17 % |
| A-1 | 1,993 | 37 | 1,584 | 33 |
| AAA | 101 | 2 | 120 | 3 |
| AA+ | 40 | 1 | 40 | 1 |
| AA | 35 | 1 | 34 | 1 |
| A | 104 | 2 | 100 | 2 |
| BBB | 59 | 1 | 55 | 1 |
| Not rated | 281 | 5 | 100 | 2 |
| Government | <u>1,911</u> | <u>35</u> | <u>1,876</u> | <u>40</u> |
| Total | 5,433 | 100 % | 4,737 | 100 % |
| Equities and capital leases | <u>209</u> | | <u>210</u> | |
| Total investment | <u>\$ 5,642</u> | | <u>\$ 4,947</u> | |

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to a 100 basis point change in interest rates.

| (In millions) Securities | March 31, 2015 | | December 31, 2014 | |
|--|---------------------------|----------|----------------------|----------|
| | Fair Value (Unaudited) | Duration | Fair Value | Duration |
| U.S. Treasuries | \$ 1,623 | 4.31 | \$ 1,592 | 4.82 |
| Federal Agencies | 909 | 0.10 | 828 | 0.08 |
| Other Agencies | 105 | 3.73 | 102 | 4.32 |
| Tax benefits lease investments | 260 | 10.51 | 261 | 10.69 |
| Repurchase agreement | 255 | - | 94 | - |
| Certificate of deposits | 6 | - | 6 | - |
| Commercial paper | 1,993 | - | 1,584 | - |
| Asset-backed securities ⁽¹⁾ | 28 | 1.21 | 25 | 0.99 |
| Commercial mortgage-backed securities ⁽¹⁾ | 61 | 2.43 | 62 | 1.64 |
| Foreign bonds ⁽¹⁾ | 21 | - | 20 | - |
| Corporates ⁽¹⁾ | 169 | 3.34 | 160 | 2.46 |
| Total fair value | 5,430 | | 4,734 | |
| Modified duration | | 2.02 | | 2.43 |
| Equities ⁽¹⁾ | 20 | | 20 | |
| Total | 5,450 | | 4,754 | |
| Investments with no duration reported | 192 | | 193 | |
| Total investments | <u>\$ 5,642</u> | | <u>\$ 4,947</u> | |

⁽¹⁾ These securities are only included in the FMTAC portfolio.

MTA is a public benefit corporation established under the New York Public Authorities Law. MTA's Treasury Division is responsible for the investment management of the funds of the Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations:

- obligations of the State or the United States Government;
- obligations of which the principal and interest are guaranteed by the State or the United States government;
- obligations issued or guaranteed by certain Federal agencies;
- repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies;

- certain certificates of deposit of banks or trust companies in the State;
- certain banker's acceptances with a maturity of 90 days or less;
- certain commercial paper;
- certain municipal obligations; and
- certain mutual funds up to \$10 in the aggregate.

The MTA adopted NYS Statutory Requirements with respect to credit risk of its investments, which include, but are not limited to the following sections:

- i) Public Authorities Law Sections 1265(4) (MTA), 1204(19) (Transit Authority) and 553(21) (TBTA);
- ii) Public Authorities Law Section 2925 Investment of funds by public authorities and public benefit corporations; general provisions; and
- iii) State Finance Law Article 15 – EXCELSIOR LINKED DEPOSIT ACT.

MTA Investment Guidelines limit the dollar amount invested in banker acceptances, commercial paper, and obligations issued or guaranteed by certain Federal agencies to \$250 at cost. There are no dollar limits on the purchase of obligations of the United States government, the State or obligations the principal and interest of which are guaranteed by the State or the United States government. Investments in collateralized repurchase agreements are limited by dealer or bank's capital. MTA can invest no greater than \$300 with a bank or dealer rated in Tier 1 (i.e. \$1 billion or more of capital).

FMTAC is created as a MTA subsidiary and is licensed as a captive direct insurer and reinsurer by the New York State Department of Insurance. As such, FMTAC is responsible for the investment management of its funds. The investment activity is governed by State statutes and the FMTAC Board adopted investment guidelines. The minimum surplus to policyholders and reserve instruments are invested in the following investments:

- obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States;
- direct obligations of the State or of any county, district or municipality thereof;
- any state, territory, possession or any other governmental unit of the United States;
- certain bonds of agencies or instrumentalities of any state, territory, possession or any other governmental unit of the United States;
- the obligations of a solvent American institution which are rated investment grade or higher (or the equivalent thereto) by a securities rating agency; and
- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

FMTAC may also invest non-reserve instruments in a broader range of investments including the following general types of obligations:

- certain equities; and

- certain mutual funds.

FMTAC is prohibited from making the following investments:

- investment in an insolvent entity;
- any investment as a general partner; and
- any investment found to be against public policy.

FMTAC investment guidelines do include other investments, but FMTAC has limited itself to the above permissible investments at this time.

4. EMPLOYEE BENEFITS

The MTA Related Groups pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding their respective employee benefit plans. These statements may be obtained by contacting the administrative office of the respective Related Group.

Pension Plans — The MTA Related Groups sponsor and participate in a number of pension plans for their employees. These plans are not component units of the MTA and are not included in the combined financial statements.

Defined Benefit Pension Plans

Single-Employer Pension Plans

MTA Long Island Rail Road Plan for Additional Pensions

Plan Description — The Long Island Rail Road Plan for Additional Pensions (“the LIRR Plan”) is a single-employer defined benefit pension plan that provides retirement, disability and survivor benefits to plan members and beneficiaries. Members include LIRR employees hired prior to January 1, 1988. The LIRR Plan is administered by the Board of Managers of Pensions. The LIRR Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”). The pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to, Long Island Rail Road, Controller, 93-02 Sutphin Boulevard – mail code 1421, Jamaica, New York 11435.

Funding Policy — The LIRR Plan has both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978 are not required to contribute. Participants who entered qualifying service on or after July 1, 1978 contribute 3% of their wages. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. The current rate is 383.56% of annual covered payroll.

The funded status of the LIRR Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in millions):

| | 2014 | 2013 |
|--|--------------------------|-------------------------|
| Annual required contribution ("ARC") | \$ 112.5 | \$ 119.3 |
| Interest on net pension obligation | (3.1) | 2.6 |
| Adjustment to ARC | <u>4.3</u> | <u>(3.5)</u> |
| Annual pension cost | 113.7 | 118.4 |
| Actual contributions made | (112.5) | (119.3) |
| Prepaid pension funding | <u>(295.0)</u> | <u>(80.0)</u> |
| Decrease in net pension obligation | (293.8) | (80.9) |
| Net pension (asset)/obligation beginning of year | <u>(43.9)</u> | <u>37.0</u> |
| Net pension asset end of year | <u><u>\$ (337.7)</u></u> | <u><u>\$ (43.9)</u></u> |

Three-Year Trend Information (In millions)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability "AAL" | Unfunded Actuarial Accrued Liability "UAAL" | Funded Ratio | Covered Payroll | UAAL as % of Covered Payroll |
|--------------------------------|---------------------------------|--|---|-----------------|--------------------|---------------------------------------|
| 1/1/2014 | \$ 485.8 | \$ 1,650.5 | \$ 1,164.7 | 29.4 % | \$ 29.3 | 3,970.6 % |
| 1/1/2013 | 400.8 | 1,664.3 | 1,263.5 | 24.1 | 33.0 | 3,823.8 |
| 1/1/2012 | 437.4 | 1,633.3 | 1,195.8 | 26.8 | 40.0 | 2,987.1 |

| Year Ended | Annual Pension Cost "APC" | Annual Required Contribution "ARC" | Actual Annual Contribution | ARC as a % of Covered Payroll | % of APC Contributed | Net Pension Obligation/ (Asset) |
|---------------|------------------------------------|---|----------------------------------|--|----------------------------|--|
| 12/31/2014 | \$ 113.7 | \$ 112.5 | \$ 407.5 | 383.6 % | 358.4 % | \$ (337.7) |
| 12/31/2013 | 118.4 | 119.3 | 199.3 | 361.2 | 168.3 | (43.9) |
| 12/31/2012 | 115.2 | 116.0 | 116.0 | 289.8 | 100.7 | 37.0 |

The schedule of pension funding progress, presented as RSI following the notes to the consolidated interim financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2014, the most recent actuarial valuation date, the LIRR Plan was 29.4 % funded. The actuarial accrued liability for benefits was \$1,650.5, and the actuarial value of assets was \$485.8, resulting in an unfunded actuarial accrued liability ("UAAL")

of \$1,164.7. The covered payroll (annual payroll of active employees covered by the LIRR Plan) was \$29.3, and the ratio of the UAAL to the covered payroll was 3,970.6%.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The significant actuarial methods and assumptions used in the LIRR Defined Benefit Plans Actuarial Valuation at January 1, 2014, were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. The asset valuation method utilized was a 5-year smoothing method for all periods. The interest rate assumption is 7.00% per year (net-after investment expenses). Investments and administrative expenses are paid from plan assets of the LIRR Defined Benefit Plans.

A noncurrent pension (asset)/obligation of \$(337.7), \$(43.9), and \$37.0 at December 31, 2014, 2013, and 2012, respectively reflects only the pension obligation position of the LIRR Additional Plan. In 2013, MTA made additional contributions that offset the pension obligation. The remaining amortization period at December 31, 2014 was 19 years.

Metro-North Cash Balance Plan

Plan Description — The Metro-North Commuter Railroad Company Cash Balance Plan (the “MNR Cash Balance Plan”) is a single employer, defined benefit pension plan. The MNR Cash Balance Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these management employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the “Management Plan”) and the MNR Cash Balance Plan was closed to new participants. The assets of the Management Plan were merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees (now titled as the Metropolitan Transportation Authority Defined Benefit Pension Plan) as of the asset transfer date of July 14, 1995. The MNR Cash Balance Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(a) of the Internal Revenue Code. Accordingly, the MNR Cash Balance Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act (“ERISA”) of 1974. This plan provides retirement and survivor benefits to plan members and beneficiaries.

Funding Policy — Funding for the MNR Cash Balance Plan is provided by MTA Metro-North Railroad which is a public benefit corporation that receives funding for its operations and capital needs from the MTA and the Connecticut Department of Transportation (“CDOT”). Certain funding by MTA is made to MTA Metro-North Railroad on a discretionary basis. The continuance of funding for the MNR Cash Balance Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

MTA Metro-North Railroad’s funding policy was to contribute the full amount of the pension benefit obligation (“PBO”) of approximately \$2.9 to the trust fund in 1989. As participants retire, distributions from the MNR Cash Balance Plan have been made by the Trustee. MTA Metro-North Railroad anticipated that no further payments would be made to the MNR Cash Balance Plan unless there was an unfunded actuarial liability as determined by the actuary. Such additional funding has been required in the past.

The actuarial value of assets exceeded the actuarial accrued liability as of January 1, 2012 and 2013 so no payment was required in those years. The actuarial accrued liability exceeded the actuarial value of assets as of January 1, 2014 and as a result a payment was required. The market value of net assets available for benefits in the trust fund at December 31, 2014, was \$0.748 which is \$0.018 less than the current PBO of \$0.766.

The funded status of the MNR Cash Balance Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in thousands):

| | 2014 | 2013 |
|--------------------------------------|------------------|------------------|
| Annual required contribution ("ARC") | \$ 5.0 | \$ - |
| Interest on net pension obligation | (1.9) | (2.3) |
| Adjustment to ARC | <u>11.7</u> | <u>11.7</u> |
| Annual pension cost | <u>14.8</u> | <u>9.4</u> |
| Increase in net pension obligation | 14.8 | 9.4 |
| Net pension asset beginning of year | <u>(41.9)</u> | <u>(51.3)</u> |
| Net pension asset end of year | <u>\$ (27.1)</u> | <u>\$ (41.9)</u> |

Three-Year Trend Information

(In thousands)

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability "AAL" | Unfunded Actuarial Accrued Liability/ (Surplus) "UAAL" | Funded Ratio | Covered Payroll | UAAL as % of Covered Payroll |
|--------------------------|---------------------------|-----------------------------------|--|--------------|-----------------|------------------------------|
| 1/1/2014 | \$ 747.7 | \$ 765.5 | \$ 17.8 | 97.7 % | \$ 2,096.8 | 0.9 % |
| 1/1/2013 | 878.0 | 819.7 | (58.3) | 107.1 | - | 0.0 |
| 1/1/2012 | 1,006.4 | 991.9 | (14.5) | 101.5 | - | 0.0 |

| Year Ended | Annual Pension Cost "APC" | Annual Required Contribution "ARC" | Annual Contribution | ARC as a % of Covered Payroll | % of APC Contributed | Net Pension Asset |
|------------|---------------------------|------------------------------------|---------------------|-------------------------------|----------------------|-------------------|
| 12/31/2014 | \$ 14.8 | \$ 5.0 | \$ 5.0 | 0.0 % | 34.0 % | \$ (27.1) |
| 12/31/2013 | 9.4 | - | - | 0.0 | 0.0 | (41.9) |
| 12/31/2012 | 9.0 | - | - | 0.0 | 0.0 | (51.3) |

The schedule of pension funding progress, presented as RSI following the notes to the consolidated interim financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2014, the most recent actuarial valuation date, the MNR Cash Balance Plan was 97.7% funded. The actuarial accrued liability for benefits was \$0.766, and the actuarial value of assets was \$0.748, resulting in an unfunded actuarial accrued liability of \$0.018. The covered payroll (annual payroll of active employees covered by the plan) was \$2.1, and the ratio of the UAAL to the covered payroll was 0.9%.

Further information about the MNR Cash Balance Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Controller, 420 Lexington Avenue, New York, New York, 10170-3739.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

The significant actuarial methods and assumptions used in the January 1, 2014 valuation were the projected unit credit cost method and an investment rate of return of 4.5% per year. The accrued benefit for the unit credit cost method is defined by the plan and is usually used when the annual benefit accrual is a flat dollar amount or a constant percentage of the participant's current annual salary. The asset valuation method utilized was the market value per the Trustee. There was no projected salary increase assumption used in the January 1, 2014 valuation. For participants of the MNR Cash Balance Plan eligible for additional benefits, the additional benefits were not valued as the potential liability for this benefit is de minimus.

Manhattan and Bronx Surface Transit Operating Authority

Plan Description — MTA New York City Transit contributes to the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") Plan (the "MaBSTOA Plan"), a single employer governmental retirement plan. The MaBSTOA Plan provides retirement, disability, cost-of-living adjustments and death benefits to plan members and beneficiaries that are similar to those benefits provided by the New York City Employees' Retirement System to similarly situated MTA New York City Transit employees. The MaBSTOA Plan assigns the authority to establish and amend the benefit provisions to the MaBSTOA Board. MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 10th Floor, New York, New York, 10004.

Funding Policy — MaBSTOA's funding policy requires periodic employer contributions which are actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability. For employees, the MaBSTOA Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 are non-contributing. Certain employees entering qualifying service on or after July 27, 1976 but before April 1, 2012 are required to contribute 3% of their salary and others are required to contribute 2%. Also, certain post-July 27, 1976 employees hired before April 1, 2012 contribute 1.85% in addition to their 3% contributions, if required. Effective October 1, 2000, certain post-July 27, 1976 employees hired before April 1, 2012 who have been members for 10 years or have 10 years of credited service are no longer required to make the 3% contributions. As a result of pension reform legislation passed in 2012 that affected MTA New York City Transit employees, similarly situated MaBSTOA employees hired on or after April 1, 2012 contribute 3% (although certain employees contribute 2%), with new rates starting

April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MaBSTOA's contribution rate is 40.3% of annual covered payroll. MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2014, 2013 and 2012 were \$226.4, \$234.5, and \$228.9, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2014, the most recent actuarial valuation date, is as follows (in millions):

| | 2014 | 2013 |
|--------------------------------------|------------------|------------------|
| Annual required contribution ("ARC") | \$ 226.4 | \$ 234.5 |
| Interest on net pension asset | (2.5) | (2.6) |
| Adjustment to ARC | <u>4.3</u> | <u>4.4</u> |
| Annual pension cost | 228.2 | 236.3 |
| Actual contributions | <u>(226.4)</u> | <u>(234.5)</u> |
| Decrease in net pension asset | 1.8 | 1.8 |
| Net pension asset beginning of year | <u>(35.6)</u> | <u>(37.4)</u> |
| Net pension asset end of year | <u>\$ (33.8)</u> | <u>\$ (35.6)</u> |

Three-Year Trend Information

| (In millions) | | | | | | |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Initial Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | (UAAL) As a Percentage of Covered Payroll ((b-a)/c) |
| 1/1/2014 | \$ 2,028.0 | \$ 2,892.5 | \$ 864.6 | 70.10 % | \$ 616.4 | 140.3 % |
| 1/1/2013 | 1,764.4 | 2,702.4 | 938.0 | 65.29 | 582.1 | 161.1 |
| 1/1/2012 | 1,624.3 | 2,482.8 | 858.5 | 65.42 | 576.0 | 149.1 |

| Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Asset |
|------------|---------------------------|-------------------------------|-------------------|
| 12/31/2014 | \$ 228.2 | 99.2 % | \$ (33.8) |
| 12/31/2013 | 236.3 | 99.2 | (35.6) |
| 12/31/2012 | 230.8 | 99.2 | (37.4) |

The schedule of pension funding progress, presented as RSI following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2014, the most recent actuarial valuation date, the MaBSTOA Plan was 70.1% funded. The actuarial accrued liability for benefits was \$2,892.5 and the actuarial value of assets \$2,028.0, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$864.6. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$616.4, and the ratio of the UAAL to the covered payroll was 140.3%.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The January 1, 2014 valuation reflects the adoption by the Authority of the January 1, 2006 – December 31, 2011 Experience Study. The experience study modified demographic assumptions such as the rates of withdrawal, retirement and disability as well as economic assumptions such as the salary increase and cost-of-living assumptions to better reflect anticipated experience.

In addition, the interest rate assumption was reduced from 7.5% on a gross basis to 7.0% on a net basis. The explicit investment expense assumption was eliminated and assumed to be covered by investment income. These changes increased the unfunded actuarial accrued liability by \$142.5 which is being amortized over 10 years.

The assumptions included a 7.0% investment rate of return, net of expenses and assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% and 7.0% for non-operating employees per year, depending on years of service. This also includes an inflation component of 2.5% per year.

Annual pension costs and related information about each of the above plans follows:

| | Single-Employer Plans | | |
|--|---------------------------------|---------------------------------|---------------------------------|
| | LIRR | MaBSTOA | MNR Cash Balance Plan |
| Date of valuation | 1/1/2014 | 1/1/2014 | 1/1/2014 |
| Required contribution rates: | (\$ in millions) | | (\$ in thousands) |
| Plan members | | | |
| Employer: | variable actuarially determined | variable actuarially determined | variable actuarially determined |
| Employer contributions made in 2014 | \$ 112.5 | \$ 226.4 | \$ 0.0 |
| Three-year trend information: | | | |
| Annual Required Contribution | | | |
| 2014 | \$ 112.5 | \$ 226.4 | \$ 5.0 |
| 2013 | 119.3 | 234.5 | 0.0 |
| 2012 | 116.0 | 228.9 | 0.0 |
| Percentage of ARC contributed: | | | |
| 2014 | 362.2 % | 100.0 % | 100.0 % |
| 2013 | 167.1 | 100.0 | 0.0 |
| 2012 | 100.0 | 100.0 | 0.0 |
| Annual Pension Cost (APC): | | | |
| 2014 | \$ 113.7 | \$ 228.2 | \$ 14.8 |
| 2013 | 118.4 | 236.3 | 9.4 |
| 2012 | 115.2 | 230.8 | 9.0 |
| Net Pension Obligation (NPO) (asset) at end of year: | | | |
| 2014 | \$ (337.7) | \$ (33.8) | \$ (27.1) |
| 2013 | (43.9) | (35.6) | (41.9) |
| 2012 | 37.0 | (37.4) | (51.3) |
| Percentage of APC contributed: | | | |
| 2014 | 358.4 % | 99.2 % | 34.0 % |
| 2013 | 168.3 | 99.2 | 0.0 |
| 2012 | 100.7 | 99.2 | 0.0 |
| Components of APC | | | |
| Annual required contribution (ARC) | \$ 112.5 | \$ 226.4 | \$ 5.0 |
| Interest on NPO | (3.1) | (2.5) | (1.9) |
| Adjustment of ARC | 4.3 | 4.3 | 11.7 |
| APC | 113.7 | 228.2 | 14.8 |
| Contributions made | (112.5) | (226.4) | 0.0 |
| Prepaid pension funding | (295.0) | 0.0 | 0.0 |
| Change in NPO (asset) | (293.8) | 1.8 | 14.8 |
| NPO (asset) beginning of year | (43.9) | (35.6) | (41.9) |
| NPO (asset) end of year | \$ (337.7) | \$ (33.8) | \$ (27.1) |

| | Single-Employer Plans | | |
|--|-----------------------|---|-----------------------|
| | LIRR | MaBSTOA | MNR Cash Balance Plan |
| Actuarial project unit cost method | Entry age normal | Entry age normal frozen initial liability | Unit credit cost |
| Method to determine actuarial value of plan assets | 5-year smoothing | 5-year smoothing | Market value |
| Investment return | 7.00 % | 7.00 % | 4.50 % |
| Projected salary increases | 3.00 % | 3.5%–15.0% | N/A |
| Consumer price inflation | 2.50 % | 2.50 % | 2.50 % |
| Amortization method and period remaining | level dollar/19 years | level dollar/9 years | level dollar/4 years |
| Period closed or open | closed | closed | closed |

Cost-Sharing Multiple-Employer Plans

MTA Defined Benefit Plan

Plan Description — The MTA Defined Benefit Pension Plan (the “MTA Plan” or the “Plan”) is a cost sharing multiple-employer pension plan. The Plan includes certain MTA Long Island Rail Road non-represented employees hired after December 31, 1987, MTA Metro-North Railroad non-represented employees, certain employees of the former MTA Long Island Bus hired prior to January 23, 1983, MTA Police, MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, MTA Staten Island Railway represented and non-represented employees and certain employees of the MTA Bus Company (“MTA Bus”). MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability retirement, and death benefit program for their covered employees and beneficiaries. The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004.

Funding policy — Employer contributions are actuarially determined on an annual basis and are recognized when due. Employee contributions to the Plan are recognized in the period in which the contributions are due. There are no contributions required for the MTA Long Island Bus Employees’ Pension Program. The current funded ratio of actuarial accrued assets over actuarial accrued liability is 80.3%. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA’s contributions to the Plan for the years ended

December 31, 2014, 2013 and 2012 were \$271.5, \$243.0, and \$212.4, respectively, equal to the required contributions for each year.

The following summarizes the types of employee contributions made to the Plan:

Effective January 1, 1994, covered MTA Metro-North Railroad and MTA Long Island Rail Road non-represented employees are required to contribute to the Plan to the extent that their Railroad Retirement Tier II employee contribution is less than the pre-tax cost of the 3% employee contributions. Effective October 1, 2000, employee contributions, if any, were eliminated after ten years of making contributions to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1993 and MTA Long Island Rail Road employees may purchase prior service from January 1, 1988 through December 31, 1993 by paying the contributions that would have been required of that employee for the years in question, calculated as described in the first sentence, had the Plan been in effect for those years. Police Officers who become participants of the MTA Police Program prior to January 9, 2010 contribute to that program at various rates. Police Officers who become participants on or after January 9, 2010 but before April 1, 2012 contribute 3% up to the completion of 30 years of service, the maximum amount of service credit allowed. Police Officers who become participants on or after April 1, 2012 contribute 3%, with additional new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service.

Covered MTA Metro-North Railroad represented employees and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants prior to January 30, 2008 contribute 3% of salary. MTA Staten Island Railway employees contribute 3% of salary except for represented employees hired on or after June 1, 2010 who contribute 4%. MTA Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service. MTA Long Island Rail Road represented employees are required to make the employee contributions for ten years. Certain Metro-North represented employees, are required to make the employee contributions until January 1, 2014, January 1, 2017, June 30, 2017, or completion of ten years, thirteen years and three months. Or fifteen years of credited service, depending on their applicable collective bargaining agreements.

Covered MTA Bus represented employees and certain non-represented employees are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at Yonkers Depot and non-represented employees hired after June 30, 2007 at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia, and Spring Creek Depots, contribute \$21.50 per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented employees contribute \$32.00 per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the plan that was in effect before their promotion. Certain MTA Bus non-represented employees who are formerly employed by the private bus companies (Jamaica, Green, Triboro, Command and Varsity) at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots who are in the pension program covering only such employees make no contributions to the program. (Note: the dollar figures in this paragraph are in dollars, not millions of dollars).

MTA Bus is required to make significant annual contributions to the MTA Plan on a current basis. Pursuant to the January 1, 2014 actuarial valuation for the MTA Plan, which included amounts for actuarial assets and liabilities relating to both active and retired members for most portions of the

former private plans (excepting, for example, members of the Transport Workers Union were working on school bus routes which did not become part of MTA Bus service), MTA Bus recorded pension expense equal to the valuation annual required contribution of \$44.6, \$45.4 and \$40.5 for the calendar years ended December 31, 2014, 2013 and 2012, respectively. All of these employer contributions were paid to the MTA Plan in their respective years.

New York City Employees' Retirement System ("NYCERS")

Plan Description — MTA New York City Transit and MTA Bridges and Tunnels contribute to NYCERS, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with NYS statutes and NYC laws and codes and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, New York, 11201-3724.

Funding Policy — NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Most employees who entered qualifying service after July 26, 1976 but before April 2012 contribute 3% of their salary, with certain MTA New York City Transit employees contributing 2%. Also, certain post-July 27, 1976 employees hired before April 1, 2012 contribute 1.85% in addition to their 3% contributions, if required, and a small group of such employees contribute 3.83% in addition to the 3% contributions, if required. The State Legislature passed legislation in 2000 that suspended the 3% contribution for most employees hired before April 1, 2013 who have been members for 10 or more years. As a result of pension reform legislation passed in 2012, most employees hired on or after April 1, 2012 contribute 3% (although certain MTA New York City Transit employees contribute 2%), with new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 24.7% and 25.3%, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2014, 2013 and 2012 were \$709.0, \$696.7, and \$694.8, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2014, 2013 and 2012 were \$33.0, \$33.5 and \$36.2 respectively. All contributions were equal to the actuary's recommendation, plus interest.

NYCERS adopted GASB Statement No. 67, *Financial Reporting for Pension Funds*, for the year ended June 30, 2014. As a result, modifications were made to certain actuarial assumptions used in determining the total pension liability in order to conform with the provisions of GASB Statement No. 67. Such changes include the determination of projected benefit payments, the use of a single discount rate, and the sole use of the entry age actuarial cost method. The Authority's required contribution for the year ended June 30, 2014 was not affected by the adoption of GASB Statement No. 67.

New York State and Local Employees' Retirement System ("NYSLERS" or "NYSLRS")

Plan Description — Certain employees of MTAHQ who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Construction Company who are on its

payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits, including retirement, death and disability benefits, and cost of living adjustments. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Funding Policy — Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after July 27, 1976, but before April 1, 2012, contribute 3% of salary, but since 2000, the 3% contribution is suspended for those employees who have 10 years or more of membership. Employees who become members on or after January 1, 2010 are required to contribute for all their years of service. As a result of pension reform legislation passed in 2012, employees hired on or after April 1, 2012 contribute 3%, with new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTAHQ, the MTA Capital Construction and MTA Long Island Bus, are required to contribute at an actuarially determined rate. The current actuarial rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 19.7% and 0%. The MTAHQ to NYSLERS contributions for the years ended December 31, 2014, 2013 and 2012 was approximately \$13.8, \$16.0, and \$14.7, respectively. The MTA Long Island Bus to NYSLERS contributions for the years ended December 31, 2014, 2013 and 2012 were approximately \$0.0, \$0.0, and \$0.3, respectively.

New York State Voluntary Defined Contribution Program ("VDC")

As a result of pension reform legislation passed in 2012, certain employees may choose to participate in the multiple-employer VDC administered by the State University of New York ("SUNY"), instead of participating in NYSLERS or NYCERS. Participation in the VDC is available to non-represented employees hired on or after July 1, 2013 with annual wages of at least \$75,000 who are employed by an employer participating in NYSLERS or NYCERS. For the duration of their employment, such employees would contribute from 3%, 3.5%, 4.5%, 5.75%, to 6%, depending on actual wages, and their employer would contribute 8% for all years in which they remain as active employees. For their first year of participation, such employees will receive 4% interest on the employee and employer contributions for that first year while held in escrow. The VDC functions in accordance with existing NYS statutes and may be amended by action of the State Legislature. Further information about the VDC is more fully described in the publicly available statements of SUNY and may be obtained by writing to NYS Voluntary Defined Contribution Program, State University of New York, Office of University-wide Benefits, State University Plaza, Albany, New York, 12246.

Deferred Compensation Program

Description - The Deferred Compensation Program consists of two defined contribution plans that provide benefits based solely on the amount contributed to each participant's account(s), plus or minus any income, expenses and gains/losses. The Deferred Compensation Program is comprised of the Deferred Compensation Plan For Employees of the Metropolitan Transportation Authority ("MTA"), its Subsidiaries and Affiliates ("457 Plan") and the Thrift Plan For Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates ("401(k) Plan"). Certain MTA Related Groups employees are eligible to participate in both deferred compensation plans. Both Plans are designed to have zero cost to the MTA, that is, participant charges, including investment and other fees, pay for the entire cost of running the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. Originally, only managerial employees were permitted to participate in the Plan and investment options were limited to five funds: a Guaranteed Interest Fund, a Common Stock Fund, a Money

Market Fund, a Managed Fund, and a Stock Index Fund. As permitted by Internal Revenue Code Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented and, after collective bargaining, most represented employees. Plan assets and liabilities are not reflected on the MTA's consolidated statements of net position.

In 1985, the MTA Board adopted the 401(k) Plan, a tax-qualified plan under section 401(k) of the Internal Revenue Code ("Code"). The 401(k) Plan remained dormant until 1988 when an IRS ruling "grand-fathered" the plan under the Tax Reform Act of 1986. Participation in the 401(k) Plan is now available to non-represented and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying consolidated statements of net position.

As the Deferred Compensation Program's asset base and contribution flow increased, participants' investment options were expanded by the Deferred Compensation Committee with the advice of its Financial Advisor to provide the participants better service, including greater transparency, diversification and flexibility. In 1988, after receiving an IRS determination letter for the 401(k) Plan, the MTA offered its managers the choice of either participating in the 457 Plan or the 401(k) Plan. By 1993, the MTA offered eight investment funds: a Guaranteed Interest Account Fund, a Money Market Fund, a Common Stock Fund, a Managed Fund, a Stock Index Fund, a Government Income Fund, an International Fund and a Growth Fund.

In 1998, the Deferred Compensation Committee approved the unbundling of the Plans. In 2008, the Plans' investment choices were re-structured to set up a 4 Tier strategy:

- Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available separately in the Deferred Compensation Program. The particular mix of investments for each Fund is determined by the "target" date, which is the date the money is intended to be needed for retirement income.
- Tier 2 - The MTA Index Funds offer a complete tier of index funds, which invest in the securities of companies that are included in a selected index, such as the Standard & Poor's 500 (large cap) Index or Russell Mid Cap Index.
- Tier 3 – The MTA Actively Managed Portfolios, which are comprised of actively managed portfolios that are directed by one or a team of professional managers who buy and sell a variety of holdings in an effort to outperform a selected index. These institutional strategies provide participants with a diversified array of distinct asset classes, with a single fund option in each class to simplify the decision making process.
- Tier 4 – Self-Directed Mutual Fund Option is designed for the more experienced investors. Offers access to an expanded universe of mutual funds from hundreds of well-known mutual fund families.

In 2011, the Deferred Compensation Program started to offer Roth contributions. Employees can elect after-tax Roth Contributions and before-tax contributions in both the 401(k) Plan and the 457 Plan. The total combination of Roth after-tax contributions and regular before-tax contributions cannot exceed the IRS maximum of \$17,500 or \$23,000 for those over age 50 for the ended December 31, 2014.

The two Plans offer the same array of investment options to participants. Eligible participants for the Deferred Compensation Program include employees (and in the case of Metropolitan Suburban Bus Authority, former employees) of:

- MTAHQ
- MTA Long Island Rail Road
- MTA Bridges and Tunnels
- MTA Long Island Bus
- MTA Metro-North Railroad
- MTA New York City Transit
- MTA Staten Island Rapid Transit
- MTA Capital Construction
- MTA Bus

Matching Contributions - MTA Bus on behalf of certain MTA Bus employees, MTA Metro-North Railroad on behalf of certain MNR employees who opted-out of participation in the MTA Defined Benefit Pension Plan and MTA on behalf of certain represented MTA Business Service Center employees and on behalf of certain MTA Police Officers, make contributions to the 401(k) Plan. The rate for the employer contribution varies.

MTA Bus - Certain members who were employed by Queens Surface Corporation on February 26, 2005, and who became employees of MTA Bus on February 27, 2005, receive a matching contribution equal to 50% of member's before-tax contributions provided that the maximum matching contribution shall not exceed 3% of the member's base pay. MTA Bus also makes a basic contribution equal to 2% of the member's compensation. These members shall vest in the amount in the member's account attributable to the matching contributions and basic contributions as follows:

| <u>Years of Service</u> | <u>Vested Percentage</u> |
|-------------------------|--------------------------|
| Less than 2 | 0% |
| 2 | 20% |
| 3 | 40% |
| 4 | 60% |
| 5 | 80% |
| 6 or more | 100% |

MTA Metro-North Railroad – Certain members who are MNR employees represented by certain unions and who elected to opt-out of participation in the MTA Defined Benefit Pension Plan receive an annual employer contributions equal to 4% of the member's compensation. Effective on the first full pay period following the nineteenth anniversary date of an eligible MNR member's continuous employment, MTA Metro-North Railroad shall contribute an amount equal to 7% of the member's compensation. Eligible MNR members vest in these employer contributions as set forth below:

| <u>Years of Service</u> | <u>Vested Percentage</u> |
|-------------------------|--------------------------|
| Less than 5 | 0% |
| 5 or more | 100% |

MTA Headquarters - Police - For each plan year, the MTA shall make contributions to the account of each eligible MTA Police Benevolent Association member in the amounts required by the Collective Bargaining Agreement ("CBA") and subject to the contribution limits set forth in the CBA. These contributions shall be made monthly and shall be considered MTA Police Contribution. Members are immediately 100% vested in these employer contributions.

MTA Headquarters – Business Services - Effective January 1, 2011, all newly hired MTA Business Services Center employees represented by the Transportation Communications Union are eligible to receive a matching contribution up to a maximum of 3% of the participant's compensation. A participant's right to the balance in his or her matching contributions shall vest upon the first of the following to occur:

1. Completing 5 years of service
2. Attaining the Normal Retirement Age of 62 while in continuous employment or
3. Death while in continuous employment

Additional Deposits (Incoming Rollover or Transfers) - Participants in the Deferred Compensation Program are eligible to roll over both their before-tax and after-tax assets from other eligible retirement plans into the 401(k) and 457 Plans. Both Plans accept rollover from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b) and rollover IRAs.

Status - As of December 31, 2013 and 2012, 32.6% and 37.63% of the eligible employees were enrolled in the 457 Plan and 43.1% and 48.06% of the eligible employees were enrolled in the 401(k) Plan, respectively. There are 27,188 and 26,193 active participants in the 457 Plan and 34,967 and 32,384 active participants in the 401(k) Plan, with \$1.8 billion and \$2.5 billion dollars in total net position in 2013 and 2012, respectively. The average account balance in the 457 Plan is \$52,240 and \$46,088 and in the 401(k) Plan is \$57,024 and \$51,353 in 2013 and 2012, respectively.

(In thousands)

| | 2013 | | 2012 | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 457 | 401K | 457 | 401K |
| Contributions: | | | | |
| Employee contributions, net of loans | \$ 134,032 | \$ 166,277 | \$ 125,606 | \$ 154,974 |
| Participant rollovers | 7,045 | 12,356 | 3,397 | 9,006 |
| Employer contributions | - | 3,864 | - | 3,915 |
| Total contributions | <u>\$ 141,077</u> | <u>\$ 182,497</u> | <u>\$ 129,003</u> | <u>\$ 167,895</u> |

The Trustee for the MTA Deferred Compensation Program is Prudential Bank & Trust FSB. Recordkeeper and/or Administrative Services are provided by Prudential Retirement Insurance & Annuity Company ("PRIAC"). Investment management services are provided by Prudential Retirement Insurance & Annuity Company, Galliard Capital Management and Turner Investment Partners. Financial Advisor Mercer reviews the investment policies as stipulated by the Investment Committee, the Plans' portfolio and the Investment Managers' performance.

5. OTHER POSTEMPLOYMENT BENEFITS

The MTA has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement established the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost

(expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

Plan Description — The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan, although some agencies provide benefits to some members if terminated within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Plan, the LIRR Plan, the MNR Plan, the MaBSTOA Plan, NYCERS, and NYSLERS.

The MTA Group participates in the New York State Health Insurance Program ("NYSHIP") to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented MTA New York City Transit, other MTA New York City Transit employees who retired prior to January 1, 1996 or January 1, 2001, and MTA Bus retirees do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

The MTA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2013 and was performed with a valuation date of January 1, 2012. The total number of plan participants as of December 31, 2013, the last valuation reporting period receiving retirement benefits was 47 thousand.

During 2012, MTA funded \$250 into a Trust allocated between Headquarters and New York City Transit. In addition, \$50 was funded during 2013 allocated between Long Island Railroad and Metro-North Railroad. There were no funding to the OPEB Trust by the MTA during 2014. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For the January 1, 2012 valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.5% resulting in a discount rate under GASB 45 of 3.75%, which is slightly lower than the discount rate of 4% used in the prior valuation. This decrease is primarily due to the decrease in Treasury yields and thus, returns on employer assets since the prior valuation.

Annual OPEB Cost ("AOC") and Net OPEB Obligation — The MTA's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, the MTA expenses the actual benefits paid during a year. The cumulative difference between the annual OPEB cost ("new method") and the benefits paid during a year ("old method") will result in a net OPEB obligation (the "Net OPEB Obligation"), included in the consolidated statements of net position. The annual OPEB cost is equal to the annual required contribution (the "ARC") less adjustments if a Net OPEB Obligation exists and plus the interest on Net OPEB Obligations. The ARC is equal to the normal cost plus an amortization of the unfunded liability.

Actuarial Cost, Amortization Methods and Assumptions - For determining the ARC, the MTA has chosen to use the Frozen Initial Liability (the "FIL Cost Method") cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2014 is 15 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal ("EAN") Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The Annual Required Contribution ("ARC") is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

Valuation Date - The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2012, which is 24 months prior to the beginning of the 2014 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2014.

Inflation Rate - 2.5% per annum compounded annually.

Discount Rate - GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields partially offset by the establishment of a trust, the current discount rate is 3.75%.

Healthcare Reform - The results of this valuation reflect our understanding of the impact in future health costs due to the Affordable Care Act (“ACA”) passed into law in March 2010. An excise tax for high cost health coverage or “Cadillac” health plans was included in ACA. The provision levies a 40% tax on the value of health plan costs that exceed certain thresholds for single coverage or family coverage. If, between 2010 and 2018, the cost of health care insurance rises more than 55%, the threshold for the excise tax will be adjusted. Also included in ACA are various fees (including, but not limited to, the Patient-Centered Outcomes Research Institute fee, Transitional Reinsurance Program fee, and the Health Insurer fee) associated with the initiation of health exchanges in 2014.

The OPEB-specific actuarial assumptions used in the most recent biennial valuation are as follows:

| | |
|----------------------------------|-------------------------------------|
| Valuation date | January 1, 2012 |
| Actuarial cost method | Frozen Initial Liability |
| Discount rate | 3.75% |
| Price inflation | 2.5% per annum, compounded annually |
| Per-Capita retiree contributions | * |
| Amortization method | Frozen Initial Liability |
| Remaining amortization period | 15 years |
| Period closed or open | Closed |

* In general, all coverages are paid for by the MTA. However, for MTAHQ members retired prior to 1997, pay a portion of the premium, depending on the year they retired.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Per Capita Claim Costs — Use of a blended premium rate for active employees and retirees under age 65 is a common practice. Health costs generally increase with age, so the blended premium rate is higher than the true underlying cost for actives and the blended premium is lower than the true underlying cost for retirees. For retirees, this difference is called the implicit rate subsidy. Since GASB 45 only requires an actuarial valuation for retirees, it requires the plan sponsor to determine the costs of these benefits by removing the subsidy. However, a plan sponsor may use the premiums without adjustment for age if the employer participates in a community-rated plan, in which the premium rates reflect projected health claims experience of all participating employers, or if the insurer would offer the same premium rate if only non-Medicare-eligible retirees were covered.

A 2006 report from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY’s GASB 45 Valuation sent to all participating employers stated that the Empire Plan of NYSHIP is community-rated for all participating employers. Each MTA Agency participating in NYSHIP is no more than approximately 1%, and in total, the MTA is approximately 3% of the total NYSHIP population. Thus, we believe that the actual experience of the MTA will have little or no impact on the actual premium and, that it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members and represented MTA Bus Company members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits a per capita claims cost assumptions was developed that vary by age, gender and benefit type. The per capita costs assumptions reflect medical and pharmacy claims information for 2012.

Medicare Part D Premiums — GASB has issued a Technical Bulletin stating that the value of expected Retiree Drug Subsidy (“RDS”) payments to be received by an entity cannot be used to reduce the Actuarial Accrued Liability of OPEB benefits nor the Annual Required Contribution (“ARC”). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2012 valuation excludes any RDS payments expected to be received by the MTA and its agencies.

Health Care Cost Trend - The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 12.2 utilizing the baseline assumptions included in the model, except real GDP of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors potential excise taxes due to healthcare reform, and other healthcare reform provisions, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (5%). The NYSHIP trend reflects actual increases in premiums through 2014. The NYSHIP trend is used for six agencies plus the non-represented employees of MTA Bus. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. For NYC Transit, this trend is weighted by liability with the non-NYSHIP trend assumption. The non-NYSHIP trend is applied directly for represented employees of MTA Bus. Note, due to the Excise Tax, the non-NYSHIP trends for MTA Bus and NYC Transit differ. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit.

Health Care Cost Trend Rates

| Fiscal Year | NYSHIP | Non-NYSHIP | | Transit | |
|-------------|--------|------------|------|---------|------|
| | | < 65 | >=65 | < 65 | >=65 |
| 2012 | 0.0 * | 7.6 | 7.3 | 4.8 | 4.6 |
| 2013 | 1.7 | 7.4 | 6.6 | 5.4 | 4.8 |
| 2014 | 5.0 | 6.2 | 6.2 | 5.8 | 5.8 |
| 2015 | 5.5 | 5.8 | 5.8 | 5.7 | 5.7 |
| 2016 | 5.8 | 5.5 | 5.5 | 5.6 | 5.6 |
| 2017 | 5.9 | 14.6 | 5.5 | 12.5 | 5.6 |
| 2022 | 5.9 | 6.4 | 5.5 | 6.2 | 5.6 |
| 2027 | 6.8 | 6.2 | 5.4 | 6.4 | 5.6 |
| 2032 | 6.5 | 6.0 | 5.6 | 6.2 | 5.9 |
| 2037 | 6.1 | 5.7 | 5.3 | 5.8 | 5.7 |
| 2042 | 5.7 | 5.4 | 5.9 | 5.5 | 5.8 |
| 2047 | 5.5 | 5.3 | 5.7 | 5.4 | 5.6 |
| 2052 | 5.4 | 5.2 | 5.5 | 5.3 | 5.5 |

* Trend not applicable as actual 2013 premiums were valued.

Participation — The table below summarizes the census data provided by each Agency utilized in the preparation of the actuarial valuation. The table shows the number of active and retired employees by Agency and provides a breakdown of the coverage elected and benefits offered to current retirees.

OPEB Participation By Agency at January 1, 2012

| | MTA New York City Transit | MTA Long Island Rail Road | MTA Metro- North Rail Road | MTA Bridges & Tunnels | MTAHQ | MTA Long Island Bus * | MTA Staten Island Railway | MTA Bus Company | Total |
|---|---------------------------------------|---------------------------------------|-------------------------------------|--------------------------------|------------|--------------------------------|------------------------------------|--------------------|---------------|
| <u>Active Members</u> | | | | | | | | | |
| Number | 46,333 | 6,406 | 5,987 | 1,589 | 1,715 | - | 255 | 3,445 | 65,730 |
| Average Age | 49.3 | 44.1 | 46.2 | 45.6 | 45.2 | - | 46.1 | 46.5 | 48.2 |
| Average Service | 14.9 | 11.7 | 15.3 | 12.6 | 11.8 | - | 15 | 11.7 | 14.3 |
| <u>Retirees</u> | | | | | | | | | |
| Single Medical Coverage | 11,519 | 841 | 432 | 464 | 165 | 138 | 22 | 553 | 14,134 |
| Employee/Spouse Coverage | 16,042 | 2,630 | 830 | 633 | 324 | 246 | 40 | 818 | 21,563 |
| Employee/Child Coverage | 710 | 102 | 32 | 16 | 12 | 19 | 1 | 31 | 923 |
| No medical Coverage | <u>5,809</u> | <u>2,255</u> | <u>1,302</u> | <u>60</u> | <u>3</u> | <u>436</u> | <u>19</u> | <u>182</u> | <u>10,066</u> |
| Total Number | <u>34,080</u> | <u>5,828</u> | <u>2,596</u> | <u>1,173</u> | <u>504</u> | <u>839</u> | <u>82</u> | <u>1,584</u> | <u>46,686</u> |
| Average Age | 70.9 | 67.3 | 70.8 | 66.8 | 64.3 | 67.5 | 64.2 | 69.1 | 70.1 |
| Total Number with Dental | 5,534 | 652 | 313 | 337 | 319 | 54 | 23 | 65 | 7,297 |
| Total Number with Vision | 24,606 | 652 | 313 | 337 | 319 | 54 | 23 | 1,352 | 27,656 |
| Total No. with Supplement | 24,501 | 1,805 | - | 827 | - | 379 | 27 | 1,518 | 29,057 |
| Average Monthly Supplement Amount (Excluding Part B Premium) | \$30 | \$190 | \$ - | \$195 | \$ - | \$ - | \$383 | \$25 | \$45 |
| Total No. with life Insurance | 5,129 | 5,418 | 1,703 | 334 | 399 | 792 | 82 | 66 | 13,923 |
| Average Life Insurance Amount | \$2,825 | \$18,801 | \$2,782 | \$5,000 | \$5,000 | \$8,561 | \$2,543 | \$5,000 | \$9,486 |

* No active members as of January 1, 2012. In addition, there are 276 vestees not included in these counts.

Coverage Election Rates — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For Metro-North represented members, 15% are assumed to elect ConnectiCare. For groups that do not participate in NYSHIP, notably NYC Transit and MTA Bus Company members are assumed to elect Empire BCBS or Aetna/ United Healthcare with percentages varying by agency.

Dependent Coverage - Spouses are assumed to be the same age as the employee/retiree. 85% of male and 60% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

Demographic Assumptions:

Mortality — Preretirement and postretirement health annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

Preretirement — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments. No blue-collar adjustments were used for management members of MTAHQ.

Postretirement Healthy Lives — 95% of the rates from the RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue-collar or percentage adjustments were used for management members of MTAHQ.

Postretirement Disabled Lives — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.

Vestee Coverage — For members that participate in NYSHIP, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers based on age at valuation date.

| Age at Termination | Percent Electing |
|--------------------|------------------|
| < 40 | 0 % |
| 40–43 | 5 |
| 44 | 20 |
| 45–46 | 30 |
| 47–48 | 40 |
| 49 | 50 |
| 50–51 | 80 |
| 52+ | 100 |

The following table shows the elements of the MTA’s annual OPEB cost for the period/year, the amount actually paid, and changes in the MTA’s net OPEB obligation to the plan for the period ended March 31, 2015 and December 31, 2014. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

| (In millions) | March 31, 2015 (Unaudited) | December 31, 2014 |
|--|----------------------------------|----------------------|
| Period/Annual required contribution (“ARC”) | \$ 773.2 | \$ 3,092.9 |
| Interest on net OPEB obligation | 94.0 | 376.0 |
| Adjustment to ARC | <u>(236.5)</u> | <u>(946.0)</u> |
| OPEB cost | 630.7 | 2,522.9 |
| Payments made | <u>(120.9)</u> | <u>(483.7)</u> |
| Increase in net OPEB obligation | 509.8 | 2,039.2 |
| Net OPEB obligation — beginning of period/year | <u>12,066.3</u> | <u>10,027.1</u> |
| Net OPEB obligation — end of period/year | <u>\$ 12,576.1</u> | <u>\$ 12,066.3</u> |

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2014, 2013 and 2012 is as follows (in millions):

| Year Ended | Annual OPEB Cost | % of Annual Cost Contributed | Net OPEB Obligation |
|-------------------|-------------------------|-------------------------------------|----------------------------|
| December 31, 2014 | \$ 2,522.9 | 19.2 % | \$ 12,066.3 |
| December 31, 2013 | 2,378.5 | 21.2 | 10,027.1 |
| December 31, 2012 | 2,216.2 | 30.3 | 8,154.1 |

The MTA funded status of the Plan is as follows (in millions):

| Year Ended | Valuation Date | Actuarial Value of Assets * {a} | Actuarial Accrued Liability (AAL) {b} | Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a} | Funded Ratio {a}/{b} | Covered Payroll {d} | Ratio of UAAL to Covered Payroll {c}/{d} |
|-------------------|-----------------------|--|--|--|---------------------------------|--------------------------------|---|
| December 31, 2014 | January 1, 2012 | \$246.0 | \$20,187.8 | \$19,941.8 | 1.2 % | \$4,360.6 | 457.3 % |

* Based on Entry Age Normal

The required schedule of funding progress for the MTA Postemployment Benefit Plan immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

6. CAPITAL ASSETS

Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than \$25 thousand.

Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2013, December 31, 2014 and March 31, 2015 (in millions):

| | Balance December 31, 2013 | Additions | Deletions | Balance December 31, 2014 | Additions (Unaudited) | Deletions (Unaudited) | Balance March 31, 2015 (Unaudited) |
|--|---------------------------------|----------------|-----------------|---------------------------------|--------------------------|--------------------------|---|
| Capital assets — not being depreciated: | | | | | | | |
| Land | \$ 174 | \$ 25 | \$ - | \$ 199 | \$ 7 | \$ - | \$ 206 |
| Construction work-in-progress | <u>11,490</u> | <u>4,553</u> | <u>4,045</u> | <u>11,998</u> | <u>1,024</u> | <u>347</u> | <u>12,675</u> |
| Total capital assets — not being depreciated | <u>11,664</u> | <u>4,578</u> | <u>4,045</u> | <u>12,197</u> | <u>1,031</u> | <u>347</u> | <u>12,881</u> |
| Capital assets, being depreciated: | | | | | | | |
| Buildings and structures | 16,142 | 631 | - | 16,773 | 31 | - | 16,804 |
| Bridges and tunnels | 2,325 | 202 | - | 2,527 | - | - | 2,527 |
| Equipment: | | | | | | | |
| Passenger cars and locomotives | 13,365 | 473 | 38 | 13,800 | 25 | 4 | 13,821 |
| Buses | 2,683 | 34 | - | 2,717 | 70 | - | 2,787 |
| Infrastructure | 19,412 | 890 | 10 | 20,292 | 63 | - | 20,355 |
| Other | <u>16,401</u> | <u>1,842</u> | <u>16</u> | <u>18,227</u> | <u>80</u> | <u>-</u> | <u>18,307</u> |
| Total capital assets — being depreciated | <u>70,328</u> | <u>4,072</u> | <u>64</u> | <u>74,336</u> | <u>269</u> | <u>4</u> | <u>74,601</u> |
| Less accumulated depreciation: | | | | | | | |
| Buildings and structures | 5,362 | 442 | - | 5,804 | 111 | - | 5,915 |
| Bridges and tunnels | 473 | 23 | - | 496 | 7 | - | 503 |
| Equipment: | | | | | | | |
| Passenger cars and locomotives | 5,672 | 438 | 38 | 6,072 | 103 | 1 | 6,174 |
| Buses | 1,373 | 186 | - | 1,559 | 47 | - | 1,606 |
| Infrastructure | 6,893 | 618 | 10 | 7,501 | 155 | - | 7,656 |
| Other | <u>5,490</u> | <u>559</u> | <u>8</u> | <u>6,041</u> | <u>145</u> | <u>-</u> | <u>6,186</u> |
| Total accumulated depreciation | <u>25,263</u> | <u>2,266</u> | <u>56</u> | <u>27,473</u> | <u>568</u> | <u>1</u> | <u>28,040</u> |
| Total capital assets — being depreciated — net | <u>45,065</u> | <u>1,806</u> | <u>8</u> | <u>46,863</u> | <u>(299)</u> | <u>3</u> | <u>46,561</u> |
| Capital assets — net | <u>\$56,729</u> | <u>\$6,384</u> | <u>\$ 4,053</u> | <u>\$ 59,060</u> | <u>\$ 732</u> | <u>\$ 350</u> | <u>\$ 59,442</u> |

Interest capitalized in conjunction with the construction of capital assets at March 31, 2015 and December 31, 2014, was \$10.4 and \$55.5, respectively.

Capital assets acquired prior to April 1982 for MTA New York City Transit were funded primarily by NYC with capital grants made available to MTA New York City Transit. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the MTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by MTA New York City Transit. In certain instances, title to MTA Bridges and Tunnels' real property may revert to NYC in the event the MTA determines such property is unnecessary for its corporate purpose. With respect to MTA Metro-North Railroad, capital assets completely funded by CDOT are not reflected in MTA's financial statements, as ownership is retained by CDOT.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At March 31, 2015 and December 31, 2014, these securities totaled \$88.9 and \$89.0, respectively, had a market value of \$76.7 and \$79.6, respectively, and are not included in these financial statements.

7. ASSET IMPAIRMENT RELATED EXPENSES AND RECOVERABLES

On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by MTA and its related groups. MTA expects to recoup most of the costs associated with repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

Asset impairment related expenses and recoverables includes the storm related impairment losses to the MTA's assets, and storm related repairs and clean-up costs. Since the storm made landfall in 2012, the total cumulative expenses associated with this catastrophe as of March 31, 2015 and March 31, 2014 are \$724 and \$725, respectively, of which \$1 and \$0 were incurred during the first three months ended March 31, 2015 and 2014, respectively. Offsetting these total storm related expenses are estimated insurance recoveries of \$775 under the property insurance policy, with a receivable of \$631 as of March 31, 2015. Additional recoveries under the MTA property insurance policy for Sandy-related damages and losses above that estimated sum are possible. Any additional insurance proceeds for Sandy-related losses in excess of the noted probable recoveries will be recognized for income purposes in future periods when such proceeds are estimable and all related contingencies are removed. For the period ended March 31, 2015, MTA received \$52 from FTA and FEMA for storm related repairs.

As noted, Federal governmental assistance programs are anticipated to cover many of the Sandy-related costs associated with repair and replacement of assets damaged in the storm. The Disaster Relief Appropriations Act ("Sandy Relief Act") passed in late January, 2013, appropriated a total of \$10.9 billion in Public Transportation Emergency Relief Program funding to the Federal Transit Administration ("FTA") to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and hardening costs. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency ("FEMA").

Of the \$10.9 billion amount, under the Sandy Relief Act, an initial tranche of \$2 billion has been allocated by the FTA to affected state and local public transportation entities by the end of March 2013. On March 6, 2013, the Secretary of Transportation announced that \$193 had been allocated to MTA, representing principally reimbursements for costs associated with preparing MTA's system for the storm and for restoring service post-storm; the FTA subsequently entered into a grant agreement with the MTA obligating these funds. On March 29, 2013, the FTA published its allocations for the remainder of the initial \$2 billion. MTA was allocated an additional \$1.0 billion of these monies, bringing MTA's total allocation from the first \$2 billion tranche of FTA Emergency Relief funds the FTA to \$1.193 billion. On May 23, 2013, the FTA allocated an additional \$3.7 billion to regional transportation providers. The MTA will receive \$2.6 billion of this additional allocation bringing MTA's total allocation to \$3.8 billion. The funds made available through this additional allocation includes \$898 set aside to help the MTA with resiliency projects to help ensure transit assets are better able to withstand future disasters. FTA approval of specific grants will need to be obtained prior to MTA's actual receipt or expenditure of any of these allocated funds.

Monies granted by FTA and FEMA to MTA for restoration of specific assets damaged in connection with Tropical Storm Sandy related are anticipated to be reduced in amount (or subject to reimbursement) to the extent MTA also receives insurance proceeds covering damage to such specific assets.

Additional asset impairments unrelated to Tropical Storm Sandy concern to MTA Metro-North Railroad. On February 3, 2015, an MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations, resulting in a \$2.9 of asset impairment expenses for the period ended March 31, 2015.

8. LONG-TERM DEBT

| (In millions) | Original Issuance | December 31, 2014 | Issued (Unaudited) | Retired (Unaudited) | Refunded (Unaudited) | March 31, 2015 (Unaudited) |
|--|----------------------|----------------------|-----------------------|------------------------|-------------------------|----------------------------------|
| MTA: | | | | | | |
| Transportation Revenue Bonds | | | | | | |
| 2.00%–5.50% due through 2046 | \$ 28,296 | \$ 19,556 | \$ 1,125 | \$ - | \$ - | \$ 20,681 |
| Bond Anticipation Notes | | | | | | |
| 2.0% due through 2015 | 300 | 300 | - | 300 | - | - |
| Transportation Revenue Bond Anticipation Notes | | | | | | |
| Commercial Paper due through 2015 | 900 | 550 | - | - | - | 550 |
| State Service Contract Bonds | | | | | | |
| 4.125%–5.70% due through 2031 | 2,395 | 286 | - | 34 | - | 252 |
| Dedicated Tax Fund Bonds | | | | | | |
| 3.00%–7.34% due through 2041 | 8,878 | 4,990 | - | - | - | 4,990 |
| Certificates of Participation | | | | | | |
| 4.40%–5.75% due through 2030 | 807 | 85 | - | - | - | 85 |
| | <u>\$ 41,576</u> | <u>25,767</u> | <u>1,125</u> | <u>334</u> | <u>-</u> | <u>26,558</u> |
| Net unamortized bond discount and premium | | <u>419</u> | <u>136</u> | <u>62</u> | <u>-</u> | <u>493</u> |
| | | <u>26,186</u> | <u>1,261</u> | <u>396</u> | <u>-</u> | <u>27,051</u> |
| TBTA: | | | | | | |
| General Revenue Bonds | | | | | | |
| 4.00%–5.77% due through 2038 | \$ 11,846 | 6,665 | 501 | 28 | 501 | 6,637 |
| Subordinate Revenue Bonds | | | | | | |
| 4.00%–5.77% due through 2032 | 3,958 | 1,631 | 58 | 19 | 58 | 1,612 |
| General Revenue Anticipation Notes | | | | | | |
| 5.0% due through 2015 | 100 | 100 | - | - | - | 100 |
| | <u>\$ 15,904</u> | <u>8,396</u> | <u>559</u> | <u>47</u> | <u>559</u> | <u>8,349</u> |
| Net unamortized bond discount and premium | | <u>561</u> | <u>-</u> | <u>3</u> | <u>-</u> | <u>558</u> |
| | | <u>8,957</u> | <u>559</u> | <u>50</u> | <u>559</u> | <u>8,907</u> |
| Total | | <u>\$ 35,143</u> | <u>\$ 1,820</u> | <u>\$ 446</u> | <u>\$ 559</u> | <u>\$ 35,958</u> |
| Current portion | | <u>(983)</u> | | | | <u>(922)</u> |
| Long-term portion | | <u>\$ 34,160</u> | | | | <u>\$ 35,036</u> |

MTA Transportation Revenue Bonds — Prior to 2015, MTA issued fifty two Series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligations adopted on March 26, 2002 in the aggregate principal amount of \$27,188.90. The Transportation Revenue Bonds are MTA's special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

On January 22, 2015, MTA issued \$850 of MTA Transportation Revenue Bonds, Series 2015A, to finance existing approved transit and commuter projects. The bonds were offered in two subseries: the 2015A-1 bonds totaling \$600 were issued as fixed-rate serial and term bonds; the 2015A-2 bonds were offered as SIFMA Floating Rate Notes (FRNs) with an initial purchase date of 5-years.

On March 19, 2015, MTA issued \$275.055 of MTA Transportation Revenue Bonds, Series 2015B, to retire \$300 of the Merrill Lynch and Keybank Series of Transportation Revenue Bond Anticipation Notes, Series 2013A.

MTA Bond Anticipation Notes — From time to time, MTA issues Transportation Revenue Bond Anticipation Notes in accordance with the terms and provisions of the General Resolution described above in the form of commercial paper to fund its transit and commuter capital needs. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. Payment of principal and interest on the notes are additionally secured by letters of credit issued by TD Bank, N.A., Barclays Bank, and Citibank, N.A. As of March 31, 2015, MTA had \$550 of commercial paper notes outstanding.

The MTA Act requires MTAHQ to periodically (at least each five years) refund its bond anticipation notes with bonds.

MTA Revenue Anticipation Notes - On January 9, 2014, MTA closed a \$350 revolving working capital liquidity facility with the Royal Bank of Canada which is expected to remain in place until July 7, 2017. Draws on the facility will be taxable, as such this facility is intended to be used only for operating needs of MTA and the related entities. No draws have been made on the facility to date.

MTA State Service Contract Bonds — Prior to 2015, MTA issued two Series of State Service Contract Bonds secured under its State Service Contract Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$2,395. Currently, the outstanding bonds are \$252.595. The State Service Contract Bonds are MTA's special obligations payable solely from certain payments from the State of New York under a service contract.

MTA Dedicated Tax Fund Bonds — Prior to 2015, MTA issued nineteen Series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$8,733.66. The Dedicated Tax Fund Bonds are MTA's special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in Note 2 under "Nonoperating Revenues") be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

MTA Certificates of Participation — Prior to 2015, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels executed and delivered three Series of Certificates of Participation in the aggregate principal amount of \$807.3 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The aggregate principal amount of \$807.3 includes approximately \$357.9 of refunding bonds. The Certificates of Participation represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement. The Certificates of Participation are currently outstanding in the amount \$84.675.

MTA Bridges and Tunnels General Revenue Bonds — Prior to 2014, MTA Bridges and Tunnels issued twenty-four Series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$11,332.3. The General Revenue Bonds are MTA Bridges and Tunnels' general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

On January 28, 2015, MTA effectuated a mandatory tender and remarketed \$139.825 of TBTA General Revenue Variable Rate Bonds, Series 2003B, \$122.420 of TBTA General Revenue Variable Rate Bonds, Series 2005A, and \$193.1 of TBTA General Revenue Variable Rate Refunding Bonds, Subseries 2005B-

2, because the letters of credit relating to: TBTA General Revenue Variable Rate Bonds, Subseries 2003B-1 and 2003B-3 Bonds; TBTA General Revenue Variable Rate Bonds, Subseries 2005A-1, 2005A-2, and 2005A-3; and TBTA General Revenue Variable Rate Refunding Bonds, Subseries 2005B-2a, 2005B-2b, and 2005B-2c were set to expire by their terms.

On January 28, 2015, MTA effectuated a mandatory tender and remarketed \$46.050 of TBTA General Revenue Variable Rate Bonds, Subseries 2003B-2, because its related letter of credit were set to expire by its terms. The Subseries 2003B-2 bonds were converted from a weekly variable rate mode into a term rate mode as floating rate notes with a purchase date in 4 years, with an interest rate of 67% of 1-month LIBOR plus a spread of 0.35%. The final maturity of these bonds is January 1, 2033.

MTA Bridges and Tunnels Subordinate Revenue Bonds — Prior to 2015, MTA Bridges and Tunnels issued twelve Series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$3,871.0. The Subordinate Revenue Bonds are MTA Bridges and Tunnels' special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.

On February 2, 2015, MTA effectuated a mandatory tender and remarketed \$58.020 of TBTA Subordinate Revenue Refunding Bonds, Subseries 2013D-2a, because its current interest rate period was set to expire by its terms. The Subseries 2013D-2a bonds continue in term rate mode as floating rate notes, with an interest rate of 100% of 1-month LIBOR plus a spread of 0.45%. The new interest rate period will expire on February 1, 2016 and the final maturity of these bonds is November 15, 2028.

Debt Limitation — The New York State Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is \$41,877 compared with issuances totaling approximately \$31,133. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

Bond Refundings — From time to time, the MTA and MTA Bridges and Tunnels issue refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase U.S. Treasury obligations that are placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated statements of net position.

At March 31, 2015 and December 31, 2014, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

| (In Millions) | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|----------------------------------|----------------------|
| MTA Transit and Commuter Facilities: | | |
| Transit Facilities Revenue Bonds | \$ 229 | \$ 229 |
| Commuter Facilities Revenue Bonds | 246 | 246 |
| Transit and Commuter Facilities Service Contract Bonds | 198 | 198 |
| Dedicated Tax Fund Bonds | 338 | 338 |
| MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project) | 23 | 35 |
| MTA Bridges and Tunnels: | | |
| General Purpose Revenue Bonds | 970 | 1,064 |
| Special Obligation Subordinate Bonds | 128 | 128 |
| Mortgage Recording Tax Bonds | 43 | 69 |
| Total | <u>\$ 2,175</u> | <u>\$ 2,307</u> |

Debt Service Payments — Principal and interest debt service payments at March 31, 2015 are as follows (in millions):

| | MTA | | MTA BRIDGES AND TUNNELS | | Debt Service | |
|------------|--------------------------|------------------|--------------------------|-----------------|--------------------------|------------------|
| | Principal (Unaudited) | Interest | Principal (Unaudited) | Interest | Principal (Unaudited) | Interest |
| 2015 | \$ 1,194 | \$ 1,335 | \$ 288 | \$ 387 | \$ 1,482 | \$ 1,722 |
| 2016 | 678 | 1,261 | 270 | 359 | 948 | 1,620 |
| 2017 | 748 | 1,212 | 282 | 351 | 1,030 | 1,563 |
| 2018 | 796 | 1,181 | 316 | 335 | 1,112 | 1,516 |
| 2019 | 735 | 1,151 | 328 | 332 | 1,063 | 1,483 |
| 2020-2024 | 4,219 | 5,193 | 1,726 | 1,426 | 5,945 | 6,619 |
| 2025-2029 | 5,386 | 4,151 | 2,128 | 1,011 | 7,514 | 5,162 |
| 2030-2034 | 5,932 | 2,756 | 1,817 | 504 | 7,749 | 3,260 |
| 2035-2039 | 4,669 | 1,445 | 1,055 | 155 | 5,724 | 1,600 |
| Thereafter | 2,201 | 350 | 139 | 15 | 2,340 | 365 |
| | <u>\$ 26,558</u> | <u>\$ 20,035</u> | <u>\$ 8,349</u> | <u>\$ 4,875</u> | <u>\$ 34,907</u> | <u>\$ 24,910</u> |

The above interest amounts include both fixed - and variable-rate calculations. The interest rate assumptions for variable rate bonds are as follows:

- *Transportation Revenue Refunding Bonds, Series 2002B* — 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* — 4.45% per annum on SubSeries 2002D-2 taking into account the interest rate swap
- *Transportation Revenue Refunding Bonds, Series 2002G* — 3.542% per annum on SubSeries 2002G-1 taking into account the interest rate swap and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2005D* — 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005E* — 3.561% per annum taking into account the interest rate swaps and 4.00% per annum on the unhedged portion

- *Transportation Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Transportation Revenue Bonds, Series 2011B* — 3.542% per annum taking into account the interest rate swaps and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2012A* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2012G* — 3.563% per annum taking into account the interest rate swaps
- *Dedicated Tax Fund Bonds, Series 2002B* — 4.00% per annum
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* — 3.316% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B* — 4.00% per annum
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000ABCD* — 6.08% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* — 5.404% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* — 4.00% per annum except from November 1, 2027 through November 1, 2030, 3.076% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* — 3.076% per annum based on the Initial Interest Rate Swaps thereafter
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Certificates of Participation, Series 2004A* — 3.542% per annum taking into account the interest rate swaps

Tax Rebate Liability — Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years. No payments were made during the period/year ended March 31, 2015 and December 31, 2014.

Liquidity Facility - MTA and MTA Bridges and Tunnels have entered into several Standby Bond Purchase Agreements (“SBPA”) and Letter of Credit Agreements (“LOC”) as listed on the table below.

| Resolution | Series | Swap | Provider (Insurer) | Type of Type of Facility | Exp. Date |
|---|----------|------|----------------------------|--------------------------------|------------|
| Transportation Revenue | 2005D-1 | Y | Helaba | LOC | 11/7/2015 |
| Transportation Revenue | 2005D-2 | Y | Helaba | LOC | 11/10/2017 |
| Transportation Revenue | 2005E-1 | Y | BofA Merrill Lynch | LOC | 10/2/2015 |
| Transportation Revenue | 2005E-2 | Y | Royal Bank of Canada | LOC | 12/15/2017 |
| Transportation Revenue | 2005E-3 | Y | PNC Bank | LOC | 10/2/2015 |
| Transportation Revenue | CP-2 (A) | N | TD Bank, N.A. | LOC | 9/16/2015 |
| Transportation Revenue | CP-2 (B) | N | Barclays Bank | LOC | 9/16/2015 |
| Transportation Revenue | CP-2 (D) | N | Citibank, N.A. | LOC | 9/16/2015 |
| Dedicated Tax Fund | 2002B-1 | Y | State Street Bank | SBPA | 3/28/2016 |
| Dedicated Tax Fund | 2008A-1 | Y | Royal Bank of Canada | LOC | 6/16/2017 |
| MTA Bridges and Tunnels General Revenue | 2001B | N | State Street | LOC | 9/28/2018 |
| MTA Bridges and Tunnels General Revenue | 2001C | N | JP Morgan Chase Bank, N.A. | SBPA | 9/29/2015 |
| MTA Bridges and Tunnels General Revenue | 2002F | Y | Helaba | SBPA | 11/1/2015 |
| MTA Bridges and Tunnels General Revenue | 2003B-1 | N | PNC Bank | LOC | 1/26/2018 |
| MTA Bridges and Tunnels General Revenue | 2003B-3 | N | Wells Fargo | LOC | 1/26/2018 |
| MTA Bridges and Tunnels General Revenue | 2005A | Y | TD Bank | LOC | 1/28/2020 |
| MTA Bridges and Tunnels General Revenue | 2005B-2 | Y | Wells Fargo | LOC | 1/26/2018 |
| MTA Bridges and Tunnels General Revenue | 2005B-3 | Y | Bank of America | LOC | 7/3/2015 |

Derivative Instruments

GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments

Summary Information at March 31, 2015

| (\$ In Millions) | Bond Resolution | Series | Type of Derivative | Cash Flow or Fair Value Hedge | Effective Methodology | Trade/Hedge Association Date | Notional Amount as of 3/31/2015 (Unaudited) (in millions) | Fair Value as of 3/31/2015 (Unaudited) (in millions) |
|-------------------------|---|----------------------|--------------------|-------------------------------|-----------------------|------------------------------|---|--|
| Investment Swaps | 2 Broadway Certificate of Participation | 2004A | Pay-Fixed Swap | N/a | N/a | 8/10/2004 | \$84.675 | (\$8.114) |
| Hedging Swaps | MTA Transportation Revenue Bonds | 2002D-2 | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 7/11/2002 | 200.000 | (85.730) |
| | MTA Transportation Revenue Bonds | 2012G | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 12/12/2007 | 358.175 | (108.791) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2002F (Citi 2005B) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 6/2/2005 | 193.100 | (41.364) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2005B | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 6/2/2005 | 579.300 | (124.093) |
| | MTA Transportation Revenue Bonds | 2005D & 2005E | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 9/10/2004 | 400.000 | (98.392) |
| | MTA Dedicated Tax Fund Bonds | 2008A | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 3/8/2005 | 332.995 | (68.226) |
| | MTA Transportation Revenue Bonds | 2002G-1 (COPS 2004A) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 1/1/2011 | 169.070 | (23.653) |
| | MTA Transportation Revenue Bonds | 2011B (COPS 2004A) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 1/1/2011 | 35.835 | (18.034) |
| | MTA Bridges & Tunnels Senior Revenue Bonds | 2005A (COPS 2004A) | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 1/1/2011 | 23.520 | (4.786) |
| | MTA Bridges & Tunnels Subordinate Revenue Bonds | 2000ABCD | Pay-Fixed Swap | Cash Flow | Synthetic Instrument | 8/12/1998 | 76.150 | (10.082) |
| | | | | | | | \$ 2,452.820 | \$ (591.265) |

The fair value balances and notional amounts of derivative instruments outstanding at March 31, 2015, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2014 are as follows:

| | Changes In Fair Value | | Fair Value at March 31, 2015 | |
|-------------------------------|-------------------------------|----------------------------------|------------------------------|----------------------------------|
| | Classification | Amount (Unaudited) (in millions) | Classification | Amount (Unaudited) (in millions) |
| Government activities | | | | |
| Cash Flow hedges: | | | | |
| Pay-fixed interest rate swaps | Deferred outflow of resources | (\$52.349) | Debt | (\$583.151) |
| | | | | \$2,368.145 |
| Investment hedges: | | | | |
| Pay-fixed interest rate swaps | Unrealized investment gain | 0.034 | Debt | (8.114) |
| | | | | 84.675 |

For the three month period ended March 31, 2015, the MTA recorded \$0.034 as an unrealized gain related to the change in fair market value of certain investment swaps that are not accounted for as hedging derivatives.

For the three month period ended March 31, 2015, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of thirteen (13) swaps and fourteen (14) hedging relationships that were reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of that total, thirteen (13) hedging relationships were deemed effective using one of the GASB Statement No. 53 quantitative methods.

For thirteen (13) hedging relationships, the Synthetic Instrument Method was utilized to determine effectiveness. Under the Synthetic Instrument Method, if the rate determined by dividing the historical Swap and Bond payments (Fixed Swap payments + Floating Bond payments - Floating Swap payments) by the hedge notional amount produces an "Actual Synthetic Rate" that is within 90% to 111% of the corresponding fixed swap rates then the hedging derivative instrument is deemed to be effective.

In accordance with GASB Statement No. 53, one of the hedging swaps was classified as a swaption for which a premium was received by MTA Bridges and Tunnels at contract inception as shown in the following Table. MTA Bridges and Tunnels have followed the relevant accounting required treatment and are amortizing the premium over the life of the swap agreement.

| Bond Resolution | Original Series | Premium | Date of the Swaption Contract | Premium Payment Date |
|-----------------------------------|-----------------|----------|-------------------------------|----------------------|
| MTA Bridges & Tunnels-Subordinate | 2000AB | \$22.740 | 8/12/1998 | 8/25/1998 |

Swap Agreements Relating to Synthetic Fixed Rate Debt

Board-adopted Guidelines. The Related Entities adopted guidelines governing the use of swap contracts on March 26, 2002. The guidelines were amended and approved by the Board on March 13, 2013. The guidelines establish limits on the amount of interest rate derivatives that may be outstanding and specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, retention of a swap advisor, credit ratings of the counterparties, collateralization requirements and reporting requirements.

Objectives of synthetic fixed rate debt. To achieve cash flow savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels and MTA New York City Transit would have paid to issue fixed-rate debt, and in some cases where Federal tax law prohibits an advance refunding to synthetically refund debt on a forward basis.

Fair Value. Relevant market interest rates on the valuation date (March 31, 2015) of the swaps are reflected in the following charts. As of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should a swap with a positive fair value be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. See "Termination Risk" below.

Terms and Fair Values. The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

| MTA TRANSPORTATION REVENUE BONDS | | | | | | | |
|---|--|----------------|-----------------|--|---|-----------------------|------------------------------|
| Associated Bond Issue | Notional Amounts as of 3/31/15 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/15 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2002D-2 | \$200.000 | 01/01/07 | 4.450 % | 69% of one-month LIBOR ⁽¹⁾ | \$(85.730) | 11/01/32 | JPMorgan Chase, NA |
| Series 2002G-1 ⁽²⁾ | 169.070 | 09/22/04 | 3.092 | Lesser of Actual Bond or 67% of one-month LIBOR – 45bp | (23.653) | 01/01/30 | UBS AG |
| Series 2005D-1,2 and Series 2005E-1,2,3 | 300.000 | 11/02/05 | 3.561 | 67% of one-month LIBOR ⁽¹⁾ | (73.799) | 11/01/35 | UBS AG |
| Series 2005E-1,2,3 | 100.000 | 11/02/05 | 3.561 | 67% of one-month LIBOR ⁽¹⁾ | (24.593) | 11/01/35 | AIG Financial Products Corp. |
| Series 2011B ⁽²⁾⁽⁹⁾⁽¹⁰⁾ | 35.835 | 09/22/04 | 3.092 | Lesser of Actual Bond or 67% of one-month LIBOR -45bp | (18.034) | 01/01/30 | UBS AG |
| Series 2012G ⁽³⁾ | 358.175 | 11/15/12 | 3.563 | 67% of one-month LIBOR ⁽¹⁾ | (108.791) | 11/01/32 | JPMorgan Chase Bank, NA |
| Total | \$1,163.080 | | | | \$ (334.600) | | |

⁽¹⁾ London Interbank Offered Rate.

⁽²⁾ On November 28, 2011, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2002G-1 and Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

⁽³⁾ November 15, 2012, the Series 2012G swap became effective and the Related Bonds associated with the swap were issued on November 13, 2012. Under the terms of the swap JPMorgan Chase Bank, NA had an option to terminate the swap prior to the Effective Date. As of June 15, 2012, such option expired unexercised. There are no remaining options associated with the swap.

| MTA DEDICATED TAX FUND BONDS | | | | | | | |
|--------------------------------|--|----------------|-----------------|---------------------------------------|---|-----------------------|--|
| Associated Bond Issue | Notional Amounts as of 3/31/15 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/15 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2008A ⁽⁴⁾⁽⁵⁾ | \$332.995 | 03/24/05 | 3.316% | 67% of one-month LIBOR ⁽¹⁾ | \$ (68.226) | 11/01/31 | Bank of New York Mellon ⁽⁶⁾ |
| Total | \$332.995 | | | | \$ (68.226) | | |

⁽⁴⁾ On June 25, 2008, the Confirmation dated as of March 8, 2005, between the Counterparty and MTA was amended to define Related Bonds as MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A. On June 26, 2008, MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A associated with the swap prior to the amendment described above, were refunded.

⁽⁵⁾ On October 27, 2011, the outstanding swap associated with DTF 2008A bonds was novated from counterparty Citigroup Financial Products, Inc. to The Bank of New York Mellon. All other terms of the swap remain unchanged.

| MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS | | | | | | | |
|--|--|----------------|-----------------|---|---|-----------------------|--|
| Associated Bond Issue | Notional Amounts as of 3/31/15 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/15 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2002F ⁽⁶⁾ | \$193.100 | 07/07/05 | 3.076% | 67% of one-month LIBOR ⁽¹⁾ | \$ (41.364) | 01/01/32 | Citibank, N.A. |
| Series 2005A ⁽²⁾⁽⁹⁾⁽¹⁰⁾ | 23.520 | 09/24/04 | 3.092 | Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points | (4.786) | 01/01/30 | UBS AG |
| Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e ⁽⁶⁾ | 579.300 | 07/07/05 | 3.076 | 67% of one-month LIBOR ⁽¹⁾ | (124.093) | 01/01/32 | 33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG |
| Total | \$795.920 | | | | \$ (170.243) | | |

⁽⁶⁾ On February 19, 2009, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B-1 were refunded. Notional amounts from the Series 2005B-1 swap were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F, MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B-1,2,3 and from November 1, 2027 through November 1, 2030, to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A-2,3.

| MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS | | | | | | | |
|---|--|----------------|-----------------|-------------------------------|---|-----------------------|-------------------------|
| Associated Bond Issue | Notional Amounts as of 3/31/2015 (Unaudited) (in millions) | Effective Date | Fixed Rate Paid | Variable Rate Received | Fair Values as of 3/31/2015 (Unaudited) (in millions) | Swap Termination Date | Counterparty |
| Series 2000ABCD ⁽⁷⁾⁽⁸⁾ | \$76.150 | 01/01/01 | 6.080% | SIFMA – 15 bp ⁽¹¹⁾ | \$ (10.082) | 01/01/19 | JPMorgan Chase Bank, NA |
| Total | \$76.150 | | | | \$ (10.082) | | |

⁽⁷⁾ In accordance with a swaption entered into on August 12, 1998, the Counterparty paid to MTA Bridges and Tunnels a premium of \$22.740.

⁽⁸⁾ On September 30, 2014, the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB, together with the TBTA Subordinate Revenue Variable Rate Refunding Bonds Series 2000CD, were redesignated as the Series 2000ABCD Bonds and converted from a Weekly Mode to a Term Mode. The swap now hedges the portion of the Series 2000ABCD bonds that originally related to the Series 2000AB bonds.

⁽⁹⁾ On December 18, 2012, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

⁽¹⁰⁾ On November 19, 2013, MTA Variable Rate Certificates of Participation, Series 2004A associated with the swap in connection with Series 2004A Bonds, were redeemed. Notional amounts from the Series 2004A swap were reassigned to MTA Transportation Revenue Variable Rate Bonds, Series 2011B; and MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

⁽¹¹⁾ Securities Industry and Financial Markets Association Municipal Swap Index.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357.925 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030.

On November 28, 2011, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2002G-1 and Series 2011B.

On December 18, 2012, and November 19, 2013, certain portions of these swaps were re-associated with other floating rate bonds, including the MTA Bridges and Tunnels General Revenue Bonds, Series 2005A and the Transportation Revenue Bonds Series 2011B.

The portion remaining that is still associated with the 2004A Certificates of Participation is \$84.675 in notional amount as of March 31, 2015, of which MTA New York City Transit is responsible for \$58.165, MTA for \$17.780, and MTA Bridges and Tunnels for \$8.730. As of March 31, 2015, the unaudited aggregate fair value of the remaining portion associated with the 2004A COPs was (\$8.114).

Counterparty Ratings

The current ratings of the counterparties are as follows as of March 31, 2015.

| Counterparty | Ratings of the Counterparty or its Credit Support Provider | | |
|---------------------------------|---|----------------|--------------|
| | S&P | Moody's | Fitch |
| AIG Financial Products Corp. | A- | Baa1 | BBB+ |
| Bank of New York Mellon | AA- | Aa2 | AA- |
| BNP Paribas North America, Inc. | A+ | A1 | A+ |
| Citibank, N.A. | A | A2 | A |
| JPMorgan Chase Bank, NA | A+ | Aa3 | A+ |
| UBS AG | A | A2 | A |

Swap Notional Summary

The following table sets forth the notional amount of Synthetic Fixed Rate debt and the outstanding principal amount of the underlying floating rate series as of March 31, 2015 (in millions).

| <u>Series</u> | <u>Outstanding Principal (Unaudited)</u> | <u>Notional Amount (Unaudited)</u> |
|-----------------------------------|---|---|
| TRB 2012G-4 | \$73.725 | \$73.725 |
| TRB 2012G-3 | 75.000 | 75.000 |
| TRB 2012G-2 | 125.000 | 125.000 |
| TRB 2012G-1 | 84.450 | 84.450 |
| TRB 2011B | 99.560 | 35.835 |
| TRB 2005E-3 | 75.000 | 45.000 |
| TRB 2005E-2 | 75.000 | 45.000 |
| TRB 2005E-1 | 100.000 | 60.000 |
| TRB 2005D-2 | 100.000 | 100.000 |
| TRB 2005D-1 | 150.000 | 150.000 |
| TRB 2002G-1 (a, b, c, d, f, g, h) | 181.830 | 169.070 |
| TRB 2002D-2 (a, b) | 200.000 | 200.000 |
| TBTA SUB 2000ABCD | 128.700 | 76.150 |
| TBTA 2005B-4 (a,b,c,d,e) | 193.100 | 193.100 |
| TBTA 2005B-3 | 193.100 | 193.100 |
| TBTA 2005B-2 | 193.100 | 193.100 |
| TBTA 2005A | 122.420 | 23.520 |
| TBTA 2003B (1,2,3) | 185.875 | (a) |
| TBTA 2002F | 195.300 | 193.100 |
| DTF 2008A-2 (a, b) | 169.710 | 166.498 |
| DTF 2008A-1 | 169.720 | 166.498 |
| COPs 2004A | 84.675 | 84.675 |
| Total | \$2,975.265 | \$2,452.821 |
| | | |

(a) Swaps assigned to future maturities of Bonds on a forward basis.

Except as discussed below under the heading “*Rollover Risk*,” the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the principal amount of the associated bonds.

Risks Associated with the Swap Agreements

From MTA’s, MTA Bridges and Tunnels’ and MTA New York City Transit’s perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party’s obligations under the swap agreement. See “*Collateralization*” below. Further, ratings deterioration by either party below levels agreed to in each transaction could

result in a termination event requiring a cash settlement of the future value of the transaction. See “Termination Risk” below.

- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty’s rate under the swap is lower than the bond interest rate, then the counterparty’s payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty’s rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.
- **Termination Risk** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a termination payment to the counterparty and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.
- **Rollover Risk** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of March 31, 2015, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all swaps. The counterparties have the ratings set forth above.

| Counterparty | Notional Amount (in thousands) (Unaudited) | % of Total Notional Amount (Unaudited) |
|---------------------------------|---|---|
| JPMorgan Chase Bank, NA | \$827,425 | 33.73% |
| UBS AG | 806,200 | 32.87 |
| The Bank of New York Mellon | 332,995 | 13.58 |
| Citibank, N.A. | 193,100 | 7.87 |
| BNP Paribas North America, Inc. | 193,100 | 7.87 |
| AIG Financial Products Corp. | 100,000 | 4.08 |
| Total | \$2,452,820 | 100.00% |

The ISDA Master Agreements entered into with the following counterparties provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement:

- JPMorgan Chase Bank, NA with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000ABCD.
- JPMorgan Chase Bank, NA with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012G.

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions’ fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. Factors that influence LIBOR are banks' actual and assumed interest rates, banks expectations of future rate movements, liquidity in the capital markets or changes in the value of the dollar. The relative financial health of MTA's counterparties do not directly impact the fair market value of the transaction.

Collateralization. Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold valuation amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, and the counterparty for each swap agreement. In most cases, the counterparty does not have a Fitch rating on its long-term unsecured debt, so that criteria would not be applicable in determining if the counterparty is required to post collateral.

| MTA Transportation Revenue Bonds | | |
|---|---|--|
| Associated Bond Issue | If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2002D-2 | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated | \$10,000,000 \$ - |
| Series 2002G-1 | See 2 Broadway Certificates of Participation | |
| Series 2005D-1,2 and Series 2005E-1,2,3 | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – below BBB+, Moody's – below Baa1, or S&P – below BBB+ | \$10,000,000 \$ - |
| Series 2011B | See 2 Broadway Certificates of Participation | |
| Series 2012G | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated | \$10,000,000 \$ - |

| MTA Dedicated Tax Fund Bonds | | |
|---|---|--|
| Associated Bond Issue | If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.] | Fitch – AA-, or, Moody's Aa3, or S&P AA- Fitch, A+, or Moody's – A1, or S&P A+ Fitch A, or Moody's A2 or S&P – A Fitch A-, or Moody's A3 or S&P – A- Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below | \$10,000,000 \$5,000,000 \$2,000,000 \$1,000,000 \$ - |

| 2 Broadway Certificates of Participation | | |
|---|---|--|
| Associated Bond Issue | If the highest rating of the MTA Transportation Revenue Bonds falls to | Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of |
| Series 2004A | Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated | \$25,000,000 \$ - |
| | If the highest rating of the Counterparty's long-term unsecured debt falls to | Then the Counterparty must post collateral if its estimated termination payments are in excess of |
| Series 2004A | Moody's – Baa1 or lower, or S&P – BBB+ or lower | \$ - |

| MTA Bridges and Tunnels Senior Lien Revenue Bonds | | |
|---|---|--|
| Associated Bond Issue | If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2005A | See 2 Broadway Certificates of Participation | |
| Series 2002F (swap with Citibank, N.A.), Series 2005B-2, 2005B-3 and 2005B-4a,b,c,d,e (swap with JPM, BNP, UBS) | For counterparty, Fitch – A-, or Moody's – A3, or S&P – A- | \$10,000,000 |
| | For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+ | \$30,000,000 |
| | For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB | \$15,000,000 |
| | For counterparty, Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below | \$ - |
| | For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below | \$ - |

| MTA Bridges and Tunnels Subordinate Revenue Bonds | | |
|--|---|--|
| Associated Bond Issue | If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to | Then the downgraded party must post collateral if its estimated termination payments are in excess of |
| Series 2000ABCD | N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but JP Morgan Chase Bank is required to post collateral if its estimated termination payments are in excess of \$1,000,000. | |

Notwithstanding the foregoing, in the event any downgraded party is responsible for an event of default or potential event of default as defined in the ISDA Master Agreement, the downgraded party must immediately collateralize its obligations irrespective of the threshold amounts.

Under each MTA and MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

Termination Risk. The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate ISDA Master Agreements with each counterparty that govern the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

The following table sets forth, for each swap, the additional termination events for the following associated bond issues. In certain swaps, where the counterparty has a guarantor of its obligations, the ratings criteria apply to the guarantor and not to the counterparty.

| MTA Transportation Revenue | |
|---|---|
| Associated Bond Issue | Additional Termination Event(s) |
| Series 2002D-2, Series 2005D-1,2 and Series 2005E-1,2,3 | The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn. |
| Series 2002G-1 | See 2 Broadway Certificates of Participation |
| Series 2012G-1,2,3,4 | The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn. |
| Series 2011B | See 2 Broadway Certificates of Participation |

| MTA Dedicated Tax Fund | |
|-------------------------------|--|
| Associated Bond Issue | Additional Termination Event(s) |
| Series 2008A -1,2 | The ratings by S&P or Moody's of the Counterparty fall below "A-" or "A3," respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or "Baa2", or in either case the ratings are withdrawn. |

| 2 Broadway Certificates of Participation | | |
|---|---------------------|--|
| Associated Bond Issue | Counterparty | Additional Termination Event(s) |
| Series 2004A | UBS AG | Negative financial events relating to the swap insurer, Ambac Assurance Corporation. |

| MTA Bridges and Tunnels Senior and Subordinate Revenue | |
|--|---|
| Associated Bond Issue | Additional Termination Events |
| Senior Lien Revenue Bonds | |
| Series 2005A | See 2 Broadway Certificates of Participation |
| Series 2002F (swap with Citibank, N.A.), Series 2005B-2, 2005B-3 and 2005B-4a,b,c,d,e (swaps with JPM,BNP,UBS) | The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn. |
| Subordinate Revenue Bonds | |
| Series 2000ABCD | <p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, MBIA.</p> <p>3. MTA Fails to have at least one of such issues with a rating of "BBB-" or higher as determined by S&P or "Baa3" or higher as determined by Moody's</p> |

Rollover Risk. MTA and MTA Bridges and Tunnels are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, MTA or MTA Bridges and Tunnels may not realize the synthetic fixed rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

| Associated Bond Issue | Bond Maturity Date | Swap Termination Date |
|--|--------------------|-----------------------|
| MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.) | November 1, 2032 | January 1, 2032 |
| MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B (swap with Citibank, N.A.) | January 1, 2033 | January 1, 2032 |

Swap payments and Associated Debt. The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA's and MTA Bridges and Tunnel's outstanding variable-rate debt and net swap payments are estimated to be as follows:

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

| MTA (in millions) (Unaudited) | | | | |
|---|---------------------|----------|----------------------|---------|
| Period Ending March 31 | Variable-Rate Bonds | | Net Swap Payments | Total |
| | Principal | Interest | | |
| 2015 | \$ 15.3 | \$ 53.1 | \$ (6.6) | \$ 61.8 |
| 2016 | 22.2 | 52.4 | (6.4) | 68.2 |
| 2017 | 34.4 | 51.5 | (6.3) | 79.6 |
| 2018 | 35.8 | 50.1 | (6.1) | 79.8 |
| 2019 | 55.6 | 48.6 | (5.8) | 98.4 |
| 2020-2024 | 293.8 | 211.5 | (24.3) | 481.1 |
| 2025-2029 | 356.5 | 173.7 | (14.6) | 515.6 |
| 2030-2034 | 729.7 | 391.9 | (5.2) | 1,116.4 |
| 2035 | 36.2 | 5.2 | (0.4) | 41.0 |
| MTA Bridges and Tunnels (in millions) (Unaudited) | | | | |
| Period Ending March 31 | Variable-Rate Bonds | | Net Swap Payments | Total |
| | Principal | Interest | | |
| 2015 | \$ 11.4 | \$ 46.8 | \$ (5.6) | \$ 52.6 |
| 2016 | 56.2 | 44.6 | (5.6) | 95.2 |
| 2017 | 59.2 | 42.2 | (6.1) | 95.3 |
| 2018 | 62.5 | 39.7 | (6.7) | 95.6 |
| 2019 | 43.4 | 38.0 | (7.0) | 74.4 |
| 2020-2024 | 165.4 | 173.2 | (34.1) | 304.5 |
| 2025-2029 | 289.2 | 133.1 | (30.0) | 392.3 |
| 2030-2034 | 499.7 | 23.1 | (4.9) | 517.9 |

9. LEASE TRANSACTIONS

Leveraged Lease Transactions: Subway Cars — During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by MTA New York City Transit, for net proceeds of \$84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The advanced credit of \$34.2 was netted against the carrying value of the leased assets, and the assets were recontributed to the MTA New York City Transit. MTA Bridges and Tunnels transferred \$5.5 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which \$71.3 was placed in an irrevocable deposit account at ABN AMRO Bank N.V. and \$7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all of the regularly scheduled obligations under the lease as they become due, including the 2016 purchase option, if exercised. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89.

Leveraged Lease Transactions: Qualified Technological Equipment — On December 19, 2002, the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred

ownership of certain MTA New York City Transit qualified technological equipment (“QTE”) relating to the MTA New York City Transit automated fare collection system to the MTA. The MTA sold that equipment to third parties and the MTA leased that equipment back from such third parties. Three of those four leases were terminated early and are no longer outstanding. The fourth lease expires in 2022, at which point the MTA has the option of either exercising a fixed-price purchase option for the equipment or returning the equipment to the third-party owner.

Under the terms of the outstanding sale/leaseback agreement the MTA initially received \$74.9, which was utilized as follows: The MTA paid \$52.1 to an affiliate of the lender to the third party, which affiliate has the obligation to pay to MTA an amount equal to the rent obligations under the lease attributable to the debt service on the loan from the third party’s lender. The MTA also purchased U.S. Treasury debt securities in amounts and with maturities, which are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under the lease and the purchase price due upon exercise by the MTA of the related purchase option if exercised.

Leveraged Lease Transaction: Subway Cars — On September 3, 2003, the MTA entered into a sale/leaseback transaction whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to a third party, and the MTA leased those cars back from such third party. The MTA subleased the cars to MTA New York City Transit. The lease expires in 2033. At the lease expiration, the MTA has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreement, the MTA initially received \$168.1, which was utilized as follows: The MTA paid \$126.3 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on such loan from such third party’s lender. The obligations of the affiliate of the third party’s lender are guaranteed by American International Group, Inc. The MTA also purchased FNMA and U.S. Treasury securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lender to the third party and to pay the remainder of the regularly scheduled rent due under that lease and the purchase price due upon exercise by the MTA of the fixed price purchase option if exercised. The amount remaining after payment of transaction expenses, \$7.4, was the MTA’s benefit from the transaction.

Leveraged Lease Transactions: Subway Cars — On September 25, 2003, and September 29, 2003, the MTA entered into two sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to third parties, and the MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. Both leases expire in 2033. At the lease expiration, MTAHQ has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreements, the MTA initially received \$294, which was utilized as follows: In the case of one of the leases, the MTA paid \$97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on the loan from such third party’s lender. The obligations of the affiliate of such third party’s lender are guaranteed by American International Group, Inc. In the case of the other lease, the MTA purchased U.S. Treasury debt securities in amounts and with maturities, which are sufficient for the MTA to make the lease rent payments equal to the debt service on the loan from the lender to that third party. In the case of both of the leases, the MTA also purchased Resolution Funding Corporation (“REFCO”) debt securities that mature in 2030. Under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.), AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay to the MTA amounts

sufficient for the MTA to pay the remainder of the regularly scheduled lease rent payments under those leases and the purchase price due upon exercise by the MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$24, was the MTA's net benefit from these two transactions.

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. REFCO debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that required the provision of new credit enhancement facilities for each lease by December 21, 2008.

On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 25, 2003 and provided a short-term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was \$32. As a result of a mark-to-market of the securities provided as collateral as of January 31, 2009, \$8 of such \$32 in collateral value was released back to MTA in February 2009. As a result of a mark-to-market of the securities provided as collateral as of January 2012, \$10 of such \$34 in collateral value was released back to MTA in February 2012. As of March 31, 2015, the market value of total collateral funds was \$36.7.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 29, 2003. From time to time, additional collateral has been required to be added such that the total market value of the securities being held as additional collateral are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under the lease. As of March 31, 2015, the market value of total collateral funds was \$51.8.

Other Lease Transactions — On July 29, 1998, the MTA, (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad, MTA New York City Transit, and MTA Bridges and Tunnels) entered into a lease and related agreements whereby each agency, as subleasee, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2013, the MTA made rent payments of \$23. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately \$358 of certificates of participation that partially refunded the two previously issued certificates. As of March 31, 2015, there was \$84.675 in certificates of participation outstanding. (See Note 8). The office building at 2 Broadway, is principally occupied by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ.

On April 8, 1994, the MTA amended its lease for the Harlem/Hudson line properties, including Grand Central Terminal. This amendment initially extends the lease term, previously expiring in 2031, an additional 110 years and, pursuant to several other provisions, an additional 133 years. In addition, the

amendment grants the MTA an option to purchase the leased property after the 25th anniversary of the amended lease, subject to the owner's right to postpone such purchase option exercise date for up to an additional 15 years if the owner has not yet closed the sale, transfer or conveyance of an aggregate amount of 1,000,000 square feet or more of development rights appurtenant to Grand Central Terminal and the associated zoning lots. The amended lease comprises both operating (for the lease of land) and capital (for the lease of buildings and track structure) elements.

In August 1988, the MTA entered into a 99-year lease agreement with Amtrak for Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms.

The \$45 paid to Amtrak by the MTA under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, MTA Long Island Rail Road entered into an agreement with Amtrak to share equally the cost of the design and construction of certain facilities at Pennsylvania Station. Under this agreement, the MTA may be required to contribute up to \$60 for its share of the cost. As of December 31, 2000, the project was closed and \$50 was included in property and equipment.

Total rent expense (unaudited) under operating leases approximated \$14.7 and \$12.1 for the periods ended March 31, 2015 and 2014 respectively.

At March 31, 2015, the future minimum lease payments under non-cancelable leases are as follows (in millions):

| | Operating (Unaudited) | Capital |
|---|----------------------------------|----------------|
| 2015 | \$ 47 | \$ 27 |
| 2016 | 55 | 34 |
| 2017 | 57 | 121 |
| 2018 | 57 | 23 |
| 2019 | 57 | 25 |
| 2020–2024 | 217 | 173 |
| 2025–2029 | 279 | 109 |
| 2030–2034 | 288 | 548 |
| 2035–2039 | 247 | 136 |
| 2040–2044 | 247 | 149 |
| Thereafter | <u>529</u> | <u>289</u> |
| Future minimum lease payments | <u>\$ 2,080</u> | 1,634 |
| Amount representing interest | | <u>(1,123)</u> |
| Total present value of capital lease obligations | | <u>511</u> |
| Less current present value of capital lease obligations | | <u>8</u> |
| Noncurrent present value of capital lease obligations | | <u>\$ 503</u> |

Capital Leases Schedule
For the Period Ended March 31, 2015
(in millions)

| Description | December 31, 2014 | Increase (Unaudited) | Decrease (Unaudited) | March 31, 2015 (Unaudited) |
|--|----------------------|-------------------------|-------------------------|----------------------------------|
| Hawaii | \$ 1 | \$ - | \$ 1 | \$ - |
| Sumitomo | 15 | - | - | 15 |
| Met Life | 5 | - | - | 5 |
| Met Life Equity | 19 | - | - | 19 |
| Bank of New York | 22 | - | - | 22 |
| Bank of America | 30 | - | - | 30 |
| Bank of America Equity | 16 | - | - | 16 |
| Sumitomo | 40 | - | - | 40 |
| Met Life Equity | 45 | - | - | 45 |
| Grand Central Terminal & Harlem Hudson Railroad Lines | 15 | - | - | 15 |
| 2 Broadway Lease Improvement | 164 | - | - | 164 |
| 2 Broadway | 38 | - | - | 38 |
| Subway Cars | 105 | - | 3 | 102 |
| Total MTA Capital Lease | \$ 515 | \$ - | \$ 4 | \$ 511 |
| Current Portion Obligations under Capital Lease | 10 | | | 8 |
| Long Term Portion Obligations under Capital Lease | <u>\$ 505</u> | | | <u>\$ 503</u> |

Capital Leases Schedule
For the Year Ended December 31, 2014
(in millions)

| Description | December 31, 2013 | Increase | Decrease | December 31, 2014 |
|--|----------------------|--------------|--------------|----------------------|
| Hawaii | \$ 19 | \$ - | \$ 18 | \$ 1 |
| Sumitomo | 15 | - | - | 15 |
| Met Life | 5 | - | - | 5 |
| Met Life Equity | 19 | - | - | 19 |
| Bank of New York | 1 | - | 1 | - |
| Bank of New York | 22 | - | - | 22 |
| Bank of America | 28 | 2 | - | 30 |
| Bank of America Equity | 16 | - | - | 16 |
| Sumitomo | 42 | 1 | 3 | 40 |
| Met Life Equity | 43 | 2 | - | 45 |
| Grand Central Terminal & Harlem Hudson Railroad Lines | 15 | - | - | 15 |
| 2 Broadway Lease Improvement | 161 | 3 | - | 164 |
| 2 Broadway | 38 | - | - | 38 |
| Subway Cars | 103 | 4 | 2 | 105 |
| Total MTA Capital Lease | \$ 527 | \$ 12 | \$ 24 | \$ 515 |
| Current Portion Obligations under Capital Lease | 27 | | | 10 |
| Long Term Portion Obligations under Capital Lease | <u>\$ 500</u> | | | <u>\$ 505</u> |

10. FUTURE OPTION

In 2010, MTA and MTA Long Island Railroad entered into an Air Space Parcel Purchase and Sale Agreement (“Agreement”) with Atlantic Yards Development Company, LLC (“AADC”) pursuant to which AADC has obtained an exclusive right to purchase fee title to a parcel (subdivided into six sub-parcels) of air space above the MTA Long Island Railroad Vanderbilt Yard in Brooklyn, New York. Initial annual payments of \$2 (covering all six sub-parcels) commenced on June 1, 2012 and are due on the following three anniversaries of that date. Starting on June 1, 2016, and continuing on each anniversary thereof through and including June 1, 2031, an annual option payment in the amount of \$11.03 is due. The Agreement provides that all such payments are (i) fully earned by MTA as of the date due in consideration of the continuing grant to AADC of the rights to purchase the air space sub-parcels, (ii) are non-refundable except under certain limited circumstances and (iii) shall be deemed to be payments on account of successive annual options granted to AADC.

After AADC and its affiliates have completed the new yard and transit improvements to be constructed by them at and in the vicinity of the site, AADC has the right from time to time until June 1, 2031, to close on the purchase of any or all of the six air rights sub-parcels. The purchase price for the six sub-parcels is an amount, when discounted at 6.5% per annum from the date of each applicable payment that equals a present value of \$80 as of January 1, 2010. The purchase price of any particular air space sub-parcel is equal to a net present value as of January 1, 2010 (calculated based on each applicable payment) of the product of that sub-parcel’s percentage of the total gross square footage of permissible development on all six air space sub-parcels multiplied by \$80.

11. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the period ended March 31, 2015 and year ended December 31, 2014 is presented below (in millions):

| | March 31, 2015 (Unaudited) | December 31, 2014 |
|---|---|------------------------------|
| Balance — beginning of period/year | \$ 2,509 | \$ 2,312 |
| Activity during the period/year: | | |
| Current period/year claims and changes in estimates | 107 | 583 |
| Claims paid | <u>(105)</u> | <u>(386)</u> |
| Balance — end of period/year | 2,511 | 2,509 |
| Less current portion | <u>(412)</u> | <u>(413)</u> |
| Long-term liability | <u>\$ 2,099</u> | <u>\$ 2,096</u> |

See Note 2 for additional information on MTA’s liability and property disclosures.

12. COMMITMENTS AND CONTINGENCIES

The MTA Group monitors its properties for the presence of pollutants and/or hazardous wastes and evaluates its exposure with respect to such matters. When the expense, if any, to clean up pollutants and/or hazardous wastes is estimable it is accrued by the MTA (see Note 13).

Management has reviewed with counsel all actions and proceedings pending against or involving the MTA Group, including personal injury claims. Although the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued resulting from those actions will not be material to the financial position, results of operations, or cash flows of the MTA.

13. POLLUTION REMEDIATION COST

Effective 2008, pollution remediation costs are being charged in accordance with the provision of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists;
- MTA is in violation of a pollution prevention-related permit or license;
- MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation;
- MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities; or
- MTA voluntarily commences or legally obligates itself to commence remediation efforts.

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are no longer able to be capitalized as a component of a capital project. As of March 31, 2015 and December 31, 2014, the MTA has recognized pollution remediation liability of \$101 (unaudited) and \$99, respectively.

14. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. All MTA fuel hedges provide for up to 24 monthly settlements. The table below summarizes twenty-two (22) active ultra-low sulfur diesel (“ULSD”) hedges:

| Counterparty | JPM - Ventures Energy Corp | J. Aron & Company | J. Aron & Company | JPM - Ventures Energy Corp | J. Aron & Company | JPM - Ventures Energy Corp | JPM - Ventures Energy Corp | Bank of America Merrill Lynch |
|-------------------------------|-------------------------------------|----------------------|----------------------|----------------------------------|----------------------|----------------------------------|----------------------------------|--|
| Trade Date | 4/23/2013 | 4/23/2013 | 6/6/2013 | 8/9/2013 | 9/10/2013 | 10/11/2013 | 11/19/2013 | 1/29/2014 |
| Effective Date | 5/1/2013 | 5/1/2013 | 5/1/2014 | 6/1/2014 | 8/1/2014 | 9/1/2014 | 11/1/2014 | 12/1/2014 |
| Termination Date | 3/31/2015 | 3/31/2015 | 4/30/2015 | 7/31/2015 | 8/31/2015 | 9/30/2015 | 10/31/2015 | 12/31/2015 |
| Price/Gal | \$2.7700 | \$2.7700 | \$2.8142 | \$2.8260 | \$2.8240 | \$2.8215 | \$2.7867 | \$2.7690 |
| Original Notional Qty (\$) | 4,494,141 | 4,494,141 | 7,702,834 | 18,420,266 | 8,439,456 | 15,441,167 | 7,636,954 | 15,299,678 |

| Counterparty | JPM - Ventures Energy Corp | JPM - Ventures Energy Corp | JPM - Ventures Energy Corp | Bank of America Merrill Lynch | Bank of America Merrill Lynch | Bank of America Merrill Lynch | J. Aron & Company | J. Aron & Company |
|-------------------------------|-------------------------------------|----------------------------------|----------------------------------|--|--|--|----------------------|----------------------|
| Trade Date | 2/26/2014 | 3/31/2014 | 4/30/2014 | 5/15/2014 | 6/25/2014 | 7/29/2014 | 8/27/2014 | 9/24/2014 |
| Effective Date | 2/1/2015 | 3/1/2015 | 4/1/2015 | 7/1/2014 | 6/1/2015 | 7/1/2015 | 8/1/2015 | 4/1/2015 |
| Termination Date | 1/31/2016 | 2/29/2016 | 3/31/2016 | 4/30/2016 | 5/31/2016 | 6/30/2016 | 7/31/2016 | 8/31/2016 |
| Price/Gal | \$2.8360 | \$2.8065 | \$2.8210 | \$2.8630 | \$2.9265 | \$2.8645 | \$2.8175 | \$2.7360 |
| Original Notional Qty (\$) | 7,892,588 | 7,810,490 | 7,850,843 | 12,865,827 | 8,644,395 | 8,461,232 | 8,322,340 | 8,050,125 |

| Counterparty | Bank of America Merrill Lynch | Bank of America Merrill Lynch | JPM - Ventures Energy Corp | JPM - Ventures Energy Corp | Bank of America Merrill Lynch | Bank of America Merrill Lynch |
|-------------------------------|--|--|----------------------------------|----------------------------------|--|--|
| Trade Date | 10/29/2014 | 11/25/2014 | 12/23/2014 | 1/29/2015 | 2/26/2015 | 3/25/2015 |
| Effective Date | 10/1/2015 | 11/1/2015 | 12/1/2015 | 1/1/2016 | 2/1/2016 | 3/1/2016 |
| Termination Date | 9/30/2016 | 10/31/2016 | 11/30/2016 | 12/31/2016 | 1/31/2017 | 2/28/2017 |
| Price/Gal | \$2.5510 | \$2.3950 | \$2.0340 | \$1.8095 | \$2.0520 | \$1.9195 |
| Original Notional Qty (\$) | 7,487,723 | 7,029,766 | 5,970,231 | 5,253,199 | 6,017,839 | 5,629,297 |

The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. As of March 31, 2015, the (unaudited) total outstanding notional value of the ULSD contracts was 53.9 million gallons with a negative fair market value of \$43.3.

15. OPERATING ACTIVITY INFORMATION

| (In millions) | MTA | Commuters | Transit | Bridges and Tunnels | Eliminations | Consolidated Total |
|---|----------|-----------|----------|---------------------------|--------------|-----------------------|
| For the period ended March 31, 2015 (Unaudited) | | | | | | |
| Operating revenue | \$ 59 | \$ 333 | \$ 1,115 | \$ 388 | \$ (2) | \$ 1,893 |
| Depreciation and amortization | 21 | 137 | 383 | 27 | - | 568 |
| Subsidies and grants | 2,260 | - | 351 | 2 | (351) | 2,262 |
| Tax revenue | 237 | - | 269 | - | (24) | 482 |
| Interagency subsidy | (130) | - | (25) | 130 | 25 | - |
| Operating (loss) surplus | (290) | (488) | (1,328) | 243 | 4 | (1,859) |
| Net surplus (deficit) | 1,597 | (141) | (307) | 32 | 35 | 1,216 |
| Payment for capital assets | 949 | 53 | 202 | 71 | (404) | 871 |
| March 31, 2015 (Unaudited) | | | | | | |
| Total assets and deferred outflows of resources | 17,359 | 10,609 | 38,278 | 5,867 | (665) | 71,448 |
| Net working capital | 4,802 | 212 | (1,204) | 121 | (392) | 3,539 |
| Long-term debt — (including current portion) | 27,051 | - | - | 8,915 | (8) | 35,958 |
| Net position (deficit) | (15,675) | 8,915 | 25,833 | (4,457) | (118) | 14,498 |
| For the period ended March 31, 2015 (Unaudited) | | | | | | |
| Net cash (used in)/provided by operating activities | (223) | (255) | (795) | 281 | (2) | (994) |
| Net cash provided by/(used in) noncapital financing activities | 1,013 | 265 | 723 | (150) | (755) | 1,096 |
| Net cash (used in)/provided by capital and related financing activities | 47 | 11 | (193) | (142) | 806 | 529 |
| Net cash provided by/(used in) investing activities | (872) | (20) | 256 | 15 | (49) | (670) |
| Cash at beginning of period | 222 | 20 | 55 | 14 | - | 311 |
| Cash at end of period | 187 | 21 | 46 | 18 | - | 272 |

NOTE: Only MTA and MTA Bridges and Tunnels agencies issue debt.

(Continued)

| (In Millions) | MTA | Commuters | Transit | Bridges and Tunnels | Eliminations | Consolidated Total |
|---------------|-----|-----------|---------|---------------------------|--------------|-----------------------|
|---------------|-----|-----------|---------|---------------------------|--------------|-----------------------|

**For the period ended March 31, 2014
(Unaudited)**

| | | | | | | |
|-------------------------------|-------|--------|----------|--------|-------|----------|
| Operating revenue | \$ 56 | \$ 325 | \$ 1,102 | \$ 374 | \$ - | \$ 1,857 |
| Depreciation and amortization | 22 | 140 | 359 | 26 | - | 547 |
| Subsidies and grants | 2,300 | - | 172 | 2 | (172) | 2,302 |
| Tax revenue | 264 | - | 199 | - | (40) | 423 |
| Interagency subsidy | 124 | - | 24 | (124) | (24) | - |
| Operating (loss) surplus | (250) | (460) | (1,224) | 238 | 8 | (1,688) |
| Net (deficit) surplus | 1,828 | (104) | (456) | 24 | 28 | 1,320 |
| Payment for capital assets | 999 | 50 | 182 | 67 | (398) | 900 |

December 31, 2014

| | | | | | | |
|---|----------|--------|---------|---------|-------|--------|
| Total assets and deferred outflows of resources | 14,679 | 10,720 | 38,061 | 5,817 | (649) | 68,628 |
| Net working capital | 2,698 | 285 | (1,392) | 111 | (378) | 1,324 |
| Long-term debt — (including current portion) | 26,186 | - | - | 8,967 | (10) | 35,143 |
| Net position (deficit) | (17,268) | 9,052 | 26,140 | (4,485) | (157) | 13,282 |

**For the period ended March 31, 2014
(Unaudited)**

| | | | | | | |
|---|-------|-------|-------|-------|-------|-------|
| Net cash (used in)/provided by operating activities | (177) | (263) | (708) | 273 | (3) | (878) |
| Net cash provided by/(used in) noncapital financing activities | 891 | 254 | 489 | (134) | (511) | 989 |
| Net cash (used in)/provided by capital and related financing activities | (520) | (6) | (186) | 215 | 585 | 88 |
| Net cash (used in)/provided by investing activities | (257) | 11 | 403 | (347) | (71) | (261) |
| Cash at beginning of period | 268 | 25 | 47 | 18 | - | 358 |
| Cash at end of period | 205 | 21 | 45 | 25 | - | 296 |

NOTE: Only MTA and MTA Bridges and Tunnels agencies issue debt.

(Concluded)

16. SUBSEQUENT EVENTS

On April 2, 2015, MTA effected a mandatory tender and remarketed \$50 of MTA Transportation Revenue Bonds, Subseries 2012A-3, because its current interest rate period is set to expire by its terms on May 15, 2015.

Governor Cuomo announced on April 24, 2015 that the Federal Railroad Administration approved a U.S. Federal Railroad Administration loan of \$967.1 under its Railroad Rehabilitation and Improvement Financing Program. MTA, on behalf of Metro-North Railroad, and the Long Island Rail Road, applied for funding to improve the safety of signal systems. The loan, which is the largest and lowest-cost financing for the MTA, will finance the installment of positive train control, a technology designed to remove the potential for human error that can lead to train-involved accidents. The loan was approved by the MTA Board at its meeting on April 29, 2015 and was closed on May 5, 2015. The MTA will issue its Transportation Revenue Bond directly to the Federal Railroad Administration and will repay the obligation over 22½ years at a fixed interest rate of 2.38%.

On April 29, 2015, MTA executed a 2,856,577 gallon ultra-low sulfur diesel fuel hedge with Merrill Lynch Commodities Inc. at an all-in price of \$2.0855/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from April 2016 through March 2017.

On May 15, 2015, MTA issued \$225 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2015A, to finance approved capital projects for MTA Bridges and Tunnels own facilities and to retire the Triborough Bridge and Tunnel Authority General Revenue Bond Anticipation Notes, Series 2014A. The Series 2015A bonds were issued as fixed-rate serial and term bonds with a final maturity of November 15, 2050. The transaction was led by MBE firm Loop Capital Markets LLC, together with cosenior manager Academy Securities, Inc., a service disabled veteran owned business. Nixon Peabody served as bond counsel and Public Financial Management, Inc. served as financial advisor.

On May 28, 2015, MTA executed a 2,920,150 gallon ultra-low sulfur diesel fuel hedge with Merrill Lynch Commodities Inc. at an all-in price of \$1.9970/gallon. Three of MTA's existing approved commodity counterparties participated in bidding on the transaction: Goldman, Sachs & Co./ J Aron, J.P. Morgan Ventures Energy Corporation and Merrill Lynch Commodities Inc. The hedge covers the period from May 2016 through April 2017.

* * * * *

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PENSION FUNDING PROGRESS

(\$ in millions)

(Unaudited)

| | January 1, 2014 | January 1, 2013 | January 1, 2012 |
|--|--------------------|--------------------|--------------------|
| LIRR [1]: | | | |
| a. Actuarial value of plan assets | \$ 485.8 | \$ 400.8 | \$ 437.4 |
| b. Actuarial accrued liability (AAL) | 1,650.5 | 1,664.3 | 1,633.3 |
| c. Total unfunded AAL (UAAL) [b-a] | 1,164.7 | 1,263.5 | 1,195.8 |
| d. Funded ratio [a/b] | 29.4 % | 24.1 % | 26.8 % |
| e. Covered payroll | \$ 29.3 | \$ 33.0 | \$ 40.0 |
| f. UAAL as a percentage of covered payroll [c/e] | 3970.7 % | 3823.8 % | 2987.1 % |
| MaBSTOA [2]: | | | |
| a. Actuarial value of plan assets | \$ 2,028.0 | \$ 1,764.4 | \$ 1,624.3 |
| b. Actuarial accrued liability (AAL) | 2,892.5 | 2,702.4 | 2,482.8 |
| c. Total unfunded AAL (UAAL) [b-a] | 864.6 | 938.0 | 858.5 |
| d. Funded ratio [a/b] | 70.1 % | 65.3 % | 65.4 % |
| e. Covered payroll | \$ 616.4 | \$ 582.1 | \$ 576.0 |
| f. UAAL as a percentage of covered payroll [c/e] | 140.3 % | 161.1 % | 149.1 % |
| MNR Cash Balance Plan [3]: | | | |
| a. Actuarial value of plan assets | \$ 0.748 | \$ 0.878 | \$ 1.006 |
| b. Actuarial accrued liability (AAL) | 0.766 | 0.819 | 0.992 |
| c. Total unfunded AAL (UAAL) [b-a] | 0.018 | (0.058) | (0.015) |
| d. Funded ratio [a/b] | 97.7 % | 107.1 % | 101.5 % |
| e. Covered payroll | \$ 2,096.8 | \$ 0.0 | \$ 0.0 |
| f. UAAL as a percentage of covered payroll [c/e] | 0.9 % | 0.0 % | 0.0 % |

[1] The LIRR pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to Metropolitan Transportation Authority, Comptroller, 93-02 Sutphin Boulevard - Mail Code 1421, Jamaica, NY 11435

[2] MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 10th Floor, New York, New York 10004.

[3] Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad, Chief Financial Officer, 420 Lexington Avenue, New York, New York 10170-3739.

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN

(\$ in millions)

(Unaudited)

| Year Ended | Actuarial Valuation Date | Actuarial Value of Assets {a} | Actuarial Accrual Liability (AAL) {b} | Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a} | Funded Ratio {a} / {b} | Covered Payroll {d} | Ratio of UAAL to Covered Payroll {c} / {d} |
|-------------------|--------------------------------|--|---|--|------------------------------|---------------------------|--|
| December 31, 2014 | January 1, 2012 | \$ 246 | \$20,188 | \$19,942 | 1.20 % | \$4,360.6 | 457.3 % |
| December 31, 2013 | January 1, 2012 | 246 | 20,188 | 19,942 | 1.20 | 4,360.6 | 457.3 |
| December 31, 2012 | January 1, 2010 | - | 17,764 | 17,764 | - | 4,600.0 | 386.1 |

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2015**

(\$ in millions)

(Unaudited)

| Category | Financial Plan Actual | Statement GAAP Actual | Variance |
|--|----------------------------------|----------------------------------|-----------------|
| REVENUE: | | | |
| Farebox revenue | \$ 1,354 | \$ 1,354 | \$ - |
| Vehicle toll revenue | 383 | 383 | - |
| Other operating revenue | 172 | 156 | (16) |
| Total revenue | <u>1,909</u> | <u>1,893</u> | <u>(16)</u> |
| OPERATING EXPENSES: | | | |
| Labor: | | | |
| Payroll | 1,140 | 1,151 | 11 |
| Overtime | 209 | 212 | 3 |
| Health and welfare | 243 | 243 | - |
| Pensions | 148 | 155 | 7 |
| Other fringe benefits | 161 | 162 | 1 |
| Postemployment benefits | 625 | 631 | 6 |
| Reimbursable overhead | (78) | (70) | 8 |
| Total labor expenses | <u>2,448</u> | <u>2,484</u> | <u>36</u> |
| Non-labor: | | | |
| Electric power | 134 | 134 | - |
| Fuel | 49 | 49 | - |
| Insurance | 14 | 14 | - |
| Claims | 60 | 61 | 1 |
| Paratransit service contracts | 92 | 92 | - |
| Maintenance and other | 117 | 101 | (16) |
| Professional service contract | 74 | 63 | (11) |
| Pollution remediation project costs | 4 | 4 | - |
| Materials and supplies | 134 | 133 | (1) |
| Other business expenses | 55 | 45 | (10) |
| Total non-labor expenses | <u>733</u> | <u>696</u> | <u>(37)</u> |
| Depreciation | 564 | 568 | 4 |
| Net expenses related to asset impairment | - | 4 | 4 |
| Total operating expenses | <u>3,745</u> | <u>3,752</u> | <u>7</u> |
| NET OPERATING LOSS | <u>\$ (1,836)</u> | <u>\$ (1,859)</u> | <u>\$ (23)</u> |

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN
FINANCIAL PLAN AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2015**

(\$ in millions)

(Unaudited)

| | Financial Plan Actual | Financial Statement GAAP Actual | Variance | |
|---|-----------------------------|---------------------------------------|----------|-----|
| Accrued Subsidies | | | | |
| Mass transportation operating assistance | \$ 1,564 | \$ 1,564 | \$ - | {1} |
| Mass transit trust fund subsidies | 141 | 141 | - | {1} |
| Mortgage recording tax 1 and 2 | 97 | 97 | - | {1} |
| MRT transfer | - | (1) | (1) | {1} |
| Urban tax | 244 | 244 | - | {1} |
| State and local operating assistance | 217 | 217 | - | {1} |
| Station maintenance | 41 | 41 | - | {1} |
| Connecticut Department of Transportation (CDOT) | 30 | 30 | - | {1} |
| Subsidy from New York City for MTA Bus and SIRTOA | 107 | 97 | (10) | {1} |
| Build American Bonds Subsidy | - | 2 | 2 | {1} |
| Mobility tax | 479 | 479 | - | {1} |
| Other nonoperating income | - | 52 | 52 | {2} |
| Total accrued subsidies | 2,920 | 2,963 | 43 | |
| Net operating deficit before subsidies and debt service | (1,836) | (1,859) | (23) | |
| Debt Service | (634) | (357) | 277 | |
| Conversion to Cash basis: Depreciation | 564 | - | (564) | |
| Conversion to Cash basis: OPEB Obligation | 500 | - | (500) | |
| Conversion to Cash basis: Pollution & Remediation | 4 | - | (4) | |
| Total net operating surplus before appropriation, grants and other receipts restricted for capital projects | \$ 1,518 | \$ 747 | \$ (771) | |

{1} The Financial Plan records on a cash basis while the Financial Statement records on an accrual basis.

{2} The Financial Plan records do not include other nonoperating income or changes in market value.

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE PERIOD ENDED MARCH 31, 2015
(\$ in millions)
(Unaudited)

| | |
|--|-------------------|
| Financial Plan Actual Operating Loss at March 31, 2015 | <u>\$ (1,836)</u> |
|--|-------------------|

The Financial Plan Actual Includes:

| | |
|---|-----|
| FEMA grant revenues shown in Other Operating Revenues | - |
| Higher non-labor expenses | 27 |
| Lower estimated depreciation expense | (4) |

The Audited Financial Statements Includes:

| | |
|--|------|
| Higher fare and toll revenues based on final accrual adjustments | - |
| Higher labor expense related to final actuarial results for OPEB and Worker's Compensation | (33) |
| Higher pension expense related to amortization of prepaid pension costs | (5) |
| Higher claims expense related to final actuarial results for non-employee claims | (1) |
| Higher pollution remediation expense | - |
| Higher asset impairment expense | (4) |
| Intercompany eliminations and other year-end adjustments | (3) |

| | |
|--|-------------|
| Total Operating Reconciling Items | <u>(23)</u> |
|--|-------------|

| | |
|--|--------------------------|
| Audited Financial Statement Operating Loss | <u><u>\$ (1,859)</u></u> |
|--|--------------------------|

| | |
|--|-----------------|
| Financial Plan Actual Surplus after Subsidies and Debt Service at March 31, 2015 | <u>\$ 1,518</u> |
|--|-----------------|

The Financial Plan Actual Includes:

| | |
|--|----------------|
| Debt Service Bond Principal Payments | 277 |
| Adjustments for non-cash liabilities: | |
| Depreciation | (564) |
| Unfunded OPEB Expense | (500) |
| Unfunded Pollution Remediation Expense | (4) |
| | <u>(1,068)</u> |

The Audited Financial Statements Includes:

| | |
|---|-------------|
| Higher subsidies and other non-operating revenues as follows: | 43 |
| Total Operating Reconciling Items | <u>(23)</u> |

| | |
|---|----------------------|
| Financial Statements Gain Before Appropriations | <u><u>\$ 747</u></u> |
|---|----------------------|