



Metropolitan Transportation Authority

Audit Committee Meeting

June 2015

Committee Members

J. Sedore Jr., Chair

F. Ferrer

R. Bickford

C. Moerdler

A. Saul

Audit Committee Meeting
RONAN BOARD ROOM 20TH FLOOR - 2 BROADWAY
NEW YORK, NY 10004
Wednesday, 6/24/2015
8:30 - 10:00 AM ET

1. PUBLIC COMMENTS PERIOD

2. APPROVAL OF MINUTES - APRIL 29, 2015

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3. AUDIT COMMITTEE WORK PLAN

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2015 - 2016 WORKPLAN - Detailed - Page 9

4. INDEPENDENT ACCOUNTANTS' REVIEW REPORT – 1ST QUARTER 2015

Draft - MTA Consolidated Financial Statements - Q1 2015 - Page 14

5. 2014 SINGLE AUDIT REPORT

MTA 2014 Draft Single Audit Report - Page 118

6. 2014 MANAGEMENT LETTER REPORT

2014 MTA Consolidated Mgmt Letter - Page 146

7. INVESTMENT COMPLIANCE REPORT

Investment Compliance Report 2014 - Page 219

8. ENTERPRISE RISK MANAGEMENT UPDATE

ERM Internal Control Update - Page 220

9. 2015 AUDIT PLAN STATUS REPORT

2015 MidYear Audit Committee - FINAL - Page 228

10. EXECUTIVE SESSION

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
WEDNESDAY, APRIL 29, 2015 – 8:30 A.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

**James L. Sedore
Fernando Ferrer**

**Robert C. Bickford
Charles G. Moerdler
Andrew Albert**

**John J. Molloy
Susan G. Metzger
Neal Zuckerman**

**M. Fucilli - MTA
R. Foran - MTA
P. Kane - MTA
M. Garner - MTA**

**L. Kearse - MTA
B. Kluger - MTAIG
E. Keating - MTAIG
N. Din - MTA**

**M. Fritz - Deloitte
G. Friedrich - Deloitte
M. Malloy - Deloitte
J. Strohmeier - Deloitte**

1. PUBLIC COMMENTS PERIOD

A public speaker, Murray Bodin, commented on the work of master builder Robert Moses and its impact to mass transit.

2. APPROVAL OF MINUTES

The minutes of the January 20, 2015 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORKPLAN

The following changes were made to the work plan: (a) the implication of GASB 67 and 68 to the financial reporting of pension plans as well as the update on the Enterprise Risk Management program will be discussed in the June meeting; and (b) the briefings on DDCR's compliance monitoring and performance measures were added to the January, April and September meetings.

4. 2014 FINANCIAL STATEMENTS

Mike Fritz (Deloitte) reported to the Committee that their audit of: (i) MTA Consolidated Financial Statements and the financial statements of Bridges & Tunnels, Metro-North Railroad, NYC Transit Authority, Long Island Rail Road, MTA Bus Company, FMTAC and SIRTOA, conducted in accordance with Generally Accepted Auditing Standards and (ii) MTA Single Audit operations, conducted in accordance with Government Auditing Standards, resulted in an "Unmodified" opinion, a terminology similar to "Unqualified" or "Clean" opinion cited in past certifications. He indicated their review of internal controls as they related to the financial statements noted no material weaknesses or significant deficiencies and that they were satisfied with the significant accounting estimates made by management, including fair market value of investments, allowance for doubtful accounts and other reserves. He reported no major current or past accounting adjustments and that they encountered no disagreements with financial management during their audit. The Committee inquired if Deloitte: (1) received full cooperation from management and received full access to files and records; and (2) needs to meet with the members of the

Board in private for further audit assurance. M. Fritz responded that Deloitte received full cooperation and was granted unlimited access to records and files during the course of their audit and there was no need for a private meeting with the Board. The Committee commented that the financial statements of the agencies still vary in presentation and inquired if there is work towards having one uniform reporting system. M. Fritz indicated that this matter is being addressed in their post-audit discussions with management. The Committee also asked about the extent of inventory write-offs due to obsolescence. Pat Kane (MTA Comptroller) responded that, to the best of his knowledge, no major inventory or receivable write-offs occurred during the year.

A motion was made and seconded to approve the 2014 financial statements as presented.

5. MANAGEMENT'S REVIEW OF FINANCIAL STATEMENTS

Pat Kane briefed the Committee on the preparation and contents of the MTA 2014 consolidated financial statements. He reviewed the 2014 vs. 2013 changes in the Balance Sheet or "Net Position" and provided explanation on the significant changes, which included, among others: the \$2,331 million increase in Net Capital Assets; the \$923 million decrease in Net Position; and the \$47 million net decrease increase in cash at year end. He presented the Required Supplementary Information for the Pension Plans and the Reconciliation of Financial Plan to GAAP-based audited Financial Statements. Bob Foran (MTA Chief Financial Officer) explained the variances between the 2014 Financial Plan and Actual Financial Statement figures and noted that the \$61 million variance on a \$7 billion Net Operating Deficit demonstrated how close management's estimates were to the actual results. Bob Foran also presented to the Committee a summary analysis of the MTA's \$33.1 billion of Long-term Debt and highlighted the fact that \$1.3 billion of the debts were retired while acquiring new debts of \$2.7 billion during the year. The Committee asked if the debt would be in the magnitude of \$55 billion if the funding requested in the Capital Plan were approved. Bob Foran said he is not certain how much debt would end up in the Capital Plan but anticipated approximately \$7 billion of new debt would result.

The Committee made two observations related to the Capital Plan: (i) that the MTA can no longer rely on the fare box revenue to maintain the mass transit system that the region depends on and (ii) the need to have assurances that the Capital Plan is authorized as soon as possible and that the funding partners are available for support. Bob Foran reiterated that a Capital Program funded by debt will always put a burden on fares and tolls to the extent that the new debt is not supported by another funding source. He said he is hopeful that the funding partners will be available to create a plan to fund the program. In response to a Committee request, the Committee will be provided with studies and publications on the value added to the region, in terms of increased business, real estate values or new tax revenues, as a result of the completed capital projects.

The Committee also inquired about the MTA's unfunded pension liabilities. Pat Kane responded that the unfunded pension liabilities at December 31, 2014 total \$2,030 million, of which \$1,165 million belonged to LIRR's Plan for Additional Pension. Bob Foran explained that additional contributions will continue to be made for the LIRR plan so that its funded ratio will increase from 29% to 47%. Pat Kane said the unfunded liabilities for the three cost-sharing plans; namely: NYCERS, NYSLERS and MTA Defined Benefits Plan are estimated to be between \$6 billion and \$7 billion, which will be recognized in the accounts in the next fiscal year to comply with GASB 68. The Committee further inquired about the funded ratio for NYSLERS and NYCERS. Pat Kane replied it might be 75% for NYSLERS and 60% to 70% for NYCERS but said he will provide the Committee with the actual ratios.

There were also discussions about identifying a "financially prudent" ceiling or a point when the MTA can reasonably handle, or take no more, debt; the diminution of bus fleets; GASB 68; the growth in "Other Assets;" and the valuation of rolling stock.

6. FINANCIAL INTEREST REPORT AND THE ETHICS PROGRAM

Lamond Kears (MTA Chief Compliance Officer) briefed the Committee on the efforts made by his office in ensuring compliance with the filing requirements of the New York Ethics Law, including mailing notices to more than 6,000 employees about their obligation to file their 2014 Annual Financial Disclosure Statement by May 15 and reaching out to those who were delinquent in the past. Lamond said that, to date, he has not yet been notified by the State of delinquent filers of last year. A Board Member expressed concern that the request to file was received via junk e-mail and that some Board Members may not have received the notification. Lamond said the Board Members would be provided with another link and any assistance necessary.

Lamond also briefed the Committee on the basic structure of MTA's Compliance Program. He indicated the program integrates MTA's Corporate Governance, Ethics, Internal Controls, Compliance, Regulatory Disclosures and Investigation functions in a coordinated method. He reported Corporate Compliance's activities in 2014 and discussed the new Compliance Training Programs and the MTA Policy certifications for MTA employees to complete. He enumerated the various communication efforts undertaken by Corporate Compliance in 2014, including featuring a once-a-month video on Ethics and Compliance issues on MTA Today. Finally, Lamond acknowledged the coordinated efforts of Agency Ethics Officers, the MTA IG, Audit Services, HR, Training Officers and Legal in ensuring the success of the Ethics Program.

The Committee commended Corporate Compliance for its work and efficient operation. There were discussions on the subject of "Conflict," its definition and the related training and guidance provided by Corporate Compliance.

7. DDCR REPORTING AND MONITORING

Barry Kluger (MTA Inspector General) briefed the Committee on an IG report on compliance monitoring at the MTA's Department of Diversity and Civil Rights (DDCR). He provided background on the report and indicated that the report addressed three key areas: 1) site visits, 2) verification of subcontractor payments and 3) close-out of existing contracts. The IG noted that there has been significant improvement made with respect to these three key areas in the last six months to detect and deter fraud. The Committee inquired as to whether DDCR has the burden to undertake the inspections to measure compliance as opposed to the IG. The IG advised the Committee that his office has never been involved with respect to initial certification of contractors, and that historically his office has responsibility with respect to oversight, audits and investigations. Michael Garner and Naeem Din of DDCR then briefed the Committee on the status of actions taken by DDCR with respect to: (i) monitoring and reporting, (ii) status of the IG recommendations, (iii) DDCR performance metrics, (iv) new contract compliance system, (v) updated policy revisions and (vi) next steps. Some key accomplishments noted were that DDCR has completed 77% of scheduled site inspections, verified \$286 million in payments to M/W/DBE firms in closed contracts, and is implementing the B2G reporting system. The Committee inquired about the definition of "closed" contracts and also expressed an additional concern that compliance was being monitored via a review of paper records as opposed to on-site verification. In response, the Committee was provided with an overview on the processing of closed contracts and on the various methods utilized by DDCR and its partners (such as the IG) to monitor compliance beyond a review of paper documentation. DDCR indicated that they are committed to working together with the IG to address concerns with respect to monitoring compliance beyond paper documentation. The Chief Diversity Officer was advised that the Committee was holding him responsible for improvements and expressed concern that they want proper controls in place to monitor existing contracts and to close them out as required.

8. EXECUTIVE SESSION

A motion was made and approved to go into Executive Session to allow the Committee to discuss current litigations with each agency General Counsel.


9. MOTION TO RETURN TO PUBLIC SESSION

A motion was made and seconded to return to public session.

10. MOTION TO ADJOURN

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,


Michael J. Fucilli
Auditor General

2015 - 2016 AUDIT COMMITTEE WORK PLAN

I. RECURRING AGENDA ITEMS

Responsibility

Approval of Minutes	Committee Chair & Members
Audit Work Plan	Committee Chair & Members
Pre-Approval of Audit and Non-Auditing Services	As Appropriate
Follow-Up Items	As Appropriate
Status of Audit Activities	Auditor General/MTA IG/ Chief Compliance Officer/ Chief Financial Officers/ Controllers/External Auditor/As Appropriate
Executive Sessions	As Appropriate

II. SPECIFIC AGENDA ITEMS

June 2015

Quarterly Financial Statements – 1 st Quarter 2015	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
MTAAS Audit Plan Status Report	Auditor General
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers
GASB 67 and 68 (New)	External Auditor/CFOs/Controllers
Enterprise Risk Management Update	Chief Compliance Officer

September 2015

Quarterly Financial Statements – 2 nd Quarter 2015	External Auditor/CFOs
Compliance with the Requirements of the Internal Control Act	Agency ICOs/Chief Compliance Officer
Appointment of External Auditors	CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG
Enterprise Risk Management Update	Chief Compliance Officer
DDCR Performance Measures (new)	Chief Diversity Officer

November 2015

Responsibility

MTA Enterprise Risk Management
and Internal Control Guidelines
Annual Audit Committee Report
Review of Audit Committee Charter
Audit Approach Plans/Coordination
with External Auditors
Open Audit Recommendations
Security of Sensitive Data

Chief Compliance Officer
Audit Committee
Committee Chair

External Auditor
Agency ICOs/Chief Compliance Officer
Chief Information Officer

January 2016

Quarterly Financial Statements – 3rd
Quarter 2015
Pension Audits
2015 Audit Plan Status Report
2016 Audit Plan
Information Technology Report
DDCR Performance Measures

External Auditor/CFOs
External Auditor
Auditor General
Auditor General
Chief Information Officer
Chief Diversity Officer

April 2016

Financial Statements w/Audit
Representation Letters
Management's Review of Financial Statements
Contingent Liabilities/Third Party
Lawsuits (Executive Session)
Financial Interest Reports
Ethics and Compliance Program
Enterprise Risk Management Update
DDCR Performance Measures

External Auditor/CFOs/Controllers
Controller

General Counsels/External Auditor
Chief Compliance Officer
Chief Compliance Officer
Chief Compliance Officer
Chief Diversity Officer

2015 - 2016 AUDIT COMMITTEE WORK PLAN

Detailed Summary

I. RECURRING AGENDA ITEMS

Approval of Minutes

Approval of the official proceedings of the previous month's Committee meeting.

Audit Work Plan

A monthly update of any edits and/or changes in the work plan.

Pre-Approval of Audit and Non-Auditing Services

As appropriate, all auditing services and non-audit services to be performed by external auditors will be presented to and pre-approved by the Committee.

Follow-Up Items

Communications to the Committee of the current status of selected open issues, concerns or matters previously brought to the Committee's attention or requested by the Committee.

Status of Audit Activities

As appropriate, representatives of MTA's public accounting firm or agency management will discuss with the Committee significant audit findings/issues, the status of on-going audits, and the actions taken by agency management to implement audit recommendations.

Executive Sessions

Executive Sessions will be scheduled to provide direct access to the Committee, as appropriate.

II. SPECIFIC AGENDA ITEMS

Detailed Summary

JUNE 2015

Quarterly Financial Statements – 1st Quarter 2015

Representatives of MTA's public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the first quarter of 2015.

Single Audit Report

Representatives of MTA's public accounting firm will provide the results of their Federally- and State-mandated single audits for MTA and NYC Transit.

MTAAS Audit Plan Status Report

A briefing by Audit Services that will include a status of the work completed as compared to the audits planned for the year, a summary of the more significant audit findings, results of audit follow-up, and a discussion of the other major activities performed by the department.

Investment Compliance Report

Representatives of the MTA's public accounting firm will provide a review of MTA's compliance with the guidelines governing investment practices.

Management Letter Reports

Reports will be made by the MTA's public accounting firm on the recommendations made in the auditors' Management Letter for improving the accounting and internal control systems of the MTA and its agencies. The report will also include management's response to each Management Letter comment. The response will describe the plan of action and timeframe to address each comment. In addition, the report will contain a follow-up of prior years' open recommendations conducted by the external audit firm.

GASB 67 and 68 (New)

The Committee will be briefed by the MTA public accounting firm, along with the agency Controllers, on the implication of Governmental Accounting Standards Board (GASB) 67 and 68 to the accounting and financial reporting of pension plans MTA-wide.

Enterprise Risk Management Update

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

SEPTEMBER 2015

Quarterly Financial Statements - 2nd Quarter 2015

Representatives of MTA's public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the second quarter of 2015.

Compliance with the Requirements of the Internal Control Act

The Committee will be briefed by the MTA Chief Compliance Officer and Agency Internal Control Officers on the results of the All-Agency Internal Control Reports issued to the NYS Division of the Budget as required by the Government Accountability, Audit and Internal Control Act.

Appointment of External Auditors

The Audit Committee will review the appointment of the independent auditor for MTA HQ and all the agencies. As part of this process, the Auditor General has reviewed and provided to the Committee, and will retain on file, the latest report of the firm's most recent internal quality control review.

Review of the MTA Inspector General's Office

Representatives of MTA's public accounting firm will provide the results of their review of the MTA/IG's operation to ensure compliance with applicable office regulations, rules, policies and procedures.

Enterprise Risk Management Update

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

DDCR Performance Measures (New)

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

NOVEMBER 2015

Review of MTA Enterprise Risk Management and Internal Control Guidelines

These MTA-wide guidelines were adopted by the Board in November 2011, pursuant to Public Authority Law Section 2931. The Audit Committee is required to review these Guidelines annually. The MTA Chief Compliance Officer will brief the Committee with respect to agency compliance with these guidelines and answer any questions and offer additional comments, as appropriate.

Annual Audit Committee Report

As a non-agenda information item, the Audit Committee will be provided with a draft report which outlines the Audit Committee's activities for the 12 months ended July 2015. This report is prepared in compliance with the Audit Committee's Charter. After Committee review and approval, the Committee Chair will present the report to the full MTA Board.

Review of Audit Committee Charter

The Committee Chair will report that the Committee has reviewed and assessed the adequacy of the Audit Committee Charter and, based on that review, will recommend any changes for 2015. The review will also show if the Committee's performance in 2015 adequately complied with the roles and responsibilities outlined in its Charter (i.e. monitoring and overseeing the conduct of MTA's financial reporting process; application of accounting principles; engagement of outside auditors; MTA's internal controls; and other matters relative to legal, regulatory and ethical compliance at the MTA).

Audit Approach Plans/Coordination with External Auditors

Representatives of MTA's public accounting firm will review their audit approach for the 2015 year-end agency financial audits. This review will describe the process used to assess inherent and internal control risks, the extent of the auditor's coverage, the timing and nature of the procedures to be performed, and the types of statements to be issued. In addition, the impact of new or proposed changes in accounting principles, regulations, or financial reporting practices will be discussed.

Open Audit Recommendations

The MTA Chief Compliance Officer and Agency Internal Control Officers will report to the Committee on the status of audit recommendations previously accepted by their respective agency.

Security of Sensitive Data

The MTA Chief Information Officer will make a presentation to the Committee on the security of sensitive data at the MTA, including a discussion on mobile device security.

JANUARY 2016

Quarterly Financial Statements – 3rd Quarter 2015

Representatives of the MTA public accounting firm, in conjunction with appropriate agency management, will discuss the interim financial statement that was prepared for the third quarter of 2015.

Pension Audits

Representatives of the MTA public accounting firms will provide the results of their reviews of the pension plans that are managed and controlled by MTA HQ, Long Island Rail Road, Metro-North and NYC Transit.

2015 Audit Plan Status Report

A briefing by Audit Services that will include a status of the work completed, a summary of the more significant audit findings, and a discussion of the other major activities performed by the department.

2016 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2016 as well as the guidelines and policies that were used to assess audit risk and their application in the development of the audit work plan.

Information Technology Report

The MTA Chief Information Officer will brief the Committee on the activities of the MTA IT for the past year, including its accomplishments, strategies and plans for the current year.

DDCR Performance Measures

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

APRIL 2016

Financial Statements and Audit Representation Letters

The agency CFOs/Controllers will be available to the Committee to answer any questions regarding the submission of their audit representation letters to the external audit firm. The MTA public accounting firm will review the results and conclusions of their examination of the 2015 Financial Statements.

Management's Review of MTA Consolidated Financial Statements

The MTA Controller will present a management's review of the 2015 MTA consolidated financial statements, including changes in capital, net assets, other assets and operating revenues and expenses.

Contingent Liabilities and Status of Third Party Lawsuits

The General Counsels from each agency, along with representatives from D&T, will review in Executive Session the status of major litigation that may have a material effect on the financial position of their agency, or for which a contingency has been or will be established and/or disclosed in a footnote to the financial statements. In addition, the Committee will be briefed on the status of third party lawsuits for which there has been minimal or sporadic case activity.

Financial Interest Reports

The MTA Chief Compliance Officer will brief the Committee as to the agencies' compliance with the State Law regarding the filing of Financial Interest Reports (FIRs), including any known conflicts of interest.

Ethics and Compliance Program

The MTA Chief Compliance Officer will brief the Committee on selected aspects of the MTA Ethics Program.

Enterprise Risk Management Update

The MTA Chief Compliance Officer will brief the Committee on the status of agency compliance with the ERM guidelines and any new or emerging risk.

DDCR Performance Measures (New)

The MTA Chief Diversity Officer will brief the Committee on the status of the performance measures and compliance monitoring used by the Department of Diversity and Civil Rights in tracking critical tasks.

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

DRAFT

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

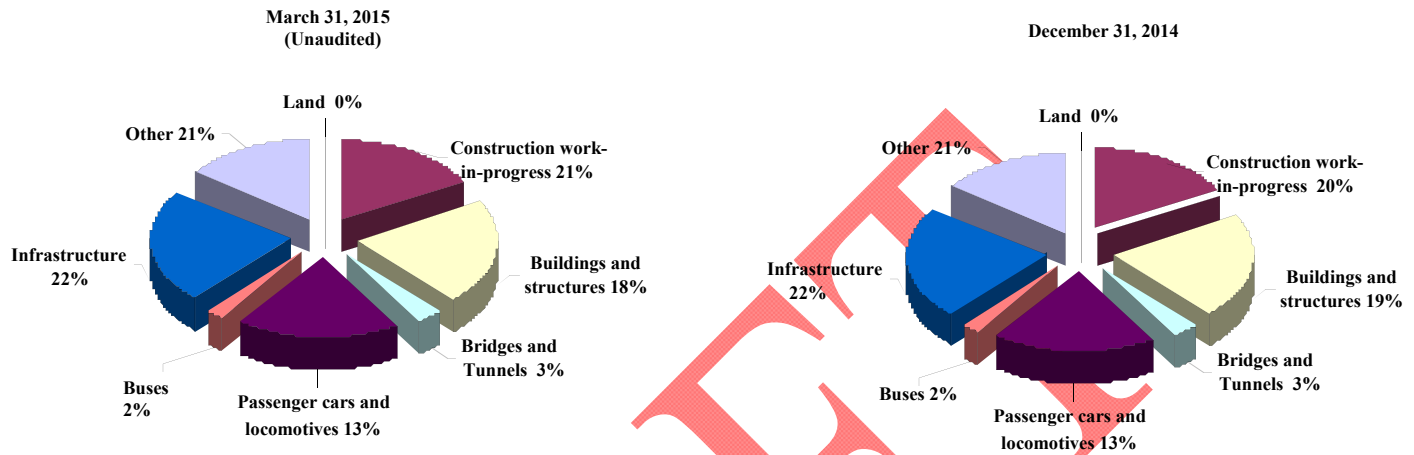
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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.

(In millions)	March 2015 (Unaudited)	December 2014	December 2013	Increase/(Decrease)	
				2015 - 2014	2014 - 2013
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

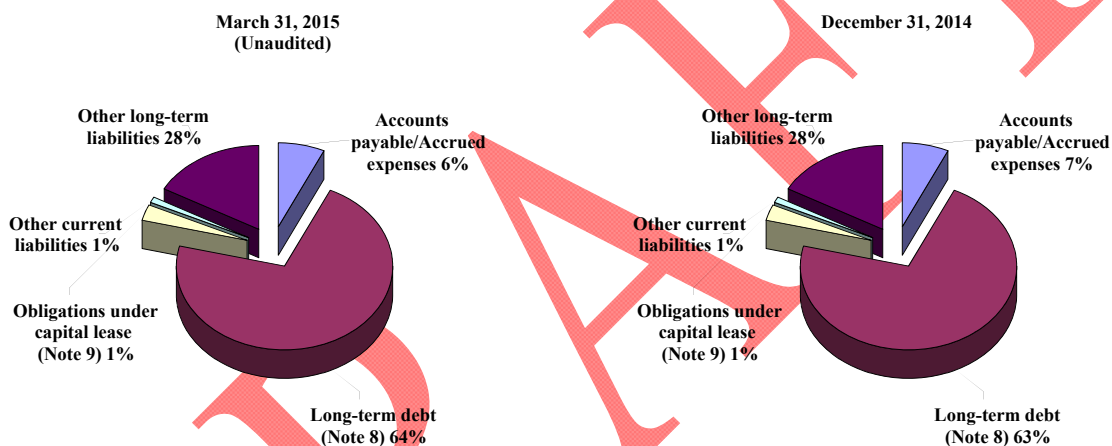
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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)	
(In millions)				2015 - 2014	2014 - 2013
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	<u>34</u>	<u>35</u>	<u>-</u>	<u>(1)</u>	<u>35</u>
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.

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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	52	24
	<u>2,606</u>	<u>2,595</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	469	413
	<u>469</u>	<u>413</u>
CHANGE IN NET POSITION	1,216	1,320
NET POSITION— Beginning of period	13,282	14,205
	<u>13,282</u>	<u>14,205</u>
NET POSITION — End of period	\$ 14,498	\$ 15,525
	<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⁾	<u>169</u>	<u>3.34</u>	<u>160</u>	<u>2.46</u>
Total fair value	5,430		4,734	
Modified duration		2.02		2.43
Equities ⁽¹⁾	<u>20</u>		<u>20</u>	
Total	5,450		4,754	
Investments with no duration reported	<u>192</u>		<u>193</u>	
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 Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
Actuarial Valuation Date	Actuarial Value of Assets (a)	Initial Entry Age (b)				
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	<u>4.3</u>	<u>4.3</u>	<u>11.7</u>
APC	113.7	228.2	14.8
Contributions made	(112.5)	(226.4)	0.0
Prepaid pension funding	<u>(295.0)</u>	<u>0.0</u>	<u>0.0</u>
Change in NPO (asset)	(293.8)	1.8	14.8
NPO (asset) beginning of year	<u>(43.9)</u>	<u>(35.6)</u>	<u>(41.9)</u>
NPO (asset) end of year	<u>\$ (337.7)</u>	<u>\$ (33.8)</u>	<u>\$ (27.1)</u>

	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
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**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>
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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>
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Audited Financial Statement Operating Loss	<u><u>\$ (1,859)</u></u>
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Financial Plan Actual Surplus after Subsidies and Debt Service at March 31, 2015	<u>\$ 1,518</u>
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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>
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Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditor's Report on Consolidated Financial
Statements as of and for the Years Ended December 31, 2014
and 2013, Required Supplementary Information,
Supplementary Information, and Schedule of Expenditures of
Federal Awards and Schedule of State of New York Department
of Transportation Assistance Expended for the Year Ended
December 31, 2014 and Independent Auditor's Reports on
Internal Controls and Compliance, Schedule of Findings and
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METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

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

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2014 and 2013, and the related consolidated statements of revenues, expenses, and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the MTA's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the MTA as of December 31, 2014 and 2013, and the respective changes in consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in the notes to the consolidated 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. Our opinion is not modified with respect to this matter.

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 25, the Schedules of Pension Funding Progress on page 107, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 108 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated 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 financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated 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 audits were conducted for the purpose of forming an opinion on the MTA's consolidated financial statements. The Schedule of Financial Plan to Financial Statements Reconciliation, 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 Expenditures of Federal Awards as required by U.S. *Office of Management and Budget Circular A-133, Audits of States, Local Governments and Nonprofit Organizations*, and the Schedule of State of New York Department of Transportation Assistance Expended as required by Part 43 of the New York State Codification of Rules and Regulation for the year ended December 31, 2014 are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

The Schedule of Financial Plan to Financial Statements Reconciliation, Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, Schedule of Expenditures of Federal Awards, and Schedule of State of New York Department of Transportation Assistance Expended for the year ended December 31, 2014, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated 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 financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2015 on our consideration of the MTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MTA's internal control over financial reporting and compliance.

April 29, 2015

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING
STANDARDS**

To The Members of the Board of
Metropolitan Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Metropolitan Transportation Authority (the "MTA") a component unit of the State of New York, which comprise the consolidated statement of net position, as of December 31, 2014, and the related consolidated statements of revenues, expenses and changes in net position, consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2015, which contains an explanatory paragraph regarding the MTA requiring significant subsidies from other governmental entities.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the Audit Committee and management of the MTA in a separate letter dated April 29, 2015.

Purpose of this Report

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

April 29, 2015

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR FEDERAL AND STATE OF NEW YORK DEPARTMENT OF
TRANSPORTATION ASSISTANCE PROGRAMS; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB
CIRCULAR A-133 AND PART 43 OF THE NEW YORK STATE
CODIFICATION OF RULES AND REGULATIONS**

To The Members of the Board of
Metropolitan Transportation Authority

**Report on Compliance for Each Major Federal and State of New York Department of
Transportation Assistance Programs**

We have audited the Metropolitan Transportation Authority's (the "MTA"), a component unit of the State of New York, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and *Part 43 of the New York State Codification of Rules and Regulations* ("NYSCRR") that could have a direct and material effect on each of the MTA's major federal and State of New York Department of Transportation assistance programs for the year ended December 31, 2014. The MTA's major federal and State of New York Department of Transportation assistance programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs and the schedule of findings and questioned costs State of New York Department of Transportation assistance expended.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and the State of New York Department of Transportation assistance programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the MTA's major federal and State of New York Department of Transportation assistance programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations* and *NYSCRR*. Those standards, *OMB Circular A-133*, and *NYSCRR* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal and State of New York Department of Transportation assistance programs occurred. An audit includes examining, on a test basis, evidence about the MTA's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and State of New York Department of Transportation assistance programs. However, our audit does not provide a legal determination of the MTA's compliance.

Opinion on Each Major Federal and State of New York Department of Transportation Assistance Program

In our opinion, the MTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and State of New York Department of Transportation assistance programs for the year ended December 31, 2014.

Report on Internal Control over Compliance

Management of the MTA is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the MTA's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and State of New York Department of Transportation assistance programs to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal and State of New York Department of Transportation assistance programs and to test and report on internal control over compliance in accordance with OMB Circular A-133 and NYSCRR, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MTA's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in Internal Controls over compliance, as described in the accompanying, *Schedule of Findings and Questioned Costs* and *Schedule of Findings and Questioned Costs- State of New York Department of Transportation Assistance Expended* as items 2014-001 and 2014-1, respectively that we consider to be significant deficiencies.

The MTA's response to the internal control over compliance findings identified in our audit are described in the accompanying, *Schedule of Findings and Questioned Costs* and *Schedule of Findings and Questioned Costs—State of New York Department of Transportation Assistance Expended*. The MTA's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133 and NYSCRR. Accordingly, this report is not suitable for any other purpose.

April 29, 2015

DRAFT

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

CFDA Number	Federal Agency/Program Description/Grant Title	Grant Number	Grant Agreement Date	Federal Expenditures
20.500	U.S. Department of Transportation/Federal Transit Administration Federal Transit Cluster: Federal Transit—Capital Investment Grants—Section 3 Discretionary Grants			
	MTA CCC East side Access (Cont'd)	NY-03-0344	8/1/2007	\$ 53,706,272
	Second Avenue Subway Final Design	NY-03-0408	8/4/2006	117,241,891
	CNG BUSES	NY-04-0064	8/16/2011	321,135
	SGR Bus Purchase	NY-04-0092	9/13/2013	1,119,199
	MTA FY10 FGM LIRR/MNR/NYCT Projects	NY-05-0113	6/30/2010	44,977,986
	MTA FY11 FGM LIRR/MNR/NYCT Projects	NY-05-0115	2/23/2012	19,966,780
	MTA FY12 FGM LIRR/MNR/NYCT Projects	NY-05-0116	11/6/2012	81,902,089
	NYCT—ITS Sensor Technology	NY-55-0007	1/25/2012	17,788
	ARRA MTA §5309 MNR/NYCT FGM	NY-56-0001	8/14/2009	2,715,238
	Subtotal Federal Transit—Capital Investment Grants—Section 3 Discretionary Grants			<u>321,968,378</u>
20.507	Federal Transit—Formula Grants (Urbanized Area Formula Program)—Section 9 and 9A			
	Formula Grants and Operating Assistance Grants			
	Purchase/Procurement for Transit/Commuter Improvement	NY-90-X567	8/31/2007	3,420,121
	Purchase/Procurement for Transit/Commuter Improvement	NY-90-X590	8/21/2008	8,037,735
	MTA Bus Sec 5307 FFY06 and 07/Security Projects	NY-90-X594	9/24/2008	4,012,461
	MTA Bus 5307 FFY08 and FFY 09	NY-90-X620	9/1/2010	10,174,550
	MTA FY09 §5307 LIRR/MNR/NYCT Projects	NY-90-X627	11/18/2009	14,315,363
	MTA FY10 §5307 LIRR/MNR/NYCT Projects	NY-90-X663	9/13/2011	30,327,496
	MTA FY11 §5307 LIRR/MNR/NYCT Projects	NY-90-X674	7/10/2012	75,932,774
	MTA Bus FY13 Formula	NY-90-X703	7/10/2013	2,942,316
	MTA FY 12 5307 LIRR/MN/NYCT Projects	NY-90-X722	9/19/2013	107,331,663
	MTA FY 12 5307 LIRR/MN/NYCT Projects	NY-90-X727	7/31/2014	44,451,233
	Transit/Commuter Flexible Funded Projects FFY 2007	NY-95-X002	9/14/2007	4,492,746
	Rolling Stock and Signal Improvements	NY-95-X025	9/24/2010	1,805,451
	MTA Flex Funding FFY 2011	NY-95-X029	2/23/2012	2,193,214
	MTA FLEX FFY 2012	NY-95-X037	1/4/2013	26,923,829
	MTA FLEX FFY 2013	NY-95-X042	11/1/2013	4,127,102
	ARRA-Fulton Street Transit Center	NY-96-X004	8/21/2009	9,925,230
	ARRA MTA §5307 LIRR/MNR/NYCT Formula	NY-96-X011	8/14/2009	7,673,347
	Subtotal Federal Transit—Formula Grants (Urbanized Area Formula Program)—Section 9 and 9A Formula Grants and Operating Assistance Grants			<u>358,086,631</u>
20.525	Federal Transit Administration—State of Good Repair Grants Program			
	MTA FY 13 SGR LIRR/MNR/NYCT §5337	NY-54-0001	5/7/2014	<u>253,247,937</u>
	Subtotal Federal Transit Administration—State of Good Repair Grants Program			<u>253,247,937</u>
	Total Federal Transit Cluster			<u>933,302,946</u>

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY
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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2014

CFDA Number	Federal Agency/Program Description/Grant Title	Grant Number	Grant Agreement Date	Federal Expenditures
	U.S. Department of Transportation/Federal Transit Administration (Continued)			
	Public Transportation Research			
20.319	ARRA—High-Speed Rail Corridors and Intercity Passenger Rail Service— Capital Assistance Grants—passthrough NYSDOT	X935.93.371	8/22/2011	\$ 5,737,869
20.514	LIRR Little Neck Quiet Zone (National Research Programs)	NY-26-7112	4/25/2012	191,569
	MN TCSP Poughkeepsie TOD Conceptual Plan	NY-26-0023	9/6/2010	27,353
	Transit Services Programs Cluster:			
20.516	MTA MNR Station JARC	NY-37-X068	9/24/2009	835,717
	NMR JARC NHL Station Improvement Larchmont/Mamaroneck	NY-37-X082	9/28/2010	91,913
20.521	MTA New Freedoms 2012	NY-57-X036	9/21/2012	2,462,845
	Total Transit Services Programs Cluster			<u>3,390,475</u>
20.522	West of Hudson Region Transp AA	NY-39-0001	9/23/2010	322,982
20.523	ARRA Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions-MTA NYCT Wayside Batteries	NY-88-0001	1/24/2012	97,490
20.527	Public Transportation Emergency Relief Program—Hurricane 5324	NY-44-X001	4/5/2013	10,209,403
		NY-44-X007	1/28/2014	385,481,450
		NY-44-X008	9/23/2014	12,210,673
				<u>407,901,526</u>
20.Unknown	Lower Manhattan Recovery Office Grant: (PL 107-206) Fulton Street Transit Center	NY-43-0001	6/5/2006	<u>71,499,549</u>
	TOTAL FROM U.S. DEPARTMENT OF TRANSPORTATION			<u>1,422,471,758</u>
	U.S. Department of Homeland Security:			
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)—Various	-	-	5,521,094
	Disaster Grants—Public Assistance (Presidentially Declared Disasters)—NEMO 2014 FEMA 4111 DRNY	-	-	84,292
	Disaster Grants—Public Assistance (Presidentially Declared Disasters)—IRENE 2014 FEMA 4020 DRNY	-	-	484,818
	Disaster Grants—Public Assistance (Presidentially Declared Disasters)—SANDY 2014 FEMA 4085 DRNY	-	-	2,199,338
	Total Disaster Grants—Public Assistance (Presidentially Declared Disasters) program			<u>8,289,542</u>
97.039	Hazard Mitigation Grant Program	FEMA 1391 DRNY	4/11/2003	<u>1,376,506</u>
97.075	Rail and Transit Security Grant program	2009-RAT9K022	4/12/2010	63,212,044
		2009-RAT0K028	6/1/2010	24,738,962
		2011-RAK00092	9/1/2011	12,348,914
		FE2012-RAK00053	9/24/2012	27,836,826
		FE2013-RA-00012	9/6/2013	1,044,718
		FE2014-RA-00017	10/30/2014	450,000
	Total Rail and Transit Security Grant Program			<u>129,631,464</u>
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>139,297,512</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$1,561,769,270</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED DECEMBER 31, 2014

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards has been prepared in the format as required under OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The purpose of this schedule is to present a summary of those activities of the MTA for the year ended December 31, 2014, which have been financed by Federal awards. The Schedule is prepared on a cash basis of accounting. Because the Schedule of Expenditures of Federal Awards presents only a selected portion of the operations of the MTA, it is not intended to and does not present the financial position or results of operations of the MTA.

2. PASS-THROUGH PROGRAMS

When the MTA receives Federal funds from a government entity other than the Federal government ("pass-through"), the funds are accumulated based upon the Catalog of Federal Domestic Assistance ("CFDA") number advised by the pass-through grantor.

3. OTHER FEDERAL ASSISTANCE

The "other federal assistance" presented in the accompanying schedule includes federal financial assistance programs that have not been assigned a CFDA number, but have been identified by the federal agency, and reported as "unknown" with the federal agency's code (i.e., 20.Unknown).

4. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

The regulations and guidelines governing the preparation of Federal and state financial reports vary by state and Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal and state financial reports do not necessarily agree with the amounts reported in the accompanying Schedule of Expenditures of Federal Awards, which is prepared as explained in Note 1 above.

5. BASIS OF ACCOUNTING

Reconciliation of Federal Expenditures related to Disaster Grants—Public Assistance (Presidentially Declared Disasters) ("Disaster Grant") CFDA # 97.036; reported in the Schedule of Expenditures of Federal Awards to the MTA's Basic Consolidated Financial Statements—On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The storm surge and high winds caused significant damage in The City of New York, as well as other states and cities along the U.S. eastern seaboard. The accompanying storm surge and high winds caused widespread damage to the physical transportation assets operated by the MTA and its related groups. The MTA expects to recoup most of the costs associated with the repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs. The Sandy Relief Act also provided substantial funding for existing disaster relief programs of the Federal Emergency Management Agency.

In accordance with the FEMA reporting requirements, only a portion of the expenditures reported in MTA's Basic Consolidated Financial Statements for calendar year 2014 are reportable on the MTA's Schedule of Expenditures of Federal Awards. Specifically, only those costs incurred in the calendar year corresponding to a Project Worksheet that has been approved by FEMA prior to December 31, 2014.

The reconciliation below of the Federal Expenditures reported in the MTA's 2014 Schedule of Expenditures of Federal Awards to the MTA's Basic Consolidated Financial Statements shows that as of December 31, 2014, FEMA has obligated \$411 million. Below is the reconciliation of Federal Expenditures related to the Disaster Grants—Public Assistance (Presidentially Declared Disasters) CFDA # 97.036; reported in the Schedule of Expenditures of Federal Awards to the MTA's Basic Consolidated Financial Statements.

Total cumulative project worksheets obligated as of December 31, 2014	\$ 411,212,991
Total federal expenditures incurred as of December 31, 2013, and reported in the 2013 Schedule of Expenditures for Federal Awards	(22,344,142)
Total cumulative project worksheet obligated, but not expensed and are not included in the Schedule of Expenditures of Federal Awards	<u>(380,579,307)</u>
Total project worksheets obligated and expensed for the year ended December 31, 2014, and included in the 2014 Schedule of Expenditures of Federal Awards	<u>\$ 8,289,542</u>

* * * * *

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified	<u>Yes</u>	<u>✓ No</u>
Significant deficiency(ies) identified?	<u>Yes</u>	<u>✓ None Reported</u>
Noncompliance material to financial statements noted?	<u>Yes</u>	<u>✓ No</u>

Federal Awards

Internal Control over major programs:

Material weakness(es) identified	<u>Yes</u>	<u>✓ No</u>
Significant deficiency(ies) identified?	<u>✓ Yes</u>	<u>None Reported</u>

Type of auditor's report issued on compliance for State Transportation Assistance Programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the *Part 43 of the New York State Codification of Rules and Regulations*? ✓ Yes No

METROPOLITAN TRANSPORTATION AUTHORITY
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2014

1. SUMMARY OF AUDITOR'S RESULTS—(CONTINUED)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
20.500/20.507/20.525	Federal Transit Cluster (Including ARRA)
20.516/20.521	Transit Services Programs Cluster
20. Unknown	Federal Transit Administration—Lower Manhattan Recovery Office Grant (PL107-206)
20.527	Public Transportation Emergency Relief Program—Hurricane 5324
20.319	ARRA—High-Speed Rail Corridors and Intercity Passenger Rail Service—Capital Assistance Grant
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)
97.075	Rail and Transit Security Grant Program

Dollar threshold used to distinguish
between Type A and Type B programs \$4,685,307

Auditee qualified as low-risk auditee? No

Major Federal Financial Assistance Programs

For the MTA's purposes, a Type A Federal financial assistance program, as defined by OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is any program that exceeds \$4,685,307 when the total Federal Expenditures of the reporting entity exceeds \$1 billion. Total expenditures of Federal awards for all the MTA programs were \$1,561,769,270. As a result, all programs with expenditures of \$4,685,307 or more were classified as Type A programs. All other programs were categorized as Type B. All Type A programs were assessed as high risk and were tested as major programs, and two Type B programs was assessed as high-risk program and tested as major programs.

2. FINDINGS RELATING TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

None.

3. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

See accompanying pages 123 through 125.

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

FEDERAL TRANSIT CLUSTER (CFDA # 20.500/20.507/20.525)

STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION

FEDERAL AGENCY: U.S. DEPARTMENT OF TRANSPORTATION

REFERENCE: 2014-001

1. TOPIC SENTENCE—Procurement Contract did not conform to applicable Federal law and regulations and standards identified in the A-102 Common Rule or OMB Circular A-110.

CRITERIA—Procurement—MTA has agency procurement guidelines, revised September 19, 2001 (the MTA Guidelines). All MTA Agencies are required to follow the policies and procedures contained in OMB Circular A-110 and 2 CFR Section 215.40, Purpose of procurement standards. Sections 215.41 through 215.48 set forth standards for use by recipients in establishing procedures for the procurement of supplies and other expendable property, equipment, real property and other services with Federal funds. These standards are furnished to ensure that such materials and services are obtained in an effective manner and in compliance with the provisions of applicable Federal statutes and executive orders. Note that these Guidelines were revised in March 2011.

OMB Circular A-110 and 2 CFR Section 215.43—Competitions. Requires that all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. In order to ensure objective contractor performance and eliminate unfair competitive advantage, contractors that develop or draft specifications, requirements, statements of work, and invitations for bids and/or requests for proposals shall be excluded from competing for such procurements. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered. Solicitations shall clearly set forth all requirements that the bidder or offeror shall fulfill in order for the bid or offer to be evaluated by the recipient. Any and all bids or offers may be rejected when it is in the recipient's interest to do so.

FTA Cross Cutting Compliance Supplement—Procurement and Suspension and Debarment states the following:

Buy America—All steel, iron, and manufactured products used in the project must be manufactured in the U.S., as demonstrated by a Buy America certificate, or, in the case of rolling stock, the cost of components produced in the United States is more than 60 percent of the cost of all components and final assembly of the vehicle takes place in the U.S. (49 CFR part 661).

The FTA Administrator may grant specific waivers following case-by-case determinations that:
(1) applying the requirement would be inconsistent with the public interest; (2) the goods are not produced in the U.S. in a sufficient and reasonably available quantity and of satisfactory quality; or
(3) the inclusion of the domestically produced material will increase the overall project cost by more than 25 percent (49 CFR sections 661.7(b) through (d)).

2. CONDITION

During our review of the MTA's procurement contracts, we noted that of the thirty-one procurement files selected for testing, one Contract was awarded to a vendor for 800 MHz Bus Radio System Interim Upgrade, which was procured for use with local funds. The WAR indicates 100% funded by the MTA at the time of award. This contract did not include one or more federally and state-required documents, including Debarment certification, Lobbying certification, Disadvantaged Business Enterprises certification, Buy America documentation or FTA approval of waiver, Public notification of federal participation, Advance payment concurrence, Bidders/offers questionnaire, and Price differential.

3. CAUSE

The MTA did not ensure that only nonfederal funds were used on MTA funded task orders.

4. EFFECT

The MTA's internal controls over issuance of task orders were not adequate.

5. RECOMMENDATION

We recommend that the MTA strengthen controls to ensure that its federally funded programs are in compliance with State and Federal procurement requirements.

6. QUESTIONED COST

\$2,029,701. Questioned cost was calculated based upon the payments made to one vendor in our sample and reimbursed by the federal agency.

7. VIEW OF RESPONSIBLE OFFICIAL

This finding is related to the \$5.5 million task for Contract Construction (Interim Upgrades) within the \$222 million Bus Radio System Replacement project.

Before linking a federal grant, MTA Capital Program Funding ("CPF") works with the affected agencies to identify and document the projects and tasks associated with the grant's approved scope. Shortly before this grant was assigned an official FTA number and executed, CPF began working with New York City Transit ("NYCT") to confirm the affected projects.

In June 2014, CPF sent NYCT a list of projects for this pending fiscal year 2013 5307 grant to confirm which projects/tasks of work should be linked with federal funds. The listing sent to NYCT identified all tasks/task numbers (descriptions and numbers) in the IMPACT system associated with the Bus Radio System project, including two breakout tasks identified as "interim"—one for Contract Construction and one for In-House Design. NYCT's response, sent to CPF on June 25, 2014 indicated that contract construction scope was grant eligible, not distinguishing between the "interim" and "permanent" tasks created for it in the IMPACT system. As a result, CPF linked grant funds to all tasks identified as "contract construction" shortly after the grant was executed on July 31, 2014. NYCT has since been advised of the mistake/confusion, and going forward will provide CPF a one-for-one reconciliation to the specific descriptions and task numbers CPF provides for confirmation (as opposed to just task descriptions).

On April 9, 2015, upon learning that the Contract Construction (Interim Upgrades) portion of the work was not federally procured, CPF completely removed the x727 grant funds previously linked to this task and replaced with local funds on April 17, 2015. As of April 17, 2015, the federal funding from grant NY-90-X727 assigned to this task has been removed and the task/expenditures are now 100% locally funded. All other tasks within that project (and grant) were correctly linked and are in accordance with NYCT's June 25, 2014 pdf.

DRAFT

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2014

The following schedule contains the finding reference number and title for each of the findings included in the December 31, 2013 report. The letters under the heading Corrective Action indicates the following:

F Full (the Status of Prior Year Finding was fully implemented)
R Repeated during Current Year

Reference Number	Grant	Corrective Action
2013-001	Federal Transit Cluster (CFDA #20.500/20.507)	F

METROPOLITAN TRANSPORTATION AUTHORITY
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STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION
SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2014

State Grantor Program Title	CFDA Number	State Contract Number	Expenditures
Statewide Mass Transportation Operating Assistance Program	N/A	-	<u>\$ 187,924,000</u>
Total State Transportation Assistance Expended			<u>\$ 187,924,000</u>

See accompanying Notes to Schedule of State of New York Department of Transportation Assistance Expended.

METROPOLITAN TRANSPORTATION AUTHORITY

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NOTES TO SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED YEAR ENDED DECEMBER 31, 2014

1. BASIS OF PRESENTATION

a. Reporting Entity—General

Principles of Consolidation—The consolidated 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 the years presented in the financial statements. All related group transactions have been eliminated for consolidation purposes.

The accompanying Schedule of State of New York Department of Transportation Assistance Expended of the MTA presents the activity of all financial assistance programs provided by the New York State Department of Transportation to the MTA.

b. Program Tested

For the MTA's purpose, a State Transportation Assistance Program, as defined by Part 43 of the *NYCRR*, is any program that exceeds \$3,000,000 when the total State Transportation Assistance Expended of the reporting entity exceeds \$100 million. Total expenditures incurred by the MTA for the State Transportation Assistance Programs were approximately \$188 million.

c. Indirect Costs

Indirect costs are included in the reported expenditures to the extent they are included in the financial reports used as the source for the data presented.

2. BASIS OF ACCOUNTING

The accompanying 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*.

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 New York City and the seven other counties within the MTA's service area.

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 the 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 in the current year totaled \$5.8 billion.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS—STATE OF NEW YORK DEPARTMENT OF
TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2014**

**1. SUMMARY OF AUDITORS' RESULTS: STATE OF NEW YORK DEPARTMENT OF
TRANSPORTATION ASSISTANCE EXPENDED**

Internal control over State of New York Department of Transportation Assistance Expended:

Material weakness(es) identified	<u>Yes</u>	<u>✓ No</u>
Significant deficiency(ies) identified?	<u>✓ Yes</u>	<u>None Reported</u>
Type of auditor's report issued on compliance for State Transportation Assistance Programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with the <i>Part 43 of the New York State</i> <i>Codification of Rules and Regulations</i> ?	<u>✓ Yes</u>	<u>No</u>

Identification of State of New York Department of Transportation Assistance Programs Tested:

State Grantor Program Title	CFDA Number	State Contract Number	Expenditures
Statewide Mass Transportation Operating Assistance Program	N/A	-	<u>\$ 187,924,000</u>
Dollar threshold used to determine program to be tested:			<u>\$3,000,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>	<u>✓ No</u>	

**2. FINDINGS AND QUESTIONED COSTS RELATING TO STATE OF NEW YORK
DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED**

See Pages 131 through 132.

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

PROGRAM: STATEWIDE MASS TRANSPORTATION OPERATING ASSISTANCE
STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION
REFERENCE: 2014-001 (SIGNIFICANT DEFICIENCY)

1. TOPIC SENTENCE—Supporting Schedule Not Reconciled with Quarterly Reports Submitted to New York State Department of Transportation.

CRITERIA—Reporting—New York State Department of Transportation (“NYSDOT”) has published the Rules and Regulations for the Statewide Mass Transportation Operating Assistance Program (17 NYCRR Part 975) (Blue Book).

There are specified and formula based systems. Specified systems, which are the larger public authorities and some downstate counties, receive subsidy payments for transit services provided based on specific legislative appropriation. They are required to submit an annual report on passenger and mileage statistics, which NYSDOT utilizes to evaluate program accomplishment and to recommend future appropriations.

As per New York State Department of Transportation, the summary reports are required to be accurate and reconciled to daily passenger reports.

Per STOA Rules and Regulations 975.6 (a), “Applications must be submitted each quarter using forms to be supplied by the Department.” Such applications shall be filed between the second and seventeenth day of the first day of each quarter, with the quarters tracking the State’s fiscal year.

2. CONDITION

The Metropolitan Transportation Authority (“MTA”) is responsible for monitoring compliance with State Transportation Assistance laws and regulation. MTA has policies and procedures in place to monitor such laws and provision. During our testing, we reviewed all quarterly reports submitted to the State of New York Department of Transportation submitted during calendar year 2014 by the MTA. We noted that there were differences between the Subway Miles, and Bus Surface Transit for Revenue Passenger Miles and Revenue Car Miles reported on the quarterly reports submitted to the NYSDOT and the supporting schedules prepared to support Subway Miles and Bus Surface Transit on the quarterly report. For the Revenue Passenger Miles, we noted there were variances of 38,570 miles in Subway Rapid Transit and variance of 58,003 miles in Bus Surface Transit. For the Revenue Car Miles, we noted that there were variances of 24,631,880 miles in Bus Surface Transit.

We also noted that the first and second quarter service payment application reports of the Commuter Rail and the Subway and Bus were not submitted in a timely fashion. In addition, a copy of the third quarter report of the Commuter Rail was not retained.

3. CAUSE

The quarterly reports submitted to NYSDOT are not reconciled with the supporting reports and/or schedules on a yearly basis. MTA’s key personnel did not ensure the required reports were submitted timely as required by the NYSDOT.

4. EFFECT

MTA is not in compliance with the NYSDOT supporting schedule compliance requirement.

5. RECOMMENDATION

We recommend that the MTA establish an effective process to ensure compliance with this requirement.

6. QUESTIONED MILEAGE

The difference between quarterly Revenue Passenger Miles reports sends to NYSDOT and supporting schedule provided to support subway miles and bus surface transit were 96,623 surface miles. The difference between quarterly Revenue Car Miles reports sends to NYSDOT and supporting schedule provided to support bus surface transit were 24,631,880 bus surface miles.

7. VIEWS OF RESPONSIBLE OFFICIAL

The variance of 24,631,880 miles in Bus Surface Transit was on the back-up tables after the first quarter of 2014. The cause of this variance was due to a formula error on the spreadsheet that calculated the first quarter revenue car miles for surface transit. The formula calculated the vehicle miles for the first and second quarters of 2014, instead of only the first quarter. As a result, the back-up sheets after the first quarter calculated first quarter surface miles as 48,300,115 instead of the correct number of 23,667,528 miles. The first quarter application signed by Thomas Prendergast and sent to the NYSDOT on April 17, 2014 included the correct calculation of surface transit vehicle miles, which was 23,667,528 miles. The error was only located on the back-up calculation tables after the first quarter and not on the actual quarterly application provided by NYSDOT and completed by the MTA. In any case, the formula has been corrected and a revised back-up will be sent to NYSDOT.

Regarding the retention of documents, from this point forward all quarterly applications and supporting documents will be retained both in physical and electronic versions for a minimum of five years. Additionally, the MTA will submit the quarterly submissions to NYSDOT via facsimile, mail (two physical copies) and email; the email transmittal records will be maintained in accordance to MTA email retention policies.

The 4th quarter figures were based on preliminary December 2014 year-to-date ridership levels. The difference in the riders are mainly due to difference between preliminary and final December 2014 ridership reports. The differences in bus ridership in the other quarters are due to a revision made late in the year to account for missing Select Bus Service data from machines that were not properly coded.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS—STATE OF NEW YORK
DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2014

The following schedule contains the finding reference number and title for each of the findings included in the December 31, 2013 report. The letters under the heading Corrective Action indicates the following:

F Full (the Status of Prior Year Finding was fully implemented)
R Repeated during Current Year

Reference Number	Grant	Corrective Action
2013-001	Statewide Mass Transportation Operating Assistance	R

* See separate 2013 Report issued for State of New York Department of Transportation.

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The Metropolitan Transportation Authority

Report to Management

Year Ended December 31, 2014

April 29, 2015

The Audit Committee
Metropolitan Transportation Authority
New York, New York

And

The Management of the Metropolitan Transportation Authority
New York, New York

Dear Members of the Audit Committee and Management:

In planning and performing our audits of the consolidated financial statements of the Metropolitan Transportation Authority and of the financial statements of the First Mutual Transportation Assurance Company, Long Island Rail Road Company, Metro-North Commuter Railroad Company, MTA Bus Company, New York City Transit Authority, Staten Island Rapid Transit Operating Authority and the Triborough Bridge and Tunnel Authority (collectively the “MTA”) as of and for the year ended December 31, 2014 (on which we have issued our reports dated April 29, 2015, which contain an explanatory paragraph that the MTA requires significant subsidies from other governmental entities), in accordance with auditing standards generally accepted in the United States of America, we considered the MTA’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MTA’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audits, we have identified, and included in the attached Appendix A, deficiencies related to the MTA’s internal control over financial reporting and other matters as of December 31, 2014, that we wish to bring to your attention.

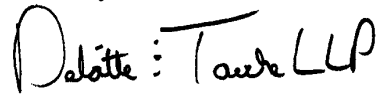
We also plan to issue our reports dated April 29, 2015, in accordance with *Government Auditing Standards* and OMB Circular A-133 which will include (1) Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and (2) Independent Auditors’ Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by OMB Circular A-133, that will include a certain matters involving the MTA’s internal control over financial reporting that we considered to be significant deficiencies under standards established by the AICPA.

The definition of a deficiency, a material weakness, and a significant deficiency are set forth in the attached Appendix B

Although we have included management’s written response to our comments in the attached Appendix A, such responses have not been subjected to the auditing procedures applied in our audits of the financial statements and, accordingly, we do not express an opinion or provide any form of assurance on the appropriateness of the responses or the effectiveness of any corrective actions described therein.

This report is intended solely for the information and use of management, the Audit Committee, Federal awarding agencies or pass-through entities, and others within the organization and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Deloitte : Touche LLP

THE METROPOLITAN TRANSPORTATION AUTHORITY
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APPENDIX A

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
CURRENT YEAR COMMENTS- DEFICIENCIES-2014

DEFICIENCIES

We identified, and have included below, deficiencies involving the Metropolitan Transportation Authority-Headquarters' ("MTA" or "MTAHQ") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Backup Monitoring

Criteria:

Backup processes are monitored for successful execution. Failures are escalated in order to be corrected to ensure data is usable, available for retrieval, and restored if needed.

Condition:

Documentation for 2 of 15 failed backups was not available.

Effect:

Financial data cannot be recovered or accessed in a timely manner when data is lost.

Recommendation:

We recommend the MTAHQ re-inforce data center procedures to ensure documentation is retained for all failed backups.

Financial Statement Impact:

No Impact

Management Response:

MTA has recently re-organized and consolidated all IT functions including data backup and recovery within the MTA IT Data Center Operations division. This division will be implementing automated processes to monitor data backups. The division will also institute processes to restart failed backups when possible. Root cause analysis will be performed for all failed backups in order to develop corrective actions.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
CURRENT YEAR COMMENTS- DEFICIENCIES-2014

2. User Access Revocation

Criteria:

User access to the systems is removed upon employee termination.

Condition:

9 terminated users retained access to the Impact System after their termination.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access impacting data and the computer-generated information and/or automated controls.

Recommendation:

We recommend that the MTAHQ improve/revise the user access de-provisioning process and control over timely removal of access in information systems.

Financial Statement Impact:

No Impact

Management Response:

MTA will develop scripts to compare active employees from the MTA's Human Resources systems with registered users in the Impact system, if the HR system indicates that an employee is in a terminated status the user will be automatically inactivated in the Impact System.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES- 2012

3. Change Management- Impact Application

Observation:

D&T noted that two of the developers had access to the source code and the production environment.

Background:

Three developers (programmers) had access to the Impact Source code, two of the developers had access to the source code and to the production environment.

Recommendation:

Management should restrict programmer access to the production environment. Programmers should not be allowed to make direct changes in the production environment.

Management's Response (2012):

Access to production will be revoked from the Development staff. Access will now be given to the Quality Assurance and Database groups for moving of code into production. A document will be produced with a clear delineation of roles.

Status Update (2013):

The identified observation still remains open.

Two individuals have development and administrative access in production Impact environment giving them ability to develop and implement their own changes in to production without due approval.

We reiterate our prior recommendation.

Management's Response (2013):

An individual from Quality Assurance (QA) will be trained in the process of deploying new versions of the Impact application and will become the primary and normal means of deploying changes to production. Access will be revoked from these developers once QA can assume full responsibility for WebLogic administration.

Status Update (2014):

The identified observation still remains open.

The developers continue to possess administrative access within the production environment giving them ability to develop and implement their own changes.

We reiterate our prior recommendations.

Management's Response (2014):

As part of the MTA's consolidation of all IT functions, administrative access granted to developers in the Impact production environment will be revoked. The Impact production migration function will now be performed by the MTA IT Data Center Operations division beginning in the 3rd quarter of 2015 as part of an ITIL based change management process.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES- 2011

4. Succession Planning

Observation:

This comment has been tailored for the MTAHQ Accounting Department from the best practices issued by the Government Finance Officers Association (“GFOA”), as we feel it is applicable.

Many governments face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where large numbers of government employees are eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them. In addition, many governments face the challenge of offering competitive compensation packages to entice strong candidates to come work for them.

Background:

The GFOA encourages governments to address the following key issues and develop strategies concerning succession planning.

- Develop an integrated approach to succession management. Organizations with an integrated, rather than “just-in-time,” approach to succession management experience higher retention rates, increased employee morale, and an environment that stimulates innovation and organizational change. There are some positions in an organization that are more critical than others. A successful succession plan should place a high priority on planning for a smooth change in such positions. Key components of an integrated succession management approach include: workforce planning, succession planning, knowledge management practices, and recruitment and retention practices.
- Continually assess potential employee turnover. Making career planning discussions a part of a regular and ongoing performance review process assists in assessing potential turnover. Department heads are a good resource in helping to identify employees that may be planning to leave.
- Provide a formal, written succession plan as a framework for succession initiatives. Without a formal plan, workforce/succession planning tends to take place in a haphazard fashion. A formal plan identifies risks and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and leadership commitment to succession management, which is critical for success and for sustaining successful planning across political and leadership transitions.
- Develop written policies and procedures to facilitate knowledge transfer. Knowledge transfer is a critical component of succession management. There should be written procedures in place to formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.
- Development of leadership skills should be a key component of any succession planning initiative. When leadership development occurs, the organization benefits from developing a leadership pool for other positions.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES-2011

4. Succession Planning (continued)

- Encouragement of personal professional development activities should be a key part of the succession planning effort. Personal professional development benefits the organization over the long term by helping employees gain the skills they need to assume increased responsibilities.
- Design of better recruitment and retention practices may aid in the succession process. Many organizations will focus more on recruiting the new employee and less on orienting the person to the position and the ongoing development of the employee. Making sure pay levels are competitive with the market place is one means of retaining employees. Providing career advancement opportunities for employees is another means of retention.
- Consideration must be given to collective bargaining agreements and how those agreements fit in with the overall succession plan. The engagement of bargaining units for cross training opportunities is encouraged.
- If early retirement programs are offered by your entity, it should be done in conjunction with a succession plan. GFOA strongly recommends that governments use considerable caution when considering the implementation of early retirement plans (see GFOA's Advisory: Evaluating the Use of Early Retirement Incentives). If an early retirement program is offered, that might provide a window of opportunity to look at technology, potential to streamline, or rethinking the way services are provided, managed, and/or administered.
- Consider non-traditional hiring strategies. Options such as part-time work, job-sharing, volunteers, and flexible schedules and flexible-place arrangements are providing mechanisms to both meet the needs of the organization and employees.

References:

- GFOA's Generational Change Task Force Report:
http://www.gfoa.org/downloads/GFOA_GenChangeReportFINAL.pdf
- GFOA Advisory: Evaluating the Use of Early Retirement Incentives, 2004.

Approved by the GFOA's Executive Board, February, 2011.

Recommendation:

It is recommended that the MTAHQ Accounting Department implement a strategic approach to succession planning at all levels, including the identification of mission critical positions and succession pools; workforce analytics to identify potential high loss separations from the MTAHQ Accounting Management; leadership development programs focused on continuous development and retention of high potential employees; and external recruitment for new staff who can grow and adapt to future MTAHQ Accounting Department needs.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES- 2011

4. Succession Planning (continued)

Management Response (2011):

We agree with this recommendation. Recently, steps have been taken to implement succession plans for key critical positions in the HQ Comptroller's Department. High potential current employees have been identified and are being retained and developed to replace the future retirements of the Deputy Comptroller for Revenue and Capital Disbursements as well as the Deputy Comptroller for General Accounting. We will be reviewing key positions at all levels for succession candidates and will identify programs for development and cross-training so that identified employees gain the skills they need to assume increased responsibilities.

Status Update (2012):

While some progress has been made during 2012, this comment remains open.

It is recommended that the MTAHQ implement a strategic approach to succession planning in all departments and at all levels. In addition, MTAHQ should ensure that competitive compensation packages are in place in order to entice strong, competent, and talented candidates to come work MTAHQ.

Management's Response (2012):

MTAHQ is in the process of hiring a Director of Organization Development who will, among other initiatives, spearhead a succession planning program that will address the issues highlighted in Deloitte's report. In addition, the following additional steps are being conducted to address this matter:

- 1) MTAHQ is identifying mission critical positions that are hard to fill because of the requirements of job or may become vacant due to retirements.
- 2) MTAHQ is conducting an age/years-of-service analysis by Department and by individual to project upcoming attritions due to retirements.
- 3) MTAHQ continues to work with the Business Service Center on the development of a Talent Management System that identifies high potential employees not only within the MTAHQ but within other MTA entities to fill positions as they are identified. This system will leverage existing PeopleSoft modules.

Status Update (2013):

While some progress has been made to ensure that the proper strategic approach to succession planning at all levels, including the identification of mission critical positions, focus should continue in this area. Therefore, we reiterate our 2012 recommendation.

Management Response (2013):

MTAHQ has hired a talent management leader to lead HQ talent management and related programs such as succession planning and talent development.

The effort to deploy succession planning is now part of a broader talent management strategy encompassing talent assessment, talent development, and succession management (which includes key position identification, succession planning, and talent review). Key components of this effort are now being put into place. Key talent management leaders in each agency have been identified and are now involved with streamlining the PeopleSoft system to create a centralized repository for employee information used for talent management purposes.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS- DEFICIENCIES- 2011

4. Succession Planning (continued)

Management Response (2013):

In the talent assessment component, we've purchased licenses for use of a proprietary competency model and trained Agency talent management leaders in its use. This model will be used to assess key employee capability in core MTA competencies. These key employees will become part of an MTA talent pool used to fill key positions. After assessing key employees in the talent pool, we'll be in position to identify common development needs of these employees and execute a strategy to shore up the identified needs via training or experiential activities (talent development component). Critical individual development needs will also be addressed within this component.

In the succession management component, we've now completed the identification of key positions. Next steps will be to conduct formal talent reviews in each of the organizations. During the talent review process, we'll have discussions with each of the management teams on the capability and availability of talent for each of the key positions. In areas where capability gaps exist, the managers will implement a strategy to shore up these gaps through planned development activities. During talent review, managers will also assess availability of talent for particular roles. Where feasible, they will decide to build capability by rotating talent to new roles to facilitate acquisition of key skillsets via experience. In some cases, the managers will determine that the most effective way to address a particular talent shortage will be via external hire. Execution of internal development strategies coupled with external hires will assure availability of successors for key positions.

Status Update (2014):

While progress has been made over the past several years, this comment remains open.

Management Response (2014):

We agree with this recommendation. As noted in the prior year's management's response we are in the process of developing the key components for succession management and will continue to make this a high priority for the MTA.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES- 2011

5. Audit Logs / Security Event Tracking- Impact Application

Observation:

It was noted that there are no audit logs being generated to capture security events (e.g. security violations, monitoring the use of the system, etc.) at the Impact application level.

Background:

As part of our assessment for the Impact application, we noted through discussions with management, there is currently no procedure in place to generate and review security logs on a regular basis.

Recommendation:

Management should consider generating and reviewing audit logs for critical applications in order to detect certain security events within the system. These audit logs should be generated and reviewed at fixed intervals determined by management. Evidence of such review should be retained so that it can be made available upon request.

Management's Response (2011):

In April 2012, the MTA began leveraging logging features to capture security events within Impact with a middleware application server. This capability logged successful and failed login attempts. Because the middleware application authorizes all users stored in an associated LDAP database, audit logs are generated.

Additionally, procedures have been developed to regularly review these audit logs for anomalous activity and document the related findings.

Status Update (2012):

This comment has not been corrected and remains open.

Management's Response (2012):

Starting in June 2013, QA will be provided with WebLogic log information that will produce relevant information about failed logon attempts. QA will then alert EITG and customer management of the aforementioned violations.

Status Update (2013):

This comment has not been corrected and remains open.

MTAHQ did not log and track security events that occur within the application during 2013. Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases risk of unauthorized access affecting data that underlie computer-generated information and/or automated controls.

We reiterate our prior recommendation that MTAHQ enable the Impact System to track security events. In addition, management should also establish procedures to review event logs to ensure unauthorized events are captured and resolved in timely fashion.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS- DEFICIENCIES-2011

5. Audit Logs / Security Event Tracking- Impact Application (continued)

Management's Response (2013):

It is not clear what type of “unauthorized events” are expected to be captured via Impact’s WebLogic (WL) logs. Impact is an intranet application and can therefore only be accessed via authorized network users. Unauthorized network users can’t get to the network and therefore will never reach the WL logs. The only failed login attempts that make it to logs are authorized network users who don’t have access to Impact. In this case, after 5 failed login attempts, WL locks the user id (assuming it’s a valid user id) which prevents unauthorized access.

In order to address this concern, a report has been created that will be run periodically and will notify QA of all failed login messages in the logs.

Status Update (2014):

This comment has not been corrected and remains open.

MTAHQ did not log and track security events that occur within the application during 2014. This increases the risk of unauthorized access impacting data and the computer-generated information and/or automated controls.

We reiterate our prior recommendation that MTAHQ enable the Impact System to track security events. In addition, management should also establish procedures to review event logs to ensure unauthorized events are captured and resolved in timely fashion.

Management's Response (2014):

After clarification, MTA IT is defining “security events” as the change to a user’s authorization level within the IMPACT Application. IMPACT uses roles to authorize a particular user to be able to perform a specific function. For example a role may allow “read only” access which would allow a user to only view data while logged on to the systems. Other roles may grant the authority to submit data while others may allow for approvals within a specific workflow. System owners have the primary responsibility of assuring that only appropriate roles are granted to staff for the performance of their job functions.

In order to assist system owners with this responsibility audit information for all changes to role assignments in the IMPACT Application will be recorded in audit tables. Reports will be developed and issued monthly to user management detailing all changes to role assignments which have been made in the past month. This functionality will be included in the IMPACT by the end of the 3rd quarter of 2015.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES- 2011

6. User Access Reviews- IMPACT Application

Observation:

User access reviews for the IMPACT application are performed informally. No documentation evidencing the user access review could be obtained.

Background:

It was noted that formal documentation relating to user access review for the Impact application is not retained. Per discussion with management, we noted that the reviews were performed; however, no documentation was available to evidence the review.

Recommendation:

Management should consider documenting evidence for the user access reviews for Impact. This documentation should be retained so that it can be made available when needed. The documentation should include details of the review such as date of review, names of personnel whose access is reviewed and sign offs by the manager(s) performing the review.

Management's Response (2011):

A recertification initiative of IMPACT users is scheduled for Summer 2012. Additionally, existing procedures around account management will be embellished to incorporate activities that will document user additions, changes and terminations.

Status Update (2012):

This comment has not been corrected and remains open.

Management's Response (2012):

QA will now be responsible for adding, modifying and deleting WebLogic access for users of the Impact application. A recertification process will be done each January to confirm validity of User access. All Agency Help Desks will be informed at that time that all users that have not accessed Impact for one year will be deleted.

Status Update (2013):

This comment has not been corrected and remains open.

MTAHQ did not perform a review of users with access to the Impact application in 2013. Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases risk of unauthorized access affecting data that underlie computer-generated information and/or automated controls.

We reiterate our recommendation that MTAHQ establish procedures to perform periodic user access reviews to ensure users have appropriate access within the application to perform their day-to-day job responsibilities and to also ensure user access remains appropriate.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
PRIOR YEAR COMMENTS-DEFICIENCIES-2011

6. User Access Reviews- IMPACT Application (continued)

Management's Response (2013):

The determination of which users have which authorities does not belong to the IT group, but to the business user departments. They currently have forms and approval processes in place that are required in order to grant user access and authorities.

That being said, the following changes are being made to address this concern. The QA department will be responsible for the addition and deletion of Impact users from WebLogic. In addition, a report will be sent once a year to the business user departments identifying all user ids that have not accessed the Impact application within the last year. After sufficient time for review, these user ids will be inactivated.

Status Update (2014):

This comment has not been corrected and remains open.

MTAHQ did not perform a review of users with access to the Impact application in 2014. Due to the increased risk of unauthorized access impacting data and the computer-generated information and/or automated controls, we reiterate our recommendation to establish procedures to perform periodic user access reviews.

Management's Response (2014):

Currently the responsibility of reviewing and validating user authorization has been delegated to system owners not the IT department. The creation of an annual report to identify any user who has not accessed the Impact application within the last year has been completed.

In order to seek to be proactive and assist system owners in validating authorization, IT will investigate the possibility of accessing the MTA's HR system to try to determine when a user's position has changed and therefore alerting system owners when a review of authorizations is warranted.

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
CURRENT YEAR COMMENTS-OTHER MATTERS- 2014

OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

7. Financial Statement Drafting

Criteria:

n/a

Condition:

The management's discussion and analysis (MD&A) and footnotes to the financial statements vary from entity to entity within the MTA organization.

Cause:

Each entity within the MTA has a separate and distinct financial reporting process.

Effect:

The MD&A and footnotes to the financial statements are not consistent between MTA entities.

Recommendation:

1. The MTA should hold a financial statement drafting session that focuses on the MD&A and the footnotes.
2. Related to the MD&A, management should strive to communicate what is important to those who want to understand the various operations of the organization like fare box recovery and how it compares to other transportation systems in the country. Management should also draw attention to "big ticket" items that drive cost like pensions, OPEB and salary increases. Management should then focus on the transparency of the related party transactions and the financial transactions between entities. While each report should be similar and discuss topics in the same order across all of the entities, each report also needs to cover what is unique or important to each entity.
3. The footnotes should be in a common order and standardized wherever possible. The goal is to reduce the time needed for each entity to complete their financial statements. If there are changes during the financial reporting process, they can be quickly incorporated into all the entity reports. This process will involve input from every agency.
4. Enhance the related party disclosures to ensure maximum transparency and consolidate the disclosures into one footnote.

Financial Statement Impact:

No Impact

Management Response:

We agree with this recommendation. In July a project committee of Agency Controllers led by Internal Audit will be reviewing all of the Agency and Consolidated financial statements for consistency and comparability in the disclosure in the MD&A and, footnotes as well as standardization in the basic financial statements.

MTA BUSINESS SERVICE CENTER

**MTA BUSINESS SERVICE CENTER
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014**

DEFICIENCIES

We identified, and have included below, deficiencies involving the MTA Business Service Center's ("MTA BSC" or "BSC") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Vendor Master File

Criteria:

Changes to the vendor master file are processed timely.

Condition:

When a new vendor is added to the vendor master file or if changes are requested to an existing vendor, the requesting Agency completes form "FIN-AP-023 Vendor System Master Maintenance Request Form." The approved form is submitted via fax/email to the Document Management Center ("DMC"), who scans and transmits the form to an Accounts Payable processor for input into the vendor master file. There is a standard letter of agreement between the MTA BSC and the MTA Agencies that vendor master set-up should be processed within 4 business days upon receipt of the scanned form.

Cause:

During 2014, PRGX was contracted by the MTA BSC to perform a vendor master file clean up. As part of the service provided by PRGX, the FIN-AP-023 forms were sent to a separate and distinct PRGX web portal which interfaced with the PeopleSoft system. However, during 2014, FIN-AP-023 forms were sent directly to MTA BSC portal.

Effect:

As a result of the FIN-AP-023 forms being sent to the incorrect web portal, a large backup of unprocessed vendor changes was created.

Recommendation:

Management should review the existing process for submitting vendor changes. Management should ensure that all changes to the vendor master file are processed within 4 business days of receipt of the FIN-AP-023 form.

Financial Statement Impact:

No Impact

Management Response:

The engagement of PRGX was in part an effort to clean up the Vendor Master files which at the BSC's go live was a compilation of several large and incongruent Vendor Master Files from the Agencies. PRGX's initial contact with vendors was to update the information that was in the BSC's Vendor Master File. Vendors were directed to return FIN-AP-023 forms to a different portal when updating just information; this was intentional so as not to impede the normal processing of payments. The overwhelming response did create a temporary backlog but at no time did this prevent the processing and payments to be made timely or accurately.

**MTA BUSINESS SERVICE CENTER
CURRENT YEAR COMMENTS- DEFICIENCIES-2014**

2. Backup Monitoring

Criteria:

Backup processes are monitored for successful execution. Failures are escalated in order to be corrected to ensure data is usable, available for retrieval, and restoration if needed.

Condition:

Documentation for of 2 of 15 failed backups was not available.

Effect:

Financial data cannot be recovered or accessed in a timely manner when data is lost.

Recommendation:

We recommend the MTA BSC re-inforce data center procedures to ensure documentation is retained for all failed backups.

Financial Statement Impact:

No Impact

Management Response:

For two of the days (5/16 and 12/3) there was an issue with the tape library and the IBM consulting engineer had the library take the backup offline to perform the repairs. This caused the backups to run past the windows for pickup for each day. The standard operating procedure in this situation is that the tapes are ejected from the library stored in locked cabinets in the data center and then sent offsite the next day. This is what occurred in the situation.

**MTA BUSINESS SERVICE CENTER
PRIOR YEAR COMMENTS-DEFICIENCIES- 2013**

3. PeopleSoft Access to Modules

Criteria:

Access to the following PeopleSoft modules is restricted based on job function:

- a) Bank Reconciliations
- b) Accounts Payable
- c) Payroll
- d) Human Resources
- e) Fixed Assets
- f) General Ledger

Individuals do not have access to the aforementioned modules if not required to perform their daily job functions.

Condition:

Users who do not require access to a particular module in PeopleSoft had access to make changes. We obtained reports from the Information Technology department to determine the last time the users accessed these particular modules in PeopleSoft. We viewed change reports to ensure these users had not made unauthorized changes in the modules. While we noted no changes were made to these particular modules by these users, it is a risk to the MTA and the Business Service Center when individuals have access to modules in PeopleSoft and such access is not a requirement for the users to perform their daily job functions.

Cause:

User access review for all modules contained within PeopleSoft are not periodically reviewed to determine if user access is still required.

Effect:

- a) Bank Reconciliations- It was noted that 8 individuals had access to the bank reconciliation module when access was not required to perform their daily job functions.
- b) General Ledger- It was noted that 9 individuals had access to initiate a journal entry in the general ledger module when access was not required to perform their daily job functions.
- c) General Ledger- It was noted that 8 individuals had access to post a journal entry in the general ledger module when access was not required to perform their daily job functions.

Recommendation:

Management should review user access privileges for all modules in PeopleSoft on an annual basis (or more frequently if deemed necessary). This review should ensure that users who do not require access to a module to perform their daily job functions are not making unauthorized changes.

**MTA BUSINESS SERVICE CENTER
PRIOR YEAR COMMENTS-DEFICIENCIES- 2013**

3. PeopleSoft Access to Modules (continued)

Financial Statement Impact:

No Impact

Management Response (2013):

Management agrees and will review user access privileges annually. It also should be noted that some individuals will retain certain access that may be required due to processing requirements. The dynamics of the work environment user access is granted when needed and subsequently revoked when no longer necessary.

Status Update (2014):

While progress was made during 2014 to eliminate user access in PeopleSoft for users who do not require access to perform their daily job functions, the following was noted during 2014:

- a) Cash module- 2 individuals had access to the cash module when access was not required to perform their daily job functions.
- b) Accounts Payable module- 1 individual had access to add a vendor to the master vendor file and also had access to input a voucher in the accounts payable module when access was not required to perform his daily job function.

Management Response (2014):

Access for these three individual has been corrected. Management agrees with the recommendation and does review access annually. It should be noted that access is granted when needed and revoked subsequently.

**MTA BUSINESS SERVICE CENTER
PRIOR YEAR COMMENTS-DEFICIENCIES- 2012**

4. User Access Reviews- PeopleSoft Application

Observation:

User access reviews for the PeopleSoft application was not performed during the period. No documentation evidencing the user access review could be obtained.

Background:

It was noted that formal documentation relating to user access review for the PeopleSoft application was not available during the period.

Recommendation:

Management should consider documenting evidence for the user access reviews for PeopleSoft. This documentation should be retained so that it can be made available when needed. The documentation should include details of the review such as date of review, names of personnel whose access is reviewed and sign offs by the manager(s) performing the review.

Management's Response (2012):

This information was not requested from BSC Information Technology as part of the audit. User activity reviews for the BSC PeopleSoft system are performed on a weekly basis. User recertification is performed annually.

Status Update (2013):

The identified observation still remains open as of December 31, 2013.

The MTA BSC management team initiated their annual user access review however their reviews were not completed by December 31, 2013. This could result in users having access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.

We reiterate our prior recommendation above. In addition we recommend that MTA BSC establish procedures to monitor the progress and completion of the PeopleSoft user access reviews to ensure all reviews are completed within the required timeframe.

Management Response (2013):

Recertification for 2013 was started early this year using recommended audit suggestions from a recent MTA HQ audit. These include finalizing the role descriptions for the PeopleSoft modules, finalizing the risk classification for these roles and implementing the use of queries to automatically recertify users for low risk privileges in PeopleSoft. Furthermore data owners will perform the recertification, advise the department head of the results and resolve any differences before sending it to MTA BSC IT Security. The revised process is documented in the form of a comprehensive detailed procedure specifying naming conventions for files and directories and detailed actions to be taken.

Status Update (2014):

The identified observation still remains open as of December 31, 2014.

We reiterate our prior recommendation above. In addition we recommend that MTA BSC establish procedures to monitor the progress and completion of such reviews to ensure all reviews.

**MTA BUSINESS SERVICE CENTER
PRIOR YEAR COMMENTS-DEFICIENCIES- 2012**

4. User Access Reviews- PeopleSoft Application (continued)

Management Response (2014):

Management is in agreement with the comment and will establish procedures to comply with the Audit recommendation.

**MTA BUSINESS SERVICE CENTER
PRIOR YEAR COMMENTS- DEFICIENCIES-2011**

5. Invoices Not Paid Timely

Observation:

Vendor invoices are not paid timely.

Background:

The MTA BSC policy is to pay vendors within 30 days of receipt of the invoice. The payment date is configured at the vendor level to be net 30 days from the date the invoice is scanned into the Imaging and Process Management ("IPM") scanning system.

It was noted that out of 45 invoices tested during the 2011 audit, 4 invoices were not paid within 30 days of the IPM scan date in accordance with the MTA BSC policy. By not paying invoices timely, the MTA is at risk of incurring interest charges from their vendors.

Recommendation:

All invoices should be paid within 30 days of the IPM scan date.

Management Response (2011):

Management agrees with the recommendations. The four items noted in the Audit were not paid: one was a delay of receipting, one was a funding issue on the purchase order, and two were not paid due to outstanding credits against the Vendor.

Status Update (2012):

There are still instances in which vendor invoices are not paid timely. As such, this comment remains open.

Management Response (2012):

The timely payment of invoices is contingent upon Agency receipt of the goods or services being in the system, processing of the invoices by BSC and having the funding available in Procurement. The BSC provides to the Agency on a weekly basis a summary of all vouchers in the system that have not been paid yet and the reason for that non-payment. BSC will continue to work with the Agencies to improve the timeliness of invoice payments.

Status Update (2013):

There are still instances in which vendor invoices are not paid timely. As such, this comment remains open.

Management Response (2013):

All invoices should be paid the later of 30 days after invoice date or receipt of goods or services. In 2012 and 2013 Prompt Payment was \$208,805 and \$53,068 respectively. The BSC continues to work with the agencies to expedite the payment process. In 2013, our monthly analysis indicated that approximately 70% of the delayed payments are due to missing receipts. This data is provided to the MTA agencies accounting department weekly in order for the agencies to take action.

The BSC also provides to Procurement and expedites a detail analysis of all vouchers that have not been paid and a reason code that identifies the issue.

**MTA BUSINESS SERVICE CENTER
PRIOR YEAR COMMENTS- DEFICIENCIES - 2011**

5. Invoices Not Paid Timely (continued)

Status Update (2014):

There are still instances in which vendor invoices are not paid timely. It is suggested that MTA BSC work with the MTA agencies to ensure that receipts are entered into PeopleSoft timely to ensure timely payments to the vendors.

Management Response (2014):

The timely and accurate payment of invoices is the goal of the BSC Accounts Payable department. As stated in previous responses that goal is only accomplished when all relevant parties are participating in achieving that goal. To assist in the timely processing of payments the BSC provides reports to Agency Procurement Departments and user departments, a detailed analysis of all vouchers that have not been paid and a reason code that identifies the issue. These reports contain the items that if no action is taken will not be paid timely. We will continue to review our procedures and refine our internal reporting toward achieving the goal.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2013

DEFICIENCIES

We identified, and have included below, deficiencies involving the First Mutual Transportation Assurance Company's ("FMTAC") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Writing Insurance Premium Policies

Criteria:

Governmental Accounting Standards Board ("GASB") Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification"), Section Po20.116, *Premium Revenue Recognition*, states the following:

Premiums or required contributions ordinarily should be recognized as revenue over the contract period in proportion to the amount of risk protection provided. For those few types of contracts for which the period of risk differs significantly from the contract period, premiums should be recognized as revenue over the period of risk in proportion to the amount of risk protection provided. That generally results in premiums being recognized as revenue evenly over the contract period (or the period of risk, if different), except for those few cases in which the amount of risk protection changes according to a predetermined schedule.

Condition:

During testing of insurance premium revenue, all of the insurance premium policies (contracts) written in 2013 were requested to be provided by management. Upon receipt of the policies, it was noted that four had not been officially written, approved, or signed by FMTAC management in a timely basis. This approval process was initiated in March 2014 and finalized in April 2014, at which time they were provided to Deloitte. Therefore, at the time of the revenue recognition (2013), there was no formal documentation supporting the recording of such revenue.

Cause:

FMTAC did not effectively plan and execute the signing of the new insurance policies prior to the expiration of the old insurance policies.

Effect:

Insurance policies were not written, approved, and signed by FMTAC in a timely manner.

Recommendation:

All of FMTAC's insurance policies need to be written, approved, and signed by management in a timely manner.

Financial Statement Impact:

No Impact

Management Response (2013):

Management agrees with recommendation. The delayed issuance of the four policies was due to a one-time restructuring of the policy form. Management's priority will be timely issuance of all FMTAC policies.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2013

1. Writing Insurance Premium Policies (continued)

Status Update (2014):

A final signed MetroCat policy including the additional flood surge protection was not available as of April 2015. We noted, however, that it is included in the reinsurance agreement, and we further noted that informal documentation exists with respect to the agreement between FMTAC and MTA. However, as it does not cover the final year of the three-year policy ending June 2016, this comment remains open.

Management Response (2014):

Management agrees with recommendation. Management's priority will be to clearly document the final year of the additional flood surge protection between FMTAC and the MTA.

LONG ISLAND RAIL ROAD COMPANY

LONG ISLAND RAIL ROAD COMPANY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

DEFICIENCIES

We identified, and have included below, deficiencies involving the Long Island Rail Road Company's ("LIRR") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Assets Not Capitalized Timely

Criteria:

Generally accepted accounting principles require the proper and consistent capitalization of expenditures to comply with periodicity and the matching principle.

Condition:

It was noted that Project Managers did not communicate timely the capitalization status of certain projects to the Controller's office.

Cause:

Due to a breakdown in communication between the Project Managers and the Controller's office, capital projects were not transferred timely from the "work-in-progress" category into capitalized fixed assets when the projects reached beneficial use.

Effect:

"Capital assets not being depreciated" were overstated in the financial statements, while "Capital Assets being depreciated" and "Depreciation Expense" were understated.

Recommendation:

It is recommended that the Controller's office and Project Managers communicate timely and periodically on projects' status and date beneficial use is reached, to ensure capitalization of fixed assets in the correct period.

Financial Statement Impact:

There was no material impact to the LIRR's financial statements as of December 31, 2014.

Management Response:

A quarterly review of all projects in PIP will commence starting after Q1 2015. Review will identify the scope of the project (i.e. study, design construction, etc.,) with the expected beneficial use dates. If construction phase has been completed Project Managers to confirm completion by completing beneficial use form.

LONG ISLAND RAIL ROAD COMPANY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2013

2. Annual User Recertification Review

Criteria:

User access privileges are periodically reviewed by application owners to make sure access privileges remain appropriate.

Condition:

An annual recertification process is implemented and takes place during the first quarter of the following year; however, we noted that the annual user access recertification process was initiated but was not completed as of March 26, 2014.

Cause:

LIRR did not complete annual recertification in timely fashion.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases risk of unauthorized access affecting data that underlie computer-generated information and/or automated controls.

Recommendation:

Management should establish procedures to ensure that user access reviews are initiated and completed within a timely manner.

Financial Statement Impact:

No Impact

Management Response (2013):

Recertification occurs annually and is conducted by the security group within the LIRR Information Technology Department. The 2013 recertification was initiated in January 2014 for the year ended December 31, 2013, and has been completed as of May 29, 2014.

Status Update (2014):

The identified observation still remains open as of December 31, 2014.

We reiterate our prior recommendation above. In addition, we recommend that MTA LIRR establish procedures to monitor the progress and completion of such reviews to ensure all reviews.

Management Response (2014):

The recertification process was delayed due to personnel transfers and is now in progress. We expect to have the entire process completed by the end of the 3rd QTR 2015.

METRO-NORTH COMMUTER RAILROAD COMPANY

METRO-NORTH COMMUTER RAILROAD COMPANY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

DEFICIENCIES

We identified, and have included below, deficiencies involving the Metro-North Commuter Railroad Company's ("MNCR") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Assets Not Capitalized Timely

Criteria:

Generally accepted accounting principles require the proper and consistent capitalization of expenditures to comply with periodicity and the matching principle.

Condition:

It was noted that Metro-North Commuter Railroad Company (the "Company") Management delayed capitalization of fixed assets for the third quarter of 2014 until the fourth quarter of 2014.

Cause:

Due to a temporary vacancy in the accounting department, coupled with preparation for the Company's office relocation, Management decided to delay recording of capitalization of fixed assets in the third quarter of 2014. The Company did not submit to the MTA Business Service Center ("BSC") the report of the "work-in-progress" assets that had fulfilled the appropriate requirements to be capitalized and "placed-in-service" for the purpose of calculating depreciation as of September 30, 2014.

Effect:

As of September 30, 2014, "Capital assets not being depreciated" were overstated on the financial statements, while "Capital Assets being depreciated" and "Depreciation Expense" were understated. During the fourth quarter of 2014, capitalization for all assets was recorded, including for the third quarter items. Depreciation expense was properly recorded for all fixed asset items based on their actual "in-service" date.

Recommendation:

It is recommended that Management review and record all transactions related to capitalization and depreciation accurately and timely. This will ensure that accounting records are accurate, and items are appropriately classified and depreciation calculated in the correct period. It is further recommended that the required information be reviewed by Company Management and provided to the BSC on a quarterly basis.

Financial Statement Impact:

There was no material impact to the MTA's quarterly consolidated financial statements as of September 30, 2014. As assets were properly classified, and depreciation expense properly recognized during the fourth quarter of 2014, there was no impact to the Metro North Commuter Railroad Company's or to the MTA's consolidated financial statements as of December 31, 2014.

Management's Response:

Management agrees. Capitalization of fixed assets will be submitted to the BSC each quarter. All information is reviewed by management prior to submission to the BSC.

METRO-NORTH COMMUTER RAILROAD COMPANY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

2. User Access Revocation – CSS application

Criteria:

Access for terminated and/or transferred users is removed or modified in a timely manner in accordance with the documented company policy.

Condition:

Three (3) terminated users retained access to the CSS application. The access was terminated per notification to the IT department.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access impacting data and the computer-generated information and/or automated controls

Recommendation:

We recommend the MNCR improve/revise the user access de-provisioning process and control over timely removal of access in the information systems.

Financial Statement Impact:

No Impact

Management Response:

We agree with the recommendation. Metro-North currently has a process in place to address account management changes. When an employee separates from the company the account is immediately disabled upon notification. A weekly report is generated to monitor employment status changes and action is executed upon the findings in the report. This report will be generated on a daily basis and action executed daily for a more frequent review of employment status changes.

METRO-NORTH COMMUTER RAILROAD COMPANY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

3. Privileged-level access

Criteria:

Privileged-level access (e.g., security administrators) is authorized and appropriately restricted.

Condition:

Four (4) accounts listed as "Enterprise Administrators" and six (6) accounts listed as "Domain Administrators" were deemed inappropriate. The Enterprise and Domain accounts are system accounts that were created/enabled to be utilized during the ongoing merger of the IT departments across the agencies.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to the lack of established security policies and standards. This increases risk of unauthorized access affecting data and the computer-generated information and/or automated controls.

Recommendation:

We recommend the MNCR improve/revise the elevated user access provisioning process and control over privileged-level access in the information systems.

Financial Statement Impact:

No Impact

Management Response:

Members in the elevated groups are admins/test accounts of the AD admins group. We are in process of transitioning to both a centralized domain administration as well as a role based delegation with extending DELL Active Roll Server. After we transition to the MTA wide consolidated, centralized Forest/domain Administration, there will not be any other accounts added to the elevated groups and those will then be delegated via Dell Active Role server.

MTA BUS COMPANY

MTA BUS COMPANY
PRIOR YEAR COMMENTS-DEFICIENCIES- 2012

DEFICIENCIES

We identified, and have included below, deficiencies involving the MTA Bus Company's ("MTA Bus" or the "Company") internal control over financial reporting as of December 31, 2013, that we wish to bring to your attention:

1. Farebox Revenue Allocation

Observation:

The Farebox revenue allocation between MTA Bus and New York City Transit Authority ("NYCTA") is not performed on a regular basis.

Background:

MTA Bus Farebox revenue is collected and calculated by NYCTA. Each weekday (weekend days reported on Tuesdays), NYCTA provides a farebox cash revenue report to MTA Bus and Metro Card Revenue on a weekly basis, which details total farebox revenue collected by NYCTA on behalf of MTA Bus. The farebox revenue collected daily is deposited into the MTA Bus Revenue bank account and Metro Card revenue is wired weekly. The Deputy Controller of MTA Bus verifies that the daily deposits for cash revenue and weekly wires for Metro Card Revenue agree to the reported amounts.

Recommendation:

MTA Bus Management should obtain an understanding of the Revenue calculations performed by NYCTA and based on Cubic report perform a recalculation process based on the number of trips and agreed upon rates to recalculate Farebox revenue to ensure that monthly Farebox revenue is appropriate.

Management's Response (2012):

The formula used to determine the revenue distribution was reviewed and approved by MTA Bus management. In addition, a quarterly review of the data is done by NYCTA and any resulting adjustments processed. Per the recommendation, management will on an annual basis, perform a detailed analysis of a statistical random sample to test the validity of the formula results.

Status Update (2013):

This recommendation is considered partially completed, as MTA Bus is still in the process of working with the New York City Transit Authority to develop a process to test random sampling of revenue data.

Management Response (2013):

MTA Bus management, will on an annual basis, perform a detailed analysis of a statistical random sample to test the validity of the formula results.

Status Update (2014):

This recommendation is considered partially completed, as MTA Bus is still in the process of working with the New York City Transit Authority to develop a process to test random sampling of revenue data.

MTA BUS COMPANY
PRIOR YEAR COMMENTS-DEFICIENCIES- 2012

1. Farebox Revenue Allocation (continued)

Management Response (2014):

MTA Bus will conduct a statistical sample of Metro Card swipes during 2015 that will track physical swipes to revenue received. This will be tested against the agreed formula used by NYC Transit to remit fare box revenue to MTA Bus.

NEW YORK CITY TRANSIT AUTHORITY

NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

DEFICIENCIES

We identified, and have included below, deficiencies involving the New York City Transit Authority's ("NYCTA" or "Transit Authority") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Liability – Time-Based Farecards

Criteria:

Current pronouncements issued by the GASB regarding recognition and measurement of certain liabilities and expenditures in governmental fund financial statements and revenue recognition.

NYCTA management must determine the portion of unearned revenue related to time-based farecards.

Condition:

NYCTA management determines the classification between unearned revenue and earned revenue at month-end based on:

- 1) First swipes, which trigger revenue recognition
- 2) The life span of each type of farecard (7 day unlimited, 30 day unlimited, etc.)
- 3) Cut-off date (month-end or year-end)

At first swipe, all of the revenue associated with a farecard is classified as farecard revenue. At month-end, management must determine a percentage to reclassify to unearned revenue because the life span of the farecard overlaps into the subsequent month. During 2014 and years prior, management estimated the unearned portion based on how many days are on either side of the cut-off date. Further for 7 day cards, management assigned a weighted coefficient to each day of the week in order to reflect actual historical usage.

The AFC Farecard Data Report is a schedule that notes the closing amount based on activity throughout the month (sales, usages, expired, etc.). NYCTA records Time-Based Farecard Liability based on the amount of time-based revenue which overlaps the following month. Any farecard with a time usage period overlapping two months creates a liability (unearned revenue) for the days after month-end. Certain class codes are designated for weekly or monthly Time-Based Farecards. NYCTA uses a weighted coefficient for the last 7 days (for a weekly card) to determine which cards first used in one month will actually generate revenue in the following month. A coefficient is required for accurate reporting of liability since the AFC system recognizes all revenue in each time-based farecard on its first use.

Cause:

NYCTA management does not equally weight weekends and weekdays. The underlying assumption is that the *actual* usage for that card would be higher during weekdays than it would during the weekend. As a result, the NYCTA would have shifted more of the revenue allocation to the unredeemed liability instead of keeping it as earned revenue.

Revenue should be earned based on a straight-line amortization method over the life span of the farecard.

**NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014**

1. Liability – Time-Based Farecards (continued)

Effect:

In the current year, there were no material differences between the weighted calculation and the straight-line calculation. However, as time-based farecards gain popularity, this could become material in the future.

Recommendation:

NYCTA management should recognize revenue on a straight-line basis over the life-span of the card for all time-based farecards.

Financial Statement Impact:

No material impact

Management Response:

Management concurs. NYCTA will determine earned and unearned revenue on seven day time-based farecards on a straight line basis rather than recognizing unearned revenue based on a weighted average based on usage.

Target date: 2nd Quarter 2015

NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

2. Data Center Access

Criteria:

Physical access to computer areas is limited to authorized IT personnel via a card entry system. Physical access restrictions are in place to provide reasonable assurance that only authorized individuals can gain access to information resources.

Condition:

An excessive number of users have been granted access to the 2 Broadway and 130 Livingston Plaza Data Centers.

Cause:

There are over 500 users with access to each of the Data Centers. Such volume increases the risk of inappropriate access to the Data Center.

Effect:

Individuals gain inappropriate access to equipment in the data center and exploit access to circumvent logical access controls and gain inappropriate access to systems.

Recommendation:

Establish procedures and controls around granting Data Center access as well as the timely review and removal of users' access that does not align with their day-to-day job responsibilities.

Financial Statement Impact:

No Impact

Management Response:

Management concurs. A procedure has been developed and implemented. Controls are in place for manual review and to remove user access; full automatic controls with annual recertification will be implemented after IAM implements a workflow system for data center access request.

Target date: Implemented

NEW YORK CITY TRANSIT AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2013

3. Administrative Access

Criteria:

The ability to administer application, DataBase, underlying servers, and domain system security is restricted to appropriate personnel.

Condition:

Users have privileges beyond those necessary to perform their job responsibilities.

Cause:

The MTA performed an upgrade of the windows operating system, and members of the Operations Server Administration Group were provided administrator access to perform the system upgrades. Upon the completion of the upgrade, users' access privileges were not rescinded and such users maintained access for a longer period of time than needed.

Effect:

Users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.

Recommendation:

Establish procedures to ensure the timely review and removal of users' access that does not align with their day-to-day job responsibilities.

Financial Statement Impact:

No Impact

Management Response (2013):

Management concurs. Access privileges are granted to a discreet population within the Server Operations Administration Group to facilitate day-to-day responsibilities, including operating system upgrades. These rights are unique to their daily job function. MTA-IT will continue to monitor user rights to ensure coordination with job functions.

Target Dates: Implemented.

Status Update (2014):

The identified observation still remains open as of December 31, 2014.

We reiterate our prior recommendation above. In addition, we recommend that MTA BSC establish procedures to monitor the progress and completion of such reviews to ensure all reviews are adequate.

Management Response (2014):

Management concurs. In 2015, MTA IT infrastructure removed domain admin rights from seven operation team members on the NYCT active directory. Further, we are in the process of procuring a Privilege Identity Management System (PIMS) and expect implementation in 2016. MTA BSC DBA accounts have been recertified in June 2015.

Target Date: Recertification of DBA accounts- 2nd Quarter 2015; Implementation of PIMS- 3rd Quarter 2016

NEW YORK CITY TRANSIT AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2013

4. Security Events Logging

Criteria:

Information security tools over application systems are administrated and implemented to record and report security events (such as security violation reports, unauthorized attempts to access information resources); reports generated are regularly reviewed and necessary action is taken.

Condition:

Active Directory Security Events are not generated and reviewed on a periodic basis.

Cause:

Active Directory Security Events are not generated and reviewed on a periodic basis.

Effect:

Users have access privileges beyond those necessary to perform their assigned duties, which may create improper segregation of duties.

Recommendation:

We recommend that NYCTA enable the system to track security events. In addition, management should establish procedures for the periodic review of security logs to ensure unauthorized events are captured and resolved in timely fashion.

Financial Statement Impact:

No Impact

Management Response (2013):

Management concurs. MTA-IT will work to enable a system to track security events. Further, efforts are currently underway to implement a system to review security logs periodically to ensure the timely capture and resolution of such events.

Target Date: First Quarter 2015.

Status Update (2014):

This comment has not been corrected and remains open.

NYCTA did not log and track security events that occur within the application during 2014. This increases the risk of unauthorized access affecting data and the computer-generated information and/or automated controls.

We reiterate our prior recommendation.

Management's Response (2014):

Management concurs. MTA IT Security has implemented the Security Incidents and Events Management tool (SIEM) which collects data from the Active Directory and is regularly monitored by MTA Cyber Security Operation's Team.

Target Date: Implemented

NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-OTHER MATTERS- 2014

OTHER MATTERS

Other matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting that we wish to bring to your attention are as follows:

5. Cash – Revenue Fund Account

Criteria:

Cash accounts are routinely reconciled to supporting documentation. A checklist of all accounts is maintained to validate that all accounts have been reconciled, reviewed, and approved according to NYCTA policy. Reconciling items are investigated timely and adjustments are recorded as necessary.

Condition:

The Revenue Fund Account relates to coins in the machines, funds from the money room, and money from the transit booths.

Cause:

The Revenue Fund Account (G/L 102201) had a recorded balance at December 31, 2014, of \$30,680,986. The Undeposited Passenger Revenue Receipts Schedule comprises all sub-schedules that make up the amount in the Revenue Fund Account. The grand total of the schedule, in addition to any reclassifications out of the Cash Clearing Account #231010 into the Revenue Fund Account, should agree to the total in the Revenue Fund Account. The Undeposited Passenger Revenue Receipts Schedule for December 2014 was \$35,087,727, less the reclass from the cash clearing account of \$3,302,743 equaled \$31,784,984.

Effect:

The total amount of the Revenue Fund Account does not reconcile to the Undeposited Passenger Revenue Receipts Schedule. There is a \$1,103,998 difference between the general ledger and the schedule.

Recommendation:

Management should review the \$1,103,998 reconciling item to determine the nature and cause. Upon completion, an adjustment to the schedule or general ledger should be made.

Financial Statement Impact:

No material impact

Management Response:

Management concurs. The reconciling item noted relates to 2010 activity and is an entry made by Treasury which remained misposted. Subsequent activity has been reconciled to year end 2014. Efforts to isolate the difference will continue and adjustments will be made to the account as required by the third quarter of 2015.

Target Date: Third Quarter 2015

NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-OTHER MATTERS 2014

6. Unapplied Cash – A/R

Criteria:

General ledger (G/L) account 161214, Unapplied Cash, is recorded as part of Other Receivables and bears a debit balance at December 31, 2014. An unapplied cash account, when used in order to track cash receipts that cannot immediately be matched to a specific customer, should maintain a credit balance under normal circumstances (dr. cash, cr. unapplied cash).

Condition:

NYCTA utilizes the unapplied cash GL account for the purpose stated above – to record cash receipts in a timely fashion when the customer providing the funds is unknown at that specific point in time. The account maintained approximately a \$1.4M debit balance at December 31, 2014. The NYCTA could not explain why the balance was a debit at year-end and/or explain how they arrived at the \$1.4M amount.

Cause:

GL account 161214 is not appropriately reconciled or analyzed throughout the year by the NYCTA's Accounting Department, Treasury Department, or Accounts Receivable Department (MTA BSC). There is a lack of timely and effective communication between the three departments in order to properly monitor the selected GL account.

Effect:

GL account 161214, and "Other Receivables" may be misclassified at year-end.

Note: The effect relates to the classification of Cash and Accounts Receivable. There is no revenue effect.

Recommendation:

Management should implement a structured account analysis to reconcile this account on a periodic basis. Open communication between accounting, treasury, and the MTA BSC would be helpful to understand the timing and nature of cash receipts and the corresponding customer A/R accounts.

Financial Statement Impact:

No Impact

Management Response:

Management concurs. The debit balance originates from the 2011 BSC conversion year. MTA Treasury, NYCT Operations Accounting and BSC Accounts Receivable will continue to research the discrepancy by matching cash applications to the accounts receivable line entries, and adjust the account as required by year end.

Target Date: 4th Quarter 2015

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014**

DEFICIENCIES

We identified, and have included below, deficiencies involving the Staten Island Rapid Transit Operating Authority's ("SIRTOA") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Inventory Reserve for Obsolescence

Criteria:

GASB Codification- Section I40, *Inventory*, states the following:

A departure from the cost basis of pricing the inventory is required when the utility of the goods is no longer as great as its cost. A loss should be recognized and accounted for in the current period whenever the utility of goods is impaired by damage, deterioration, obsolescence, changes in price levels, or other causes. Such losses should be measured by applying the method of pricing inventories at *cost or market, whichever is lower*.

Condition:

The SIRTOA inventory reserve for obsolescence is determined by applying 25% to total inventory at December 31st. This percentage is calculated by taking the New York City Transit Authority (NYCTA) inventory reserve for obsolescence compared to total NYCTA inventory. The NYCTA inventory reserve for obsolescence is methodically calculated within the CMS system through a number of steps. There is no correlation between SIRTOA's inventory and reserve for obsolescence and NYCTA's inventory and reserve for obsolescence.

Cause:

SIRTOA does not have a SIRTOA specific process or methodology to determine the inventory reserve for obsolescence.

Effect:

SIRTOA relies on a percentage calculated by NYCTA to determine SIRTOA's inventory reserve for obsolescence.

Recommendation:

SIRTOA management should develop a SIRTOA specific process for determining the inventory obsolescence reserve. Management should utilize the data provided by the inventory system (TALON) to determine trends and project excess/obsolete inventory.

Financial Statement Impact:

No Impact

Management Response:

Management concurs. Representatives from SIRTOA will work with NYCT Supply Logistics to develop an inventory obsolescence methodology consistent with the operating requirements of SIRTOA.

Target Date: 4th Quarter 2015

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

DEFICIENCIES

We identified, and have included below, deficiencies involving the Triborough Bridge and Tunnel Authority's ("TBTA") internal control over financial reporting as of December 31, 2014, that we wish to bring to your attention:

1. Classification of Liabilities

Criteria:

Accounting staff prepare all journal entries for the Accounting Manager's review, approval and sign-off. In the absence of the Accounting Manager, the Assistant Accounting Manager reviews, approves, and signs-off on all journal entries. In addition, the Assistant Controller and Controller review, approve, and sign-off on all journal entries.

Condition:

Upon receipt by the TBTA of the New York City Employee Retirement System pension contribution invoice for \$32,109,883 an incorrect credit was made to account #208234- Due to Outside Vendors.

Cause:

Management did not properly review the journal entry and supporting documentation prior to posting the journal entry in the PeopleSoft accounting system.

Effect:

As a result, \$32,109,883 was erroneously recorded in general ledger account #208234- Due to Outside Vendors when it should have been recorded to general ledger account #206305- Pension Contribution Withheld. Based on an audit commendation, this was corrected by management prior to closing the general ledger for 2014.

Recommendation:

Management should thoroughly review all journal entries and supporting documentation to ensure amounts are posted to the correct general ledger account numbers.

Financial Statement Impact:

Reclassification between liability general ledger accounts. Net effect on the liability balance was zero.

Management Response:

Management agrees. All journal entries and supporting documentation will be thoroughly reviewed to assure amounts are posted to the correct general ledger accounts.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014

2. Data Center Access

Criteria:

Physical access to computer areas is limited to authorized IT personnel via a card entry system. Physical access restrictions are in place to provide reasonable assurance that only authorized individuals can gain access to information resources.

Condition:

An excessive number of users have been granted access to the 2 Broadway and 130 Livingston Plaza Data Centers.

Cause:

There are over 500 users with access to each of the Data Centers. Such volume increases the risk of inappropriate access to the Data Center.

Effect:

Individuals gain inappropriate access to equipment in the data center and exploit such access to circumvent logical access controls and gain access to the systems.

Recommendation:

Establish procedures and controls around granting the Data Center Access as well as the timely review and removal of users' access that does not align with their day-to-day job responsibilities.

Financial Statement Impact:

No Impact

Management Response:

Data Center Access is now handled by MTA HQ IT Security and Data Center Operation's divisions. Currently MTA IT is consolidating the policies and procedures and will take the recommendations into consideration and follow the necessary guidelines.

**TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCIES- 2014**

3. Administrative rights to the Kronos Application

Criteria:

The ability to make modifications to overall system security parameters, security roles, or security configuration over network and communication software is limited to appropriate IT personnel.

Condition:

A user was granted administrative rights to the Kronos Application, which was inappropriate based on his job responsibility.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access affecting data and the computer-generated information and/or automated controls.

Recommendation:

We recommend that TBTA management establish procedures to review user access request prior to access being granted to ensure that user requests for elevated access gain such access based on their job responsibility.

Financial Statement Impact:

No Impact

Management Response:

The administrative rights of the user indicated above were immediately changed to "View" only. This recommendation has been implemented. The procedure to obtain access is through the electronic request for Kronos Access that must be approved by the Director of the Central Control Unit.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES-2013

4. Kronos Application Password Parameters

Criteria:

The identity of users is authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

Condition:

The password expiration and password complexity enforced within Kronos is not in compliance with MTA security policy and procedures. Password history is set to 60 days in Kronos, which is not in accordance with TBTA Information Security Policy requiring users to change passwords every 30 days. No password complexity is enforced within Kronos which is not in accordance with TBTA Information Security Policy requiring users to use alphanumeric characters.

Cause:

TBTA did not follow security policies and procedures guidelines.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access affecting data and the computer-generated information and/or automated controls.

Recommendation:

We recommend that TBTA align their password parameters with security policies and procedures guidelines.

Financial Statement Impact:

No Impact

Management Response (2013):

We have enforced the password complexity according to MTA Midrange Information Systems Security policy directive and feel no further strengthening is necessary. We have chosen to have 60 days mandatory password change option to avoid frequent account lockouts and password resets. We feel we have adequate user controls to avoid 30 day password expiration. As stated in our response to your follow up of 2012 Letter of Recommendations, we can consider changing the expiry to 30 days with the implementation of a future Identity Management system. We believe, without password synchronization or a single sign-on authentication, having multiple passwords that expire in 30 days will be counterproductive to our user departments and also will cause help-desk support calls to increase.

Status Update (2014):

This comment has not been corrected and remains open.

We reiterate our prior recommendation that MTA TBTA align their password parameters with security policies and procedures guidelines.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES-2013

4. Kronos Application Password Parameters (continued)

Management Response (2014):

MTA IT Enterprise Application support will meet with IT security to review security policies and procedures to ensure proper security measures in Kronos Workforce Central. We expect to fully implement by October 1, 2015.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIECIES- 2013

5. Oracle Database Password Parameters

Criteria:

The identity of users is authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

Condition:

The password expiration enforced within the Oracle DataBase is not in compliance with MTA security policy and procedures. Password history is set to 60 days in Oracle DataBase, which is not in accordance with TBTA Information Security Policy requiring users to change passwords every 30 days.

Cause:

TBTA did not follow security policies and procedures guidelines.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access affecting data and the computer-generated information and/or automated controls.

Recommendation:

We recommend that TBTA align their password parameters with security policies and procedures guidelines.

Financial Statement Impact:

No Impact

Management Response (2013):

Our users do not login to the Oracle DataBase directly. All the access to the DataBase is channeled through the Middle Ware. Therefore, this recommendation cannot be implemented in the present Application Architecture.

Status Update (2014):

This comment has not been corrected and remains open.

We reiterate our prior recommendation.

Management Response (2014):

Oracle Database Password Parameters is now handled by MTA HQ IT Enterprise Applications/Database Administration group. This task will be discussed and will take the recommendations into consideration in conjunction with the recommendations under item #4 above and follow the necessary guidelines.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIENCIES- 2013

6. Windows Password Parameters

Criteria:

The identity of users is authenticated to the systems software through passwords or other authentication mechanisms, in compliance with entity security policies. The use of passwords incorporates policies on periodic change, confidentiality, and password format (e.g., password length, alphanumeric content, expiration, account lockout).

Condition:

The password expiration, complexity and invalid logon attempts enforced within Windows is not in compliance with MTA security policy and procedures. Account Lockout Threshold is set to 7 invalid logon attempts on the mtabt.org domain which is not in accordance with TBTA Information Security Policy requiring password lockout after 3 invalid attempts. Password history is set to 60 days in Windows which is not in accordance with TBTA Information Security Policy requiring users to change passwords every 30 days. No password complexity is enforced within Kronos which is not in accordance with TBTA Information Security Policy requiring users to use alphanumeric characters.

Cause:

TBTA did not follow security policies and procedures guidelines.

Effect:

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases risk of unauthorized access affecting data that underlie computer-generated information and/or automated controls.

Recommendation:

We recommend that TBTA align their password parameters with security policies and procedures guidelines.

Financial Statement Impact:

No Impact

Management Response (2013):

We have enforced the password complexity according to MTA Midrange Information Systems Security policy directive and feel no further strengthening is necessary. We have chosen to have 60 days mandatory password change option to avoid frequent account lockouts and password resets. We feel we have adequate user controls to avoid 30 day password expiration. As stated in our response to your follow up of 2012 Letter of Recommendations, we can consider changing the expiry to 30 days with the implementation of a future Identity Management system. We believe, without password synchronization or a single sign-on authentication, having multiple passwords that expire in 30 days will be counterproductive to our user departments and also will cause help-desk support calls to increase.

Status Update (2014):

This comment has not been corrected and remains open.

We reiterate our prior recommendation that MTA TBTA align their password parameters with security policies and procedures guidelines.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIENCIES- 2013

6. Windows Password Parameters (continued)

Management Response (2014):

Windows Password Parameters are now managed by MTA HQ IT Infrastructure group. This task will be discussed and will take the recommendations into consideration in conjunction with the recommendations under items #4 and #5 above and follow the necessary guidelines.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES-2013

7. Job Processing Documentation

Criteria:

Automated scheduling tools have been implemented for the completeness of the flow of processing and are monitored by the Information Technology Department. Access to job scheduling tools is appropriately restricted.

Condition:

We were unable to obtain appropriate documentation around how error was resolved.

Cause:

TBTA did not retain appropriate documentation to show batch job processing failures are appropriately reviewed and resolved.

Effect:

Production systems, programs, and/or jobs result in inaccurate, incomplete, or unauthorized processing of data.

Recommendation:

We recommend that TBTA to monitor batch processing failures and retain documentation around how failures were reviewed and resolved.

Financial Statement Impact:

No Impact

Management Response (2013):

Agree. We do not keep documentation of how the failures have been reviewed and resolved although such evidence can be gathered from the email system and/or from the log of the help-desk trouble tickets if necessary. Electronic records of the status of all batch processing jobs are available on line through Kronos Transaction Assistant Screen based upon a start date and an end date. We believe we will be better equipped to fully implement this recommendation after the implementation of a Centralized Help Desk Support Software (Maximo).

Status Update (2014):

This comment has not been corrected and remains open.

We reiterate our prior recommendation that MTA TBTA retain appropriate documentation to show batch job processing failures are appropriately reviewed and resolved.

Management Response (2014):

This recommendation has been implemented. IT application support now monitors daily Kronos and Bio Demo interfaces for errors. Once errors are identified, they are logged in a spreadsheet on the network and then corrected by resubmitting interface.

8. Succession Planning

Observation:

This comment has been tailored for the TBTA from the best practices issued by the Government Finance Officers Association (“GFOA”), as we feel it is applicable.

Many governments face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where large numbers of government employees are eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them. In addition, many governments face the challenge of offering competitive compensation packages to entice strong candidates to come work for them.

Background:

The GFOA encourages governments to address the following key issues and develop strategies concerning succession planning.

- Develop an integrated approach to succession management. Organizations with an integrated, rather than “just-in-time,” approach to succession management experience higher retention rates, increased employee morale, and an environment that stimulates innovation and organizational change. There are some positions in an organization that are more critical than others. A successful succession plan should place a high priority on planning for a smooth change in such positions. Key components of an integrated succession management approach include: workforce planning, succession planning, knowledge management practices, and recruitment and retention practices.
- Continually assess potential employee turnover. Making career planning discussions a part of a regular and ongoing performance review process assists in assessing potential turnover. Department heads are a good resource in helping to identify employees that may be planning to leave.
- Provide a formal, written succession plan as a framework for succession initiatives. Without a formal plan, workforce/succession planning tends to take place in a haphazard fashion. A formal plan identifies risks and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and leadership commitment to succession management, which is critical for success and for sustaining successful planning across political and leadership transitions.
- Develop written policies and procedures to facilitate knowledge transfer. Knowledge transfer is a critical component of succession management. There should be written procedures in place to

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-OTHER MATTERS- 2012

8. Succession Planning (continued)

- formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.
- Design of better recruitment and retention practices may aid in the succession process. Making sure pay levels are competitive with the market place is a critical means of retaining employees. Providing career advancement opportunities for employees is another means of retention.
- If early retirement programs are offered by your entity, it should be done in conjunction with a succession plan. GFOA strongly recommends that governments use considerable caution when considering the implementation of early retirement plans (see GFOA's Advisory: Evaluating the Use of Early Retirement Incentives). If an early retirement program is offered, that might provide a window of opportunity to look at technology, potential to streamline, or rethinking the way services are provided, managed, and/or administered.
- Consider non-traditional hiring strategies. Options such as part-time work, job-sharing, volunteers, and flexible schedules and flexible-place arrangements are providing mechanisms to both meet the needs of the organization and employees.

References:

- GFOA's Generational Change Task Force Report:
http://www.gfoa.org/downloads/GFOA_GenChangeReportFINAL.pdf
- GFOA Advisory: Evaluating the Use of Early Retirement Incentives, 2004.

Approved by the GFOA's Executive Board, February, 2011.

Recommendation:

It is recommended that the TBTA implement a strategic approach to succession planning at all levels, including the identification of mission critical positions and succession pools; workforce analytics to identify potential high loss separations from the TBTA; leadership development programs focused on continuous development and retention of high potential employees; and external recruitment for new staff who can grow and adapt to future TBTA needs. In addition TBTA should ensure that competitive compensation packages are in place in order to entice strong, competent, and talented candidates to come work TBTA.

Management Response (2012):

MTA Bridges and Tunnels (legal name Triborough Bridge and Tunnel Authority) concurs with this recommendation and has, or will, take the following actions in 2013.

- 4) TBTA is identifying mission critical positions that are hard to fill because of the requirements of job or may become vacant due to retirements.
- 5) TBTA is conducting an age/years-of-service analysis by Department and by individual to project upcoming attritions due to retirements.
- 6) TBTA is reviewing the structure of several Departments, to create a pipeline of high potential employees to fill critical positions identified in "1" above. This restructuring, to be reviewed with

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-OTHER MATTERS- 2012

8. Succession Planning (continued)

MTAHQ as appropriate will facilitate the transfer of knowledge and enable additional employees to develop high level relationships and authority both within the Agency as well as with relevant external stakeholders. In another effort to facilitate knowledge transfer, all Departments will begin a review of their policies and procedures in 2013, updating where necessary.

- 7) TBTA is reviewing Managerial Position Questionnaires (MPQs) to ensure they are appropriately evaluated and to ensure that salaries for the positions allow for the attraction and retention of agency talent.
- 8) Continue to work with MTA HQ and the Business Service Center on the development of a Talent Management System that identifies high potential employees not only within the TBTA but within other MTA entities to fill positions as they are identified. This system will leverage existing PeopleSoft modules.
- 9) TBTA has begun a Management Associates Program in which high potential entry level employees, identified in a competitive process, rotate through five different Departmental assignments in six month blocks and receive regular management training. At the end of the program, they will compete for open positions within the Agency.

Status Update (2013):

While some progress has been made to ensure that the proper strategic approach to succession planning at all levels, including the identification of mission critical positions, has been implemented, focus should continue in this area. Therefore, we reiterate our 2012 recommendation.

Management Response (2013):

Management agrees and will continue the process of implementing the six initiatives enumerated in the 2012 Management response.

Status Update (2014):

Focus should remain on the identification of mission critical positions for strategic succession planning at all levels. We reiterate our prior recommendation.

Management Response (2014):

Succession Planning continues to be a critical priority for Senior Management.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIENCIES- 2011

9. Operating and Capital Accruals

Observation:

1. TBTA management needs to enhance their year-end process for estimating capital and operating accruals.
2. Subsequent to December 31, 2011, TBTA management does not perform a retrospective review of accruals by comparing the actual invoice received to the estimate recorded by management.

Background:

1. TBTA management has a procedure in place to estimate operating and capital accruals as of December 31st for goods and services received, but for which the invoice has not been received. Management obtains input from various departments including Engineering and Construction in developing these estimates. However, during the 2011 audit, 8 instances totaling approximately \$401 thousand were noted whereby an accrual was not recorded at December 31, 2011, for goods and services received prior to December 31, 2011.
2. Often actual invoices are received after December 31st for which management initially recorded an estimated amount in the general ledger because the actual invoice was not available. While this is appropriate practice, management does not perform a retrospective review or “true up” of the estimated accruals. This is done by comparing actual invoices received to the estimated amounts and making any necessary adjustments in the general ledger.

Recommendation:

1. Management needs to enhance their year-end process for estimating capital and operating accruals to ensure that all amounts are recorded as accruals at December 31st.
2. Management needs to adjust their estimate for operating and capital accruals for known changes such as the receipt of the actual invoice. When an actual invoice is received subsequent to December 31st for which management had recorded an estimate as an accrual, management needs to compare the actual amount of the invoice to the amount of the estimate recorded and make any necessary adjustment.

Management's Response (2011):

1. The Engineering and Controller's staffs will jointly strengthen the procedures over the year-end process for estimating capital and operating accruals.
2. The Controller's Department, as part of the year end accrual process, will adjust accrual estimates to the actual invoice, if received prior to finalization of the Operating Surplus.

Status Update (2012):

1. There were \$206 thousand of unrecorded accrued liabilities related to invoices received subsequent to December 31, 2012 related to services performed prior to December 31, 2012.
2. There were \$172 thousand in liabilities that were incorrectly recorded at December 31, 2012.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIENCIES- 2011

9. Operating and Capital Accruals (continued)

Management Response (2012):

The Engineering and Controller's staffs will jointly further strengthen the procedures over the year-end process for estimating capital and operating accruals.

Status Update (2013):

1. There was one invoice for \$538,240 recorded twice in accrued liabilities at December 31, 2013.
2. When comparing estimates to actual invoices received, there were \$1,946,048 in net liabilities that were incorrectly recorded at December 31, 2013.

Management Response (2013):

Management will institute a procedure at year end, in which estimates are adjusted to invoices received, and differences recorded in the accounts.

Status Update (2014):

1. Bond issue costs were over accrued by \$600,000 at December 31, 2014, when compared to actual invoices received subsequent to December 31, 2014.
2. When comparing accrual estimates to actual invoices received, there were \$663,265 in capital accruals that were not recorded at December 31, 2014.

Management Response (2014):

Management agrees and will enhance the year-end process of adjusting accruals as invoices are received.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2011

10. User Access Reviews (Kronos)

Observation:

User access review documentation for the 2011 audit could not be obtained.

Background:

As part of our assessment for the Kronos application, we noted through discussions with management that user access reviews are conducted for Kronos on an annual basis. However, we were unable to obtain supporting evidence of the review.

Recommendation:

Management should consider performing the user access reviews for Kronos in a timely manner. Documentation relating to the reviews should be retained so that it can be made available when needed. The documentation should include details of the review such as date of review, names of personnel whose access is reviewed and sign offs by the manager(s) performing the review.

Management's Response (2011):

User access reviews will be performed and documented on a semi-annual basis, commencing with the implementation of the Kronos 6.2 system in August 2012.

Status Update (2012):

This comment has not been corrected and remains open.

Management's Response (2012):

Time keeping function is now re-aligned with Operations Department and being done by a separate unit called CCU. This was created during Kronos implementation to carry out the functions that were previously done by HR. Technology Department has updated the document to reflect the changes in the new Kronos 6.2 system. CCU is working on addressing this recommendation and has agreed to complete by the Third Quarter of 2013.

Status Update (2013):

This comment has not been corrected and remains open.

Management's Response (2013):

In 2013 we partially implemented the User Access Re-certification recommendation. These activities completed in 2013 provide us the basis to do a complete annual re-certification in 2014 as recommended. The following activities were completed in 2013:

- Documented Kronos 6.2 Certification Procedure
- Certified that only active and temporarily inactive employees are in Kronos
- Completed data cleansing by removing obsolete Function Access Profiles in the Kronos Database
- Certified Function Access Profiles and linked them to Kronos Licensing for proper assignment.

In 2014, Technology and Central Control Unit (CCU) departments will work together to complete the re-certification process as set forth in the documentation mentioned above.

Status Update (2014):

This comment has not been corrected and remains open.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2011

10. User Access Reviews (Kronos) (continued)

Management's Response (2014):

The certification process will be completed by September 1, 2015.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2011

11. Database Password Controls (Kronos)

Observation:

It was noted that there are no password parameters enabled at the Kronos database level.

Background:

We noted that the Kronos application is supported by an Oracle database. Currently there are no password parameters enabled at the database level to protect the database from unauthorized access.

Recommendation:

Management should consider implementing strong password controls at the database level to establish optimal system security. Strong passwords make it difficult for hackers to guess the password and gain unauthorized access to the system.

Management's Response (2011):

The version of Kronos 5.0 that is used currently is limited to Time Keeping Functionality only. In August 2012, Technology staff will upgrade to Kronos 6.2, expanded to include Attendance, Accruals and Leave modules. Following this major upgrade, Technology staff will implement this recommendation under Oracle 11g database and Real Application Clusters ("RAC") platform. This platform is better suited to implement strong passwords than the present release of Oracle 9i that is in use today.

Status Update (2012):

This comment has not been corrected and remains open.

Management's Response (2012):

This has been completed. Following parameters have been set in Oracle.

- a) Password Expires in 60 days
- b) Strong Passwords with minimum of 8 characters long. They must be a combination of numbers, special characters and upper and lower case letters.

Status Update (2013):

Some progress has been made and password parameters are now enforced at database level. D&T noted that the password parameters enforced are not aligned with MTA security policies and procedures.

Management's Response (2013):

Practice has been to set the password to expire in 60 days. This is true for Network, Database and Application logins throughout the organization. In the absence of a password synchronization or a single sign-on authentication, if the password is to expire in 30 days users will be forced to change the passwords very frequently which will cause user lockouts and password resets to increase tremendously. With the implementation of a future Identity Management system, we can consider changing the expiry to 30 days.

Status Update (2014):

Some progress has been made and password parameters are now enforced at database level, however the password parameters that are now enforced are not aligned with MTA security policies and procedures.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS- DEFICIENCIES- 2011

11. Database Password Controls (Kronos) (continued)

Management's Response (2014):

Database Password Controls (Kronos) is now handled by MTA HQ IT Enterprise Applications/Database Administration group. This task will be discussed and will take the recommendations into consideration in conjunction with the recommendations under item #5 above and follow the necessary guide lines.

PRIOR YEAR COMMENTS ADDRESSED

PRIOR YEAR COMMENTS ADDRESSED

Metropolitan Transportation Authority- Headquarters

1. Operating and Capital Accruals- 2013
2. New York State Tax Subsidies – Receivable Balance Valuation – 2013
3. Classification of Deferred Expenses – Insurance Premium – 2013
4. Classification of Long Term Debt – 2013
5. Internal Cash Transfers – 2013
6. Oracle DataBase Password Parameters- 2013

MTA Business Service Center

1. Bank Reconciliations- Maintaining Documentation of Agencies' Approval- 2012
2. Retrospective Review of Paid and Open Invoices after Year-End- 2011
3. Phire Application Password Parameters- 2013
4. PeopleSoft Application and DataBase Password Parameters- 2013
5. Database Password Controls- 2011

First Mutual Transportation Assurance Company

1. Formally Documenting the Risk Assessment Process – 2013

Long Island Rail Road Company

None

MTA Bus Company

None

New York City Transit Authority

1. Processing Healthcare Claims- 2013

Staten Island Rapid Transit Operating Authority

1. Compliance with National Transit Database Reporting- 2013

Triborough Bridge and Tunnel Authority

1. Classification of Receivables- 2013

APPENDIX B

DEFINITIONS

The definitions of a deficiency, a material weakness, and a significant deficiency are as follows:

A *deficiency* in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A deficiency in design exists when (a) a control necessary to meet the control objective is missing or (b) an existing control is not properly designed so that, even if the control operates as designed, the control objective would not be met. A deficiency in operation exists when (a) a properly designed control does not operate as designed, or (b) the person performing the control does not possess the necessary authority or competence to perform the control effectively.

A *material weakness* is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Dear Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, which comprise the consolidated statement of net position as of December 31, 2014, and the related consolidated statement of revenues, expenses and changes in net position and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 29, 2015, which contains an explanatory paragraph that the Authority requires significant subsidies from other governmental entities.

In connection with our audit, nothing came to our attention that caused us to believe that the Authority has failed to comply with the Authority's Investment Guidelines, the New York State ("NYS") Comptroller's Investment Guidelines, Section 2925 of the NYS Public Authorities Law, or Section 201.3 of the NYS Public Authorities Law (collectively, the "Investment Guidelines"), insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of any such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the Authority's noncompliance with the Investment Guidelines, insofar as they relate to accounting matters.

This report is intended solely for the information and use of the members of the board and management of the Authority, and the Office of the New York State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

April 29, 2015

Enterprise Risk Management Committee Report

Audit Committee
June 2015



Corporate Compliance

ERM Committee Report Table of Contents

1. Executive Summary
2. Status of Corrective Action Plans
3. Compliance Performance Update
4. Risk Changes and Impact
 - I. External Driven Risk Change
 - II. Strategy / Internal Driven Risk Change
5. Key Risks



Executive Summary

Period Snapshot

- All Agencies are Currently at Various Stages of Testing and Documenting Risks & Controls
- Working on Submitting Their Annual Internal Controls Certifications and Summary Reports - due in July 2015
- All Agencies working and Closing Open Material Weakness / Significant Deficiencies
- ERM Committee Met During the Period to Discuss Significant Issues and MTA Organizational Changes
- Agencies Have Conducted a Review of Their Business Processes With Their Departments to Include an Assessment of Their Business Processes Objectives, Risks and Controls
- Agencies Continue to Document Their Vulnerability Assessments in the Governance Risk and Compliance (GRC) System

Strategy/Internal Driven Risk Change

- Procurement to Pay Process Review
- IT Transformation
- Treasury Transformation
- GRC Migration
- ERM Guidelines

Summary of Control Activities

- 1,875 Total Business Processes
- 671 Total Significant Business Processes of which 431 Were Reviewed
- Approximately 3,919 Total Risks (all business processes)
- Approximately 6,402 Total Controls (all business processes)

External Driven Risk Change

- New State Mandated Internal Controls Training
- COSO 2013
- NYS Comptroller Guidelines

Status of Corrective Action Plans

Total Controls Vs. % of Material Weakness / Significant Deficiencies

Agency	Total Controls	Total Material Weakness / Significant Deficiencies	% Total Material Weakness / Significant Deficiencies to Total Controls	Open Material Weakness / Significant Deficiencies by Agencies Total Controls
B&T	425	0	0.0%	0
MTA HQ	355	0	0.0%	0
LIRR	1,324	25	1.9%	4
MNR	496	27	5.4%	10
MTA Bus	167	1	0.6%	0
MTA CC	379	0	0.0%	0
NYCT	3,256	31	1.0%	0
Enterprise	6,402	84	1.3%	14

Compliance Performance Update

Status of Material Weakness / Significant Deficiencies

	November 2014	Closed (+/-)	June 2015	Change (+/-)
Open Material Weakness / Significant Deficiencies	84*	-70	14	-83.3%

* Reported as 83 in November 2014, but should have been 84



Compliance Performance Update

Change in Significant Business Processes

	November 2014	Change (+/-)	June 2015	Change (+/-)
Significant Business Processes	679	-8	671	-1.2%



Risk Changes and Impact

External Driven Risk Change	Impact
State Comptroller Guidelines <ul style="list-style-type: none"> - IT Risk Assessment - Fraud Risk Assessment 	IT & Fraud Risk Assessment that have not been conducted previously. MTA will have to coordinate and evaluate the impact of these assessments on the organization
COSO 2013	Enhancements to the COSO Framework presents unique opportunities to refresh internal controls and comply with the new standards
Strategy / Internal Driven Risk Change	Impact
IT Transformation	Change addresses IT, staffing, policies and procedures, and ethics considerations that creates a number of concerns on the related risks and controls With the reorganization of the business process, opportunity exists to reevaluate risks, enhance controls and eliminate duplication
Procurement to Pay Process Review	Opportunity to review process objectives, risks and controls as well as to evaluate manual vs. automated controls
Treasury Transformation	Opportunity for major cost and efficiency benefits through centralization and also the associated risks and controls



Key Risks Areas

- Safety
- Information Technology
- Institutional Transformation
- External Oversight & Regulatory Compliance
- Succession Planning



Metropolitan Transportation Authority

MTA Audit Services

2015 AUDIT PLAN STATUS

June 24, 2015



2015 Audit Areas

Finance

Treasury
Capital Budget
Enterprise Asset Management
ERM Assessments
Advertising Contracts
Payroll
Accounts Payable
Timekeeping
Overtime
Travel Expenses
Prior Audit Recommendations

Service Delivery

Power Maintenance
Signals Maintenance
Track Maintenance
Depot Operations
Bridge & Tunnel Operations
Bus Overhauls
Station Maintenance
Maintenance of Way
Car Equipment

Safety

Blue Ribbon Panel Recs.
NTSB / FRA Recommendations
Safety Efficiency Testing
Operational Training
Safety Maintenance Certifications
Random Drug & Alcohol Testing

Procurement

Operating Contracts
DBE & MW/DBE Programs
Procure-to-Pay
Inventory Management
Utility Payments
Third Party Contracts

Revenue

Rental Property Income
GCT Tenants
MetroCard
E-ZPass
Select Bus Services
On-Board Fare Collection
Money Rooms

Capital Program

Superstorm Sandy
Force Account
Fulton Center Closeout
7 Line Extension Closeout
2nd Avenue
East Side Access

Human Resources

Medical Services
Pensions
Employee Availability
Workers' Compensation
Personnel Action Requests

Technology

BSC PeopleSoft Upgrade & QA
Data Center Operations
Disaster Recovery
Information Security
Thin Client Environment
TAB System Implementation
IT Transformation
Application Controls

2015 - Plan Summary

Financial/Operational/Technology

- Projects Completed	=	76
- Recommendations	=	260
- Savings/Cost Efficiencies	=	\$ 11.5 M

Contracts

- Projects Completed	=	64
- Pre-Award OH Reviews	=	106
- \$ Audited	=	\$ 325 M
- Questioned Costs	=	\$ 26.3 M

Total = \$ 37.8 Million



2015 - Highlights

- ❑ **Superstorm Sandy**
- ❑ **MWBE – DDCR Corrective Action Plan**
- ❑ **Transit Adjudication Bureau – New System**
- ❑ **NYC Transit Prescription Drug Plans**
- ❑ **Capital Revolving Fund**
- ❑ **LIRR Windshield Replacement Cost**



Looking Ahead

- ❑ Complete the 2015 Audit Plan
- ❑ Continue to Support activities related to:
 - MWDBE Inactive Contracts Close-outs
 - Enterprise Asset Management Project
 - PeopleSoft - 9.2 Upgrade
 - Procure-to-Pay
 - Pension
 - Quality Assurance
 - Transit Bureau Adjudication – New System
- ❑ Continue to coordinate audit activities with:
 - External Auditors
 - City/State Controller's Office
 - MTA Inspector General Office
 - MTA Chief Compliance Office
- ❑ Conduct the Yearly Internal Quality Assurance Review



QUESTIONS?

