



Metropolitan Transportation Authority

Audit Committee Meeting

January 2016

Committee Members

J. Sedore Jr., Chair

F. Ferrer

R. Bickford

C. Moerdler

Audit Committee Meeting
2 Broadway, 20th Floor Board Room
New York, NY 10004
Monday, 1/25/2016
2:45 - 4:00 PM ET

1. PUBLIC COMMENTS PERIOD

2. APPROVAL OF MINUTES

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3. AUDIT COMMITTEE WORK PLAN

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4. INDEPENDENT ACCOUNTANTS' REVIEW REPORT - 3RD QUARTER 2015

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5. 2014 PENSION AUDITS

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Draft 2014 MTA Deferred Comp 457 and 401K Plan Financials - Page 210

Draft 2014 MTA Defined Benefit Plan 2014 Financial Statements - Page 258

Draft 2014 OPEB Plan Financials - Page 316

Draft 2014 LIRR Company Plan for Additional Pensions - Page 349

6. INFORMATION TECHNOLOGY REPORT

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7. 2015 YEAR-END STATUS REPORT AND 2016 PROPOSED AUDIT PLAN

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8. DDCR PERFORMANCE MEASURES UPDATE

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**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, NOVEMBER 16, 2015 – 2:15 P.M.
RONAN BOARD ROOM – 20th FLOOR
2 BROADWAY**

The following were present:

Honorable:

**James L. Sedore
Fernando Ferrer**

**Robert Bickford
Andrew Albert**

Neal Zuckerman

**M. Fucilli - MTA
R. Foran - MTA
S. Gellineau - MTA**

**L. Kears - MTA
P. Kane - MTA
T. Habib - MTA**

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

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the September 24, 2015 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORKPLAN

There were no changes to the work plan. The next meeting scheduled in January will include the review of the 3rd Quarter 2015 Consolidated Financial Statements; the presentation of the 2015 Audit Plan Status and the 2016 Audit Plan; the Information Technology Report; and the update on DDCR Performance Measures.

4. AUDIT APPROACH PLAN

Michael Fritz (Deloitte) briefed the Committee on Deloitte's 2015 Audit Service Plan which he said was provided to the Committee members earlier for their review. He indicated that their contract include the audit of the financial statements of: MTA Headquarters, First Mutual Transportation Assurance Company, Long Island Rail Road Company, New York City Transit Authority, Metro-North Commuter Railroad Company, Triborough Bridge and Tunnel Authority, MTA Bus Company and the Staten Island Rapid Transit Operating Authority and the single audit of federal awards for 2015. He stated their prime objective is to plan and perform the audit of the financial statements to obtain reasonable assurance whether the financial statements are in conformity with GAAP and are free of material misstatements. He introduced the senior members of the audit team: Glen Friedrich and Mike Malloy and discussed their audit approach, stating that it is risk-based, looking at areas where material misstatements in the financial statements could occur. He mentioned one risk they have identified at the MTA where management can over-ride controls with the use of journal entries that can be utilized to inflate revenues or understate expenses. He said their audit focus, among others, would include the GASB 68

implementation; capital assets; pension; post-employment benefit obligations; and grants, appropriation, tax and tolls revenues. He indicated they will use specialists in reviewing information technology controls and journal entries and in the valuation investments, derivatives, hedges and actuarial estimates. Lastly, Mike stated the audit of the financial statements would be completed by April and that the Single Audit Report on the Schedule of Federal Awards and the Management Letters on internal controls would be issued in June.

5. MTA ENTERPRISE RISK MANAGEMENT & INTERNAL CONTROL GUIDELINES

Lamond Kears (MTA Chief Compliance Officer) informed the Committee that, as required by policy, the MTA Enterprise Risk Management & Internal Control Guidelines have been reviewed and no changes to the guidelines are recommended at this time.

6. ENTERPRISE RISK MANAGEMENT UPDATE

Lamond Kears first spoke about the “Lines of Defense” model presented in the Agenda in response to a prior Committee inquiry regarding interrelationships and roles of the Compliance Officer, Internal Audit and External Audit in the MTA internal control program. He then provided the Committee with an executive summary of ERM activities since the last update, which included: a “Period Snapshot” consisting of all-agency accomplishments and ERM committee work progress; a “Summary of Control Activities” which highlighted the number of business processes and the risk and controls within the processes; and the Internal and External Driven Risk changes within the MTA. He also presented the ERM Personnel by Agency and a graph showing a November 2014 - November 2015 comparison of the significant business processes, total activities/business, risk and controls and the resulting changes. In response to Committee inquiries regarding the dimensions of risks and the rationale for newly added risks, Lamond responded that risk rankings as well as information regarding new and added risks exist and such information would be provided to the Committee. Lamond explained the charts presented in the Agenda pertaining to: “Significant Business Processes Reviewed; Corrective Action Plan Status; Material Weakness/Significant Deficiencies; Top Agency Risks and Enterprise-Wide Risks.” The Committee commended Lamond on the wholesome information provided in the ERM updates but asked that the future updates also include a presentation of risk dimensions in broad categories, changes to risk rankings and the reasons for the changes. Lamond said the requested information would be included in future presentations.

7. COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNAL CONTROL ACT

Lamond Kears briefed the Committee on the requirements of the Internal Control Act, including MTA guideline, organizational structure and policies and procedures to ensure compliance with the Act, and reported that, based on his review, the MTA is in full compliance with the Act.

8. REVIEW OF AUDIT COMMITTEE CHARTER

The Auditor General advised the Committee that, in conjunction with the Chief Compliance Officer, the Charter was reviewed and no changes are recommended at this time.

A motion was moved and seconded to present the Charter to the full Board.

9. ANNUAL AUDIT COMMITTEE REPORT

The Auditor General briefed the Committee on the contents of the proposed Audit Committee letter to the Board, which summarized all the activities conducted at the Audit Committee for the 12-month ended July 2015. The activities discussed in the letter included Financial Reporting, Internal Controls, Governance, and Technology matters and issues.

The Committee voted to accept the report.

10. OPEN AUDIT RECOMMENDATIONS

Lamond Kears reported that, based on information provided by MTA Audit Services, there are eight open recommendations that were 6 months past their original implementation date. The Auditor General said the eight open recommendations related to the over 700 audit recommendations issued by the MTA Audit Services, State Comptroller and other audit entities during the year. There were discussions on why the recommendations remained open and process transformation or program completion such as the PeopleSoft 9.2 upgrade were cited as part of the reason.

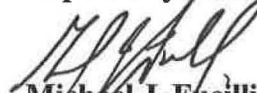
11. EXECUTIVE SESSION

Upon motion duly made and seconded, the Committee voted to convene an executive session in accordance with Section 105 (1) (a) of the New York State Public Officers Law.

12. MOTION TO ADJOURN

The Committee returned to regular session, at which time a motion was made and seconded to adjourn the meeting.

Respectfully submitted,


Michael J. Facilli
Auditor General

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

January 2016

Quarterly Financial Statements – 3 rd Quarter 2015	External Auditor/CFOs
Pension Audits	External Auditor
2015 Audit Plan Status Report	Auditor General
2016 Audit Plan	Auditor General
Information Technology Report	Chief Information Officer
DDCR Performance Measures	Chief Diversity Officer

April 2016

Financial Statements and Audit Representation Letters	External Auditor/CFOs/Controllers
Management's Review of Financial Statements	Comptroller
Contingent Liabilities/Third Party Lawsuits (Executive Session)	General Counsels/External Auditor
Financial Interest Reports	Chief Compliance Officer
DDCR Performance Measures	Chief Diversity Officer

June 2016

Quarterly Financial Statements – 1 st Quarter 2016	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
Ethics and Compliance Program	Chief Compliance Officer
Enterprise Risk Management Update	Chief Compliance Officer

September 2016

Quarterly Financial Statements – 2 nd Quarter 2016	External Auditor/CFOs
Appointment of External Auditors	CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG
DDCR Performance Measures	Chief Diversity Officer

November 2016

MTA Enterprise Risk Management and Internal Control Guidelines	Chief Compliance Officer
Enterprise Risk Management Update	Chief Compliance Officer
Compliance with the Requirements of the Internal Control Act	Chief Compliance Officer/Agency ICOs
Annual Audit Committee Report	Audit Committee
Review of Audit Committee Charter	Committee Chair
Audit Approach Plans/Coordination	External Auditor
Open Audit Recommendations	Agency ICOs/Chief Compliance Officer
Security of Sensitive Data	Chief Information Officer

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

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 Comptroller 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 the independent accounting firm, 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 on the agencies' compliance with the State Law regarding the filing of Financial Interest Reports (FIRs), including any known conflicts of interest.

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.

JUNE 2016

Quarterly Financial Statements – 1st Quarter 2016

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 2016.

Single Audit Report

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

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.

SEPTEMBER 2016

Quarterly Financial Statements - 2nd Quarter 2016

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 2016.

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.

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.

NOVEMBER 2016

Review of MTA Enterprise Risk Management and Internal Control Guidelines

These MTA-wide guidelines, which were adopted by the Board in 2011 pursuant to Public Authority Law Section 2931, are required to be reviewed by the Committee annually. The MTA Chief Compliance Officer will brief the Committee on the agency compliance with these guidelines and answer any questions and offer additional comments, as appropriate.

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.

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.

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 2016. 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 2016. The review will also show if the Committee's performance in 2016 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 2016 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.

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 Nine-Month Period Ended September 30, 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 Information

We have reviewed the accompanying consolidated interim statement of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of September 30, 2015, and the related consolidated interim statements of revenues, expenses and changes in net position, and cash flows for the nine month periods ended September 30, 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 information, 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 21, the Schedules of Pension Funding Progress on page 106, and the

Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 107 be presented to supplement the consolidated interim financial information. Such information, although not a part of the consolidated interim financial information, 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 information 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 information, and other knowledge we obtained during our reviews of the consolidated interim financial information. 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 information. 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 information.

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 information. Such information has been subjected to the analytical procedures and inquiries applied in the review of the basic consolidated interim financial information 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 information or to the consolidated interim financial information 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 information 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.

January 25, 2016

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF SEPTEMBER 30, 2015 AND DECEMBER 31, 2014 AND
FOR PERIODS ENDED SEPTEMBER 30, 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 September 30, 2015 and December 31, 2014 and for the periods ended September 30, 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 Statement of Net Position, which provides 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's 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 September 30, 2015 and December 31, 2014 and for the periods ended September 30, 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

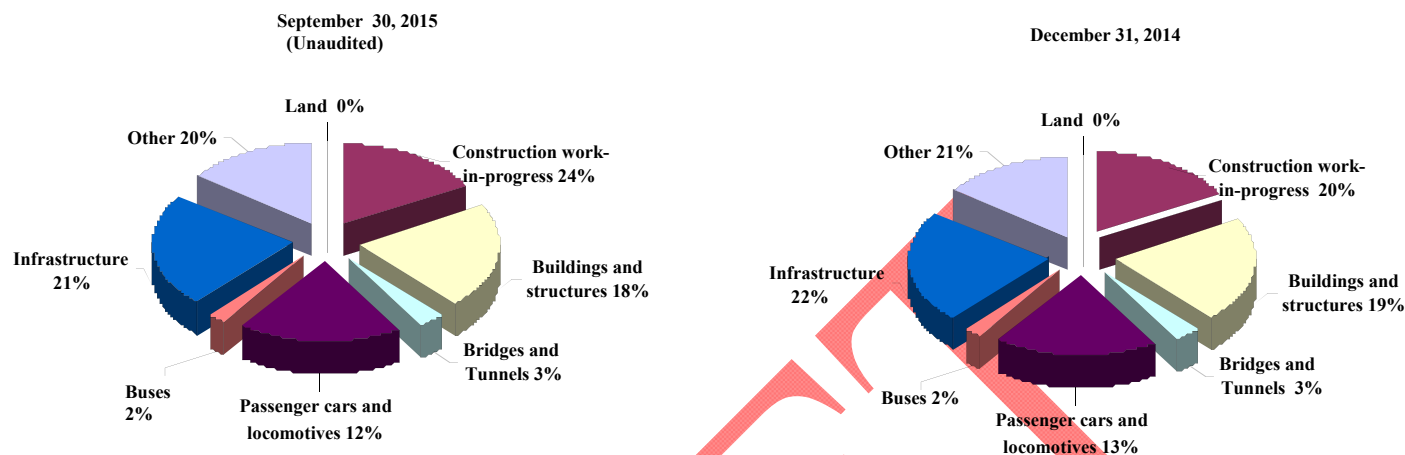
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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.

	September 30, 2015 (Unaudited)	December 31, 2014	December 31, 2013	Increase/(Decrease)	
(In millions)				2015 - 2014	2014 - 2013
Capital assets — net (see Note 6)	\$ 60,661	\$ 59,060	\$ 56,729	\$ 1,601	\$ 2,331
Other assets	10,876	8,502	8,215	2,374	287
Deferred outflows of resources	<u>1,097</u>	<u>1,066</u>	<u>980</u>	<u>31</u>	<u>86</u>
Total assets and deferred outflows of resources	<u>\$ 72,634</u>	<u>\$ 68,628</u>	<u>\$ 65,924</u>	<u>\$ 4,006</u>	<u>\$ 2,704</u>

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

September 30, 2015 versus December 31, 2014

- Net capital assets increased at September 30, 2015 by \$1,601. This increase is attributable to net increases in construction work-in-progress of \$2,454, infrastructure for \$265, buses for \$232, buildings and structures for \$207, passenger cars and locomotives for \$52, other capital assets of \$30, and land for \$9. Those increases were offset by a net increase in accumulated depreciation of \$1,648. 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 three facilities, namely Robert F. Kennedy Bridge, the Bronx-Whitestone 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 \$2,374. The major items contributing to this change include:
 - An increase in investments of \$1,576 derived from:

- An increase in restricted investments of \$1,391, due primarily to higher debt service funds and an increase in proceeds from the issuance of Dedicated Tax Fund Bond Anticipation Notes, Series 2015A in September 2015, Transportation Revenue Bonds, Series 2015C in August 2015, and Series 2015D and 2015E in September 2015.
- An increase in unrestricted investments of \$179, due primarily to new funds from real estate.
- An increase in capital lease related investments of \$6 as per the capital lease debt service schedule.
- An increase in current and non-current net receivables of \$693 derived mainly from:
 - An increase in State and regional mass transit taxes of \$781 due to the approval of the New York State 2015-2016 budget in March 2015.
 - An increase in other State and local assistance of \$30.
 - A decrease in other various receivables of \$112.
 - A decrease in Federal and State Governments for capital projects of \$6.
- An increase in other current and non-current assets of \$105 derived from:
 - An increase in cash of \$153 from net cash flow activities.
 - An increase in material and supplies of \$66 due largely to increases at MTA New York City Transit of \$38 and MTA Metro-North Railroad of \$24 for maintenance material requirements for vehicles and facilities.
 - A decrease in prepaid expenses and other current assets of \$31 due largely to a reduction in insurance premium prepayments.
 - A decrease in advance to the defined benefit pension trust of \$56 from the amortization of prepaid pension cost by MTA Long Island Rail Road of \$28 and lower pension funding by MTA Metro-North Railroad of \$28.
 - A decrease in other various assets of \$27 due mainly to the amortization of advances to the Defined Benefit Pension Plan and a reduction in long term insurance premiums.
- Deferred outflows of resources increased by \$31 due to a change in fair market value of derivative instruments of \$29 (See Notes 2 and 8), and an increase in the loss on debt refunding of \$2.

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

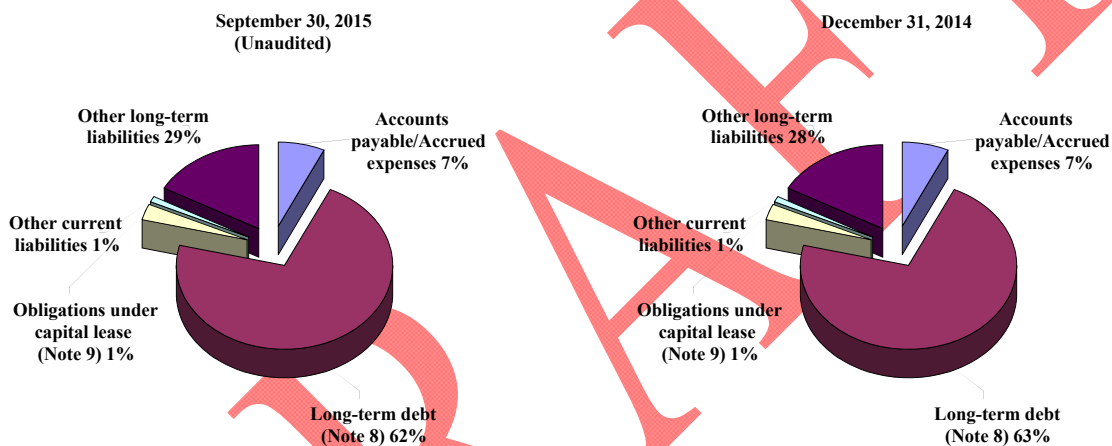
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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.

(In millions)	September 30, 2015 (Unaudited)	December 31, 2014	December 31, 2013	Increase/(Decrease) 2015 - 2014 2014 - 2013	
Current liabilities	\$ 6,507	\$ 5,273	\$ 5,142	\$ 1,234	\$ 131
Non-current liabilities	53,082	50,038	46,577	3,044	3,461
Deferred inflows of resources	<u>33</u>	<u>35</u>	<u>-</u>	<u>(2)</u>	<u>35</u>
Total liabilities and deferred inflows of resources	<u>\$ 59,622</u>	<u>\$ 55,346</u>	<u>\$ 51,719</u>	<u>\$ 4,276</u>	<u>\$ 3,627</u>

Total Liabilities



Significant Changes in Liabilities Include:

September 30, 2015 versus December 31, 2014

Current liabilities increased by \$1,234. The major items contributing to this change include:

- An increase in the current portion of long-term debt of \$851, primarily due to Bond Anticipation Notes issued on June 25, 2015 and on September 17, 2015.
- An increase in unearned revenues of \$135 due largely to increases in MTA New York City Transit for school and elderly fare subsidies, unused fare cards sold, and advertising revenue.
- An increase in accrued expenses of \$259 due to:
 - An increase in interest payable of \$344 due to new bond issuances in 2015.
 - An increase in current portion of retirement and death benefits of \$162, primarily due to a revised actuarial calculation for MTA New York City Transit for the New York City Employees' Retirement System ("NYCERS").

- A net decrease in accrued salaries, wages, vacation and payroll taxes of \$97 mainly due to timing of payments.
- A decrease in the current portion of estimated liability from injuries to persons of \$16 due to payments.
- A decrease in other various accrued expenses of \$134 mainly due to a reduction in accruals for capital expenditures.
- An increase in accounts payable of \$3 primarily due to timing of payments.
- A decrease in derivative fuel hedge liability of \$12 due to changes in market value.
- A decrease in other various current liability of \$2.

Noncurrent liabilities increased by \$3,044. The major items contributing to this increase include:

- An increase in postemployment benefits other than pension liability (“OPEB”) of \$1,592 as a result of actuarial determined calculations as required by GASB Statement No. 45 (See Note 5).
- An increase in long-term debt of \$1,104 due to the issuance of MTA Transportation Revenue Bonds, Series 2015A to Series 2015E (See Note 8). The increase was offset by retirements and debt payments as of September 30, 2015.
- An increase in estimated liability arising from injuries to persons of \$329 based on most recent actuarial valuations.
- An increase in derivative liabilities of \$28 due to changes in fair market value.
- A decrease in other various non-current liabilities of \$9.

Deferred inflows of resources decreased by \$2 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

	September 2015 (Unaudited)	December 2014	December 2013	Increase	
(In millions)				2015 - 2014	2014 - 2013
Net investment in capital assets	\$ 23,028	\$ 22,944	\$ 22,020	\$ 84	\$ 924
Restricted for debt service	1,400	434	478	966	(44)
Restricted for claims	168	167	135	1	32
Restricted for other purposes	1,088	1,011	906	77	105
Unrestricted	<u>(12,672)</u>	<u>(11,274)</u>	<u>(9,334)</u>	<u>(1,398)</u>	<u>(1,940)</u>
Total Net Position	<u>\$ 13,012</u>	<u>\$ 13,282</u>	<u>\$ 14,205</u>	<u>\$ (270)</u>	<u>\$ (923)</u>

Significant Changes in Net Position Include:

September 30, 2015 versus December 31, 2014

At September 30, 2015, total net position decreased by \$270 when compared with December 31, 2014. This change is a result of net non-operating revenues of \$4,390 and appropriations, grants and other receipts externally restricted for capital projects of \$1,467, offset by operating losses of \$6,127.

The net investment in capital assets increased by \$84. Funds restricted for debt service, claims and other purposes increased by \$1,044 in the aggregate, while unrestricted net position decreased by \$1,398.

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

(In millions)	September 30, 2015 (Unaudited)	September 30, 2014 (Unaudited)	September 30, 2013 (Unaudited)	Increase/(Decrease)	
				2015 - 2014	2014 - 2013
Operating revenues					
Passenger and tolls	\$ 5,747	\$ 5,514	\$ 5,305	\$ 233	\$ 209
Other	454	433	399	21	34
Total operating revenues	6,201	5,947	5,704	254	243
Non-operating revenues					
Grants, appropriations and taxes	4,880	4,699	4,537	181	162
Other	571	596	540	(25)	56
Total non-operating revenues	5,451	5,295	5,077	156	218
Total revenues	11,652	11,242	10,781	410	461
Operating expenses					
Salaries and wages	4,047	4,043	3,564	4	479
Retirement and other employee benefits	2,339	2,067	2,071	272	(4)
Postemployment benefits other than pensions	1,995	1,892	1,662	103	230
Depreciation and amortization	1,719	1,694	1,616	25	78
Other expenses	2,225	2,097	1,999	128	98
Operating expenses	12,325	11,793	10,912	532	881
Net expenses related to asset impairment	3	(2)	83	5	(85)
Total operating expenses	12,328	11,791	10,995	537	796
Non-operating expenses (revenues)					
Interest on long-term debt	1,058	1,032	1,001	26	31
Change in fair value of derivative financial instruments (Note 8)	(1)	-	-	(1)	-
Other net non-operating expenses	4	4	4	-	-
Total non-operating expenses	1,061	1,036	1,005	25	31
Total expenses	13,389	12,827	12,000	562	827
Appropriations, grants and other receipts externally restricted for capital projects	1,467	1,373	1,398	94	(25)
Change in net position	(270)	(212)	179	(58)	(391)
Net position, beginning of period	13,282	14,205	15,679	(923)	(1,474)
Restatement of beginning net position	-	-	(552)	-	552
Net position, end of period	\$ 13,012	\$ 13,993	\$ 15,306	\$ (981)	\$ (1,313)

Revenues and Expenses, by Major Source:

Period ended September 30, 2015 versus 2014

- Total operating revenues increased by \$254.
 - Fare and toll revenue increased by \$233 due to higher subway ridership and an increase in vehicle crossings for the period ended September 30, 2015, when compared to the period ended September 30, 2014.
 - Other operating revenues increased by \$21. 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 \$156.
 - Total grants, appropriations, and taxes were higher by \$181 for the period ended September 30, 2015.
 - o Tax supported subsidies from New York City and from MTA service areas increased by \$275; this increase was from Urban Tax for \$212 and Mortgage Recording Tax for \$63.
 - o Tax supported subsidies from New York State decreased by \$91, due to decreases from the Mass Transportation Trust Fund by \$113, MTA Aid Trust Account by \$14 and Operating Assistance by \$2 while Payroll Mobility Tax increased by \$38.
 - o Other subsidies decreased by \$3 due to a decrease in Service Contract Bond subsidy for \$2 and other aid by \$1.
 - Other non-operating revenues decreased by \$25. There was an increase in subsidies from New York City of \$10 for MTA Bus and MTA Staten Island Railway. The increase was offset by decreases from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$9, Station Maintenance and Use assessments of \$3, other non-operating expenses of \$14 and lower reimbursement from the Federal Transit Administration ("FTA") and the Federal Emergency Management Agency ("FEMA") relating to Tropical Storm Sandy of \$9.
- Labor costs increased by \$379. The major changes within this category are:
 - Postemployment benefits other than pensions increased by \$103 from changes in actuarial estimates.
 - Retirement and employee benefits increased by \$272 due to higher Workers' Compensation reserve requirements based on most recent actuarial valuations and increased rates for health and welfare plans.
 - Salaries and wages increased by \$4 due largely to increases in MTA New York City Transit overtime.

- Non-labor operating costs increased by \$158. The variance was due to:
 - Increase in professional service contracts by \$80 due largely to additional consultants for MTA New York City Transit, higher technical services requirement and an increase in Workers' Compensation Board fees.
 - Increase in depreciation of \$25 due to additional facilities placed into service.
 - Increase in claims arising from injuries to persons of \$99 based on most recent actuarial valuations.
 - Increase in other business expenses of \$22 primarily due to higher operating expenses.
 - Increase in paratransit service contracts by \$13 and an increase in maintenance and other contracts by \$11.
 - Increase in material and supplies by \$17, mainly due to ongoing maintenance and repairs for transit and commuter systems.
 - Increase in asset impairment expenses of \$5, 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 \$108 due to lower prices in the current period.
 - Decrease in insurance by \$5 due to lower property and liability premiums.
 - Decrease in pollution remediation by \$1.
- Total net non-operating expenses increased by \$25 due to:
 - Interest on long-term debt increased by \$26.
 - Change in fair value of derivative financial instruments decreased by \$1.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$94, mainly due to timing in the availability of Federal grants 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, and a financially sound and reliable transportation system is critical to the region's economic well-being. The MTA consists of urban subway and bus systems, suburban rail 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 third quarter of 2015 declined relative to 2014, with ridership down by 8.8 million trips (0.4%); this decline was driven by a decline in bus ridership,

with a 16.8 million decline in bus ridership at MTA New York City Transit and a 0.5 million decline in ridership at MTA Bus. During the first quarter of the year, harsh weather affected all MTA services, but most significantly bus operations: 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 are available, and January and March temperatures were also colder than average. Moreover, March had the greatest total snowfall for that month since 1940. Despite the more favorable weather since the first quarter of the year, bus ridership has remained lower than in 2014. For New York City Transit subways and at all other MTA agencies, however, ridership has improved; and vehicle traffic at MTA Bridges and Tunnels facilities increased by 7.9 million crossings (3.7%) through the third quarter, reflecting both growth in the regional economy and a steep drop in gasoline prices compared with 2014 prices.

Seasonally adjusted non-agricultural employment in New York City for the third quarter was higher in 2015 than in 2014 by 74.4 thousand jobs (1.8%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty 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, there was a slowing of the increase in the broader measure of national economic growth represented by Real Gross Domestic Product (“RGDP”), which expanded at an annualized rate of 1.5% in the third quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The deceleration in RGDP in the third quarter primarily reflected a downturn in private inventory investment and decelerations in exports, in nonresidential fixed investment, in personal consumption expenditures, in state and local government spending, and in residential fixed investment that were partly offset by a deceleration in imports. The annualized RGDP growth through the third quarter was under the annualized rate of 3.9% in the second quarter; nevertheless, the national economy has now seen expansion in twenty-three of the last twenty-four quarters.

The New York City metropolitan area’s price inflation, as represented by the Consumer Price Index for All Urban Consumers (“CPI-U”), was consistent with the national average in the third quarter of 2015 with each increasing 0.1%. An 18.1% fall in the regional price of energy products, along with a 16.0% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%; nationally, inflation exclusive of energy prices increased 1.8%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 40.0% from an average price of \$2.743 to an average of \$1.647 per gallon between the third 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, when the financial and housing market crises first deepened. In fact, the Federal Reserve Bank initially pursued expansionary intervention more than a year earlier in 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 tight credit conditions that resulted from the national mortgage crisis. Confronting stubbornly high unemployment rates with no flexibility to further reduce 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 private investment in the economy.

Despite the steady improvement in economic activity during 2014 and the first half of 2015, the FOMC at its October meeting elected to support continued progress toward maximum employment and price

stability by reaffirming its view that the 0% to 0.25% target range for the federal funds rate remained appropriate. The FOMC anticipates that it will be appropriate to raise the target range for the federal funds rate when it has seen some further improvement in the labor market and is reasonably confident that inflation will move back to its 2% objective over the medium term. In addition to maintaining the Federal Funds rate, the FOMC is maintaining its policy of investing principal payments from its holdings of agency debt and agency mortgage-backed securities and of rolling over maturing Treasury securities at auction. By keeping its holdings of longer-term securities at sizable levels, the FOMC expects accommodative financial conditions to be maintained.

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 in the wake of 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 has continued through the third quarter of 2015. Mortgage Recording Tax collections through the third quarter of 2015 were higher than through the third quarter of 2014 by \$55.8 million (21.2%); and the third quarter of 2015 was \$16.2 million (16.1%) greater than the second quarter of the year. In spite of the gradual overall recovery of MRT receipts that has been occurring since 2012, average monthly receipts through the third quarter remain \$28.2 million (44.3%) worse than the monthly average in 2006, just prior to the steep decline of this revenue source.

MTA’s Urban Tax receipts – which are based on commercial real estate transaction and mortgage recording activity within New York City – have demonstrated a pronounced rise and have steadily increased since. Compared with one year earlier, average monthly Urban Tax receipts through the third quarter of 2015 were higher by \$146.7 million (25.2%). Moreover, quarterly receipts of Urban Taxes in the third quarter of 2015 of \$199.4 million, while \$62.3 million less than the second quarter of 2015, for the third consecutive month exceeded the previous peak level of \$248.1 million reached in the first quarter of 2007.

Results of Operations

MTA Bridges and Tunnels - Paid traffic through September 2015 totaled 221.6 million crossings, which was 7.9 million crossings, or 3.7% higher than at the end of the third quarter in 2014. The primary reasons for the increase were less severe weather in February of this year compared to last year, a total of 8.8 inches less accumulated rainfall through September of this year vs. the first nine months of 2014, continued modest improvements in the regional economy, and gas prices that have remained relatively low. Toll revenues reached \$1,342.7 million through September, which was \$89.3 million 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 September 30, 2015 was 84.9% compared with 84.0% in 2014. The average weekday market shares were 86.6% and 85.0% for September 30, 2015 and 2014, respectively.

MTA New York City Transit - Total operating revenues during the first nine months of 2015 increased by \$108.8 or 3.2% compared to the first nine 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 nine months of 2015 increased by \$29.9 or 5.7% compared to the first nine months of 2014. A steadily improving economy and service enhancements contributed to the increase.

MTA Metro-North Rail Road – During the first nine months of 2015, operating revenues increased by \$24.3 or 4.7% compared to the nine months of 2014. This increase is primarily a reflection of year-to-date 2015 fare revenue and ridership increase by 3.8% and 1.3%, 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 at September 30, 2015 increased by 2.4% compared to September 30, 2014, from \$262 to \$325.

Capital Programs

2015-2019 Capital Program — Capital programs covering the years 2015-2019 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2015–2019 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 “2015–2019 Transit Capital Program”) were originally approved by the MTA Board in September 2014. The capital programs were subsequently submitted to the Capital Program Review Board (CPRB) in October 2014. This plan was disapproved by the CPRB, without prejudice, in October 2014. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2015–2019 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in September 2014 and was not subject to CPRB approval.

On October 28, 2015, the MTA Board approved revised capital programs for the years covering 2015-2019. The revised capital programs provided for \$28,956 million in capital expenditures, of which \$15,849 million 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; \$5,156 million relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,456 million relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$264 million relates to MTA Interagency and MTA Police Department; \$376 million relates to MTA Bus Company initiatives; and \$2,856 million relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities. Submission of the revised 2015-2019 Commuter Capital Program and the 2015-2019 Transit Capital Program, as approved by the MTA Board in October 2015, to the CPRB for review is still pending. The revised 2015-2019 MTA Bridges and Tunnels Capital Program, as approved by the MTA Board in October 2015, was not subject to CPRB approval.

The combined funding sources for the revised 2015–2019 MTA Capital Programs, including MTA Bridges and Tunnels, include \$5,889 million in MTA Bonds, \$2,856 million in MTA Bridges and Tunnels dedicated funds, \$8,336 million in funding from the State of New York, \$6,375 million in Federal Funds, \$2,492 million from City Capital Funds, \$1,846 million in pay-as-you-go (PAYGO) capital, and \$1,162 million from Other Sources.

At September 30, 2015, \$22,664 had been committed and \$12,242 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$23,812 had been committed and \$22,745 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$21,596 had been committed and \$21,327 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 September 30, 2015, the 2010-2014 MTA Capital Programs budget increased by \$50 primarily due to additional work scope funded through additional grants. Of the \$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, \$6,336 in Federal Funds, \$132 in MTA Bus Federal and City Match, \$778 from City Capital Funds, and \$1,529 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.

At September 30, 2015, \$22,664 had been committed and \$12,242 had been expended for the combined 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program.

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 June 30, 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 \$24,576 now provided in capital expenditures, \$11,616 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; \$3,763 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 \$1,323 from other sources.

At September 30, 2015, \$23,812 had been committed and \$22,745 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 September 30, 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 September 30, 2015, \$21,596 had been committed and \$21,327 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 September 30, 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 September 30, 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.

2015-2018 Financial Plan (The February Plan) Subsequent Developments

The final 2015-2018 Financial Plan was released by the MTA in February 2015 (the “February Plan” or the “2015-2018 Financial Plan”). It includes a final Adopted Budget for 2015 (the “2015 Adopted Budget”) and a Financial Plan for the years 2016-2018. The February Plan, on an MTA consolidated basis, after including approved actions and technical adjustments, projects ending net closing cash balances of \$158 in 2014, \$47 in 2015, \$102 in 2016, \$10 in 2017, and a deficit of \$305 in 2018.

The following items were not reflected in the February Plan and could result in future changes to the net cash balances and deficit reflected in the February Plan:

2014 Actual Cash Results and Cash Balance Projections- MTA’s 2014 preliminary closing net cash balance was \$309, which includes the \$314 carryover from 2013. This result was \$151 higher than the final estimate that was included in the February Plan, and was primarily the result of higher fare and toll revenues, a lower cost of operations and debt service, and favorable subsidy collections.

Overall Latest Condition- At the April 27, 2015 meeting of the Finance Committee, MTA reported operating results through March and subsidy results through April. Aggregate overall results were favorable mainly because of strong real estate transaction tax collections. Net operating results were on budget as lower expenses and positive toll revenue have offset weather-related passenger revenue reductions in January and February. Operating expenses were slightly favorable due to timing variances as well as lower fuel and fringe benefit expenses that were mostly offset by higher weather-related overtime expenses. Debt service costs were favorable due to the timing of deposits and lower variable rates. Subsidies were above target year to date, on the strength of the real estate transaction tax collections. Favorable petroleum business tax (“PBT”) collections were offset by lower payroll mobility tax (“PMT”) receipts.

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 five grants to MTA in the amounts of \$194, \$886, \$684.5, \$787.6 and \$344 respectively, for a total of \$2.90 billion. As of September 30, 2015, MTA has drawn down \$184 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 September 30, 2015, MTA has drawn down \$461 of the \$886 grant for reimbursement of eligible capital expenses. The grant in the amount of \$684.5 is solely for MTA capital projects and was executed on September 23, 2014. As of September 30, 2015, MTA has drawn down \$31.5 of the \$684.5 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 September 30, 2015, MTA has drawn down \$8.1 of the \$787.6 for reimbursement of eligible capital expenses. The grant in the amount of \$344 is solely for MTA South Ferry capital projects and was executed on May 11, 2015. As of September 30, 2015, there have been no drawdowns for that grant. The balance of funds to be drawn down from all five 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 \$2.49 billion of FTA allocated and appropriated emergency relief funding in Federal Fiscal Year 2016.

Labor Update

Subsequent to the presentation of the February 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 has reached agreement with all seventeen of its bargaining units. Most of these 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 March 2015, the Transport Workers Union (“TWU”), locals 2001 and 2055, representing MNR’s bartenders, service workers, carmen, cleaners, and helpers reached agreements with the MTA. Also in March, the MTA reached agreement with the International Brotherhood of Electrical Workers (“IBEW”), representing electricians. Each of these agreements has a term of eighty (80) months from July 16, 2010 through March 15, 2017, and mirrors the LIRR Labor Coalition agreements with regard to both structure and cost. The contracts were approved by the MTA Board on March 25, 2015.

In June 2015, the MTA reached an agreement with the International Brotherhood of Teamsters (“IBT”), local 808, representing the trackmen, mechanics and vehicle and machine operators. This agreement has a term of eighty-three and one-half (83½) months from July 16, 2010 through July 30, 2017, and mirrors the LIRR Labor Coalition agreements with regard to both structure and cost. The contract allows for a 17% total general wage increase, creates a modified five-step wage progression, calls for five additional years of employee pension contributions (from 10 to 15 years) for new hires, and expands the use of regularly scheduled weekend and night shift gangs. The contract was approved by the MTA Board on June 24, 2015.

MTA Headquarters - To date, all expired bargaining agreements at MTA Headquarters have been settled. Bargaining continues 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 New York City Transit Authority/Manhattan and Bronx Surface Transit Operating Authority – In March 2015, the MTA reached an agreement with the Transport Workers Union, Local 106 (“TSO”), Career and Salary Unit covering approximately 70 clerical employees in MaBSTOA. This agreement has a term of approximately 88 months covering the period from December 18, 2009 through April 17, 2017, and is consistent with the TWU, Local 100 bargaining pattern for the 2012-2017 round of bargaining. The contract was approved by the MTA Board on March 25, 2015.

Staten Island Rapid Transit Operating Authority – In March 2015, the MTA reached an agreement with the Transportation Communications Union (“TCU”), representing approximately twenty two (22) station cleaners, clerks, agents and stock workers. This agreement has a term of approximately seventy eight (78) months from June 16, 2010 through December 16, 2016, and is consistent with the LIRR Labor Coalition agreements with regard to both structure and cost. The contract was ratified by the MTA Board on March 25, 2015.

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

CONSOLIDATED INTERIM STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2015 AND CONSOLIDATED STATEMENT
OF NET POSITION AS OF DECEMBER 31, 2014
(\$ In millions)

	September 30, 2015 (Unaudited)	December 31, 2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 464	\$ 311
Unrestricted investments (Note 3)	3,145	2,966
Restricted investment (Note 3)	2,506	1,107
Restricted investments held under capital lease obligations (Notes 3 and 9)	2	4
Receivables:		
Station maintenance, operation, and use assessments	81	122
State and regional mass transit taxes	916	135
Mortgage Recording Tax receivable	44	39
State and local operating assistance	148	8
Other receivable from New York City and New York State	250	260
Connecticut Department of Transportation	-	17
Due from Build America Bonds	3	1
Due from Nassau County for Long Island Bus	-	14
Capital project receivable from federal and state government	153	159
Other	270	330
Less allowance for doubtful accounts	(21)	(37)
Total receivables — net	<u>1,844</u>	<u>1,048</u>
Materials and supplies	585	519
Advance to defined benefit pension trust	392	448
Prepaid expenses and other current assets (Note 2)	<u>163</u>	<u>194</u>
Total current assets	<u>9,101</u>	<u>6,597</u>
NON-CURRENT ASSETS:		
Capital assets (Note 6):		
Land and construction work-in-progress	14,660	12,197
Other capital assets (net of depreciation)	46,001	46,863
Unrestricted investments (Note 3)	70	70
Restricted investments (Note 3)	342	350
Restricted investment held under capital lease obligations (Notes 3 and 9)	458	450
Other non-current receivables	503	571
Receivable from New York State	222	257
Other non-current assets	<u>180</u>	<u>207</u>
Total non-current assets	<u>62,436</u>	<u>60,965</u>
TOTAL ASSETS	<u>71,537</u>	<u>67,562</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decreases in fair value of derivative instruments (Note 8)	560	531
Loss on debt refunding	<u>537</u>	<u>535</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>1,097</u>	<u>1,066</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 72,634</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 STATEMENT OF NET POSITION AS OF SEPTEMBER 30, 2015 AND CONSOLIDATED STATEMENT OF NET POSITION AS OF DECEMBER 31, 2014

(\$ In millions)

	September 30, 2015 (Unaudited)	December 31, 2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 440	\$ 437
Accrued expenses:		
Interest	555	211
Salaries, wages and payroll taxes	257	374
Vacation and sick pay benefits	858	838
Current portion — retirement and death benefits	546	384
Current portion — estimated liability from injuries to persons (Note 11)	397	413
Other	902	1,036
Total accrued expenses	3,515	3,256
Current portion — long-term debt (Note 8)	1,834	983
Current portion — obligations under capital lease (Note 9)	9	10
Current portion — pollution remediation projects (Note 13)	24	25
Derivative fuel hedge liability (Note 14)	36	48
Unearned revenues	649	514
Total current liabilities	6,507	5,273
NON-CURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 11)	2,425	2,096
Post employment benefits other than pensions (Note 5)	13,658	12,066
Long-term debt (Note 8)	35,264	34,160
Obligations under capital leases (Note 9)	507	505
Pollution remediation projects (Note 13)	76	74
Contract retainage payable	285	296
Derivative liabilities (Note 8)	459	431
Derivative liabilities with off market elements (Note 8)	108	108
Other long-term liabilities	300	302
Total non-current liabilities	53,082	50,038
Total liabilities	59,589	55,311
DEFERRED INFLOWS OF RESOURCES:		
Gain on debt refunding	33	35
TOTAL DEFERRED INFLOWS OF RESOURCES	33	35
NET POSITION:		
Net investment in capital assets	23,028	22,944
Restricted for debt service	1,400	434
Restricted for claims	168	167
Restricted for other purposes (Note 2)	1,088	1,011
Unrestricted	(12,672)	(11,274)
Total net position	13,012	13,282
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 72,634	\$ 68,628

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 SEPTEMBER 30, 2015 AND 2014

(\$ In millions)

	September 30, 2015	September 30, 2014
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	\$ 4,404	\$ 4,261
Vehicle toll revenue	1,343	1,253
Rents, freight, and other revenue	454	433
Total operating revenues	6,201	5,947
OPERATING EXPENSES:		
Salaries and wages	4,047	4,043
Retirement and other employee benefits	2,339	2,067
Postemployment benefits other than pensions (Note 5)	1,995	1,892
Electric power	373	404
Fuel	134	211
Insurance	36	41
Claims	251	152
Paratransit service contracts	284	271
Maintenance and other operating contracts	361	350
Professional service contracts	234	154
Pollution remediation projects (Note 13)	4	5
Materials and supplies	406	389
Depreciation	1,719	1,694
Other	142	120
Total operating expenses	12,325	11,793
Net expenses/(recoverables) related to asset impairment (Note 7)	3	(2)
OPERATING LOSS	(6,127)	(5,844)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	397	510
Metropolitan Mass Transportation Operating Assistance subsidies	1,564	1,566
Payroll Mobility Tax subsidies	1,194	1,156
MTA Aid Trust Account subsidies	211	225
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	325	262
Urban Tax subsidies	759	547
Other subsidies:		
New York State Service Contract subsidy	7	9
Operating Assistance - 18-B program	376	376
Build America Bond subsidy	47	47
Other Aid	-	1
Total grants, appropriations, and taxes	\$ 4,880	\$ 4,699

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

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

PERIODS ENDED SEPTEMBER 30, 2015 AND 2014

(\$ In millions)

	September 30, 2015	September 30, 2014
	(Unaudited)	
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 91	\$ 100
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(4)
Interest on long-term debt	(1,058)	(1,032)
Station maintenance, operation and use assessments	120	123
Operating subsidies recoverable from NYC	329	319
Other net non-operating expenses	31	45
Federal Transit Authority/Federal Emergency Management Agency reimbursement related to tropical storm Sandy	-	9
Change in fair value of derivative financial instruments (Note 8)	1	-
Net non-operating revenues	4,390	4,259
LOSS BEFORE APPROPRIATIONS	(1,737)	(1,585)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	1,467	1,373
CHANGE IN NET POSITION	(270)	(212)
NET POSITION— Beginning of period	13,282	14,205
NET POSITION — End of period	\$ 13,012	\$ 13,993
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 SEPTEMBER 30, 2015 AND 2014

(\$ In millions)

	September 30, 2015	September 30, 2014
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 6,032	\$ 5,721
Rents and other receipts	270	303
Payroll and related fringe benefits	(6,418)	(6,169)
Other operating expenses	<u>(2,312)</u>	<u>(2,378)</u>
Net cash used by operating activities	<u>(2,428)</u>	<u>(2,523)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	4,433	4,108
Operating subsidies from CDOT	101	74
Subsidies paid to Dutchess, Orange, and Rockland Counties	<u>(5)</u>	<u>(6)</u>
Net cash provided by noncapital financing activities	<u>4,529</u>	<u>4,176</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	3,219	1,953
MTA Bridges and Tunnels bond proceeds	814	332
MTA bonds refunded/reissued	(1,249)	(539)
TBTA bonds refunded/reissued	(610)	(66)
MTA anticipation notes proceeds	2,847	2,045
MTA anticipation notes redeemed	(2,394)	(1,939)
MTA credit facility repayment	(300)	-
Capital lease payments and terminations	(1)	(2)
Grants and appropriations	1,441	1,487
Payment for capital assets	(3,208)	(3,255)
Debt service payments	<u>(1,069)</u>	<u>(953)</u>
Net cash used by capital and related financing activities	<u>(510)</u>	<u>(937)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(20,811)	(5,818)
Sales or maturities of long-term securities	21,005	4,053
Net (purchases)/sales or maturities of short-term securities	(1,647)	1,016
Earnings on investments	<u>15</u>	<u>22</u>
Net cash used by investing activities	<u>(1,438)</u>	<u>(727)</u>
NET INCREASE/(DECREASE) IN CASH	153	(11)
CASH — Beginning of period	<u>311</u>	<u>358</u>
CASH — End of period	<u>\$ 464</u>	<u>\$ 347</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 SEPTEMBER 30, 2015 AND 2014

(\$ In millions)

	September 30, 2015	September 30, 2014
	(Unaudited)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (6,127)	\$ (5,844)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,719	1,694
Loss on asset impairment related expenses and recovery	3	-
Net increase in payables, accrued expenses, and other liabilities	1,962	1,694
Net (decrease) increase in receivables	(34)	91
Net increase (decrease) in materials and supplies and prepaid expenses	<u>49</u>	<u>(158)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (2,428)</u>	<u>\$ (2,523)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital assets and related liabilities	\$ 486	\$ 785
Capital leases and related liabilities	<u>516</u>	<u>501</u>
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,002</u>	<u>\$ 1,286</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 SEPTEMBER 30, 2015 AND DECEMBER 31, 2014 AND FOR PERIODS ENDED SEPTEMBER 30, 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 September 30, 2015 and 2014 totaled \$4.9 billion and \$4.7 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.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of GASB Statement No. 73, extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement also clarifies the application of certain provisions of Statement Nos. 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts

reported. 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions. 3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of Statement No. 74 includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB*. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures.

For defined benefit OPEB, Statement No. 75, identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specified criteria and for employers whose employees are provided with defined contribution OPEB. This Statement also addresses certain circumstances in which a nonemployer entity provides financial support for OPEB of employees of another entity. In this Statement, distinctions are made regarding the particular requirements depending upon whether the OPEB plans through which the benefits are provided are administered through trusts that meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, the OPEB plan administrator, and the plan members. The requirements of this Statement are effective for fiscal years beginning after June 15, 2017.

The MTA has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The MTA has not completed the process of evaluating the impact of Statement No. 77, *Tax Abatement Disclosures*. Financial statements prepared by state and local governments in conformity with generally accepted accounting principles provide citizens and taxpayers, legislative and oversight bodies, municipal bond analysts, and others with information they need to evaluate the financial health of governments, make decisions, and assess accountability. This information is intended, among other things, to assist these users of financial statements in assessing (1) whether a government’s current-year revenues were sufficient to pay for current-year services (known as interperiod equity), (2) whether a government complied with finance-related legal and contractual obligations, (3) where a government’s financial resources come from and how it uses them, and (4) a government’s financial position and economic condition and how they have changed over time. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue raising capacity resulting from government programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens.

Tax abatements are widely used by state and local governments, particularly to encourage economic development. For financial reporting purposes, this Statement defines a tax abatement as resulting from an agreement between a government and an individual or entity in which the government promises to forgo tax revenues and the individual or entity promises to subsequently take a specific action that contributes to economic development or otherwise benefits the government or its citizens. Although many governments offer tax abatements and provide information to the public about them, they do not always provide the information necessary to assess how tax abatements affect their financial position and results

of operations, including their ability to raise resources in the future. This Statement requires disclosure of tax abatement information about (1) a reporting government's own tax abatement agreements and (2) those that are entered into by other governments and that reduce the reporting government's tax revenues. The requirements of this Statement are effective for periods beginning after December 15, 2015.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of GASB Statement No. 78 is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of GASB Statement No. 78, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for periods beginning after December 15, 2015.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by Statement No. 79, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning

after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

Use of Management Estimates — The preparation of the consolidated interim 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 consolidated interim 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 September 30th or December 31st 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 consolidated interim statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at September 30, 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 September 30, 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 September 30, 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 September 30, 2015, the MTA paid to Dutchess, Orange and Rockland Counties the 2014 excess amounts of MRT-1 and MRT-2 totaling \$5.0.

- 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), SIRTOA 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, 2015 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 \$4.1 and \$2.1 in the nine months ended September 30, 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 September 30, 2015 and 2014 were \$10.3 and \$10.1, respectively. The amounts recovered for the periods ended September 30, 2015 and 2014 were approximately \$6.7 and \$6.5, 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 \$159.0 and \$145.1 for the periods ended September 30, 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 September 30, 2015, the balance of the assets in this program was \$98.2.

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, 2015, 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 \$220.1 within the overall \$600 property program, as follows: \$11.64 (or 23.28%) of the \$50 layer excess of the primary \$150 layer, plus \$45.5 (or 45.5%) of the \$100 layer excess of \$250, plus \$87.5 (or 58.33%) of \$150 excess of \$350, plus 35.5 (or 71%) of the \$50 layer excess of \$500, plus \$40.5 (or 81%) of \$50 layer excess of \$550.

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 in 2015 and 84% of “certified” losses in 2016, as covered by the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) of 2015. Acts of terrorism sponsored by both foreign and domestic organizations are covered. The remaining 15% (2015) and 16% (2016) of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. No federal compensation will be paid unless the aggregate industry insured losses exceed a trigger of \$100 in 2015 and \$120 in 2016. The United States government’s reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the 2015 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 \$161.25 for any one occurrence and in the annual aggregate during 2015 and 16% of any "certified" act of terrorism up to a maximum recovery of \$172.0 for any one occurrence and in the annual aggregate during 2016, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the "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 during 2015 or 100% of any "certified" terrorism loss which exceeds \$5 and less than the \$120 TRIPRA trigger up to a maximum recovery of \$120 for any occurrence and in the annual aggregate during 2016.

Additionally, MTA self-insures for coverage for Acts of Terrorism which are not certified under TRIPRA to a maximum of \$161.25 in 2015 and \$172.0 in 2016. These coverages expire at midnight on May 1, 2016.

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 Nos. 67 and 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 No. 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 September 30, 2015 and December 31, 2014 (in millions):

	September 30, 2015		December 31, 2014	
	Carrying Amount (Unaudited)	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 172	\$ 168	\$ 157	\$ 152
Uninsured and not collateralized	<u>292</u>	<u>240</u>	<u>154</u>	<u>99</u>
	<u>\$ 464</u>	<u>\$ 408</u>	<u>\$ 311</u>	<u>\$ 251</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 September 30, 2015 and December 31, 2014 (in millions):

	September 30, 2015 (Unaudited)	December 31, 2014
Repurchase agreements	\$ 107	\$ 94
Commercial paper	2,487	1,584
Federal Agencies due 2015	960	828
U.S. Treasuries due 2015-2021	2,146	1,592
Investments restricted for capital lease obligations:		
U.S. Treasury Notes due 2015 - 2033	\$ 201	\$ 201
Short-term investment fund	77	77
Federal Agencies due 2015 - 2034	40	40
Other Agencies due 2030	<u>142</u>	<u>136</u>
Sub-total	<u>460</u>	<u>454</u>
Other Agencies due 2015-2030	105	108
Asset and mortgage backed securities*	28	25
Commercial mortgage backed securities*	48	62
Corporate bonds*	149	160
Foreign bonds*	15	20
Equities*	<u>18</u>	<u>20</u>
Total	<u>\$ 6,523</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 0.12% and 0.12% for the nine months ended September 30, 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 September 30, 2015 and December 31, 2014 (in millions):

	September 30, 2015 (Unaudited)	December 31, 2014
Construction or acquisition of capital assets	\$ 2,661	\$ 2,265
Funds received from affiliated agencies for investment	1,018	779
Debt service	1,401	434
Payment of claims	720	582
Restricted for capital leases	460	454
Other	576	528
	<u>6,836</u>	<u>5,042</u>
Unrestricted funds	151	216
Total cash and investments	<u>\$ 6,987</u>	<u>\$ 5,258</u>

Credit Risk — At September 30, 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	September 30, 2015 (Unaudited)	Percent of Portfolio	December 31, 2014	Percent of Portfolio
A-1+	\$ 961	15 %	\$ 828	17 %
A-1	2,487	39	1,584	33
AAA	109	2	120	3
AA+	40	1	40	1
AA	29	-	34	1
A	89	1	100	2
BBB	52	1	55	1
Not rated	115	2	100	2
U.S. Government	<u>2,432</u>	<u>39</u>	<u>1,876</u>	<u>40</u>
Total	6,314	100 %	4,737	100 %
Equities and capital leases	<u>209</u>		<u>210</u>	
Total investment	<u>\$ 6,523</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	September 30, 2015		December 31, 2014	
	Fair Value (Unaudited)	Duration	Fair Value	Duration
U.S. Treasuries	\$ 2,146	4.75	\$ 1,592	4.82
Federal Agencies	960	0.05	828	0.08
Other Agencies	99	4.10	102	4.32
Tax benefits lease investments	267	9.95	261	10.69
Repurchase agreement	107	-	94	-
Certificate of deposits	6	-	6	-
Commercial paper	2,487	-	1,584	-
Asset-backed securities ⁽¹⁾	28	1.07	25	0.99
Commercial mortgage-backed securities ⁽¹⁾	48	1.45	62	1.64
Foreign bonds ⁽¹⁾	15	-	20	-
Corporates ⁽¹⁾	149	3.03	160	2.46
Total fair value	6,312		4,734	
Modified duration		2.20		2.43
Equities ⁽¹⁾	18		20	
Total	6,330		4,754	
Investments with no duration reported	193		193	
Total investments	\$ 6,523		\$ 4,947	

⁽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 makes additional contributions based on actuarially determined amounts 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>\$ (337.7)</u>	<u>\$ (43.9)</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 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 certain non-represented employees who were formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and June 30, 1983, and who were still employed as of December 31, 1988. Effective January 1, 1989, these management employees became 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") Pension 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 provides that the MaBSTOA Board has the authority to establish and amend the benefit provisions. 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 New York City Transit Authority, Office of the Comptroller, 2 Broadway, 15th Floor, New York, New York, 10004.

Funding Policy — MaBSTOA's funding policy requires periodic employer contributions which are actuarially determined amounts 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. The MaBSTOA Plan has both contributory and noncontributory requirements for employees, depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 make no contributions. 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 also contribute 1.85% in addition to their 3% contributions, if required. Effective October 1, 2000, certain employees hired after July 27, 1976 but 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 who became members between April 1, 2012 and March 31, 2013 were required to contribute 3% for the first plan year (although certain employees contribute 2%). Beginning April 1, 2013, the contribution rates for all such members ranges from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MaBSTOA's contribution rate is 40.3% of annual covered payroll. MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2014, 2013 and 2012 were \$226.4, \$234.5 and \$228.9, respectively, equal to the annual required contributions for each year.

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

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

Three-Year Trend Information

(In millions)

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

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

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

Funded Status and Funding Progress — As of January 1, 2014, the most recent actuarial valuation date, the MaBSTOA Plan was 70.1% funded. The actuarial accrued liability for benefits was \$2,892.5 and the actuarial value of assets \$2,028.0, resulting in an unfunded actuarial accrued liability ("UAAL") of \$864.6.

The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was \$616.4, and the ratio of the UAAL to the covered payroll was 140.3%.

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

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

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

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

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

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

Cost-Sharing Multiple-Employer Plans

MTA Defined Benefit Plan

Plan Description — The MTA Defined Benefit Pension Plan (the “MTA Plan” or the “Plan”) is a cost sharing multiple-employer pension plan. The Plan covers 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 programs 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 employee contributions made to the Plan:

The MTA Plan was effective as of January 1, 1994. 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 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 as if 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 specified rates. Police Officers who become participants on or after January 9, 2010 but before April 1, 2012 contribute 3% up to the completion of 32 years of service, the maximum amount of service credit allowed. Police Officers who become participants 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 earned wages, 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 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, or fifteen years of credited service, depending on applicable collective bargaining agreement. 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. A 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 were 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 who worked 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 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 and other requirements. NYCERS 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 employees who became members after July 27, 1976, but before April 1, 2012 contribute 1.85% in addition to their 3% contributions, and a small group of such employees contribute 4.83%, 5.5% or 6% in addition to the 3% contributions. 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 who became members between April 1, 2012 and March 31, 2013 contribute 3% for the first plan year (although certain MTA New York City Transit employees contribute 2%). Beginning April 1, 2013, the contribution rate ranges from 3.0%, 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service in addition to the variable rate of 3% to 6%, a small group of such employees contribute 4.83%, 5.5% or 6.0%. 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 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 who became members on or after April 1, 2012 contribute 3%, with new rates commencing in April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service. MTAHQ, 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. MTA Long Island Bus 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 open 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 contribute from 3%, 3.5%, 4.5%, 5.75%, to 6%, depending on actual wages, and their employer contributes 8% for all years in which they remain as active employees. For their first year of participation, such employees 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 participant charges, including investment and other fees, pay for the administrative cost of running the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. 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. Pursuant Internal Revenue Code ("Code") Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive benefit of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 457 Plan, and all income attributable to such compensation, less expenses and fees, are in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 457 Plan is 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 Code. The 401(k) Plan remained dormant until 1988 when an IRS ruling "grandfathered" the plan under the Tax Reform Act of 1986. Participation in the 401(k) Plan is now available to non-represented employees and,

after collective bargaining most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, less expenses and fees, are in trust for the exclusive benefit 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 greater 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 restructured to set up a four tier strategy:

- Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available as separate investments 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 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. Participants may invest only a portion of their account balances in this Tier.

In 2011, the Deferred Compensation Program offered 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 year 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 Long Island Bus, former employees) of:

- MTA
- 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%

As a result of collective bargaining, these members were offered a one-time opportunity to opt-out of the matching contributions and employer basic contributions and, instead, participate in the MTA Defined Benefit Pension Plan. No further matching or employer basic contributions will be made for those who make such election.

MTA Metro-North Railroad - 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 contribution 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 contributes 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. Members are immediately 100% vested in these employer contributions. In addition, for each plan year, the MTA shall make a monthly contribution of \$125 to the account of each eligible member represented by the Commanding Officers Association. 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. Under certain conditions, both Plans accept rollovers 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 and Galliard Capital Management; separate accounts are managed by Denver Investment Advisors Conestoga Capital Advisors and TCW-Metropolitan West Asset Management. Financial Advisor Mercer reviews the investment policies as stipulated by the Investment Committee, the Plans' portfolios 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. 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 Number 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 Number 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 periods ended September 30, 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)	September 30, 2015 (Unaudited)	December 31, 2014
Period/Annual required contribution ("ARC")	\$ 2,509.8	\$ 3,092.9
Interest on net OPEB obligation	339.3	376.0
Adjustment to ARC	<u>(854.0)</u>	<u>(946.0)</u>
OPEB cost	1,995.1	2,522.9
Payments made	<u>(403.4)</u>	<u>(483.7)</u>
Increase in net OPEB obligation	1,591.7	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>\$ 13,658.0</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. Changes in capital assets for the year ended December 31, 2014 and period ended September 30, 2015 (in millions) are as follows:

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014	Additions (Unaudited)	Deletions (Unaudited)	Balance September 30, 2015 (Unaudited)
Capital assets not being depreciated:							
Land	\$ 174	\$ 25	\$ -	\$ 199	\$ 9	\$ -	\$ 208
Construction work-in-progress	<u>11,490</u>	<u>4,553</u>	<u>4,045</u>	<u>11,998</u>	<u>3,485</u>	<u>1,031</u>	<u>14,452</u>
Total capital assets not being depreciated	<u>11,664</u>	<u>4,578</u>	<u>4,045</u>	<u>12,197</u>	<u>3,494</u>	<u>1,031</u>	<u>14,660</u>
Capital assets being depreciated:							
Buildings and structures	16,142	631	-	16,773	215	8	16,980
Bridges and tunnels	2,325	202	-	2,527	-	-	2,527
Equipment:							
Passenger cars and locomotives	13,365	473	38	13,800	106	54	13,852
Buses	2,683	34	-	2,717	232	-	2,949
Infrastructure	19,412	890	10	20,292	269	4	20,557
Other	<u>16,401</u>	<u>1,842</u>	<u>16</u>	<u>18,227</u>	<u>35</u>	<u>5</u>	<u>18,257</u>
Total capital assets being depreciated	<u>70,328</u>	<u>4,072</u>	<u>64</u>	<u>74,336</u>	<u>857</u>	<u>71</u>	<u>75,122</u>
Less accumulated depreciation:							
Buildings and structures	5,362	442	-	5,804	328	4	6,128
Bridges and tunnels	473	23	-	496	18	-	514
Equipment:							
Passenger cars and locomotives	5,672	438	38	6,072	310	49	6,333
Buses	1,373	186	-	1,559	146	(4)	1,709
Infrastructure	6,893	618	10	7,501	470	4	7,967
Other	<u>5,490</u>	<u>559</u>	<u>8</u>	<u>6,041</u>	<u>447</u>	<u>18</u>	<u>6,470</u>
Total accumulated depreciation	<u>25,263</u>	<u>2,266</u>	<u>56</u>	<u>27,473</u>	<u>1,719</u>	<u>71</u>	<u>29,121</u>
Total capital assets being depreciated — net	<u>45,065</u>	<u>1,806</u>	<u>8</u>	<u>46,863</u>	<u>(862)</u>	<u>-</u>	<u>46,001</u>
Capital assets — net	<u>\$ 56,729</u>	<u>\$ 6,384</u>	<u>\$ 4,053</u>	<u>\$ 59,060</u>	<u>\$ 2,632</u>	<u>\$ 1,031</u>	<u>\$ 60,661</u>

Interest capitalized in conjunction with the construction of capital assets for the period ended September 30, 2015 and for the year ended December 31, 2014, was \$33.6 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 September 30, 2015 and December 31, 2014, these securities totaled \$95.6 and \$89.0, respectively, had a market value of \$91.8 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 September 30, 2015 and September 30, 2014 are \$723 and \$722, respectively, of which \$0 and (\$2) were incurred during the first nine months ended September 30, 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 \$468 and \$631 as of September 30, 2015 and June 30, 2014, respectively. 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 periods ended September 30, 2015 and September 30, 2014, MTA received \$188 and \$355, respectively 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 September 30, 2015.

8. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2014	Issued (Unaudited)	Retired (Unaudited)	Refunded (Unaudited)	September 30, 2015 (Unaudited)
MTA:						
Transportation Revenue Bonds						
2.00%–5.50% due through 2046	\$ 28,296	\$ 19,556	\$ 2,957	\$ -	\$ 1,292	\$ 21,221
Bond Anticipation Notes						
2.0% due through 2015	300	300	1,000	300	-	1,000
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	-	69	-	217
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>3,957</u>	<u>919</u>	<u>1,292</u>	<u>27,513</u>
Net unamortized bond discount and premium		<u>419</u>	<u>264</u>	<u>188</u>	<u>(37)</u>	<u>532</u>
		<u>26,186</u>	<u>4,221</u>	<u>1,107</u>	<u>1,255</u>	<u>28,045</u>
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2038	\$ 11,846	6,665	1,042	28	817	6,862
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>1,100</u>	<u>147</u>	<u>875</u>	<u>8,474</u>
Net unamortized bond discount and premium		<u>561</u>	<u>30</u>	<u>12</u>	<u>-</u>	<u>579</u>
		<u>8,957</u>	<u>1,130</u>	<u>159</u>	<u>875</u>	<u>9,053</u>
Total		<u>\$ 35,143</u>	<u>\$ 5,351</u>	<u>\$ 1,266</u>	<u>\$ 2,130</u>	<u>\$ 37,098</u>
Current portion		<u>(983)</u>				<u>(1,834)</u>
Long-term portion		<u>\$ 34,160</u>				<u>\$ 35,264</u>

(In millions)	Original Issuance	December 31, 2013	Issued	Retired	Refunded	December 31, 2014
MTA:						
Transportation Revenue Bonds						
2.00%–5.50% due through 2046	\$ 25,710	\$ 18,278	\$ 2,586	\$ 622	\$ 686	\$ 19,556
Bond Anticipation Notes						
2.0% due through 2015	-	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	346	-	60	-	286
Dedicated Tax Fund Bonds						
3.00%–7.34% due through 2041	8,459	5,128	419	138	419	4,990
Certificates of Participation						
4.40%–5.75% due through 2030	807	96	-	11	-	85
	<u>\$ 38,271</u>	<u>24,698</u>	<u>3,005</u>	<u>831</u>	<u>1,105</u>	<u>25,767</u>
Net unamortized bond discount and premium		<u>446</u>	<u>163</u>	<u>190</u>	<u>-</u>	<u>419</u>
		<u>25,144</u>	<u>3,168</u>	<u>1,021</u>	<u>1,105</u>	<u>26,186</u>
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2038	\$ 11,427	6,602	419	187	169	6,665
Subordinate Revenue Bonds						
4.00%–5.77% due through 2032	3,810	1,690	148	59	148	1,631
General Revenue Anticipation Notes						
5.0% due through 2015	100	-	100	-	-	100
	<u>\$ 15,337</u>	<u>8,292</u>	<u>667</u>	<u>246</u>	<u>317</u>	<u>8,396</u>
Net unamortized bond discount and premium		<u>552</u>	<u>23</u>	<u>14</u>	<u>-</u>	<u>561</u>
		<u>8,844</u>	<u>690</u>	<u>260</u>	<u>317</u>	<u>8,957</u>
Total		<u>\$ 33,988</u>	<u>\$ 3,858</u>	<u>\$ 1,281</u>	<u>\$ 1,422</u>	<u>\$ 35,143</u>
Current portion		<u>(884)</u>				<u>(983)</u>
Long-term portion		<u>\$ 33,104</u>				<u>\$ 34,160</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. 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.

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 July 10, 2015, Moody's Investor Service upgraded MTA Transportation Revenue Bonds to 'A1' from 'A2,' with a stable outlook. The report noted the upgrade to the A1 rating primarily reflects trends of improvement over recent years in MTA's operating environment, including strong service area economic growth and strengthened financial condition of supporting governments. The upgrade also reflects MTA's growing ridership, recent history of stable financial performance, strong budget management, governance, and planning and incorporates bondholder protections provided by the gross pledge of a diversified revenue stream under the Transportation Revenue Resolution.

On July 24, 2015, MTA priced \$550 million of MTA Transportation Revenue Refunding Bonds, Series 2015C to refund a portion of the MTA Transportation Revenue Bonds, Series 2005A, Series 2005B and Series 2005F that was issued by MTA for transit and commuter projects.

On August 20, 2015, MTA priced \$407.695 million of MTA Transportation Revenue Refunding Bonds, Series 2015D to refund the remaining portions of the MTA Transportation Revenue Bonds, Series 2005A, Series 2005B and Series 2005F that were issued by MTA for transit and commuter projects, but not previously refunded by MTA Transportation Revenue Refunding Bonds, Series 2015C.

On August 27, 2015, MTA effectuated a mandatory tender and remarketed \$100 million of MTA Transportation Revenue Variable Rate Bonds, Subseries 2005E-1 and \$75 million of MTA Transportation Revenue Variable Rate Bonds, Subseries 2005E-3 because their existing direct-pay letter of credits issued by Bank of America, N.A. and PNC Bank, National Association, respectively, were expiring by their respective terms and was replaced with an irrevocable direct-pay letter of credit issued by The Bank of Montreal. The letter of credit is scheduled to expire on August 24, 2018. The Subseries 2005E-1 and 2005E-3 bonds will both remain as a variable interest rate obligation in daily and weekly modes, respectively.

On September 10, 2015, MTA issued \$650 million MTA Transportation Revenue Variable Rate Bonds, Series 2015E to retire \$550 million Transportation Revenue Bond Anticipation Notes, Series CP-2 Credit Enhanced and to generate \$100 million new money proceeds to finance existing approved transit and commuter projects.

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

On June 25, 2015, MTA issued \$500 of MTA Transportation Revenue Bond Anticipation Notes, Series 2015A to finance existing approved transit and commuter projects. The Series 2015A Notes were issued as fixed rate tax-exempt notes with a final maturity of March 1, 2016.

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.

On July 31, 2015, Fitch Ratings upgraded MTA Dedicated Tax Fund Bonds to 'AA' from 'AA-', with a stable outlook. The report noted the upgrade to the AA rating primarily reflects Fitch's view that the state's long history of support for the MTA generally and for the DTF bonds in particular warrants a rating at a level one notch below New York State's 'AA+' general obligation rating, which is on par with other appropriation debt of the state.

On September 17, 2015, MTA issued \$500 million of MTA Dedicated Tax Fund Bond Anticipation Notes ("BANs"), Series 2015A to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2015A BANs have a final maturity of June 1, 2016, and are rated SP-1+ and F1+ by Standard and Poor's and Fitch Ratings, respectively.

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 2015, 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.

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.

On July 1, 2015, MTA effectuated a mandatory tender and remarketed \$193.1 million of TBTA General Revenue Rate Refunding Bonds, Subseries 2005B-3, because its existing standby bond purchase agreement issued by Bank of America, N.A. expired by its terms, and was replaced with an irrevocable direct-pay letter of credit issued by The Bank of Tokyo-Mitsubishi UFJ, Ltd. The letter of credit is scheduled to expire on June 29, 2018. The Subseries 2005B-3 bonds will remain as a variable interest rate obligation in weekly mode.

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 September 30, 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)	September 30, 2015 (Unaudited)	December 31, 2014
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 219	\$ 229
Commuter Facilities Revenue Bonds	230	246
Transit and Commuter Facilities Service Contract Bonds	128	198
Dedicated Tax Fund Bonds	325	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>\$ 2,066</u>	<u>\$ 2,307</u>

Debt Service Payments — Future principal and interest debt service payments at September 30, 2015 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal (Unaudited)	Interest	Principal (Unaudited)	Interest	Principal (Unaudited)	Interest
2015	\$ 1,644	\$ 1,346	\$ 190	\$ 199	\$ 1,834	\$ 1,545
2016	638	1,305	272	371	910	1,676
2017	753	1,266	285	358	1,038	1,624
2018	804	1,235	319	345	1,123	1,580
2019	753	1,205	331	331	1,084	1,536
2020-2024	4,275	5,447	1,744	1,421	6,019	6,868
2025-2029	5,429	4,258	2,151	1,032	7,580	5,290
2030-2034	5,966	2,829	1,839	692	7,805	3,521
2035-2039	4,761	1,516	1,090	189	5,851	1,705
Thereafter	2,490	421	252	53	2,742	474
	<u>\$ 27,513</u>	<u>\$ 20,828</u>	<u>\$ 8,473</u>	<u>\$ 4,991</u>	<u>\$ 35,986</u>	<u>\$ 25,819</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
- *Transportation Revenue Bonds, Series 2015E* — 4.00% per annum
- *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 4.00% 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 may accrue 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 accruals or payments were made during the period/year ended September 30, 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	Bank of Montreal	LOC	8/24/2018
Transportation Revenue	2005E-2	Y	Royal Bank of Canada	LOC	12/15/2017
Transportation Revenue	2005E-3	Y	Bank of Montreal	LOC	8/24/2018
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	Bank of Tokyo Mitsubishi	SBPA	8/17/2018
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 Tokyo Mitsubishi	LOC	6/29/2018

The fair value balances and notional amounts of derivative instruments outstanding at September 30, 2015, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2014 are as follows:

Derivative Instruments

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

Summary Information at September 30, 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 9/30/2015 (Unaudited) (in millions)	Fair Value as of 9/30/2015 (Unaudited) (in millions)
Investment Swaps	2 Broadway Certificate of Participation	2004A	Pay-Fixed Swap	N/a	N/a	8/10/2004	\$84.675	(\$7.212)
Hedging Swaps	MTA Transportation Revenue Bonds	2002D-2	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(82.692)
	MTA Transportation Revenue Bonds	2012G	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	12/12/2007	358.175	(104.506)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	193.100	(39.717)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	579.300	(119.152)
	MTA Transportation Revenue Bonds	2005D & 2005E	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	9/10/2004	400.000	(94.488)
	MTA Dedicated Tax Fund Bonds	2008A	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	3/8/2005	332.995	(65.983)
	MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	169.070	(22.420)
	MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	35.835	(17.965)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	23.520	(4.637)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	76.150	(8.156)
Total							\$ 2,452.820	\$ (566.928)

	Changes In Fair Value		Fair Value at September 30, 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	(\$28.915)	Debt	(\$559.716)
				\$2,368.145
Investment hedges:				
Pay-fixed interest rate swaps	Unrealized investment gain	0.936	Debt	(7.212)
				84.675

For the nine month period ended September 30, 2015, the MTA recorded \$0.936 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 nine month period ended September 30, 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 under GASB Statement No. 53. Of that total, thirteen (13) hedging relationships were deemed effective using one of the acceptable 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 (September 30, 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 9/30/15 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 9/30/15 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	\$200.000	01/01/07	4.450 %	69% of one-month LIBOR ⁽¹⁾	\$(82.692)	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	(22.420)	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⁾	(70.863)	11/01/35	UBS AG
Series 2005E-1,2,3	100.000	11/02/05	3.561	67% of one-month LIBOR ⁽¹⁾	(23.625)	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	(17.965)	01/01/30	UBS AG
Series 2012G ⁽³⁾	358.175	11/15/12	3.563	67% of one-month LIBOR ⁽¹⁾	(104.506)	11/01/32	JPMorgan Chase Bank, NA
Total	\$1,163.080				\$ (322.071)		

⁽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 9/30/15 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 9/30/15 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2008A ⁽⁴⁾⁽⁵⁾	\$332.995	03/24/05	3.316%	67% of one-month LIBOR ⁽¹⁾	\$ (65.983)	11/01/31	Bank of New York Mellon ⁽⁶⁾
Total	\$332.995				\$ (65.983)		

⁽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 9/30/15 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 9/30/15 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002F ⁽⁶⁾	\$193.100	07/07/05	3.076%	67% of one-month LIBOR ⁽¹⁾	\$ (39.717)	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	(4.637)	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⁾	(119.152)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$795.920				\$ (163.506)		

⁽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 9/30/2015 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 9/30/2015 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD ⁽⁷⁾⁽⁸⁾	\$76.150	01/01/01	6.080%	SIFMA – 15 bp ⁽¹¹⁾	\$ (8.156)	01/01/19	JPMorgan Chase Bank, NA
Total	\$76.150				\$ (8.156)		

⁽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 September 30, 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 September 30, 2015, the unaudited aggregate fair value of the remaining portion associated with the 2004A COPs was (\$7.212).

Counterparty Ratings

The current ratings of the counterparties are as follows as of September 30, 2015.

Counterparty	Ratings of the Counterparty or its Credit Support Provider (Unaudited)		
	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	A1	A+
JPMorgan Chase Bank, NA	A+	Aa3	AA-
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 September 30, 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 (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 September 30, 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 Ended September 30	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	(24.2)	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 Ended September 30	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)	95.5
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 September 30, 2015, the market value of total collateral funds was \$36.8.

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 September 30, 2015, the market value of total collateral funds was \$51.9.

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 September 30, 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 under operating leases approximated \$45.0 and \$41.4 for the periods ended September 30, 2015 and 2014 respectively.

At September 30, 2015, the future minimum lease payments under non-cancelable leases are as follows (in millions):

Years	Operating (Unaudited)	Capital
2015	\$ 22	\$ 27
2016	58	34
2017	61	121
2018	61	23
2019	60	25
2020-2024	224	172
2025-2029	288	109
2030-2034	300	548
2035-2039	247	136
2040-2044	247	149
Thereafter	<u>529</u>	<u>289</u>
Future minimum lease payments	<u>\$ 2,097</u>	1,633
Amount representing interest		<u>(1,117)</u>
Total present value of capital lease obligations		<u>516</u>
Less current present value of capital lease obligations		<u>9</u>
Noncurrent present value of capital lease obligations		<u>\$ 507</u>

Capital Leases Schedule
For the Period Ended September 30, 2015
(in millions)

Description	December 31, 2014	Increase (Unaudited)	Decrease (Unaudited)	September 30, 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	1	-	41
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	4	3	106
Total MTA Capital Lease	\$ 515	\$ 5	\$ 4	\$ 516
Current Portion Obligations under Capital Lease	<u>10</u>			<u>9</u>
Long Term Portion Obligations under Capital Lease	<u>\$ 505</u>			<u>\$ 507</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 September 30, 2015 and year ended December 31, 2014 is presented below (in millions):

	September 30, 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	768	583
Claims paid	(455)	(386)
Balance — end of period/year	2,822	2,509
Less current portion	(397)	(413)
Long-term liability	<u>\$ 2,425</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 September 30, 2015 and December 31, 2014, the MTA has recognized pollution remediation liability of \$100 and \$99, respectively.

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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-three (23) active ultra-low sulfur diesel (“ULSD”) hedges:

Counterparty	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	Bank of America Merrill Lynch	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	Bank of America Merrill Lynch	Bank of America Merrill Lynch
Trade Date	10/11/2013	11/19/2013	1/29/2014	2/26/2014	3/31/2014	4/30/2014	5/15/2014	6/25/2014
Effective Date	9/1/2014	11/1/2014	12/1/2014	2/1/2015	3/1/2015	4/1/2015	7/1/2014	6/1/2015
Termination Date	9/30/2015	10/31/2015	12/31/2015	1/31/2016	2/29/2016	3/31/2016	4/30/2016	5/31/2016
Price/Gal	\$2.8215	\$2.7867	\$2.7690	\$2.8360	\$2.8065	\$2.8210	\$2.8630	\$2.9265
Original Notional Qty (\$)	15,441,167	7,636,954	15,299,678	7,892,588	7,810,490	7,850,843	12,865,827	8,644,395

Counterparty	Bank of America Merrill Lynch	J. Aron & Company	J. Aron & Company	Bank of America Merrill Lynch	Bank of America Merrill Lynch	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	Bank of America Merrill Lynch
Trade Date	7/29/2014	8/27/2014	9/24/2014	10/29/2014	11/25/2014	12/23/2014	1/29/2015	2/26/2015
Effective Date	7/1/2015	8/1/2015	4/1/2015	10/1/2015	11/1/2015	12/1/2015	1/1/2016	2/1/2016
Termination Date	6/30/2016	7/31/2016	8/31/2016	9/30/2016	10/31/2016	11/30/2016	12/31/2016	1/31/2017
Price/Gal	\$2.8645	\$2.8175	\$2.7360	\$2.5510	\$2.3950	\$2.0340	\$1.8095	\$2.0520
Original Notional Qty (\$)	8,461,232	8,322,340	8,050,125	7,487,723	7,029,766	5,970,231	5,253,199	6,017,839

Counterparty	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch
Trade Date	3/25/2015	4/29/2015	5/28/2015	6/30/2015	7/30/2015	8/27/2015	9/28/2015
Effective Date	3/1/2016	4/1/2016	5/1/2016	6/1/2016	7/1/2016	8/1/2016	9/1/2016
Termination Date	2/28/2017	3/31/2017	4/30/2017	5/31/2017	6/30/2017	7/31/2017	8/31/2017
Price/Gal	\$1.9195	\$2.0855	\$1.9970	\$2.0130	\$1.8145	\$1.6600	\$1.6950
Original Notional Qty (\$)	5,629,297	5,957,391	5,831,540	5,882,999	5,298,402	4,847,240	5,130,241

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 September 30, 2015, the (unaudited) total outstanding notional value of the ULSD contracts was 54.6 million gallons with a negative fair market value of \$36.1.

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15. OPERATING ACTIVITY INFORMATION

(In millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
For the period ended September 30, 2015 (Unaudited)						
Operating revenue	\$ 188	\$ 1,102	\$ 3,552	\$ 1,366	\$ (7)	\$ 6,201
Depreciation and amortization	63	410	1,163	83	-	1,719
Subsidies and grants	3,234	-	1,599	6	(1,440)	3,399
Tax revenue	747	-	869	-	(135)	1,481
Interagency subsidy	(587)	-	(201)	587	201	-
Operating (loss) surplus	(1,247)	(1,348)	(4,462)	929	1	(6,127)
Net surplus (deficit)	176	(3)	(577)	88	46	(270)
Payment for capital assets	3,456	206	745	270	(1,469)	3,208
September 30, 2015 (Unaudited)						
Total assets and deferred outflows						
of resources	17,357	10,675	39,117	6,165	(680)	72,634
Net working capital	3,795	300	(1,479)	489	(511)	2,594
Long-term debt — (including current portion)	28,046	-	-	9,061	(9)	37,098
Net position (deficit)	(17,095)	9,053	25,562	(4,397)	(111)	13,012
For the period ended September 30, 2015 (Unaudited)						
Net cash (used in)/provided by operating activities	(690)	(885)	(1,911)	1,064	(6)	(2,428)
Net cash provided by/(used in) noncapital financing activities	4,097	898	2,683	(553)	(2,596)	4,529
Net cash (used in)/provided by capital and related financing activities	(2,153)	1	(599)	(407)	2,648	(510)
Net cash provided by/(used in) investing activities	(1,107)	(6)	(173)	(106)	(46)	(1,438)
Cash at beginning of period	222	20	55	14	-	311
Cash at end of period	369	28	55	12	-	464

(In Millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
For the period ended September 30, 2014 (Unaudited)						
Operating revenue	\$ 187	\$ 1,048	\$ 3,443	\$ 1,269	\$ -	\$ 5,947
Depreciation and amortization	63	419	1,135	77	-	1,694
Subsidies and grants	3,216	-	1,651	6	(1,493)	3,380
Tax revenue	772	-	709	-	(162)	1,319
Interagency subsidy	505	-	173	-	(678)	-
Operating (loss) surplus	(760)	(1,517)	(4,419)	842	10	(5,844)
Net surplus (deficit)	436	(171)	(586)	75	34	(212)
Payment for capital assets	3,356	217	704	236	(1,258)	3,255
December 31, 2014						
Total assets and deferred outflow 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 September 30, 2014 (Unaudited)						
Net cash (used in)/provided by operating activities	(557)	(865)	(2,102)	1,010	(9)	(2,523)
Net cash provided by/(used in) noncapital financing activities	3,681	898	2,553	(478)	(2,478)	4,176
Net cash (used in)/provided by capital and related financing activities	(2,604)	(59)	(682)	(144)	2,552	(937)
Net cash (used in)/provided by investing activities	(549)	22	230	(365)	(65)	(727)
Cash at beginning of period	268	25	47	18	-	358
Cash at end of period	239	21	46	41	-	347

16. SUBSEQUENT EVENTS

On October 15, 2015, MTA extended direct pay letter of credit from Landesbank Hessen-Thüringen Girozentrale, New York Branch (Helaba) that is associated with Transportation Revenue Variable Rate Bonds, Series 2005D-1 for three years to November 7, 2018.

On October 28, 2015, MTA effectuated a mandatory tender and remarketed \$187.695 million of Triborough Bridge and Tunnel General Revenue Variable Rate Refunding Bonds, Series 2002F because the standby bond purchase agreement issued by Landesbank Hessen-Thüringen Girozentrale expired by its terms on November 1, 2015 and was replaced with an irrevocable direct-pay letter of credit issued by Landesbank Hessen-Thüringen Girozentrale. The letter of credit is scheduled to expire on October 27, 2018.

On October 29, 2015, MTA executed a 3,293,168 gallon ultra-low sulfur diesel fuel hedge with Goldman, Sachs & Co./ J Aron at an all-in price of \$1.710/gallon. The hedge covers the period from October 2016 through September 2017.

On November 2, 2015, MTA effectuated a mandatory tender and remarketed \$42.550 million of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002G-1g and \$125.000 million of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2012G-2 because their current interest rate periods were set to expire by their terms. Both Subseries of bonds were converted from Floating Rate Tender Notes to variable interest rate demand obligations in weekly mode each supported by separate irrevocable direct-pay letters of credit issued by TD Bank, N.A. Each letter of credit is scheduled to expire on November 1, 2018.

On November 3, 2015, MTA issued and remarketed \$65.000 million of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2015B and \$91.140 million of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2008B-3, respectively. The Series 2015B bonds were issued as fixed-rate serial and term bonds, to finance approved bridge and tunnel capital projects. The Subseries 2008B-3 Bonds were converted from term rate mode to fixed rate mode because of its approaching mandatory put date of November 15, 2015.

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 SEPTEMBER 30, 2015
(\$ in millions)
(Unaudited)

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 4,404	\$ 4,404	\$ -
Vehicle toll revenue	1,343	1,343	-
Other operating revenue	506	454	(52)
Total revenue	6,253	6,201	(52)
OPERATING EXPENSES:			
Labor:			
Payroll	3,471	3,468	(3)
Overtime	567	579	12
Health and welfare	760	764	4
Pensions	1,123	1,144	21
Other fringe benefits	485	694	209
Postemployment benefits	1,980	1,995	15
Reimbursable overhead	(274)	(263)	11
Total labor expenses	8,112	8,381	269
Non-labor:			
Electric power	373	373	-
Fuel	134	134	-
Insurance	36	36	-
Claims	183	251	68
Paratransit service contracts	284	284	-
Maintenance and other	392	361	(31)
Professional service contract	267	234	(33)
Pollution remediation project costs	5	4	(1)
Materials and supplies	406	406	-
Other business expenses	177	142	(35)
Total non-labor expenses	2,257	2,225	(32)
Depreciation	1,719	1,719	-
Net expenses related to asset impairment	-	3	3
Total operating expenses	12,088	12,328	240
NET OPERATING LOSS	<u>\$ (5,835)</u>	<u>\$ (6,127)</u>	<u>\$ (292)</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 SEPTEMBER 30, 2015

(\$ in millions)

(Unaudited)

	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Accrued Subsidies				
Mass transportation operating assistance	\$ 1,564	\$ 1,564	\$ -	
Mass transit trust fund subsidies	397	397	-	
Mortgage recording tax 1 and 2	325	325	-	
MRT transfer	(4)	(4)		
Urban tax	734	759	25	{1}
State and local operating assistance	341	376	35	{1}
Station maintenance	120	120	-	
Connecticut Department of Transportation (CDOT)	89	91	2	{1}
Subsidy from New York City for MTA Bus and SIRTOA	299	329	30	{1}
NYS Grant for debt service	-	7	7	{3}
Build American Bonds Subsidy	47	47	-	
Change in fair value of derivative financial instruments (Note 7)	-	1	1	{2}
Mobility tax	1,405	1,405	-	
Other nonoperating income	-	31	31	{2}
Total accrued subsidies	5,317	5,448	131	
Net operating deficit before subsidies and debt service	(5,835)	(6,127)	(292)	
Debt Service	(1,825)	(1,058)	767	
Conversion to Cash basis: Depreciation	1,719	-	(1,719)	
Conversion to Cash basis: OPEB Obligation	1,580	-	(1,580)	
Conversion to Cash basis: Pollution & Remediation	5	-	(5)	
Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects	\$ 961	\$ (1,737)	\$ (2,698)	

{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.

{3} The Financial Plan records do not include other nonoperating subsidy or expense.

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 SEPTEMBER 30, 2015
(\$ in millions)
(Unaudited)

Financial Plan Actual Operating Loss at September 30, 2015	\$ (5,835)
The Financial Plan Actual Includes:	
Higher non-labor expenses	76
Lower labor expenses	(30)
The Audited Financial Statements Includes:	
Lower operating revenues based on accrual adjustments	(15)
Higher labor expense based on most recent actuarial results for Worker's Compensation and OPEB	(232)
Higher pension expense related to amortization of prepaid pension costs	(15)
Higher claims expense based on most recent actuarial results for non-employee claims	(68)
Higher asset impairment expense	(3)
Intercompany eliminations and other adjustments	(5)
Total Operating Reconciling Items	<u>(292)</u>
Audited Financial Statement Operating Loss	<u>\$ (6,127)</u>
Financial Plan Actual Surplus after Subsidies and Debt Service at September 30, 2015	<u>\$ 961</u>
The Financial Plan Actual Includes:	
Debt Service Bond Principal Payments	767
Adjustments for non-cash liabilities:	
Depreciation	(1,719)
Unfunded OPEB Expense	(1,580)
Unfunded Pollution Remediation Expense	(5)
	<u>(3,304)</u>
The Audited Financial Statements Includes:	
Higher subsidies and other non-operating revenues as follows:	131
Total Operating Reconciling Items	<u>(292)</u>
Financial Statements Loss Before Appropriations	<u>\$ (1,737)</u>

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Supplemental Schedules, and
Independent Auditors' Report

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

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INDEPENDENT AUDITORS' REPORT

To the Participants and Board of Administration of
The Manhattan and Bronx Surface Transit
Operating Authority Pension Plan:

Report on the Financial Statements

We have audited the accompanying statements of plan net position of The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the "Plan") as of December 31, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 2, in 2014, the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. 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 11 and the Schedule of Schedule of Changes in the Employers' Net Pension Liability and Related Ratios-Schedule I on page 33; Schedule of Employer Contributions and Notes to Schedule-Schedule II on pages 34-35; Schedule of Investment Returns-Schedule III on page 36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The Appendix A—Summary of Principal Plan Provisions on pages 38 through 58 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Plan's management. The Appendix A—Summary of Principal Plan Provisions has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

January 25, 2016

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

Overview of the Financial Statements

This narrative discussion and analysis of The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2014, 2013, and 2012. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with the prior years' activity and results. This discussion and analysis has been prepared by management and is intended to be read in conjunction with the Plan's financial statements, which begin on page 10.

Overview of Basic Financial Statements—The following discussion and analysis are intended to serve as an introduction to the Plan's basic financial statements. The basic financial statements are:

- **The Statements of Plan Net Position**—Presents the financial position of the Plan at each year-end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan 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. Investments are shown at fair value. All assets and liabilities are determined on an accrual basis.
- **The Statements of Changes in Plan Net Position**—Presents the results of activities during each year. All changes affecting the assets/deferred outflow and liabilities/deferred inflow of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in the fair value of investments.
- **The Notes to Financial Statements**—Provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- **Required Supplementary Information**—As required by the Governmental Accounting Standards Board (GASB), is presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with GAAP Pronouncements.

Financial Highlights

The assets of the Plan exceeded its liabilities by \$2,265 million, \$2,094 million, and \$1,840 million as of December 31, 2014, 2013, and 2012, respectively. These net assets are held in trust for the payment of future benefits to members and pensioners.

The Plan received \$226 million, \$234 million, and \$229 million in annual required contributions (ARC) during 2014, 2013, and 2012, respectively. Employer contributions decreased from December 31, 2013 to the year ended December 31, 2014, due to the ARC, based on the latest actuarial valuation report.

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

Deductions from plan net position consist mainly of benefit payments to members and their beneficiaries. Deductions increased by 3% from \$170 million in 2013 to \$176 million in 2014 due to an increase in benefits paid to retirees. Deductions decreased by 1% from \$172 million in 2012 to \$170 million in 2013 due to a decrease in death benefits.

FINANCIAL ANALYSIS

Plan Net Position As of December 31, 2014, 2013, and 2012 (Dollars in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Increase/(Decrease)</u>	
				<u>2014-2013</u>	<u>2013-2012</u>
Cash	\$ 2,210	\$ 5,049	\$ 214	\$ (2,839)	\$ 4,835
Receivables	98,699	41,429	43,936	57,270	(2,507)
Investments, at fair value	2,246,843	2,067,739	1,817,260	179,104	250,479
Other Assets	198	-	-	198	-
Total assets	<u>2,347,950</u>	<u>2,114,217</u>	<u>1,861,410</u>	<u>233,733</u>	<u>252,807</u>
Payables for investment securities purchased	55,863	504	1,068	55,359	(564)
Other liabilities	26,794	19,818	20,578	6,976	(760)
Total liabilities	<u>82,657</u>	<u>20,322</u>	<u>21,646</u>	<u>62,335</u>	<u>(1,324)</u>
Plan net position held in trust for pension benefits	<u>\$ 2,265,293</u>	<u>\$ 2,093,895</u>	<u>\$ 1,839,764</u>	<u>\$ 171,398</u>	<u>\$ 254,131</u>

Investments at December 31, 2014, were \$2,247 million, an increase of \$179 million from \$2,068 million at December 31, 2013. The increase was primarily due to the outperformance in the stock and bond markets along with the Plan's diversification in its investment strategy, which resulted in a net investment gain of \$105 million. Employer and employee contributions exceeded benefit payments and administrative expenses by \$66 million.

Investments at December 31, 2013, were \$2,068 million, an increase of \$251 million from \$1,817 million at December 31, 2012. The increase was primarily due to the outperformance in the stock and bond markets along with the Plan's diversification in its investment strategy, which resulted in a net investment gain of \$177 million. Employer and employee contributions exceeded benefit payments and administrative expenses by \$77 million.

Receivables at December 31, 2014, were \$98 million, an increase of \$57 million from \$41 million at December 31, 2013. The increase was primarily due to an increase of \$58 million in receivables from investments, which are comprised of securities sold where proceeds are due from brokers, and interest and dividends receivable from investment transactions, offset by a decrease in employee loans receivables of \$1 million due to a decrease in loan issuances.

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

Receivables at December 31, 2013, were \$41 million, a decrease of \$3 million from \$44 million at December 31, 2012. The decrease was primarily due to a decrease of \$4 million in receivables from investments, which are comprised of securities sold where proceeds are due from brokers, and interest and dividends receivable from investment transactions, offset by an increase in employee loans receivables of \$1 million due to an increase in loan issuances.

The Plan fully funded its 2014, 2013, and 2012 annual required contributions (ARC) in calendar year 2014, 2013, and 2012, respectively. There were no deferred employer contributions made in 2014 and 2013 for the estimated annual required contribution for calendar year 2015 and 2014, respectively.

Payables for investments purchased at December 31, 2014, amounted to \$56 million, an increase of \$55 million from the prior year. Investments are purchased on a trade-date settlement basis. The increase resulted primarily from timing differences in settlement dates, as securities purchased typically do not settle until a few days after the trade date. Payables for investments purchased at December 31, 2013, amounted to \$504 thousand, a decrease of \$564 thousand from the prior year.

Other liabilities at December 31, 2014, were \$27 million, an increase of \$7 million from \$20 million at December 31, 2013. The increase was primarily due to an increase of \$11 million in liabilities from investments, which are comprised of short sales of securities sold where proceeds are due to brokers, offset by a decrease of \$3 million in benefit related liabilities.

The Plan's net position held in trust and available for the payment of benefits increased by 8% or \$171 million from December 31, 2013 to December 31, 2014. The increase was due mainly to the ARC and the increase in the market value of assets. The Plan's net position held in trust and available for the payment of benefits increased by 14% or \$254 million from December 31, 2012 to December 31, 2013. The increase was due mainly to the increase in the market value of assets and the increase in ARC.

Statements of Changes in Plan Net Position

Net investment income for the year ended December 31, 2014 totaled \$105 million compared to the prior year net investment income of \$177 million. In 2014, the Plan experienced a net appreciation of \$98 million in the fair market value of investments due to market conditions. In 2013, equity markets continued to soar as the Federal Reserve remained accommodative. In 2013, the Plan experienced a net appreciation of \$168 million in the fair market value of investments due to market conditions. In 2012, the Plan experienced a \$203 million investment gain due to the fundamental improvement in U.S. equities and emerging markets. Net appreciation in the fair market value of the Plan's investments in 2012 was \$185 million.

Employer contributions for the year ended December 31, 2014, totaled \$226 million, a decrease of \$8 million over the prior year amount of \$234 million. Employer contributions for the year ended December 31, 2013, totaled \$234 million, an increase of \$5 million over the prior year amount of \$229 million. Employer contributions are made on a statutory basis as a result of the actuarial valuations performed as of January 1, 2014, 2013, and 2012, respectively.

Benefit payments for the year ended December 31, 2014 totaled \$175 million, a \$5 million (3%) increase versus the prior year. The increase is primarily due to an increase in death benefits paid to retirees and employees. Benefit payments for the year ended December 31, 2013 totaled \$170 million, a \$2 million

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

(1%) decrease versus the prior year. The decrease is primarily due to a decrease in death benefits paid to retirees and employees.

Changes in Plan Net Position For the Years Ended December 31, 2014, 2013 and 2012 (Dollars in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Increase/(Decrease)</u> <u>2014-2013</u>	<u>2013-2012</u>
Additions:					
Net investment income (loss)	\$ 105,084	\$ 177,246	\$ 202,873	\$ (72,162)	\$ (25,627)
Employer contributions	226,374	234,474	228,918	(8,100)	5,556
Employee contribution	15,460	12,754	12,288	2,706	466
Total net additions (reductions)	<u>346,918</u>	<u>424,474</u>	<u>444,079</u>	<u>(77,556)</u>	<u>(19,605)</u>
Deductions:					
Benefit payments	175,447	170,238	171,603	5,209	(1,365)
Other expenses	73	105	55	(32)	50
Total deductions	<u>175,520</u>	<u>170,343</u>	<u>171,658</u>	<u>5,177</u>	<u>(1,315)</u>
Net increase (decrease)	<u>\$ 171,398</u>	<u>\$ 254,131</u>	<u>\$ 272,421</u>	<u>\$ (82,733)</u>	<u>\$ (18,290)</u>
Net assets held in trust for pension benefits:					
Beginning of year	2,093,895	1,839,764	1,567,343		
End of year	<u>\$ 2,265,293</u>	<u>\$ 2,093,895</u>	<u>\$ 1,839,764</u>		

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

Economic Factors

Market Overview and Outlook – 2015

Despite low returns across all major markets and asset classes, 2015 was an eventful year. Market performance was framed by an ever complicated macro environment. Europe was the focus in the first half of the year, as renewed concern about sovereign debt weighed on the common currency. Such concern ultimately led Switzerland to abandon its currency peg to the Euro. Greece continued to make headlines with its contested austerity program, posing an existential threat to the European common currency. In the second half, eyes turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines for the year.

Weak global growth and low inflation set the stage for divergent central bank monetary policies in developed markets. The year ended with the U.S. Federal Reserve raising interest rates for the first time in nearly 10 years. The European Central Bank and Bank of Japan took a different path, as they continued their quantitative easing programs in an effort to boost inflation and lagging growth in their economies. Perhaps the story for the year was what played out in China, emerging markets, and the commodity markets. As China's ability to generate the growth expected by the markets became more suspect, the impact was felt across commodity markets. Oil ended the year below \$40/barrel, well off its price of just 18 months ago of approximately \$120/barrel. Similarly, copper, iron ore, nickel and other industrial metals all are touching lows not seen in recent years. Emerging markets, many of which are tied to China's growth by supplying it with the raw materials necessary to fuel the economic engine, sold off as investors pulled their risk capital from the markets. Within this context, there were few places to invest to generate meaningful positive returns, while other areas experienced performance not seen since the Great Financial Crisis.

Macro Themes

- Weak global growth continuing into 2017
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases
- China weakening; turmoil in emerging markets and commodities
- Volatile currency markets and sovereign debt stress

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with Gross Domestic Product (GDP) growth not breaking through the 3% level in the U.S., Europe, or Japan in 2016 or 2017 according to both the International Monetary Fund (IMF) and World Bank. Inflation remains non-existent across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, U.S. interest rate increases will continue to result in a strengthening U.S. Dollar, potentially impacting the U.S. manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt concerns in developed markets, and a collapse in energy and mineral prices. The main emerging markets, as defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential. No longer can an argument be made that emerging markets have decoupled from the developed world.

United States

Markets in the U.S. were challenged for the year, but were among the best performers in 2015. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

Equity

- Worst year for U.S. Equities since 2008
- Valuations neither cheap nor expensive
- Risk Aversion – Large Cap outperformed small & mid cap. Growth outperformed Value
- Energy and Materials lagged the broader markets significantly
- Health Care and Consumer Sectors relatively strong
- Equity markets set for another low-return year

Large cap stocks were barely positive, with the S&P 500 and Russell 1000 posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large cap energy stocks fell by 21.1% for the year while mid cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

the U.S., active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

Unlike recent years where fixed income could be counted on to deliver performance in a weak year for equities, bonds disappointed across all asset classes. Treasuries returned 0.84% for the year, with long-dated bonds outperforming shorter-dated bonds. Importantly, Treasuries were among the best performing areas of the bond markets for 2015. And perhaps more significantly, most investors have been both underweight Treasuries and positioned toward the front end of the yield curve, in anticipation of rising interest rates. This shorter-duration strategy hurt investors in 2015 as the 7-10 Year Index outperformed the 1-3 Year Index by 100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

- Intermediate Treasuries returned less than 2%
- Investment Grade Credit posted negative returns, driven by BBB-rated
- High Yield markets sold off in second half
- Declining liquidity in corporate bonds due to capital rules on dealer balance sheets
- Fixed income likely to continue to disappoint as interest rates creep higher

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market. Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as "BBB" by S&P, posted a -1.5% return for the year, underperforming "A" rated bond by nearly 200 bps. Investment in fixed income will remain challenging in 2016. Potential interest rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress. As we have likely entered the later stages of the credit cycle, prudent allocation of risk to the credit sectors will become ever more important.

International Developed

- Weak year in Developed Markets (\$U.S. returns)
- Eurozone, United Kingdom, Australia, Canada all posting negative returns
- Japan, Italy, and Scandinavia only major markets positive for the year
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2015 and expected through 2016

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In \$U.S., all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the

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space has become crowded with ever increasing amounts of capital seeking returns. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets continue to experience very weak performance in \$U.S. terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. European Treasuries returned 1.7% in 2015, and with the latest round of quantitative measures employed by the European Central Bank, returns are likely to be similar in 2016.

Emerging Markets

- Terrible year in Emerging Markets (U.S.\$ returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower
- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by MSCI, Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors. China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets ("EM") Latin America index fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

More troubling may be the performance of the bond markets of emerging markets. In local currency terms, most emerging markets fixed income indices posted positive performance in 2-5% range. In \$U.S. terms, the declines in local currency bonds have been staggering. Brazil (-30.1%), South Africa (-28.2%), and Turkey (-20.9%) highlight the impact of currency on performance. Hard currency bonds, generally issued in \$U.S., performed better in 2015, due to the strength of the dollar. The strong performance does not mask the risk due to currency mismatches in the hard currency market and the perennial risk of devaluation, default, and repudiation. Declining currencies, commodity price volatility, high debt levels, and high inflation will likely provide little respite in 2016 for emerging markets.

Commodities

- One of the worst years on record for commodities
- Slowing China growth, weak global demand, over supply interrelated factors
- Little expectation for a recovery in commodity prices in the near term

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2014 and 2013

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While potentially a benefit to consumers, the collapse in energy prices has negative effects near (U.S. shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

Contact Information

This financial report is designed to provide a general overview of the Manhattan and Bronx Surface Transit Operating Authority Pension Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Comptroller, Metropolitan Transportation Authority, 2 Broadway, 16th Floor, New York, NY 10004.

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MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

STATEMENTS OF PLAN NET POSITION AS OF DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
ASSETS:		
Cash	\$ 2,210	\$ 5,049
Receivables:		
Investment securities sold	58,434	586
Interest and dividends	1,703	1,329
Employee loans	38,562	39,514
Total receivables	98,699	41,429
Investments at fair value (Notes 2 and 3):		
Short-term investments	59,783	104,219
Debt securities:		
U.S. government and agency	28,962	15,805
Corporate	114,713	98,175
Mortgage backed	8,230	-
Other	1,355	1,177
Equity securities	123,991	124,365
Comingled funds	862,378	797,147
Mutual funds	606,651	542,176
Exchange traded funds	16,762	-
Limited partnerships	424,018	384,675
Total investments	2,246,843	2,067,739
Other Assets	198	-
Total assets	2,347,950	2,114,217
LIABILITIES:		
Accounts payable	1,781	2,935
Payable for investment securities purchased	55,863	504
Accrued benefits payable	4,384	4,031
Accrued post retirement death benefits (PRDB) payable	2,186	5,602
Accrued 55/25 AMC payable	7,111	7,250
Other liabilities	11,332	-
Total liabilities	82,657	20,322
PLAN NET POSITIONS HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 2,265,293</u>	<u>\$ 2,093,895</u>

See notes to financial statements.

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
ADDITIONS:		
Contributions (Note 4):		
Employee contributions	\$ 15,460	\$ 12,754
Employer contributions	<u>226,374</u>	<u>234,474</u>
Total contributions	<u>241,834</u>	<u>247,228</u>
Investment income:		
Interest income	7,021	7,300
Dividend income	23,144	21,697
Net appreciation in fair value of investments	<u>98,325</u>	<u>167,800</u>
Total investment income	128,490	196,797
Less investment expenses	<u>23,406</u>	<u>19,551</u>
Net investment income	<u>105,084</u>	<u>177,246</u>
Total additions	<u>346,918</u>	<u>424,474</u>
DEDUCTIONS:		
Benefit payments and withdrawals	175,447	170,238
Administrative expenses	<u>73</u>	<u>105</u>
Total deductions	<u>175,520</u>	<u>170,343</u>
NET INCREASE	<u>171,398</u>	<u>254,131</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>2,093,895</u>	<u>1,839,764</u>
End of year	<u>\$2,265,293</u>	<u>\$2,093,895</u>

See notes to financial statements.

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. PLAN DESCRIPTION

Effective January 1, 1989, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) adopted a defined benefit qualified pension plan known as the MaBSTOA Pension Plan (the "Plan"). Prior to the adoption of the Plan, MaBSTOA pension benefits were funded on a pay-as-you-go basis.

The Plan is a single-employer public employee retirement system (PERS). MaBSTOA employees are specifically excluded from the New York City Employees Retirement System (NYCERS). Effective January 1, 1999, in order to afford managerial and nonrepresented MaBSTOA employees the same pension rights as like title employees in the Transit Authority, membership in the MaBSTOA Plan is optional.

The Board of Administration, established in 1963, determines eligibility of employees and beneficiaries for retirement and death benefits. The Board is composed of five members: two representatives from the Transport Workers Union, Local 100 (TWU) and three employer representatives.

Membership of the Plan consisted of the following as of January 1, 2015 and 2014, respectively, the date of the latest actuarial valuation:

	2015	2014
Active and inactive members	8,217	7,889
Retirees and beneficiaries currently receiving benefits	5,394	5,245
Vested formerly active members not yet receiving benefits	<u>959</u>	<u>954</u>
Total members	<u>14,570</u>	<u>14,088</u>

The Plan provides retirement as well as death, accident, and disability benefits. The benefits provided by the Plan are generally similar to the benefits provided to participants in NYCERS. Benefits vest after either 5, 10, or 20 years of credited service, depending on the date of employment.

NYCERS has determined that Tier 4 employees are and have been eligible for a post retirement death benefit retroactive to 1986. In June 2012, the MTA Board approved an amendment to the MaBSTOA Plan to provide for incorporation of this benefit. As of December 31, 2012, the Plan has estimated that \$6 million is owed to beneficiaries of retirees who were deceased prior to January 1, 2013. As of December 31, 2014, the Plan has paid \$4.4 million in post-retirement benefits and accrued an additional \$1 million based on the updated valuation. The \$2.2 million is recorded in liabilities in the Plan's financial statements as of December 31, 2014 compared to \$5.6 million as of December 31, 2013.

Funding Policy—The contribution requirements of Plan members are established and may be amended only by the MaBSTOA Board in accordance with Article 10.01 of the MaBSTOA Plan. MaBSTOA's funding policy for periodic employer contributions is to provide for 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.

The MaBSTOA Pension Plan includes the following plans: (i.) the Tier 3 and 4 Transit Age 62 Plan; (ii.) the Tier 6 Age 63 Plan; (iii.) the 55/25 Plan; (iv.) the Tier 4 25 Year Early Retirement Plan; (v.) the Tier 4 Age 57 Plan, and (vi.) the 2000 amendments which are all under the same terms and conditions as NYCERS.

For employees, the 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 (Tiers 1 and 2). Certain employees entering qualifying service on or after July 27, 1976, are required to contribute 3% of their salary (Tiers 3 and 4). See Note 4 for 2000 Plan amendments.

In March 2012, pursuant to Chapter 18 of the Laws of 2012, individuals joining NYCERS or the MaBSTOA Pension Plan on or after April 1, 2012 are subject to the provisions of Tier VI. The highlights of Tier VI include:

- Increases in employee contribution rates. The rate varies depending on salary, ranging from 3% to 6% of gross wages. Contributions are made until retirement or separation from service.
- The retirement age increases to 63 and includes early retirement penalties, which reduce pension allowances by 6.5 percent for each year of retirement prior to age 63.
- Vesting after 10 years of credited service; increased from 5 years of credited service under Tier III and Tier IV.
- Adjustments of the Pension Multiplier for calculating pension benefits (excluding Transit Operating Employees): the multiplier will be 1.75% for the first 20 years of service, and 2% starting in the 21st year; for an employee who works 30 years, their pension will be 55% of Final Average Salary (FAS) under Tier VI, instead of 60% percent under Tier IV.
- Adjustments to the Final Average Salary (FAS) Calculation; the computation changed from an average of the final 3 years to an average of the final 5 years. Pensionable overtime will be capped at \$15,000 per year plus an inflation factor.
- Pension buyback in Tier VI will be at a rate of 6% of the wages earned during the period of buyback, plus 5% compounded annually from the date of service until date of payment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

Basis of Accounting—The Plan is accounted for on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Contributions from members are recorded when the employer makes payroll deductions from plan members. Employer contributions are recognized when due in accordance with the terms of the Plan. Additions to the Plan consist of contributions (member and employer) and net investment income.

The accounting and reporting policies of the Plan conform to accounting principles generally accepted in the United States of America (GAAP).

New Accounting Standards—

The Plan has completed the process of evaluating the impact of Statement No. 67 on its financial statements. In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which: (1) contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; (2) pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, and (3) pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements 25 and Statement No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The provisions of Statement No. 67 are effective for financial statements for fiscal years beginning after June 15, 2013. Implementation of Statement No. 67 did not impact the net position of the Plan; however, certain changes to note disclosures and required supplementary information have been incorporated to comply with the new standard.

The Plan has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Statement No. 70 also requires, a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Plan has determined that GASB Statement No. 70 did not impact the net position of the Plan.

The Plan 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 Plan has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. This Statement requires the use of valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. The provisions in GASB Statement No. 72 are effective for periods beginning after June 15, 2015.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of GASB Statement No. 73, extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement also clarifies the application of certain provisions of Statement Nos. 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions, and 3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 73 and are effective for fiscal years beginning after June 15, 2016.

The Plan has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address: (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity, and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by Statement No. 79, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool

meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Methods Used to Value Investments—Investments are stated at fair value. Fair value is the amount that the Plan can reasonably expect to receive for an investment in a current sale between a willing buyer and a willing seller, that is, other than a forced or liquidation sale. All investments, with the exception of alternative investments are valued based on closing market prices or broker quotes.

Traded securities are stated at the last reported sales price on a national securities exchange on the last business day of the fiscal year. Securities purchased pursuant to agreements to resell are carried at the contract price, exclusive of interest, at which the securities will be resold. Alternative investments are valued based on the most current net asset values.

Purchases and sales of securities are reflected on the trade date.

Dividend income is recorded on the ex-dividend date. Interest income is recorded as earned on an accrual basis.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Authority to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from these estimates.

Reclassifications—Reclassification of certain prior year amounts have been made to conform to the current year presentation.

Risks and Uncertainties—The Plan's investments are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the Plan's financial statements.

Derivatives—The Plan uses a limited amount of derivative financial instruments. The Plan does not hold derivatives for speculative purposes. Where appropriate, investment managers may be given permission to use derivative securities for the following reasons:

- a. Hedging. To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.

- b. **Creation of Market Exposures.** Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.
- c. **Management of Country and Asset Allocation Exposure.** Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes.

Additional uses of derivatives shall be approved by the Committee prior to implementation and shall be restricted to those specific managers.

Income Taxes—The Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) of the Internal Revenue Code. Accordingly, the Plan is tax-exempt and is not subject to the provisions of ERISA. Therefore, income retained by the Plan is not subject to Federal income tax.

3. CASH AND INVESTMENTS

Investment Committee—The Plan authorizes the establishment of a five member Investment Committee. Under the Plan, the Investment Committee develops investment objectives, guidelines and restrictions. The Investment Committee is responsible for: 1) determining and adhering to the investment policy and guidelines and 2) setting the asset allocation targets and ranges and defining the permissible investments. The Investment Committee also may appoint an investment advisor (currently New England Pension Consultants) to provide the Committee with investment expertise and may also appoint Investment Managers to direct the investments of the Plan.

Asset Allocation Policy—In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Investment Committee has adopted the asset allocation policy outlined below. The Committee understands that consistent rebalancing is required to maintain the risk/reward profile of the overall portfolio. The actual asset allocation of the Plan will deviate from the strategic asset allocation target due to differences in market returns. The actual asset allocation will be evaluated on a quarterly basis, at a minimum, and will be readjusted when an asset class weighting is outside its target range.

The table below summarizes the Plan's investment allocation targets and returns at December 31:

Type of Investment	2014		2013	
	Target Allocation	Actual Allocation	Target Allocation	Actual Allocation
Equities:				
Domestic Large Cap	10.0 %	10.6 %	10.0 %	10.3 %
Domestic Small/Mid Cap	5.5 %	5.8 %	5.5 %	6.5 %
International Established Equity	10.0 %	8.6 %	10.0 %	9.6 %
Emerging International Equity	3.5 %	4.0 %	3.5 %	4.6 %
Sub-Total	<u>29.0 %</u>	<u>29.0 %</u>	<u>29.0 %</u>	<u>31.0 %</u>
Fixed Income	<u>15.0 %</u>	<u>13.6 %</u>	<u>15.0 %</u>	<u>14.2 %</u>
Global Asset Allocation	<u>20.0 %</u>	<u>23.8 %</u>	<u>20.0 %</u>	<u>22.5 %</u>
Opportunistic (**)	<u>6.0 %</u>	<u>9.5 %</u>	<u>6.0 %</u>	<u>8.4 %</u>
Absolute Return (*)	15.0 %	14.8 %	15.0 %	16.3 %
Real Assets	5.0 %	3.4 %	5.0 %	3.8 %
Real Estate (****)	3.0 %	3.0 %	3.0 %	1.9 %
Private Equity (***)	7.0 %	2.9 %	7.0 %	1.9 %
Sub-Total	<u>30.0 %</u>	<u>24.1 %</u>	<u>30.0 %</u>	<u>23.9 %</u>
		<u>100.0 %</u>		<u>100.0 %</u>
Composite Return		<u>5.0 %</u>		<u>10.1 %</u>

(*) In 2007, the Plan added Absolute Return allocations to the portfolio.

(**) In 2008, the Plan added an Opportunistic allocation. The Plan held 9 investments in this category at December 31, 2014.

(***) In 2008, the Plan began to fill its new Private Equity mandate. The Plan held 12 investments in this category at December 31, 2014.

(****) In 2011, the Plan committed to invest in Core Real Estate.

Investment Policy—The Plan's investment policy is summarized as follows:

(a) Equity

The equity investments criteria are:

1. Stocks should be selected for their expected return over a three to five year period.
2. Stock selection should consider both capital appreciation and dividends (total return).
3. Stocks must be traded on a major stock exchange.

4. Investment in any one stock, in all classes of equity securities, must be limited to 15% of the book value of the portfolio.
5. Individual manager account shall not exceed 8% at market or 1.5X the manager's benchmark weight (whichever is greater) of any single company's stock.

(b) Fixed Income

Fixed income instruments that are acceptable:

1. Commercial paper of variable rate notes of P-1 or equivalent rating.
2. Certificates of deposit and bankers' acceptances rated Baa or better by Moody's Investor's Service or Standard & Poor's.
3. United States treasury bonds, notes, and bills.
4. Repurchase agreements with U.S. treasury securities and agencies of the U.S. government as collateral.
5. Debt instruments of the U.S. government or its agencies.
6. Convertibles below investment grade
7. Corporate debt issues rated the equivalent of Baa or better by Moody's Investors Services, Standard & Poor's, or Fitch Investor's Services, for an overall portfolio average of A or better.
8. Collateralized mortgage obligations (CMO's) backed by pools of mortgages.

Fixed income investments shall be appropriately diversified.

- (c) Investment Managers may not own more than 5% of any issue other than instruments of the U.S. Government unless otherwise noted in the investment manager contract.
- (d) Investment Managers may not hold more than 8% of the cost of their portfolios in any one issuer's securities other than the U.S. Government.
- (e) Derivative Financial Instruments

In 1999, the Plan implemented a cash overlay strategy for its Enhanced Cash Portfolio using futures contracts. An asset manager was retained to manage the overlay strategy and replicate the Plan's Strategic Asset Allocation exposure. A daily reconciliation of the futures exposure to the cash position is conducted to prevent any leverage situation. The Plan, at December 31, 2014 and 2013, had net cash of \$60 million and \$104 million, respectively, which was overlaid with derivative instruments.

(f) Securities Lending Transactions

The Plan terminated the lending of securities to broker dealers and other entities in 2010.

(g) Other Investments

Use of any other investment for the Plan can be approved by the Plan's Investment Committee provided that such investment is considered prudent for a pension plan.

(h) Prohibited Transactions

The Plan's policy prohibits:

1. Investment Managers from entering into any transactions which are not authorized by the MaBSTOA Statement of Investment Objectives, Policies, and Guidelines or without the consent of the Investment Committee.
2. The purchase of securities on margin.

(i) Investment Custodial Credit Risk

Plan investments are categorized by level of custodial credit risk (the risk that counterparty to an investment transaction will not fulfill its obligations). Category 1, the lowest risk, includes investments that are insured or registered or for which the securities are held by the entity or its agent in the entity's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the entity's name. Category 3, the highest risk, includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the entity's name. All categorized investments of the Plan for the years ended December 31, 2014 and 2013, are held by its custodial agent in the Plan's name and are considered to be Category 1.

(j) Commingled Funds/Mutual Funds

The Committee, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may allow investment in such funds. The Committee recognizes that it cannot give specific policy directives to a fund whose policies are already established; therefore, the Committee is relying on the investment consultant to assess and monitor the investment policies of any funds used by the Plan to ascertain whether they are appropriate.

(k) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized rating organization, and by each bond manager's internal research group.

To minimize credit risk and lower concentration risk, managers may not invest greater than 8% in any one issuer. Further, each manager has specific guidelines that limit the amount of below investment grade issues they may purchase.

December 31, 2014

Investment Type*	S&P Quality Ratings								Total
	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	
U.S. government	N/A	\$ 253,915	\$ 4,069,887	\$ 1,720,141	N/A	N/A	N/A	\$ 94,770	\$ 6,138,713
Corporate	N/A	<u>1,290,007</u>	<u>18,647,484</u>	<u>43,525,642</u>	<u>31,164,636</u>	<u>5,786,721</u>	<u>264,882</u>	<u>12,563,561</u>	<u>113,242,933</u>
Total	N/A	<u>\$ 1,543,922</u>	<u>\$ 22,717,371</u>	<u>\$ 45,245,783</u>	<u>\$ 31,164,636</u>	<u>\$ 5,786,721</u>	<u>\$ 264,882</u>	<u>\$ 12,658,331</u>	<u>\$ 119,381,646</u>
Percent	- %	<u>1.30 %</u>	<u>19.03 %</u>	<u>37.90 %</u>	<u>26.11 %</u>	<u>4.84 %</u>	<u>0.22 %</u>	<u>10.60 %</u>	<u>100.00 %</u>

December 31, 2013

Investment Type*	S&P Quality Ratings								Total
	AAA	AA	A	BBB	BB	B	CCC & Below	Not Rated	
U.S. government	N/A	N/A	N/A	\$ 185,500	N/A	N/A	N/A	N/A	\$ 185,500
Corporate	<u>\$ 985,983</u>	<u>\$ 5,055,157</u>	<u>\$ 11,027,758</u>	<u>43,013,021</u>	<u>\$ 23,137,548</u>	<u>\$ 5,918,133</u>	<u>\$ 610,249</u>	<u>\$ 16,965,736</u>	<u>106,713,585</u>
Total	<u>\$ 985,983</u>	<u>\$ 5,055,157</u>	<u>\$ 11,027,758</u>	<u>\$ 43,198,521</u>	<u>\$ 23,137,548</u>	<u>\$ 5,918,133</u>	<u>\$ 610,249</u>	<u>\$ 16,965,736</u>	<u>\$ 106,899,085</u>
Percent	<u>0.92 %</u>	<u>4.73 %</u>	<u>10.32 %</u>	<u>40.41 %</u>	<u>21.64 %</u>	<u>5.54 %</u>	<u>0.57 %</u>	<u>15.87 %</u>	<u>100.00 %</u>

* U.S. Treasury Bonds, Notes, and TIPS are obligations of the U.S. government and therefore are not considered to have credit risk and are not included above.

(l) Interest Rate Risk

The effective duration measures the sensitivity of the market price to parallel shifts in the yield curve. The Plan has guidelines that limit individual managers from exceeding duration of seven years on each issue.

December 31, 2014

Years to Maturity Investment Type	Investment Maturities				
	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than 10 Years
U.S. government	5.14 %	1.22 %	2.06 %	1.41 %	0.45 %
Corporate	<u>94.86</u>	<u>3.24</u>	<u>41.70</u>	<u>25.91</u>	<u>24.01</u>
Total	<u>100.00 %</u>	<u>4.46 %</u>	<u>43.76 %</u>	<u>27.32 %</u>	<u>24.46 %</u>

December 31, 2013

Years to Maturity Investment Type	Investment Maturities				
	Fair Value	Less than One Year	One to Five Years	Six to Ten Years	More than 10 Years
U.S. government	0.17 %	- %	- %	0.17 %	- %
Corporate	<u>99.83</u>	<u>15.94</u>	<u>36.42</u>	<u>30.12</u>	<u>17.35</u>
Total	<u>100.00 %</u>	<u>15.94 %</u>	<u>36.42 %</u>	<u>30.29 %</u>	<u>17.35 %</u>

(m) Foreign Currency Exposure

Foreign currency risk is the risk that changes in the exchange rates will adversely impact the fair value of an investment. Currency risk is present in underlying portfolios that invest in foreign stock and/or bonds. The currency markets have proven to be good diversifiers in a total portfolio context; therefore, the Plan has numerous managers that invest globally. In general, currency exposure is viewed as a benefit for its diversification reasons not as an inherent risk within the portfolio.

(n) Alternative Investments

Alternative investments are broadly categorized into the following 5 categories:

1. Opportunistic
2. Real assets
3. Real estate
4. Absolute return
5. Private equity

Common features of alternative investments are illiquidity, the use of derivatives, leverage and shorting, limited regulatory oversight, limited transparency, and high fees. In order to compensate for these risks, these investments offer diversification and potentially higher rates of return over time.

Rate of Return—For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.95%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

The MaBSTOA Investment Committee has adopted a policy that shall define an investment strategy to be a “hedge fund” if that strategy demonstrates at least five characteristics of traditional hedge funds:

1. Global opportunity set: Strategy can invest in a wide range of global assets
2. The ability to short: Investment technique that profits when prices decline
3. The ability to use leverage: Investment technique that magnifies exposures
4. High fees: Management and carried interests
5. Limited transparency: Limitations on ability to confirm underlying security positions
6. Conditional liquidity: The ability to suspend withdrawal requests
7. Lock-ups and gates: Restrictions on withdrawal requests
8. Limited independent pricing: Security prices may not be determined by independent party
9. Sub-optimal legal structure: Uncommon investment vehicles (e.g. offshore LLC)
10. Unfavorable investor terms: Less investor protection and recourse actions

A strategy exhibiting less than five characteristics may or may not be defined as a “hedge fund” as the final decision is generally evaluated and executed in accordance with the investment strategy as a whole. Furthermore, any strategy exhibiting characteristic #5 (lack of transparency) or #8 (lack of independent pricing) shall automatically be defined as a “hedge fund” regardless of the total count.

4. CONTRIBUTIONS

The financial objective of the Plan is to fund, on an actuarial basis, the retirement and death benefits for eligible MaBSTOA employees and beneficiaries. MaBSTOA contributions to the fund are made annually. Contributions to MaBSTOA require the approval of the MaBSTOA Board.

Employer contributions amounted to \$226.4 million and \$234.5 million for the years ended December 31, 2014 and 2013, respectively. Employee contributions amounted to \$15.5 million and \$12.8 million for the years ended December 31, 2014 and 2013, respectively. Contributions made by employees are accounted for in separate accounts maintained for each employee. Annually, these accounts are credited with interest at 5%. Effective April 1, 1990, MaBSTOA began to deduct employee contributions as pretax contributions under Section 414H of the Internal Revenue Code.

Pursuant to Section 7.03 of the MaBSTOA Plan, active plan members are permitted to borrow up to 75% of their contributions with interest. Their total contributions and interest remain intact and interest continues to accrue on the full balance. The participant’s accumulated contribution account is used as collateral against the loan. The Plan granted \$16.9 million and \$19.1 million in loans to members during 2014 and 2013, respectively. Loan repayments by members amounted to \$16.1 million and \$15.9 million in 2014 and 2013, respectively.

For the year-ended December 31, 2014, the Plans’ contribution rate was 36.73% of the covered payroll.

Upon termination of employment before retirement, certain participants are entitled to refunds of their own contributions including accumulated interest less any loans outstanding.

5. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2014 and 2013 were as follows (in thousands):

	December 31, 2014	December 31, 2013
Total pension liability	\$ 3,331,464	\$ 3,212,529
Fiduciary net position	2,265,293	2,093,896
Net pension liability	<u>1,066,171</u>	<u>1,118,633</u>
Fiduciary net position as a percentage of the total pension liability	68.00%	65.18%
Covered Payroll	616,372	582,081
Net pension liability as a percentage of covered payroll	172.98%	192.18%

Actuarial Methods and Assumptions

The total pension liability as of December 31, 2014 was determined by an actuarial valuation date of January 1, 2014, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Additional information of the latest actuarial valuation follows:

Valuation date	January 1, 2014
Actuarial cost method	Frozen initial liability (FIL) ⁽¹⁾
Amortization method	For FIL bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA
Actuarial Assumptions:	
Investment rate of return	7.00%, net of investment related expenses
Projected salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement
Cost-of-living adjustments	1.375% per annum
Inflation	2.50% per annum

⁽¹⁾ Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method for determining changes in the Unfunded Actuarial Accrued Liability (UAAL) due to plan provision and assumption changes.

Until the inception of the new Tier 6 provisions in 2012, amendments enacted by State legislation in 2000 reflected the most significant changes to the plan and are summarized as follows:

For operating employees (Chapter 10 of the Laws of 2000):

- All operating employees are automatically included in the 2000 55/25 plan.

- Elimination of the 2.3% additional employees' contributions applicable to members of the 55/25 plan.
- Reduction in the Tier 3 and 4 employee contribution rate from 3.0% to 2.0%.

For managerial and nonoperating employees (Chapter 126 of the Laws of 2000):

- Vesting under the Age 57 plan required only five years of service versus ten.
- As of October 1, 2000, regular Tier 3 and 4 employee contributions ceased after the completion of ten years of service.

For retired members (Chapter 125 of the Laws of 2000):

- Automatic cost-of-living adjustments (COLAs). The COLAs apply to retired members as follows:

Retirees at Least age	Retired or Receiving Benefits for at Least
62	5 years
55	10
Disabled retirees	5
Accidental death beneficiaries	5

- Initial COLA payable September 30, 2000, based on the first \$18,000 of the maximum retirement allowance.
- Thereafter, annual COLAs of 50% of the increase in the consumer price index (CPI), but not less than 1% or more than 3%, of the first \$18,000 of maximum retirement allowance will be payable.

The benefit enhancements, as well as the automatic COLA for retirees, were reflected in the actuarial valuation beginning with the January 1, 2000, valuation.

The Plan adopted several amendments during 2002 as a result of state legislation. Amendments included changes to the definition of active service for Tier 1 and Tier 2 members, extension of the phase in period from five years to ten years for funding liabilities created by Chapter 125 of the Laws of 2000 and increased accidental disability benefits for Tier 3 and Tier 4 members.

The Plan also adopted the legislative provisions of Chapter 379, which allow current and former members of the Transport Workers Union, Local 100 and Transit Supervisors Organization, Local 106, with an accumulated balance of additional member contributions (AMC) made in accordance with the MaBSTOA 55/25 Plan enacted in 1994, to apply for a refund of such contributions. AMC refunds amounted to approximately \$424 thousand and \$703 thousand as of December 31, 2014 and 2013, respectively.

At January 1, 2014 and 2013, actuarial assets were available to fund 69.3% and 65.3%, respectively, of the actuarial accrued liability (UAAL) when measured using the Entry Age Normal Cost Method and the market value of assets.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the December 31, 2014 actuarial valuation are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Core Fixed Income	9.60%	2.19%
High Yield Bonds	11.40%	4.15%
Non-US Fixed Income	10.00%	1.41%
Broad U.S. Equities	5.00%	5.88%
Large Cap U.S. Equities	7.67%	5.62%
Mid Cap U.S. Equities	2.33%	6.39%
Small Cap U.S. Equities	5.50%	7.39%
Developed Foreign Equities	15.00%	6.05%
Emerging Market Equities	3.50%	8.90%
Private Equity	12.00%	9.15%
Hedge Funds/Absolute Return	15.00%	3.12%
Real Estate (Property)	3.00%	4.43%
Total	100.0%	
Assumed Inflation - Mean		2.50%
Assumed Inflation - Standard Deviation		2.00%
Portfolio Arithmetic Mean Return		7.55%
Portfolio Standard Deviation		12.25%
Long-Term Expected Rate of Return		7.00%

Discount Rate

The discount rate used to measure the total liability as of December 31, 2014 and 2013 was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Plans' contributions will be made in accordance with the statutory contributions determined by the Actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00 percent; as well as what the Plan's net pension would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate:

2014

(in thousands)

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	1,448,685	1,066,171	740,824

6. CUSTODIAL AND OTHER PROFESSIONAL SERVICES

JP Morgan Chase Bank is custodian of plan assets with the exception of Mellon asset management investments in which Mellon Bank N.A. is the custodian. JP Morgan Chase also provides cash receipt and cash disbursement services to the Plan. New England Pension Consultants reviews the Plan's portfolio, the investment policies as stipulated by the Investment Committee and the performance of the Investment Managers. New England Pension Consultants also provides audit services for the Plan's equity portfolios. Actuarial services were provided to the Plan by Milliman Inc.

7. SUBSEQUENT EVENTS

As of January 25, 2016, there were no materially significant subsequent events.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

SCHEDULE I

**MANHATTAN AND BRONX SURFACE TRANSIT
OPERATING AUTHORITY PENSION PLAN**

REQUIRED SUPPLEMENTARY INFORMATION

**SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS
(in millions)**

	<u>2014</u>
Total pension liability:	
Service cost	\$ 72
Interest	224
Changes of benefit terms	—
Differences between expected and actual experience	(2)
Changes of assumptions	—
Benefit payments and withdrawals	(175)
Net change in total pension liability	<u>119</u>
Total pension liability – beginning	<u>3,213</u>
Total pension liability – ending (a)	<u>3,332</u>
Plan fiduciary net position:	
Employer contributions	226
Member contributions	15
Net investment income	105
Benefit payments and withdrawals	(175)
Administrative expenses	—
Other	—
Net change in plan fiduciary net position	<u>171</u>
Plan fiduciary net position – beginning	<u>2,094</u>
Plan fiduciary net position – ending (b)	<u>2,265</u>
Employer's net pension liability – ending (a)-(b)	<u>\$ 1,067</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.0%</u>
Covered-employee payroll	<u>\$ 616</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>173.21%</u>

Note: Information for periods prior to 2014 was not readily available.

SCHEDULE II

**MANHATTAN AND BRONX SURFACE TRANSIT
OPERATING AUTHORITY PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
(in thousands)**

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency/ (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2014	\$ 226,374	\$ 226,374	\$ -	616,372	36.73%
2013	234,474	234,474	-	582,081	40.28%
2012	228,918	228,918	-	575,989	39.74%
2011	186,454	186,454	-	579,696	32.16%
2010	200,633	200,633	-	591,073	33.94%
2009	204,274	204,274	-	569,383	35.88%
2008	201,919	201,919	-	562,241	35.91%
2007	179,228	179,228	-	519,680	34.49%
2006	159,638	259,638	(100,000)	498,039	52.13%
2005	153,445	153,445	-	479,461	32.00%

SCHEDULE II (CONTINUED)

**MANHATTAN AND BRONX SURFACE TRANSIT
OPERATING AUTHORITY PENSION PLAN**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Note to Schedule II:

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the Plan for the years ended December 31, 2014 and 2013, are as follows:

Valuation Dates	January 1, 2014	January 1, 2013
Actuarial cost method	Frozen initial liability (FIL) ⁽¹⁾	Frozen initial liability (FIL) ⁽¹⁾
Amortization method	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population	30-year level dollar
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets	Market value restart as of 1/1/96, then five-year moving average of market values
Interest rate	Net rate of 7.0% for 2014, per annum, net of investment expenses	Net rate of 7.0% for 2013 and 7.5% ⁽²⁾ per annum, prior to expenses for 2012
Inflation	2.50% per annum	2.50% per annum
Deaths after retirement	Tables based on recent experience	Tables based on recent experience
Separations other than for normal retirement	Tables based on recent experience	Tables based on recent experience
Rates of normal retirement	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80	Tables based on recent experience
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than overtime cap	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement
Cost-of-living adjustments	1.375% per annum ⁽²⁾	1.375% per annum ⁽²⁾
Provision for expenses	An average of the prior two years' administrative charges added to the normal cost	An average of the prior two years' administrative charges added to the normal cost

⁽¹⁾ Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method for determining changes in the Unfunded Actuarial Accrued Liability (UAAL) due to plan provision and assumption changes.

⁽²⁾ Assumes a long-term consumer price inflation assumption of 2.5% per annum, compounded annually.

**MANHATTAN AND BRONX SURFACE TRANSIT
OPERATING AUTHORITY PENSION PLAN****REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS**

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. The following table displays the annual money-weighted rate of return calculated net of investment expense for the Plan for:

Fiscal Year Ending December 31	Annual Money-Weighted Rate of Return
2014	4.95%

Note: Information for periods prior to 2014 was not readily available.

**SUPPLEMENTARY INFORMATION
(UNAUDITED)**

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

SUMMARY OF PRINCIPAL PLAN PROVISIONS

All Tiers

1. Type of Plan

The Plan is a contributory, defined benefit plan. Contributions are not required for Tier I and Tier II members and vary for other members. Details can be found in the following sections.
2. Effective Date of Plan Qualification

January 1, 1989; latest amendment was adopted during 2012 to adopt Tier 6 and to clarify the death benefit payable upon retirement for operating members.
3. Compensation

The wages earned by the employee. Compensation is limited by Section 401(a)(17) of the Code. This limit is \$265,000 for 2015.
4. Credited Service

Credited Service is credited full-time employment from date of hire.
5. Pensioner Supplementations
 - (a) 1998 Supplement

Eligibility: Date of retirement is prior to 1993 for all disability pensioners and other pensioners who have attained (or will attain) age 62 or who have attained (or will attain) age 55 and have been retired for at least 10 years.

Benefit: Commencing with the payment for the month of September 1998, the cost-of-living adjustment is applied to the first \$13,500 of the maximum retirement allowance, computed without option modification. If not eligible by September 1998, payment will commence first of the month following eligibility.
 - (b) 1999 Supplement

Eligibility: Date of retirement is prior to 1994 for all disability pensioners and other pensioners who have attained (or will attain) age 62 or who have attained (or will attain) age 55 and have been retired for at least 10 years.

Benefit: Commencing with the payment for the month of September 1999, the cost-of-living adjustment is applied to the first \$14,000 of the maximum retirement allowance, computed without option modification. If not eligible by September 1999, payment will commence first of the month following eligibility.

All Tiers

(c) 2000 Supplement

Eligibility: Date of retirement is prior to 1997 and one of the following conditions is met:

- (i) All disability pensioners who have been retired for at least 5 years,
- (ii) Other pensioners who have attained (or will attain) age 62 and have been retired for at least 5 years,
- (iii) Other pensioners who have attained (or will attain) age 55 and have been retired for at least 10 years and
- (iv) All recipients of an accidental death benefit who have been in receipt of payments for at least 5 years.

Benefit: Commencing with the payment for the month of September 2000, the cost-of-living adjustment is applied to the first \$18,000 of the maximum retirement allowance, computed without option modification. The cost-of-living adjustment is equal to the change in the CPI-U measured from year of retirement through 1997 multiplied by 50% (greater percentages exist if date of retirement is prior to 1968). If not eligible by September 2000, payment will commence first of the month following eligibility.

Surviving Spouse Eligibility: The surviving spouse of a deceased retired member who chose any joint and survivor option.

Surviving Spouse Benefit: Commencing with the payment for the month of September 2000, the benefit is equal to 50% of the 2000 supplementation which the pensioner would be receiving if living.

All Tiers

(d) Automatic Cost-of-Living Adjustment (COLA)

Eligibility: One of the following conditions is met:

- (i) All disability pensioners who have been retired for at least 5 years,
- (ii) Other pensioners who have attained (or will attain) age 62 and have been retired for at least 5 years,
- (iii) Other pensioners who have attained (or will attain) age 55 and have been retired for at least 10 years and
- (iv) All recipients of an accidental death benefit who have been in receipt of payments for at least 5 years.

Benefit: Commencing with the payment for the month of September 2001 and continuing each September thereafter, the COLA is applied to the first \$18,000 of the maximum retirement allowance, computed without option modification plus any prior COLAs or supplementations. The cost-of-living adjustment is equal to the change in the CPI-U for the year ending March 31 multiplied by 50%. The resulting percentage is then rounded up to the next higher 0.1% and shall not exceed 3.0% nor be less than 1.0%. If not eligible by September 2001 or each September thereafter, payment will commence first of the month following eligibility.

Surviving Spouse Eligibility: The surviving spouse of a deceased retired member who chose any joint and survivor option.

Surviving Spouse Benefit: The benefit is equal to 50% of the automatic COLA benefit which the pensioner would be receiving if living and commence in the month following the death of the deceased member.

6. Normal and Optional Forms of Payment

The basic benefits described in the following sections are payable in the form of a life annuity. Other options are 100% and 50% contingent annuities with and without a popup feature, 5-year and 10-year certain and life annuities, and single life annuities with an insurance feature.

Benefits payable under the optional forms are actuarially adjusted to reflect the anticipated longer payment stream.

7. Maximum Benefit

Maximum benefits payable conform to those legislated by the Tax Reform Act of 1986. For 2015, the maximum benefit is \$210,000.

8. Changes in Plan Provisions Since Prior Valuation

There have been no changes in plan provisions since the prior valuation.

I. Tier 1 Employees

1. Eligibility

Members hired before July 1, 1973.
2. Pensionable Compensation
 - (a) Compensation

Greater of earned or earnable salary during the year prior to retirement.
 - (b) Final Compensation

Highest average earnings over five consecutive years.
 - (c) Compensation Limit

If hired after June 17, 1971, earnings in a year are limited to 120% of the preceding year.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 50 and completion of 20 years of credited service.

Benefit:

1.5% for service before March 1, 1962, plus
2.0% for service from March 1, 1962 to June 30, 1970, plus
2.5% for service after June 30, 1970

The accumulated percentage above, up to a maximum of 50%, is multiplied by the member's Compensation. Once the accumulated percentage reaches 50%, the percentage for each further year of service reverts back to 1.5%. The percentage in excess of 50% is multiplied by the Final Compensation.
 - (b) Termination Benefits

Eligibility: Completion of 20 years of credited service.

Benefit: The Service Retirement Benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 50.
 - (c) Ordinary Death Benefits

Active Members

Eligibility: Completion of 6 months of credited service, but the benefit described below requires completion of 20 years of credited service.

Benefit: A lump sum equal to the present value of the retirement benefit under the Return of Reserve option.

Terminated Vested Members

If a member dies before age 50, a lump sum equal to the present value of the retirement benefit under the Return of Reserve option is payable (Death Gamble).

I. Tier 1 Employees

- | | |
|---|---|
| (d) Accidental Death Benefits | Eligibility: Duty-related death.
Benefit: The benefit equals 50% of Final Compensation. |
| (e) Ordinary Disability Benefits | Eligibility: Completion of 10 years of credited service.
Benefit: The benefit equals the greater of the Service Retirement percentages described (a) above or 25% multiplied by Final Compensation. If eligible for a service retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. |
| (f) Accidental Disability Benefits | Eligibility: Duty-related accident.
Benefit: The benefit equals 75% of the Final Compensation reduced by 100% of any worker's compensation payments. If eligible for a service retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. |
| 4. Member Contributions | None |
| 5. Changes in Plan Provisions Since Prior Valuation | None |

II. Tier 2 Employees

1. Eligibility Members hired on or after July 1, 1973, and before July 27, 1976.
2. Final Average Compensation
 - (a) Final 3-Year Average Compensation: Highest average earnings over three consecutive years.
 - (b) Final 5-Year Average Compensation: Highest average earnings over five consecutive years.
 - (c) Compensation Limit: Earnings in a year cannot exceed 120% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 55 and completion of 25 years of credited service.

Benefit: The benefit equals 50% of Final 3-Year Average Compensation for the first 20 years of credited service, plus 1.5% of Final 5-Year Average Compensation per year of credited service in excess of 20 years.
 - (b) Early Retirement

Eligibility: Attainment of age 50 and completion of 20 years of credited service.

Benefit: Determined in the same manner as the Service Retirement benefit but no greater than 2.0% of the Final 3-Year Average Compensation per year of credited service.
 - (c) Termination Benefits

Eligibility: Completion of 20 years of credited service.

Benefit: The benefit equals the Early Retirement benefit, with compensation and service calculated as of the date of termination. The benefit is deferred until age 50. If a member dies before age 50, 50% of the ordinary death benefit (below) is payable.
 - (d) Ordinary Death Benefit

Eligibility: Completion of 90 days of credited service.

Benefit: The benefit equals a lump sum equal to 3 times salary, raised to the next multiple of \$1,000.
 - (e) Accidental Death Benefit

Eligibility: Duty-related death.

Benefit: The benefit equals 50% of the Final 5-Year Average Compensation.

II. Tier 2 Employees

- | | |
|---|--|
| (f) Ordinary Disability Benefits | Eligibility: Completion of 10 years of credited service

Benefit: The benefit equals the greater of the Service Retirement percentage calculated in (a) above and 25% multiplied by Final 5-Year Average Compensation. If eligible for an Early or Service Retirement benefit, the greater of this benefit and the Early or Service Retirement benefit is payable. |
| (g) Accidental Disability Benefits | Eligibility: Duty-related accident.

Benefit: The benefit equals 75% of the Final 5-Year Average Compensation reduced by any worker's compensation payments. If eligible for an Early or Service Retirement benefit, the greater of this benefit and the Early or Service Retirement benefit is payable. |
| 4. Member Contributions | None |
| 5. Changes in Plan Provisions Since Prior Valuation | None |

Tier III/IV—Regular 62 & 5 Plan

1. Eligibility

Non-operating Members hired prior to June 28, 1995, who have not elected the 55 & 25 Plan. Members hired on or after July 27, 1976, and before September 1, 1983, are in Tier III. Members hired on or after September 1, 1983, are in Tier IV.
2. Final Average Compensation

Highest average earnings over three consecutive years. Earnings in a year cannot exceed 110% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 62 and completion of at least 5 years of credited service.

Benefit: If at least 20 years of credited service is completed, the benefit equals 2.0% of Final Average Compensation for first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. If completed less than 20 years of credited service, the benefit equals 1-2/3% of Final Average Compensation multiplied by years of credited service.
 - (b) Early Retirement

Eligibility: Attainment of age 55 and completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit reduced by 6% for each of the first two years prior to age 62, and by 3% for years prior to age 60.
 - (c) Termination Benefits
 - (i) Refund of Contributions

Eligibility: Completion of less than 5 years of Credited Service.

Benefit: The benefit equals a refund of the member's contributions accumulated with interest at a rate of 5.0%.
 - (ii) Vested Benefit

Eligibility: Completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 62. A vested participant with less than 10 years of credited service may elect to receive the benefit in (i) above in lieu of this benefit. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the ordinary death benefit (below) is payable. All accumulated regular contributions with interest are payable.

Tier III/IV—Regular 62 & 5 Plan

(d) Ordinary Death Benefits

Eligibility: all members.

Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Spouse Benefit (Tier III only)

Eligibility: Vested and spouse is beneficiary.

Benefit: In lieu of the ordinary death benefit above, the spouse may elect 1/3 of the ordinary death benefit plus an annuity of 1.0% of Final Average Compensation per year of credited service, payable for life, or until remarriage. If the surviving spouse is more than 10 years younger, the annuity is actuarially reduced. The total of all payments will at least equal the amount of the full lump sum benefit.

(e) Accidental Death Benefits

Eligibility: Duty-related death.

Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:

- (i) Spouse, until remarriage
- (ii) Children, to age 25
- (iii) Dependent parents
- (iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

Tier III/IV—Regular 62 & 5 Plan

- | | |
|---|---|
| (f) Ordinary and Accidental Disability Benefits | Eligibility: Completion of 10 years of credited service for ordinary. No service required for accidental.

Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. |
| 4. Member Contributions | Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000, or the later of 10 years of membership or 10 years of credited service. |
| 5. Changes in Plan Provisions Since Prior Valuation | None |

Tier III/IV—55 & 25 Programs

1. Eligibility

All operating members hired prior to April 1, 2012 and non-operating members hired prior to June 28, 1995, who elected this program. Members hired on or after July 27, 1976, and before September 1, 1983, are in Tier III. Members hired on or after September 1, 1983 and before April 1, 2012 are in Tier IV.
2. Final Average Compensation

Highest average earnings over three consecutive years. Earnings in a year cannot exceed 110% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 55 and completion of at least 25 years of credited service, or attainment of age 62 and completion of at least 5 years of credited service.

Benefit: If at least 25 years of credited service (or age 62 with at least 20 years of credited service) is completed, the benefit equals 2.0% of Final Average Compensation for the first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. If completed less than 25 years of credited service (or less than age 62 with 20 years of credited service), the benefit equals 1-2/3% of Final Average Compensation multiplied by years of credited service. For non-operating employees who have attained age 62, a refund of one-half of the member's additional contributions accumulated at a rate of 5.0% is also payable.
 - (b) Termination Benefits
 - (i) Refund of Contributions

Eligibility: Completion of less than 5 years of credited service.

Benefit: The benefit equals a refund of the member's contributions accumulated at a rate of 5.0%.
 - (ii) Vested Benefit

Eligibility: Completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 62 if credited service is less than 25 years, else the benefit is deferred until age 55. A vested participant with less than 10 years of credited service may elect to receive the benefit in (i) above in lieu of this benefit. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) plus accumulated regular contributions with interest and one-half of accumulated additional member contributions with interest are payable.

Tier III/IV—55 & 25 Programs

(c) Ordinary Death Benefits

Eligibility: All members.

Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

Spouse Benefit (Tier III only)

Eligibility: Vested and spouse is beneficiary.

Benefit: In lieu of the ordinary death benefit above, the spouse may elect 1/3 of the ordinary death benefit plus an annuity of 1.0% of Final Average Compensation per year of credited service, payable for life, or until remarriage. If the surviving spouse is more than 10 years younger, the annuity is actuarially reduced. The total of all payments will at least equal the amount of the full lump sum benefit.

(d) Accidental Death Benefits

Eligibility: Duty-related death.

Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:

- (i) Spouse, until remarriage
- (ii) Children, to age 25
- (iii) Dependent parents
- (iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

(e) Ordinary and Accidental Disability Benefits

Eligibility: Completion of 10 years of credited service for ordinary. No service requirement for accidental.

Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. For non-operating employees, a refund of one-half of the member's additional contributions accumulated at a rate of 5.0% is also payable.

Tier III/IV—55 & 25 Programs

4. Member Contributions

Operating Employees: Regular contribution rate of 2.0%. Additional 55/25 contributions were made through 2000. These contributions may be refunded effective November, 2007 for TWU Local 100 and April, 2008 for TSO Local 106.

Non-operating Employees: Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000 or after the later of 10 years of membership or 10 years of credited service. Additional contribution rate of 1.85%, which ceases after 30 years of credited service.

5. Changes in Plan Provisions Since Prior Valuation

None

Tier IV—57 & 5 Plan

1. Eligibility

Non-operating members hired on or after June 28, 1995 and prior to April 1, 2012. Members hired on or after September 1, 1983 and before April 1, 2012 are in Tier IV.
2. Final Average Compensation

Highest average earnings over three consecutive years. Earnings in a year cannot exceed 110% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 57 and completion of at least 5 years of credited service.

Benefit: If at least 20 years of credited service are completed, the benefit equals 2.0% of Final Average Compensation for the first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. If less than 20 years of credited service are completed, the benefit equals 1-2/3% of Final Average Compensation multiplied by years of credited service. For non-operating employees who have attained age 62, a refund of one-half of the member's additional contributions accumulated at a rate of 5.0% is also payable.
 - (b) Termination Benefits
 - (i) Refund of Contributions

Eligibility: Completion of less than 5 years of credited service.

Benefit: The benefit equals a refund of the member's contributions accumulated at a rate of 5.0%.
 - (ii) Vested Benefit

Eligibility: Completion of at least 5 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 57. A vested participant with less than 10 years of credited service may elect to receive the benefit in (i) above in lieu of this benefit. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) is payable. All accumulated regular contributions with interest and one-half of accumulated additional member contributions with interest are payable.

Tier IV—57 & 5 Plan

- | | |
|---|---|
| (c) Ordinary Death Benefits | <p>Eligibility: All members</p> <p>Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.</p> <p>Post-retirement Benefit: Upon retirement the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.</p> |
| (d) Accidental Death Benefits | <p>Eligibility: Duty-related death.</p> <p>Benefit: The benefit equals 50% of final 1-year compensation paid to eligible beneficiary as defined by priority:</p> <ul style="list-style-type: none">(i) Spouse, until remarriage(ii) Children, to age 25(iii) Dependent parents(iv) Any other dependent survivors, to age 21. <p>Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.</p> |
| (e) Ordinary and Accidental Disability Benefits | <p>Eligibility: Completion of 10 years of credited service for ordinary. No service requirement for accidental.</p> <p>Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. For non-operating employees, a refund of one-half of the member's additional contributions accumulated at a rate of 5.0% is also payable.</p> |
| 4. Member Contributions | <p>Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000, or after the later of 10 years of membership or 10 years of credited service. Additional contribution rate of 1.85%, which ceases after 30 years of credited service.</p> |
| 5. Changes in Plan Provisions Since Prior Valuation | <p>None</p> |

Tier VI—55 & 25 Special Plan

1. Eligibility

All operating members hired on or after April 1, 2012.
2. Final Average Compensation

Highest average pensionable earnings over five consecutive years. Pensionable earnings exclude any overtime earnings, defined as compensation paid at a rate greater than the standard rate, in excess of the overtime cap. The overtime cap is indexed annually and is \$15,000 for 2015. Pensionable earnings also exclude wages in excess of the annual salary paid to the Governor of New York, lump sum payments for sick leave, accumulated vacation and other credits for time not worked, termination pay and any additional compensation paid in anticipation of retirement. Pensionable earnings in a year cannot exceed 110% of the average of the four preceding years.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 55 and completion of at least 25 years of credited service, or attainment of age 63 and completion of at least 10 years of credited service.

Benefit: If completed at least 25 years of credited service, the benefit equals 2.0% of Final Average Compensation for the first 30 years of credited service plus 1.5% of Final Average Compensation for years of credited service in excess of 30. If completed at least 20 years, but less than 25 years of credited service, 35% of Final Average Compensation plus 2% of Final Average Compensation for years of credited service in excess of 20. If completed less than 20 years of credited service, the benefit equals 1-2/3% of Final Average Compensation multiplied by years of credited service.
 - (b) Termination Benefits
 - (i) Refund of Contributions

Eligibility: Completion of less than 10 years of credited service.

Benefit: The benefit equals a refund of the member's contributions accumulated at a rate of 5.0%.
 - (ii) Vested Benefit

Eligibility: Completion of at least 10 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 63 if credited service is less than 25 years, else the benefit is deferred until age 55. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) plus accumulated regular contributions with interest are payable.

Tier VI—55 & 25 Special Plan

(c) Ordinary Death Benefits

Eligibility: All members

Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

(d) Accidental Death Benefits

Eligibility: Duty-related death.

Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:

- (i) Spouse, until remarriage
- (ii) Children, to age 25
- (iii) Dependent parents
- (iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

(e) Ordinary and Accidental Disability Benefits

Eligibility: Completion of 10 years of credited service for ordinary. No service requirement for accidental.

Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable.

Tier VI—55 & 25 Special Plan

4. Member Contributions

Regular contribution rate varies based on gross wages earned during two plan years (April 1 to March 31) prior to applicable plan year based on following table. For first three years, a projection of annual wages will be used. The rate for the plan year ending March 31, 2013 for all Tier 6 employees is 2%.

Annual Wages Earned During Plan Year	Contribution Rate
Up to \$45,000	3.00%
\$45,001–\$55,000	3.50%
\$55,001–\$75,000	4.50%
\$75,001–\$100,000	5.75%
Greater than \$100,000	6.00%

5. Changes in Plan Provisions Since Prior Valuation

None

Tier VI—Basic 63 and 10 Plan

1. Eligibility

All non-operating members hired on or after April 1, 2012.
2. Final Average Compensation

Highest average pensionable earnings over five consecutive years. Pensionable earnings exclude any overtime earnings, defined as compensation paid at a rate greater than the standard rate, in excess of the overtime cap. The overtime cap is indexed annually and is \$15,000 for 2015. Pensionable earnings also exclude wages in excess of the annual salary paid to the Governor of New York, lump sum payments for sick leave, accumulated vacation and other credits for time not worked, termination pay and any additional compensation paid in anticipation of retirement. Pensionable earnings in a year cannot exceed 110% of the average of the four preceding years.
3. Benefits
 - (a) Service Retirement

Eligibility: Attainment of age 63 and completion of at least 10 years of credited service.

Benefit: If completed at least 20 years of credited service, 35% of Final Average Compensation plus 2% of Final Average Compensation for years of credited service in excess of 20. If completed less than 20 years of credited service, the benefit equals 1-2/3% of Final Average Compensation multiplied by years of credited service.
 - (b) Early Retirement

Eligibility: Attainment of age 55 and completion of at least 10 years of credited service.

Benefit: The benefit equals the Service Retirement benefit reduced by 6.5% for each year prior to age 63.
 - (c) Termination Benefits
 - (i) Refund of Contributions

Eligibility: Completion of less than 10 years of credited service.

Benefit: The benefit equals a refund of the member's contributions accumulated at a rate of 5.0%.
 - (ii) Vested Benefit

Eligibility: Completion of at least 10 years of credited service.

Benefit: The benefit equals the Service Retirement benefit with compensation and service calculated as of the date of termination. The benefit is deferred until age 63. If a member with at least 10 years of credited service dies before commencing benefits, 50% of the salary-related ordinary death benefit (below) plus accumulated regular contributions with interest are payable.

Tier VI—Basic 63 and 10 Plan

(d) Ordinary Death Benefits

Eligibility: All members

Pre-retirement Benefit: The benefit equals a lump sum of annual salary times the lesser of completed years of credited service and 3. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

Post-retirement Benefit: Upon retirement the pre-retirement benefit shall be reduced by 50% and reduced an additional 25% after completion of one year of retirement. After completion of two years of retirement, the benefit equals 10% of the pre-retirement benefit in force at age 60.

(e) Accidental Death Benefits

Eligibility: Duty-related death.

Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:

- (i) Spouse, until remarriage
- (ii) Children, to age 25
- (iii) Dependent parents
- (iv) Any other dependent survivors, to age 21.

Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.

(f) Ordinary and Accidental Disability Benefits

Eligibility: Completion of 10 years of credited service for ordinary. No service requirement for accidental.

Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable.

Tier VI—Basic 63 and 10 Plan

4. Member Contributions

Regular contribution rate varies based on gross wages earned during two plan years (April 1 to March 31) prior to applicable plan year based on following table. For first three years, a projection of annual wages will be used. The rate for the plan year ending March 31, 2013 for all Tier 6 employees is 3%.

Annual Wages Earned During Plan Year	Contribution Rate
Up to \$45,000	3.00%
\$45,001–\$55,000	3.50%
\$55,001–\$75,000	4.50%
\$75,001–\$100,000	5.75%
Greater than \$100,000	6.00%

5. Changes in Plan Provisions Since Prior Valuation

None

Metro-North Commuter Railroad Company Cash Balance Plan

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Supplemental Schedules, and
Independent Auditors' Report

DRAFT

METRO-NORTH COMMUTER RAILROAD COMPANY CASH BALANCE PLAN

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Metro-North Commuter Railroad Company Cash Balance Plan

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Metro-North Commuter Railroad Company Cash Balance Plan (the "Plan") as of December 31, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 2, in 2014, the Plan adopted Governmental Accounting Standards Board (“GASB”) Statement No. 67, *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*. 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 6, Schedule of Changes in the Employer’s Net Pension Liability and Related Ratios- Schedule I on page 20, Schedule of Employer Contributions- Schedule II on pages 21 through 22, and Schedule of Investment Returns- Schedule III on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 25, 2016

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2014 AND 2013

This narrative discussion and analysis of the Metro-North Commuter Railroad Company Cash Balance Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2014 and 2013. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with the prior year's activities and results. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements which begin on page 7.

Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the financial statements. The financial statements are:

- **The Statements of Plan Net Position** presents the financial position of the Plan at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the Fund presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan 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. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statements of Changes in Plan Net Position** present the results of activities during the year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- **The Notes to Financial Statements** provide additional information that is essential to understanding the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- **Required Supplementary Information**, as required by the GASB, is presented after the notes to the financial statements.

In 2014, the Plan adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. Implementation of GASB Statement No. 67 did not impact the fiduciary net position of the Plan; however, certain changes to note disclosures and required supplementary information have been incorporated to comply with the new standard.

Financial Highlights

The Plan is a single employer, defined benefit pension plan. The Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined Metro-North Commuter Railroad Company ("MNCR") as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the "Management Plan") and the Plan was closed to new participants. The assets of the Management Plan have been merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995.

The Plan's net position was \$719 thousand and \$751 thousand as of December 31, 2014 and 2013, respectively. This net position is held in trust for the payment of future benefits to members and beneficiaries.

The Plan's net position decreased by \$32 thousand or 4.3% during 2014 and by \$127 thousand or 14.5% during 2013. The decrease is primarily due to deductions made from the Plan for the lump sum and rollover payments offset by positive market performance of investments in 2014.

Deductions from the Plan's net position consist mainly of benefit payments to participants and their beneficiaries. Total deductions decreased by \$27 thousand or 23.6% in 2014 and by \$64 thousand or 35.8% in 2013. The fluctuations were caused by decrease in lump sum and rollover payments and the timing of retiree distributions in 2014 and 2013.

FINANCIAL ANALYSIS

Plan Net Position

December 31, 2014, 2013, and 2012

(Dollars in thousands)

	2014	2013	2012	Increase/(Decrease)	
				2014-2013	2013-2012
Investments, at fair value	\$ 695	\$ 745	\$ 873	\$ (50)	\$ (128)
Accrued interest	3	5	5	(2)	-
Receivable from MNCR	21	3	-	18	3
Total assets	719	753	878	(34)	(125)
Payable for investment securities purchased	-	2	-	(2)	2
Total liabilities	-	2	-	(2)	2
Net position - restricted for pension benefits	<u>\$ 719</u>	<u>\$ 751</u>	<u>\$ 878</u>	<u>\$ (32)</u>	<u>\$ (127)</u>

CHANGES IN PLAN NET POSITION

MNCR's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately \$2.977 million to the trust fund in 1989. As participants retire, distributions from the Plan have been made by the Trustee. MNCR anticipated that no further contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded accrued liabilities were paid to the Plan in several subsequent years. Per the January 1, 2013 actuarial valuations, the actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2013. Per the January 1, 2014 actuarial valuation, the unfunded accrued liability was \$18 thousand which included administrative fees reimbursable to the Plan from MNCR. The full amount was paid to the Plan in 2015. Per the January 1, 2015 valuation, the actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2015.

Changes in Plan Net Position For the Years Ended December 31, 2014, 2013 and 2012 (Dollars in thousands)

	2014	2013	2012	Increase/(Decrease)	
				2014-2013	2013-2012
Additions:					
Net investment income/(loss)	\$ 42	\$ (12)	\$ 51	\$ 54	\$ (63)
Employer contributions	<u>14</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>-</u>
Total additions	<u>56</u>	<u>(12)</u>	<u>51</u>	<u>68</u>	<u>(63)</u>
Deductions:					
Benefits paid to participants	<u>88</u>	<u>115</u>	<u>179</u>	<u>(27)</u>	<u>(64)</u>
Total deductions	<u>88</u>	<u>115</u>	<u>179</u>	<u>(27)</u>	<u>(64)</u>
Net decrease	<u>(32)</u>	<u>(127)</u>	<u>(128)</u>	<u>95</u>	<u>1</u>
Net position-restricted for pension benefits:					
Beginning of year	<u>751</u>	<u>878</u>	<u>1,006</u>	<u>(127)</u>	<u>(128)</u>
End of year	<u>\$ 719</u>	<u>\$ 751</u>	<u>\$ 878</u>	<u>\$ (32)</u>	<u>\$ (127)</u>

The Plan is a closed plan and currently has 12 active members as of January 1, 2015. Investments are primarily in bonds and asset backed securities to minimize exposure to market fluctuations.

INVESTMENTS

The table below summarizes the Plan's investment allocations and investment returns.

Investment Summary (Dollars in thousands)

Type of Investment	Fair Value	Allocation	Current Year Return
December 31, 2014			
U.S. government & agency securities	\$ 286	41.1 %	2.4 %
Corporate bonds & asset backed securities	297	42.7 %	4.1 %
Short-term investments	105	15.1 %	0.0 %
Other bonds & fixed income securities	<u>7</u>	<u>1.1 %</u>	<u>5.1 %</u>
Total	<u>\$ 695</u>	<u>100.0 %</u>	<u>2.8 %</u>
December 31, 2013			
U.S. government & agency securities	\$ 329	44.2 %	3.3 %
Corporate bonds & asset backed securities	291	39.1 %	4.2 %
Short-term investments	117	15.8 %	0.0 %
Other bonds & fixed income securities	<u>8</u>	<u>0.9 %</u>	<u>5.6 %</u>
Total	<u>\$ 745</u>	<u>100.0 %</u>	<u>3.1 %</u>
December 31, 2012			
U.S. government & agency securities	\$ 371	42.4 %	2.3 %
Corporate bonds & asset backed securities	345	39.6 %	4.1 %
Short-term investments	150	17.2 %	0.0 %
Other bonds & fixed income securities	<u>7</u>	<u>0.8 %</u>	<u>5.2 %</u>
Total	<u>\$ 873</u>	<u>100.0 %</u>	<u>2.7 %</u>

Contact Information

This financial report is designed to provide a general overview of the Metro-North Commuter Railroad Company Cash Balance Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Controller, Metro-North Commuter Railroad, 420 Lexington Ave-2nd FL, New York, NY 10170.

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

STATEMENTS OF PLAN NET POSITION **AS OF DECEMBER 31, 2014 AND 2013**

	2014	2013
ASSETS:		
Investments, at fair value:		
U.S. government & agency securities	\$ 285,775	\$ 329,149
Corporate bonds & asset backed securities	296,665	291,311
Other bonds & fixed income securities	7,514	6,787
Short-term investments	<u>105,010</u>	<u>117,443</u>
Total investments	<u>694,964</u>	<u>744,690</u>
Accrued interest	3,683	4,750
Receivable from MNCR	<u>20,728</u>	<u>3,732</u>
Total assets	<u>719,375</u>	<u>753,172</u>
LIABILITIES:		
Payable for investment securities purchased	<u>(272)</u>	<u>(1,738)</u>
Total liabilities	<u>(272)</u>	<u>(1,738)</u>
NET POSITION - restricted for pension benefits	<u>\$ 719,103</u>	<u>\$ 751,434</u>

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
ADDITIONS:		
Investment income/(loss):		
Interest	\$ 19,360	\$ 23,064
Net depreciation/appreciation in fair value of investments	<u>21,686</u>	<u>(34,793)</u>
Total investment income/(loss)	41,046	(11,729)
Contributions:		
Employer	14,124	-
Other	<u>263</u>	<u>45</u>
Total additions	<u>55,433</u>	<u>(11,684)</u>
DEDUCTIONS:		
Benefits paid to participants	(87,735)	(114,880)
Other	<u>(29)</u>	<u>(31)</u>
Total deductions	<u>(87,764)</u>	<u>(114,911)</u>
NET DECREASE	(32,331)	(126,595)
NET POSITION - restricted for pension benefits		
Beginning of year	<u>751,434</u>	<u>878,029</u>
End of year	<u>\$ 719,103</u>	<u>\$ 751,434</u>

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY CASH BALANCE PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. PLAN DESCRIPTION

The following description of the Metro-North Commuter Railroad Company Cash Balance Plan provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a single employer, defined benefit pension plan administered by MNCR. The Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MNCR as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the "Management Plan") and the Plan was closed to new participants. The assets of the Management Plan have been merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995. The 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 Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act ("ERISA") of 1974.

Plan Administration

The MTA Board of Trustees shall appoint a Board of Managers of Pensions consisting of five individuals who may, but need not, be officers or employees of the company. The members of the Board of Managers shall hold office at discretion of the MTA Board, each to serve until his successor is appointed. The Board of Managers shall be the agent for the service of legal process with respect to the Plan. No bond or other security is required in any jurisdiction of the Board of Managers or any member thereof except as required by law.

The Board of Managers shall control and manage the operation and administration of the Plan. It shall have all the powers that within its judgment may be necessary or appropriate for that purpose, including, but not by way of limitation, power to adopt any rules consistent with the provisions of the Plan deemed necessary to effectuate the Plan, to conduct the affairs of the Board of Managers, to administer the Plan, to interpret the Plan, to determine the eligibility, status and rights of all persons under the Plan and, in general, to decide any dispute.

Benefits Provided

Pension Benefits - Participants of the Plan obtain a nonforfeitable right to their accrued benefit upon the earlier of (a) the completion of five years of service with the MTA Metro-North Railroad or (b) the attainment of age sixty-two. Vested participants are entitled to receive pension benefits commencing at age sixty-five. Vested participants may elect to receive early retirement benefits upon the attainment of age fifty-five through age sixty-four.

Participants may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or they may elect to receive their benefits as a life annuity payable monthly from retirement. Participants may also elect to receive their pension benefits in the form of a joint and survivor annuity.

Prior to a participant's annuity commencement date, each Participant's account balance shall be increased each month by a factor, which when compounded monthly for 12 months, would produce the benefit escalator for the applicable plan year.

The benefit escalator is defined as the Pension Benefit Guaranty Corporation immediate annuity rate in effect for December of the year preceding the year for which the determination is being made.

Death Benefits — Benefits are paid to vested participants' beneficiaries in the event of a participants' death. The amount of benefits payable is the participant's account balance at the date of his or her death.

Membership

Membership of the Plan consisted of the following at January 1, 2015, the date of the latest actuarial valuation:

Active Plan Members	12
Retirees and beneficiaries receiving benefits	25
Vested formerly active members not yet receiving benefits	17
Total	<u>54</u>

Contributions

Funding for the Plan is provided by MNCR which is a public benefit corporation that receives funding for its operations and capital needs from the Metropolitan Transportation Authority ("MTA") and the Connecticut Department of Transportation ("CDOT"). Certain funding by MTA is made to MNCR on a discretionary basis. The continuance of funding for the Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

MNCR's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately \$2.977 million to the trust fund in 1989. As participants retire, distributions from the Plan have been made by the Trustee. MNCR anticipated that no further contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded accrued liabilities were paid to the Plan in several subsequent years. Per the January 1, 2013 actuarial valuations, the actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2013. Per the January 1, 2014 actuarial valuation, the unfunded accrued liability was \$18 thousand which included administrative fees reimbursable to the Plan from MNCR. The full amount was paid to the Plan in 2015. Per the January 1, 2015 valuation, the actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2015.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of the Plan's 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include the determination of the fair market value of investments, the annual required contribution and the unfunded actuarial accrued liability.

Investment Valuation and Income Recognition

Fair value for the publicly traded government bonds and notes, corporate bonds and mortgage/asset backed securities represents the quoted market prices of a national securities exchange. Gains and losses on investments that were sold during the year are included in net appreciation or depreciation in fair value of investments. Interest income on the government and corporate bonds is recorded when earned. The Plan's investments are held in trust by Wells Fargo Bank (the "Trustee"), in the name of the Plan.

Benefits

Benefits are recognized when paid.

Administrative Expenses

The administrative expenses of the Plan are typically paid by MNCR. Administrative expenses were \$10,958 and \$9,228 for the years ended December 31, 2014 and 2013, respectively.

Federal Income Tax Status

The Internal Revenue Service ("IRS") has determined and informed MNCR by a letter dated January 10, 1997, that the Plan and related trust were designed in accordance with the applicable regulations of the IRC. The Plan has been amended since receiving the determination letter. MNCR believes that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

New Accounting Standards

The Plan has adopted Governmental Accounting Standards Board ("GASB") Statement No. 67, *Financial Reporting for Pension Plans – an Amendment to GASB Statement No. 25*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which: (1) contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable (2) pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms and (3) pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets are also legally protected from creditors of the plan members. For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and non-employer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is

required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 25 and Statement No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. Implementation of GASB Statement No. 67 did not impact the fiduciary net position of the Plan; however, certain changes to note disclosures and required supplementary information have been incorporated to comply with the new standard.

The Plan has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. GASB Statement No. 70 also requires a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. GASB Statement No. 70 further requires an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. This Statement also requires a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Plan has determined that GASB Statement No. 70 had no impact on its fiduciary net position.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of this statement is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements. These improvements are based in part on the concepts and definitions established in Concepts Statement No. 6, *Measurement of Elements of Financial Statements*, and other relevant literature. The provisions in GASB Statement No. 72 are effective for fiscal years beginning after June 15, 2015.

The Plan has completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this statement that applies to the Plan is the clarification of the application of certain provisions of Statement 67 with regard to the following issues:

1. Information that is required to be presented as notes to the 10-year schedules of require supplementary information about investment-related factors that significantly affect trends in the amounts reported.
2. Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions.
3. Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation.

The Plan has determined that the relevant sections of GASB Statement No. 73 had no impact on its fiduciary net position or Required Supplementary Information.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this statement is to identify the GAAP hierarchy and supersede Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It will improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The provisions in GASB Statement No. 76 are effective for fiscal years beginning after June 15, 2015.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes as well as related note disclosures. It will improve financial reporting by enhancing comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The provisions in GASB Statement No. 79 are effective for reporting periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015.

Subsequent Events

As of January 25, 2016, there were no materially significant subsequent events.

3. INVESTMENTS

A professional investment management firm manages the Plan. The Plan utilizes various investment securities including U.S. government securities and corporate debt instruments. The investment guideline is included within the investment management agreement agreed to by the MTA Board of Trustees. The guideline grants the investment manager full discretion to buy, sell, invest and reinvest the Funds assets in domestic fixed income investments. The investment objective is to achieve consistent, positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The investment management firm is required to maintain a diversified portfolio. All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all state and federal statutes governing the investment of retirement funds. Securities managers must be registered

advisors under the Investment Advisors Act of 1940. The investment managers must comply with the risk management guidelines per the Investment Management Agreement.

Investment managers may not purchase inverse floating rate bonds, structured notes, commodities, securities on margin, sell short, lend securities, invest in private placements, commingled funds (except Short-Term Investment Funds), real estate investments, and oil, gas & mineral exploration investments without the written consent of the Plan. The Plan's fixed-income assets shall be invested in domestic marketable, fixed-income securities.

Fixed-income managers are expected to adhere to the following guidelines as a means of limiting credit risk:

- Commercial Paper, Eurodollar Commercial Paper and Variable Rate Notes rated P-1 by Moody's, A1 by Standard and Poor's, or F1 by Fitch.
- Certificates of Deposit and Bankers Acceptances of institutions whose long-term debt is rated Baa or better by Moody's Investor's Service or equivalent by Standard & Poor's.
- United States Treasury Bonds, Notes and Bills.
- Debt instruments of the U.S. Government or its Agencies and Instrumentalities.
- Marketable corporate debt, Yankee bonds, Eurodollar bonds, non-agency mortgage-backed securities, asset backed securities and taxable municipal securities rated the equivalent of Baa or better by Moody's Investors Services, Standard & Poor's, or Fitch Investor's Services, for an overall portfolio average of A or better. In the case of split ratings, the higher rating applies.
- Collateralized Mortgage Obligations ("CMO's") backed by pools of agency or non-agency mortgages including those that are re-constructed in their original proportions from the same pool (such as IO's/PO's, and floaters/inverse floaters). Companion tranches and support tranches are limited to 3% of the book value of the portfolio.
- 144A Privates (non-registered debt issued by corporations), non-convertible preferred stock and fully hedged non-dollar bonds rated A or better by Moody's Investors Services, Standard & Poor's, or Fitch Investor's Services are limited to 20% of the book value of the portfolio.
- Securities downgraded subsequent to purchase resulting in violation of quality guidelines may be held at the manager's discretion.
- Managers may not hold more than 5% at book value and 10% at market value of the portfolios in any one issuer's securities other than direct or moral obligations of the U.S. Government.
- Unrated securities other than those issued by the U.S. Government or its Agencies and Instrumentalities may not be purchased without the prior consent of the Plan.

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for the Plan was 5.96%.

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur

at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

The Plan's investments (including gains and losses on investments sold during the year) appreciated/ (depreciated) in value as follows:

	Year Ended December 31,	
	2014	2013
Net appreciation/(depreciation) in fair value of investments as determined by Quoted Market Prices		
U.S. government & agency securities	\$ 15,602	\$ (20,693)
Corporate bonds & asset backed securities	5,358	(13,564)
Other bonds & fixed income securities	727	(536)
	<u>\$ 21,686</u>	<u>\$ (34,793)</u>

Credit Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2014 and December 31, 2013, respectively, are as follows:

December 31, 2014 Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$ 23,468	3.38%
AA+	10,078	1.45
AA	10,083	1.45
A+	10,405	1.50
A	32,549	4.68
AA-	6,489	0.93
A-	83,595	12.03
BBB+	45,535	6.55
BBB	45,398	6.53
BBB-	26,425	3.80
NR	<u>20,164</u>	<u>2.90</u>
Total credit risk debt securities	314,189	
U.S. government & agency securities*	<u>380,775</u>	<u>54.79</u>
Total investment portfolio	<u>\$ 694,964</u>	<u>100.00%</u>

December 31, 2013**Quality Rating**

	Fair Value	Percentage of Portfolio
AAA	\$ 39,516	5.31%
AA+	20,229	2.72
AA	10,179	1.37
A+	10,433	1.40
A	41,121	5.52
A-	61,583	8.27
BBB+	34,835	4.68
BBB	32,978	4.43
BBB-	29,639	3.98
NR	<u>25,031</u>	<u>3.36</u>

Total credit risk debt securities

305,544

U.S. government & agency securities*

439,14658.97

Total investment portfolio

\$ 744,690100.00%

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Custodial Credit Risk

The Plan does not have a general policy addressing custodial risk, but it is the practice of the Plan that all investments are registered or held by the Plan or its agent in the Plan's name. Deposits are to be registered or collateralized with securities held at fiscal agents in the Plan's name.

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 100 basis point change in interest rates.

December 31, 2014**Investment Type**

	Fair Value	Percentage of Portfolio	Duration
U.S. government & agency securities	\$ 285,775	41.12%	5.17
Corporate bonds & asset backed securities	296,665	42.69	5.89
Other Bonds & fixed income securities	7,514	1.08	9.06
Short-term investments	<u>105,010</u>	<u>15.11</u>	0.02
Total investment	<u>\$ 694,964</u>	<u>100.00%</u>	

Portfolio average duration

4.74

December 31, 2013			
Investment Type	Fair Value	Percentage of Portfolio	Duration
U.S. government & agency securities	\$ 329,149	44.20%	5.58
Corporate bonds & asset backed securities	291,311	39.12	4.97
Other Bonds & fixed income securities	6,787	0.91	9.16
Short-term investments	<u>117,443</u>	<u>15.77</u>	0.12
Total investment	<u>\$ 744,690</u>	<u>100.00%</u>	
Portfolio average duration			<u>4.51</u>

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan assets are invested in domestic fixed-income securities denominated in U.S. dollars and accounted for at fair market value. The Plan has no exposure to foreign currency fluctuation.

4. NET PENSION LIABILITY

The components of the net pension liability of the Employer at December 31, 2014 and 2013, for the Plan, were as follows:

	2014	2013
Total pension liability	\$710,000	\$765,558
Plan fiduciary net position liability	\$698,375	\$747,702
Employer's net pension liability	\$11,625	\$17,856
Plan fiduciary net position as a percentage of the total	98.36%	97.67%

The total pension liability was determined by an actuarial valuation as of the valuation date, calculated based on the discount rate and actuarial assumptions below and was then projected forward to the measurement date. There have been no significant changes between the valuation date and the fiscal year end.

Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used in the January 1, 2015 valuation were as follows:

Valuation Date: January 1, 2014
Actuarial cost method: Entry Age Normal
Amortization method: One-year period

Asset valuation method: Market value of plan assets

Actuarial assumptions:

Investment rate of return: 4.5%

Inflation: 2.5%

Projected salary increases: N/A

COLAs: N/A

Interest: 4.5% per annum, compounded annually.

Benefit Escalator: 3.00% per annum, compounded annually.

Provision for Expenses: None assumed payable from Plan assets.

Termination: Rates vary by age. Illustrative rates are shown below:

<u>Age</u>	<u>Rate</u>	<u>Age</u>	<u>Rate</u>
20	11.46%	45	0.67%
25	6.29	50	0.63
30	3.43	55	0.59
35	1.73	60	0.55
40	0.90	64	0.00

Retirement: Rates vary by age. Illustrative rates are shown below:

<u>Age</u>	<u>Rate</u>
55	12.0%
56	8.0
57-58	6.0
59-60	7.0
61	15.0
62	35.0
63-64	20.0
65+	100.0

Mortality: Pre-termination: RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments, projected on a generational basis using Scale AA.

Post-termination: 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, both projected on a generational basis using Scale AA.

Form of Payment for Cash Balance Account: For active participants, lump sum at decrement. For terminated vested participants, lump sum on the valuation date.

Benefits not valued: The Additional Benefit was not valued as the potential liability for this benefit is de minimus.

Actuarial Valuation Method: The Unit Credit Cost method was used for determining normal costs and the unfunded accrued liability.

Asset Valuation Method: The Asset Valuation method used the Market Value of plan assets.

Changes in Actuarial Assumptions Since Prior Valuation: None

Expected Rate of Return on Investments

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2013.

Asset Class	Index	Target Allocation	Long-Term Expected Real Rate of Return
Core Fixed Income	Barclays Aggregate	100.00%	2.19%

Discount Rate

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Discount rate	4.5%
Long-term expected rate of return net of investment expense	4.5%
Municipal Bond Rate	N/A

Sensitivity Analysis

The following presents the net pension liability of the Metro-North Commuter Railroad Company Cash Balance Plan, calculated using the discount rate of 4.50%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.50%) or percentage point higher (5.50%) than the current rate.

	1% Decrease 3.50%	Current Discount Rate 4.50%	1% Increase 5.50%
Net Pension Liability	48,625	11,625	(20,375)

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule I

Required Supplementary Information (Unaudited)

Schedule of Changes in the Employer's Net Pension Liability and Related Ratios (\$ in Thousands)

	<u>2014</u>
Total Pension Liability:	
Service Cost	\$ -
Interest	32
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumptions	-
Benefit payments	(88)
Net change in total pension liability	(56)
Total pension liability - beginning	766
Total pension liability - ending (a)	710
Fiduciary Net Position:	
Employer contributions	\$ -
Member contributions	-
Net investment income	41
Benefit payments	(88)
Administrative expenses	(3)
Net change in plan fiduciary net position	(50)
Fiduciary net position - beginning	748
Fiduciary net position - ending (b)	698
Net pension liability - ending (a)-(b)	\$ 12
Fiduciary net position as a percentage of the total pension liability	98.36%
Covered payroll	2,080
Net pension liability as a percentage of covered payroll	0.56%

In accordance with GASB No. 67, paragraph 50, information was not readily available for periods prior to 2014.

**METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN**

Schedule II

**Required Supplementary Information (Unaudited)
Schedule of Employer Contributions**

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2005	\$ 6,592	\$ 6,592	\$ -	\$ -	N/A
2006	13,010	13,010	-	-	N/A
2007	9,666	9,666	-	-	N/A
2008	13,683	13,683	-	-	N/A
2009	330	330	-	-	N/A
2010	1,837	11,875	(10,038)	-	N/A
2011	-	-	-	-	N/A
2012	-	-	-	-	N/A
2013	-	-	-	-	N/A
2014	4,977	14,124	(9,147)	2,080,077	0.68%

**METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN**

Schedule II (continued)

**Notes to Required Supplementary Information (Unaudited)
Schedule of Employer Contributions**

Actuarial Methods and Assumptions Used for Funding Policy

Valuation Timing	Actuarially determined contributions calculated as of December 31.
Actuarial Cost Method	Unit Credit
Amortization Method	Period specified in current valuation report (closed 10 year period beginning January 1, 2008 - 4 year period for the January 1, 2014 valuation).
Asset Valuation Method	Effective January 1, 2015, the Actuarially Determined Contribution (ADC) will reflect one-year amortization of the unfunded accrued liability in accordance with the funding policy adopted by the MTA.
Inflation	2.50%
Salary Increases	N/A There were no projected salary increase assumptions used in the January 1, 2014 valuation as the participants of the Plan were covered under the Management Plan effective January 1, 1989. For participants of the Plan eligible for additional benefits, these benefits were not valued as the potential liability is de minimus.
Investment Rate of Return	4.50%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule III

Required Supplementary Information (Unaudited)
Schedule of Investment Returns

The following table displays annual money-weighted rate of return, net of investment expense.

<u>Fiscal Year Ending December 31</u>	<u>Net Money-Weighted Rate of Return</u>
2005	N/A
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	5.96%

Metropolitan Transportation Authority Deferred Compensation Program

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013, and
Independent Auditors' Report

METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

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INDEPENDENT AUDITORS' REPORT

To the Committee of the
Metropolitan Transportation Authority Deferred Compensation Program

Report on the Financial Statements

We have audited the accompanying statements of plans net position of the Metropolitan Transportation Authority Deferred Compensation Program, comprised of the Deferred Compensation Plans for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates and the Thrift Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates, (the "Plans") as of December 31, 2014 and 2013, and the related statements of changes in plans net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plans' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 22 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 25, 2016

METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013

The Deferred Compensation Program is comprised of the Deferred Compensation Plans for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates ("457 Plan") and the Thrift Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates ("401(k) Plan"), collectively known as the "Plans" and the "Metropolitan Transportation Authority Deferred Compensation Plans". This management's discussion and analysis of the Plans' financial performance provides an overview of the Plans' financial activities for the years ended December 31, 2014 and 2013. It is meant to assist the reader in understanding the Plans' financial statements by providing an overall review of the financial activities during the year and the effects of significant changes. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with the Plans' financial statements which begin on page 23.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

The following discussion and analysis is intended to serve as an introduction to the financial statements. The basic financial statements are:

- **The Statement of Plans Net Position** — presents the financial position of the Plans at fiscal year end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan 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. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statements of Changes in Plans Net Position** present the results of activities during the year. All changes affecting the assets and liabilities of the Plans are reflected on an accrual basis when the activity occurred regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- **The Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plans' accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

The financial statements are prepared in accordance with GASB Pronouncements.

Financial Highlights

As a result of various Deferred Compensation Program changes, expanding participant eligibility through collective bargaining, a strong educational program and greater participant satisfaction, the Deferred Compensation Program has continued to grow. The assets of the 457 Plan exceeded its liabilities by \$2.011 billion and the assets of the 401(k) plan exceeded its liabilities by \$2.756 billion as of December 31, 2014. This net position is held in trust for distribution to the Plans participants and/or beneficiaries.

The assets of the 457 Plan exceeded its liabilities by \$1.815 billion and the assets of the 401(k) plan exceeded its liabilities by \$2.491 billion as of December 31, 2013. This net position is held in trust for distribution to the Plans participants and/or beneficiaries.

During 2014, the net positions held in trust for the 457 Plan and the 401(k) Plan increased by \$195.933 million and \$265.703 million respectively due primarily to net investment income and employer and employee contributions to the plans. This was offset by distributions to participants and plan expenses.

During 2013, the net positions held in trust for the 457 Plan and the 401(k) Plan increased by \$278.814 million and \$380.305 million respectively due primarily to net investment income and employer and employee contributions to the plans. This was offset by distributions to participants and plan expenses.

Deductions from the Plans' net position consist primarily of distributions to participant and transfers to other plans, and plan expenses in the amounts of \$93.311 million and \$76.193 million for the 457 Plan and \$119.305 million and \$110.965 million for the 401(k) Plan for the year ended December 31, 2014 and 2013, respectively.

Plans Net Position
As of December 31,
(\$ In Thousands)

457 Plan

				Amount of Change		Percentage Change	
	2014	2013	2012	(2014 - 2013)	(2013 - 2012)	(2014 - 2013)	(2013 - 2012)
ASSETS:							
Investments at fair value:	\$ 1,949,962	\$ 1,759,129	1,484,329	\$ 190,833	\$ 274,800	10.8%	18.5%
Participant loans receivable	60,849	55,740	51,718	5,109	4,022	7.2	7.8
Total assets	<u>2,010,811</u>	<u>1,814,869</u>	<u>1,536,047</u>	<u>195,942</u>	<u>278,822</u>	<u>10.8</u>	<u>18.2</u>
LIABILITIES:							
Administrative expense reimbursement	66	57	49	9	8	15.8	16.3
Total liabilities	<u>66</u>	<u>57</u>	<u>49</u>	<u>9</u>	<u>8</u>	<u>15.8</u>	<u>16.3</u>
TOTAL NET POSITION	<u>\$ 2,010,745</u>	<u>\$ 1,814,812</u>	<u>\$ 1,535,998</u>	<u>\$ 195,933</u>	<u>\$ 278,814</u>	<u>10.8%</u>	<u>18.2%</u>

401K Plan

				Amount of Change		Percentage Change	
	2014	2013	2012	(2014 - 2013)	(2013 - 2012)	(2014 - 2013)	(2013 - 2012)
ASSETS:							
Investments at fair value:	\$ 2,637,807	\$ 2,379,654	\$ 2,009,694	\$ 258,153	\$ 369,960	10.8%	18.4%
Participant loans receivable	118,639	111,081	101,727	7,558	9,354	6.8	9.2
Total assets	<u>2,756,446</u>	<u>2,490,735</u>	<u>2,111,421</u>	<u>265,711</u>	<u>380,314</u>	<u>10.7</u>	<u>18.0</u>
LIABILITIES:							
Administrative expense reimbursement	66	58	49	8	9	13.8	18.4
Total liabilities	<u>66</u>	<u>58</u>	<u>49</u>	<u>8</u>	<u>9</u>	<u>13.8</u>	<u>18.4</u>
TOTAL NET POSITION	<u>\$ 2,756,380</u>	<u>\$ 2,490,677</u>	<u>\$ 2,111,372</u>	<u>\$ 265,703</u>	<u>\$ 380,305</u>	<u>10.7%</u>	<u>18.0%</u>

Changes in Plans Net Position
For the Years Ended December 31,
(\$ In Thousands)

457 Plan

				Amount of Change		Percentage Change	
	2014	2013	2012	(2014 - 2013)	(2013 - 2012)	(2014 - 2013)	(2013 - 2012)
ADDITIONS:							
Investment income:	\$ 84,328	\$ 211,663	\$ 108,827	\$(127,335)	\$ 102,836	(48.6)%	94.5%
Contributions and additional deposits	202,375	141,077	129,003	61,298	12,074	30.3	9.4
Loan repayments - interest	2,541	2,267	2,238	274	29	12.1	1.3
Total additions	289,244	355,007	240,068	(65,763)	114,939	(18.5)	47.9
DEDUCTIONS:							
Distribution to participants	42,368	37,327	34,318	5,041	3,009	13.5	8.8
Transfers to other plans	47,317	36,761	28,505	10,556	8,256	28.7	29.0
Net participant loan activity	1,850	1,315	3,529	535	(2,214)	(168.4)	(62.7)
Other	1,776	790	764	986	26	(124.8)	3.4
	93,311	76,193	67,116	17,118	9,077	22.5	13.5
Increase in net position	195,933	278,814	172,952	(82,881)	105,862	(29.7)	61.2
TOTAL NET POSITION							
Beginning of year	1,814,812	1,535,998	1,363,046	278,814	172,952	18.2	12.7
End of year	<u>\$ 2,010,745</u>	<u>\$ 1,814,812</u>	<u>\$ 1,535,998</u>	<u>\$ 195,933</u>	<u>\$ 278,814</u>	<u>10.8 %</u>	<u>18.2 %</u>

401K Plan

				Amount of Change		Percentage Change	
	2014	2013	2012	(2014 - 2013)	(2013 - 2012)	(2014 - 2013)	(2013 - 2012)
ADDITIONS:							
Investment income:	\$ 118,282	\$ 303,221	\$ 156,543	\$(184,939)	\$ 146,678	61.0%	1136.5%
Contributions and additional deposits	261,753	182,497	167,895	79,256	14,602	43.4	8.7
Loan repayments - interest	4,973	4,552	4,358	421	194	9.2	4.5
Total additions	385,008	490,270	328,796	(105,262)	161,474	21.5	49.1
DEDUCTIONS:							
Distribution to participants	49,663	45,739	36,501	3,924	9,238	8.6	25.3
Transfers to other plans	64,409	61,783	42,704	2,626	19,079	4.3	44.7
Net participant loan activity	2,254	1,872	4,539	382	(2,667)	(20.4)	(58.8)
Other	2,979	1,571	1,262	1,408	309	19.7	24.5
	119,305	110,965	85,006	8,340	25,959	7.5	30.5
Increase in net position	265,703	379,305	243,790	(113,602)	135,515	(30.0)	55.6
TOTAL NET POSITION							
Beginning of year	2,490,677	2,111,372	1,867,582	379,305	243,790	18.0	13.1
End of year	<u>\$ 2,756,380</u>	<u>\$ 2,490,677</u>	<u>\$ 2,111,372</u>	<u>\$ 265,703</u>	<u>\$ 379,305</u>	<u>10.7 %</u>	<u>18.0 %</u>

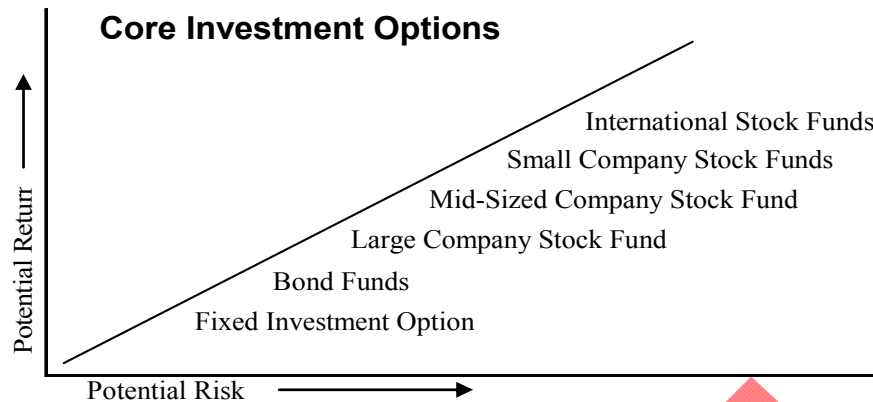
Investment Options

The MTA Plans offer ten (10) Target Lifecycle Funds which provide a diversified mix of the Plans' investment options and allow a participant to choose the fund closest to the withdrawal date. The Target-Year Lifecycle Funds are designed to provide a complete asset allocation strategy appropriate for an individual's risk and return preferences in a single fund through a diversified portfolio of the Plans' domestic stock funds, international stock funds and fixed income funds. Allocations are automatically rebalanced to their targets on a quarterly basis.

<u>Fund Name</u>	<u>Asset Class</u>	<u>Portfolio Allocations</u>
MTA Target-Year Lifecycle 2010 Fund	Large Cap 9% Mid Cap 2% Small Cap 2% International 8% Market Bonds 15% Stable Value 43% TIPS 21%	MTA Large Cap Core Index Fund 3% MTA Large Cap Value Portfolio 3% MTA Large Cap Growth Portfolio 3% MTA Mid Cap Core Portfolio 2% MTA Small Cap Core Portfolio 2% MTA International Portfolio 8% MTA Bond Core Plus Portfolio 15% MTA Stable Value Fund 43% MTA TIPS 21%
MTA Target-Year Lifecycle 2015 Fund	Large Cap 9% Mid Cap 4% Small Cap 4% International 10% Market Bonds 17% Stable Value 36% TIPS 20%	MTA Large Cap Core Index Fund 5% MTA Large Cap Value Portfolio 2% MTA Large Cap Growth Portfolio 2% MTA Mid Cap Core Portfolio 4% MTA Small Cap Core Portfolio 4% MTA International Portfolio 10% MTA Bond Core Plus Portfolio 17% MTA Stable Value Fund 36% MTA TIPS 20%
MTA Target-Year Lifecycle 2020 Fund	Large Cap 13% Mid Cap 4% Small Cap 4% International 14% Market Bonds 20% Stable Value 28% TIPS 17%	MTA Large Cap Core Index Fund 7% MTA Large Cap Value Portfolio 3% MTA Large Cap Growth Portfolio 3% MTA Mid Cap Core Portfolio 4% MTA Small Cap Core Portfolio 4% MTA International Portfolio 14% MTA Bond Core Plus Portfolio 20% MTA Stable Value Fund 28% MTA TIPS 17%
MTA Target-Year Lifecycle 2025 Fund	Large Cap 18% Mid Cap 6% Small Cap 6% International 18% Market Bonds 23% Stable Value 15% TIPS 14%	MTA Large Cap Core Index Fund 10% MTA Large Cap Value Portfolio 4% MTA Large Cap Growth Portfolio 4% MTA Mid Cap Core Portfolio 6% MTA Small Cap Core Portfolio 6% MTA International Portfolio 18% MTA Bond Core Plus Portfolio 23% MTA Stable Value Fund 15% MTA TIPS 14%

<u>Fund Name</u>	<u>Asset Class</u>	<u>Portfolio Allocations</u>
MTA Target-Year Lifecycle 2030 Fund	Large Cap 20% Mid Cap 6% Small Cap 6% International 21% Market Bonds 27% Stable Value 8% TIPS 12%	MTA Large Cap Core Index Fund 10% MTA Large Cap Value Portfolio 5% MTA Large Cap Growth Portfolio 5% MTA Mid Cap Core Portfolio 6% MTA Small Cap Core Portfolio 6% MTA International Portfolio 21% MTA Bond Core Plus Portfolio 27% MTA Stable Value Fund 8% MTA TIPS 12%
MTA Target-Year Lifecycle 2035 Fund	Large Cap 22% Mid Cap 7% Small Cap 6% International 24% Market Bonds 30% TIPS 11%	MTA Large Cap Core Index Fund 12% MTA Large Cap Value Portfolio 5% MTA Large Cap Growth Portfolio 5% MTA Mid Cap Core Portfolio 7% MTA Small Cap Core Portfolio 6% MTA International Portfolio 24% MTA Bond Core Plus Portfolio 30% MTA TIPS 11%
MTA Target-Year Lifecycle 2040 Fund	Large Cap 28% Mid Cap 8% Small Cap 8% International 28% Market Bonds 28%	MTA Large Cap Core Index Fund 14% MTA Large Cap Value Portfolio 7% MTA Large Cap Growth Portfolio 7% MTA Mid Cap Core Portfolio 8% MTA Small Cap Core Portfolio 8% MTA International Portfolio 28% MTA Bond Core Plus Portfolio 28%
MTA Target-Year Lifecycle 2045 Fund	Large Cap 31% Mid Cap 10% Small Cap 10% International 34% Market Bonds 15%	MTA Large Cap Core Index Fund 15% MTA Large Cap Value Portfolio 8% MTA Large Cap Growth Portfolio 8% MTA Mid Cap Core Portfolio 10% MTA Small Cap Core Portfolio 10% MTA International Portfolio 34% MTA Bond Core Plus Portfolio 15%
MTA Target-Year Lifecycle 2050 Fund	Large Cap 33% Mid Cap 10% Small Cap 10% International 36% Market Bonds 11%	MTA Large Cap Core Index Fund 11% MTA Large Cap Value Portfolio 11% MTA Large Cap Growth Portfolio 11% MTA Mid Cap Core Portfolio 10% MTA Small Cap Core Portfolio 10% MTA International Portfolio 36% MTA Bond Core Plus Portfolio 11%
MTA Income Fund	Large Cap 5% Mid Cap 2% Small Cap 2% International 6% Market Bonds 12% Stable Value 50% TIPS 23%	MTA Large Cap Core Index Fund 1% MTA Large Cap Value Portfolio 2% MTA Large Cap Growth Portfolio 2% MTA Mid Cap Core Portfolio 2% MTA Small Cap Core Portfolio 2% MTA International Portfolio 6% MTA Bond Core Plus Portfolio 12% MTA Stable Value Fund 50% MTA TIPS 23%

In addition to the ten target year lifecycle funds, the Plans offer a spectrum of investment options that include two international funds, two small company stock funds, two mid-size company stock funds, three large company stock funds, two bond funds, and the Stable Income Fund (“Fixed Investment Option”).



The investment objective for each of the funds is described below. Additional information on each investment option, including a Fund Fact Sheet is available on the plans' website at www.Prudential.com/MTA.

International Equity Funds

MTA International Index Fund – The fund invests wholly in State Street Global Advisors (“SSgA”) Global All Cap Equity ex U.S. Index Fund – Class C. The fund seeks to match as closely as possible, before expenses, the performance of the MSCI ACWI ex-USA Index over the long term.

MTA International Portfolio – The Portfolio is managed by two complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 50/50 split. By employing two managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **William Blair Institutional International Growth Fund** – (Foreign Large Growth) The fund seeks long-term capital appreciation. The fund normally invests at least 80% of total assets in a diversified portfolio of equity securities, including common stocks and other forms of equity investments, issued by companies of all sizes domiciled outside the U.S. that the Advisor believes have above-average growth, profitability and quality characteristics. Its investments are normally allocated among at least six different countries and no more than 50% of the fund's equity holdings may be invested in securities of issuers in one country at any given time.
2. **Target International Equity Q Fund** – (Foreign Large Blend) The fund seeks capital appreciation. The fund is advised by Prudential Investments LLC and normally invests at least 80% of investable assets in stocks of companies in diverse array of foreign countries. It may invest in large, mid or small capitalization companies. The fund may invest in securities of companies that are organized under the laws of a foreign country, companies that derive more than 50% of their revenues from activities in foreign countries, and companies that have at least 50% of their assets located abroad.

Small-Cap Equity Funds

MTA Small Cap Core Index Fund – (Small Cap Blend) The fund invests wholly in the SSgA Russell 2000 Index Non-Lending Series Fund – Class A. The SSgA Fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the Russell 2000 Index over the long term.

MTA Small Cap Core Portfolio – The Portfolio is managed by two complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 50/50 split. By employing two managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **The Conestoga Small Cap Growth Fund** – (Small Growth) This Separate Account is advised by Conestoga Capital Advisors LLC. The Strategy seeks long-term capital appreciation.

2. **The Denver Small Cap Value Fund – (Small Blend)** This Separate Account is advised by Denver Investment Advisors LLC. The strategy seeks to achieve long-term capital appreciation primarily through investments in dividend paying companies with small capitalizations whose stocks appear to be undervalued.

Mid-Cap Equity Funds

MTA Mid Cap Core Index Fund – (Blend) The fund invests wholly in the SSgA S&P Mid Cap Index Non-Lending – Class C. The fund seeks an investment return that approximates as closely as practicable, before expenses, the performance of the S&P MidCap 400 Index over the long term.

MTA Mid Cap Core Portfolio – The Portfolio is managed by two complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 50/50 split. By employing two managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **Frontier Capital Fund Mid Cap Growth – (Growth)** This Separate Account is advised by Frontier Capital Management Company LLC. The fund seeks to provide capital appreciation and outperform the Russell MidCap Growth Index over the long term. The securities of mid-capitalization companies involve greater risks than those associated with larger, more established companies and may be subject to more abrupt or erratic price movements.
2. **Vanguard Selected Value Fund – (Value)** The fund is advised by Barrow, Hanley, Mewhinney & Strauss Inc. and Donald Smith & Co. The investment seeks to provide long-term growth of capital appreciation and income. The fund invests mainly in the stocks of medium-size U.S. companies, choosing stocks considered by an advisor to be undervalued which are generally those that are out of favor with investors and are trading at prices that the advisor feels are below average in relation to measures such as earnings and book value. These Stocks often have above-average dividend yields.

Large-Cap Equity Funds

MTA Large Cap Value Portfolio – (Value) The Portfolio invests wholly in the T. Rowe Price Institutional Large Cap Value Fund. The investment seeks to provide long-term capital growth through investment in the common stocks of large-cap growth companies. The fund follows a growth investment approach and expects to normally invest in approximately 100 to 130 growth companies. The Portfolio invests at least 80% of its net assets in large-cap companies. The fund defines a large-cap company as one whose market capitalization is larger than the median market capitalization of companies in the Russell 1000 Growth Index. It may invest in foreign stocks in keeping with the fund's objectives.

MTA Large Cap Growth Portfolio – (Growth) The Portfolio invests wholly in the Large Cap Growth Jennison Fund. The Separate Account is advised by Jennison, following its Large Cap Growth Equity Investment strategy. It seeks to outperform, over the long term, both the Russell 1000 Growth and the S&P 500 Indexes and to be the best performing manager among its peers, with a consistent risk profile.

MTA Large Cap Core Index Fund – (Blend) The Fund invests wholly in the Vanguard Institutional Index Fund Institutional Plus Shares. The investment seeks to track the performance of a benchmark index that measures the investment return of large capitalization stocks. The fund attempts to replicate the target index by investing all, or substantially all, of assets in the stocks that make up Standard & Poor's 500 Index, holding each stock in approximately the same proportion as its weighting in the index.

Bond Funds

MTA Bond Core Plus Portfolio – The Portfolio invests wholly in the Core Plus Bond/PIMCO Fund. This Separate Account is advised by PIMCO following their Full Authority Fixed Income Total Return Investment Strategy, pursuant to an agreement with Prudential Retirement. It seeks to exceed the return of the Barclays U.S. Aggregate Bond Index, consistent with preservation of capital by investing in a diversified portfolio of fixed income securities.

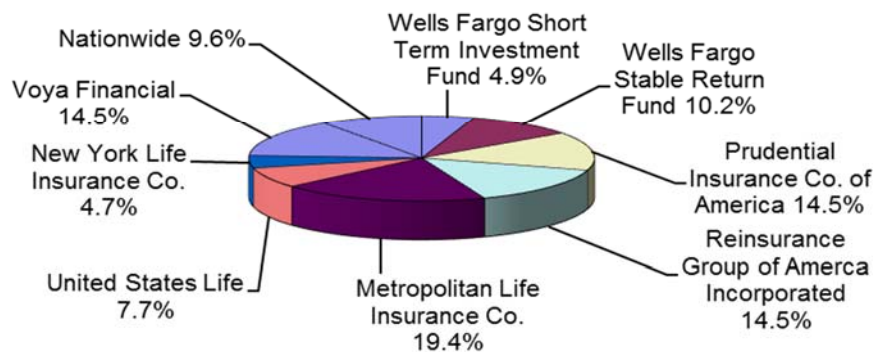
MTA Bond Aggregate Index Fund - The Fund invests wholly in the SSgA US Bond Index Non-Lending – Class C. The Fund seeks to match, as closely as possible, before expenses, the performance of the Barclays U.S. Aggregate Bond Index over the long term.

Fixed Investment Option

MTA Stable Value Fund – Seeks to provide safety of principal and a stable credited rate of interest, while generating competitive returns over time compared to other comparable investments. The fund is managed by Galliard Capital Management and is primarily comprised of investment contracts issued by financial institutions and other eligible stable value investments. All contract issuers and securities utilized in the portfolio are rated investment grade by one of the Nationally Recognized Statistical Rating Organizations at time of purchase. The types of investment contracts in which the Fund invests include Separate Account and Security Backed Investment Contracts. These types of investment contracts seek to provide participants with safety of principal and accrued interest as well as a stable crediting rate. Separate Account GICs are GICs issued by an insurance company and are maintained within a separate account. Separate Account GICs are typically backed by segregated portfolios of fixed income securities. Security Backed Investment Contracts are comprised of two components: 1) investment contracts issued by a financial institution and 2) underlying portfolios of fixed income securities (i.e. bonds) whose market prices fluctuate. The investment contract is designed to allow participants to transact at book value (principal plus accrued interest) without reference to the price fluctuations of the underlying fixed income securities.

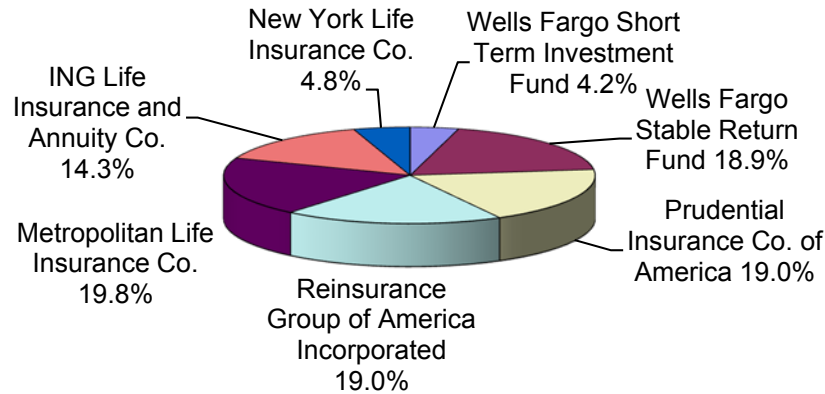
The following chart shows the underlying investments of the MTA Stable Value Fund as of December 31, 2014 and 2013.

**Stable Income Fund
Wrap Provider Distribution as of December 31, 2014**



*The Wells Fargo Stable Return Fund G is not a part of the wrapped portfolio.

Stable Income Fund
Wrap Provider Distribution as of December 31, 2013



*The Wells Fargo Stable Return Fund G is not a part of the wrapped portfolio.

The MTA Plans' investment options performance is outlined in the following tables. The MTA, with the assistance of its independent investment consultant, continuously monitors the investment options in conformance with the investment policy for the Plans. Below each Fund listed below is the benchmark used to compare the investment results.

Performance Summary

Year ended December 31, 2014

Stable Value

	3 Months	1 Year	3 Years	5 Years	7 Years
MTA Stable Value	0.5%	1.9%	2.3%	2.8%	3.3%
Galliard 5YrCMT+50bps	0.5%	2.2%	1.7%	1.9%	2.2%

Domestic Fixed

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA Aggregate Bond Index Fund	1.8%	6.0%	2.6%	4.4%	4.8%
Barclays Capital U.S. Aggregate	1.8%	6.0%	2.7%	4.5%	4.8%
SSgA U.S. Inflation Protected Bond Index Fund	0.0%	3.5%	.3%	4.0%	4.1%
Barclays Capital U.S. TIPS	0.0%	3.6%	.4%	4.1%	4.2%
Prudential Core Plus (Separate Account)	2.0%	5.1%	4.7%	4.7%	5.8%
Barclays Capital U.S. Aggregate	1.8%	6.0%	2.7%	4.5%	4.8%

Performance Summary

Year ended December 31, 2014 (continued)

Domestic Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
Vanguard Institutional Index Fund Institutional Plus S&P 500	4.9%	13.7%	20.4%	15.5%	7.3%
	4.9%	13.7%	20.4%	15.5%	7.3%
T Rowe Price Institutional Large-Cap Value Fund Russell 1000 Value	4.4%	13.1%	21.3%	14.9%	7.3%
	5.0%	13.5%	20.9%	15.4%	6.4%
Jennison Large Cap Growth (Prudential Separate Account) Russell 1000 Growth	2.9%	10.1%	20.6%	14.4%	8.6%
	4.8%	13.0%	20.3%	15.8%	8.4%
SSgA S&P400 MidCap Index S&P 400 MidCap	6.4%	9.7%	19.9%	16.5%	9.4%
	6.3%	9.8%	20.0%	16.5%	9.5%
Vanguard Selected Value Fund Investor Russell Midcap Value	2.9%	6.4%	20.3%	16.0%	9.1%
	6.1%	14.7%	22.0%	17.4%	9.1%
Frontier Mid Cap Growth (Prudential Separate Account) Russell Midcap Growth	6.8%	11.3%	20.6%	15.6%	8.6%
	5.8%	11.9%	20.7%	16.9%	8.6%
SSgA Russell 2000 Index Russell 2000	9.8%	4.9%	19.2%	15.5%	8.1%
	9.7%	4.9%	19.2%	15.5%	8.2%
Denver Small Cap Value (Separate Account) Westcore Small Cap Value Dividend Fund Inst Russell 2000 Value	10.7%	6.8%	NA	NA	NA
	10.9%	6.6%	17.0%	15.2%	7.4%
	9.4%	4.2%	18.3%	14.3%	7.6%
Conestoga Small Cap Growth (Separate Account) Conestoga Small Cap Fund Russell 2000 Growth	9.5%	-7.9%	NA	NA	NA
	9.7%	-8.0%	15.1%	16.8%	9.1%
	10.1%	5.6%	20.1%	15.7%	8.7%

International Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA MSCI ACWI ex-U.S. IMI Index MSCI AC World ex U.S. Net	-4.4%	-4.3%	9.2%	NA	NA
	-3.9%	-3.9%	9.2%	4.7%	-.3%
William Blair Institutional International Growth Fund MSCI AC World ex U.S. Growth Net WHT	-1.6%	-2.7%	12.8%	8.3%	.3%
	-2.3%	-2.6%	9.5%	5.2%	-.4%
Target International Equity Q MSCI AC World ex U.S. Value Net WHT MSCI EAFE Value NET WHT	-4.1%	-7.0%	9.5%	NA	NA
	-5.4%	-5.1%	8.5%	8.5%	-.9%
	-4.9%	-5.4%	11.0%	11.0%	-1.0%

Performance Summary

Year ended December 31, 2014 (continued)

Lifecycle

	3 Months	1 Year	3 Years	5 Years	7 Years
MTA Income	.8%	2.8%	4.2%	4.7%	4.1%
MTA Income Composite Index	.8%	3.4%	3.9%	4.6%	3.9%
MTA 2010	0.9%	3.2%	5.2%	5.5%	4.8%
MTA 2010 Composite Index	0.9%	3.8%	4.8%	5.4%	4.4%
MTA 2015	1.2%	3.2%	6.0%	6.3%	5.6%
MTA 2015 Composite Index	1.1%	4.0%	5.7%	6.2%	5.0%
MTA 2020	1.3%	3.4%	7.2%	6.9%	5.4%
MTA 2020 Composite Index	1.2%	4.3%	6.7%	6.7%	4.9%
MTA 2025	1.7%	3.8%	9.1%	8.1%	5.6%
MTA 2025 Composite Index	1.6%	5.0%	8.7%	8.0%	5.2%
MTA 2030	1.7%	3.9%	9.9%	8.4%	5.4%
MTA 2030 Composite Index	1.6%	5.2%	9.3%	8.9%	5.3%
MTA 2035	1.8%	4.1%	10.8%	8.8%	5.1%
MTA 2035 Composite Index	1.6%	5.4%	10.1%	8.7%	5.3%
MTA 2040	2.2%	4.2%	12.8%	9.8%	5.0%
MTA 2040 Composite Index	2.0%	5.8%	12.2%	9.8%	5.2%
MTA 2045	2.2%	3.7%	14.2%	10.5%	4.8%
MTA 2045 Composite Index	2.0%	5.5%	13.9%	10.7%	5.2%
MTA 2050	2.1%	3.6%	14.6%	10.7%	4.5%
MTA 2050 Composite Index	1.9%	5.4%	14.4%	10.8%	5.1%

Performance Summary

Year ended December 31, 2013 (continued)

Stable Value

	3 Months	1 Year	3 Years	5 Years	7 Years
MTA Stable Value	0.5%	2.3%	2.8%	3.2%	3.7%
Galliard 5YrCMT+50bps	0.5%	1.7%	1.7%	2.0%	2.6%
Citigroup 3-Month Tbill + 150 bp Premium	0.4%	1.6%	1.6%	1.6%	2.5%

Domestic Fixed

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA Aggregate Bond Index Fund	-0.2%	-2.1%	3.2%	4.5%	5.09%
Barclays Capital U.S. Aggregate	-.1%	-2.0%	3.3%	6.0%	4.9%
SSgA U.S. Inflation Protected Bond Index Fund	-2.0%	-8.7%	3.4%	5.5%	5.2%
Barclays Capital U.S. TIPS	-2.0%	-8.6%	3.5%	5.6%	5.3%
PIMCO Total Return (Prudential Separate Account)	0.0%	-0.9%	3.8%	5.9%	6.3%
Barclays Capital U.S. Aggregate	-0.1%	-2.0%	3.3%	4.5%	4.9%
Vanguard Institutional Index Fund Institutional Plus	10.5%	32.4%	16.2%	18.0%	6.2%
S&P 500	10.5%	32.4%	16.2%	17.9%	6.1%
T Rowe Price Institutional Large-Cap Value Fund	9.9%	34.0%	16.0%	17.8%	5.7%
Russell 1000 Value	10.0%	32.5%	16.1%	16.7%	4.5%
Jennison Large Cap Growth (Prudential Separate Account)	12.3%	36.7%	16.9%	20.4%	8.8%
Russell 1000 Growth	10.4%	33.5%	16.5%	20.4%	8.2%
SSgA S&P400 MidCap Index	8.3%	33.4%	15.6%	21.8%	9.2%
S&P 400 MidCap	8.3%	33.5%	15.6%	21.9%	9.2%
Vanguard Selected Value Fund Investor	10.0%	42.0%	18.2%	21.8%	8.1%
Russell Midcap Value	8.6%	33.5%	16.0%	21.2%	6.8%
Frontier Mid Cap Growth (Prudential Separate Account)	8.4%	33.8%	14.8%	20.0%	NA
Russell Midcap Growth	8.2%	35.7%	15.6%	23.4%	8.5%
SSgA Russell 2000 Index	8.7%	38.7%	15.6%	19.9%	7.1%
Russell 2000	8.7%	38.8%	15.7%	20.1%	7.2%
Denver Small Cap Value (Separate Account)	7.1%	NA	NA	NA	NA
Westcore Small Cap Value Dividend Fund Inst	7.0%	36.9%	14.4%	18.4%	NA
Russell 2000 Value	9.3%	34.5	14.5	17.6%	5.4%
Conestoga Small Cap Growth (Separate Account)	NA	NA	NA	NA	NA
Conestoga Small Cap Fund	11.0%	49.3%	20.1%	22.6%	11.4%
Russell 2000 Growth	8.2%	43.3%	16.8%	22.6%	8.39%

Performance Summary

Year ended December 31, 2013 (continued)

International Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA MSCI ACWI ex-U.S. IMI Index	4.8%	15.2%	NA	NA	NA
MSCI AC World ex U.S. Net	4.7%	15.8%	5.1%	13.5%	2.4%
William Blair Institutional International Growth Fund	7.3%	18.9%	8.4%	16.9%	3.2%
MSCI AC World ex U.S. Growth Net WHT	4.7%	15.5%	4.9%	12.9%	2.7%
Target International Equity Q	5.8%	20.9%	NA	NA	NA
MSCI AC World ex U.S. Value Net WHT	4.9%	15.0%	5.3%	12.7%	1.5%
MSCI EAFE Value NET WHT	6.3%	23.0%	8.3%	12.0%	0.6%

Lifecycle

	3 Months	1 Year	3 Years	5 Years	7 Years
MTA Income	1.1%	3.0%	4.6%	5.9%	4.6%
MTA Income Composite Index	0.2%	-0.6%	4.7%	5.7%	4.3%
MTA 2010	1.6%	4.6%	5.3%	7.7%	NA
MTA 2010 Composite Index	0.8%	1.3%	5.8%	7.3%	NA
MTA 2015	2.1%	6.2%	5.9%	9.3%	6.5%
MTA 2015 Composite Index	1.8%	5.4%	5.6%	8.0%	5.5%
MTA 2020	2.8%	8.3%	6.7%	10.2%	NA
MTA 2020 Composite Index	2.4%	7.5%	6.3%	9.0%	NA
MTA 2025	3.9%	12.1%	8.0%	11.7%	6.4%
MTA 2025 Composite Index	3.4%	10.8%	7.6%	10.6%	5.6%
MTA 2030	4.3%	13.4%	8.4%	12.4%	NA
MTA 2030 Composite Index	4.3%	12.4%	9.2%	12.2%	NA
MTA 2035	4.8%	14.9%	9.0%	13.1%	6.0%
MTA 2035 Composite Index	4.2%	13.1%	8.4%	12.2%	5.4%
MTA 2040	6.1%	20.0%	10.1%	14.7%	NA
MTA 2040 Composite Index	5.5%	18.1%	9.6%	13.9%	NA
MTA 2045	7.2%	24.1%	11.0%	16.0%	5.7%
MTA 2045 Composite Index	6.5%	21.9%	10.5%	15.5%	5.7%
MTA 2050	7.6%	25.4%	11.3%	16.5%	NA
MTA 2050 Composite Index	6.8%	23.1%	10.8%	16.0%	NA

The table below summarizes the Plans' investments by category at December 31, 2014:

FUND INVESTMENT SUMMARY

Investment at Fair Value	457 Fair Value Distribution		401k Fair Value Distribution	
Target-Year Lifecycle Funds	\$310,082,729	15.90%	\$466,322,084	17.68%
International Equity Funds	92,685,736	4.75	131,360,638	4.98
Small-Cap Equity Funds	88,454,049	4.54	125,007,402	4.74
Mid-Cap Equity Funds	152,311,762	7.81	195,652,664	7.42
Large-Cap Equity Funds	459,490,678	23.56	671,727,401	25.47
Bond Funds	73,070,359	3.75	106,953,196	4.05
Stable Income Fund	771,831,770	39.58	938,061,759	35.56
Self-Directed Brokerage Option	2,035,410	0.11	2,721,576	0.10
Total Investments	\$1,949,962,493	100%	\$2,637,806,720	100%

The table below summarizes the Plans' investments by category at December 31, 2013:

FUND INVESTMENT SUMMARY

Investment at Fair Value	457 Fair Value Distribution		401k Fair Value Distribution	
Target-Year Lifecycle Funds	\$279,837,713	15.91%	\$429,211,484	18.04%
International Equity Funds	82,561,847	4.69	115,383,144	4.85
Small-Cap Equity Funds	87,278,820	4.96	124,296,260	5.22
Mid-Cap Equity Funds	133,833,691	7.61	175,438,114	7.37
Large-Cap Equity Funds	384,841,472	21.87	565,727,243	23.77
Bond Funds	53,075,375	3.02	79,231,672	3.33
Stable Income Fund	735,826,594	41.83	888,014,832	37.32
Self-Directed Brokerage Option	1,873,383	0.11	2,351,529	0.10
Total Investments	\$ 1,759,128,895	100.00%	\$ 2,379,654,278	100.00%

At December 31, 2014, the investment option holding the largest portion of participants' funds in both the 457 and 401(k) Plans was the Stable Income Funds with 39.58% and 36.56% of invested funds, respectively. This was followed by the Large-Cap Equity Funds with 23.56% and 25.47% of invested 457 and 401(k) funds, respectively.

At December 31, 2013, the investment option holding the largest portion of participants' funds in both the 457 and 401(k) Plans was the Stable Income Funds with 41.83% and 37.32% of invested funds, respectively. This was followed by the Large-Cap Equity Funds with 21.87% and 23.77% of invested 457 and 401(k) funds, respectively.

Economic Factors

Market Overview 2014

Calendar year 2014 saw U.S. equities and bonds performed better than most analysts predicted in their 2014 investment outlook. The job market outperformed, consumer and business confidence improved and corporations aggressively put cash to work after years of staying on the side-lines. As a result, 2014 proved to be a good year for U.S. stocks, to this end, the S&P 500 returned 13.7% for the year, and the Russell 2000 gained 4.9%. These advances came amid a slump in the rest of the world with the Morgan Stanley Capital International Europe, Australia and Far East ("MSCI EAFE") Index falling 3.5% in December 2014. The drop was fueled by a 4.3% decline in European shares with investors even shrugging off intensifying expectations of additional monetary policy accommodation by the European Central Bank ("ECB"). Domestic fixed income indices, although mixed in December, ended the year on a strong note with the Barclays Aggregate Index up 6.0% for 2014. Domestic fixed income indices were bolstered through the year by narrowing Treasury yields, despite the market's anticipation of rates rising. The yield on the 10-year Treasury fell to 2.11% in December from 2.16% a month earlier. In contrast, the World Government Bond Index ("WGBI Index") declined by 0.7%, partially affected by currency depreciation in international markets. By contrast, emerging market equities returned -2.2% for 2014 after a very difficult year. The pattern of returns across asset classes over the year, and especially in the fourth quarter, drove home the impact that divergent global growth and by extension divergent monetary policy has had on asset markets.

The fourth quarter of 2014 was, in many regards, a perfect microcosm of the issues that had built in global markets over the course of the year. Three factors are notable, and persistent: i) the slow but inexorable U.S. economic recovery; ii) the contrasting sluggishness of the rest of the world economy, large parts of which remain heavily reliant on stimulus; and iii) the excess capacity that exists in parts of the global economy and is currently most visible in commodity markets. Both of the periods of market disruption in early October and early December last year were likely influenced by these factors as markets re-priced their impact.

Despite the pockets of market volatility during the fourth quarter, the Chicago Board Options Exchange Market Volatility Index ("VIX") averaged just 16 over the quarter, which was 2.5 points above the average of the prior three quarters, but still well below crisis levels. Indeed, the price action in key asset classes in the fourth quarter showed an extension of the full year trends. Global equities added 290 basis points ("bps"), global bonds added 340bps, and global credit added 160bps; meanwhile commodities, already down 7.5% at the end of the third quarter, fell a further 27.7% as oil slumped below \$60/bbl.

The anatomies of the market shakeouts that occurred in October and December are worth noting. First, the relative speed with which equity markets, specifically U.S. equities regained their footing, reinforces the view that the underlying economy is gradually improving. Secondly, the failure of high yield credit markets to rebound strongly with equities may be explained in part by the impact of weaker oil prices on the U.S. mid and small cap energy sector, but is also likely to be a function of liquidity fears. Little wonder then that markets directly affected by liquidity stimulus notably Japan, rebounded very sharply from their lows, while markets where liquidity is scarce (high yield, emerging market debt) struggled to recover. Finally, the extreme moves in bond markets were only partly to do with capitulations of short positions. The weakness in commodity markets is very likely to precipitate a marked drop in global inflation. This global disinflationary impulse, together with ongoing demand for duration from central banks, is clearly holding yields down.

In retrospect, 2014 was a year of many themes that never materialized. With the 10-year Treasury at 3.03% at the end of 2013, markets were poised for lower returns amid expectations that a continued rise in rates, in conjunction with the tapering monetary policy, would negatively affect fixed income securities; instead, bond markets posted robust returns and rode rates all the way down to pre-taper levels. Furthermore, a rally in equities lasting nearly five years and a Gross Domestic Product ("GDP") contraction in the first quarter of 2014 were reason enough to express caution around US markets. That said, successive quarters of stronger-than-expected growth quickly eased these fears and allowed U.S. equities to continue their winning streak. In June, oil prices rose to over \$110 per barrel amid conflict in Ukraine and the Middle East, only to fall by more than half by year

end. Even the Federal Reserve Bank's planned winding down of its bond purchases mostly went off without a hitch when the very idea of tapering caused havoc in markets only a year earlier.

As with any investment, there exists the possibility of a risk of loss. Those risks include the risk of changes in economic and market conditions, the concentration of investments within a portfolio, and the volatility of securities or the assets underlying the investment. With alternative investments, investors may be required to hold the investment for a certain time period before they can sell and there can be conditions when fund managers are not required to make distributions. Also, in the case of certain alternative investments, management and their investment advisors use assumptions and judgments to determine the estimated fair value for these investments as they are not always readily marketable. The actual results, ultimately realized, could differ from these estimates. Additionally, each of the above discussed factors could affect the ultimate fair value realized from an investment. The fair value that management has determined for financial statement presentation purposes may not be indicative of the amounts ultimately realized upon a sale of a security.

Market Overview and Outlook – 2015

Despite low returns across all major markets and asset classes, 2015 was an eventful year. Market performance was framed by an ever complicated macro environment. Europe was the focus in the first half of the year, as renewed concern about sovereign debt weighed on the common currency. Such concern ultimately led Switzerland to abandon its currency peg to the Euro. Greece continued to make headlines with its contested austerity program, posing an existential threat to the European common currency. In the second half, eyes turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines for the year.

Weak global growth and low inflation set the stage for divergent central bank monetary policies in developed markets. The year ended with the U.S. Federal Reserve raising interest rates for the first time in nearly 10 years. The European Central Bank and Bank of Japan took a different path, as they continued their quantitative easing programs in an effort to boost inflation and lagging growth in their economies. Perhaps the story for the year was what played out in China, emerging markets, and the commodity markets. As China's ability to generate the growth expected by the markets became more suspect, the impact was felt across commodity markets. Oil ended the year below \$40/barrel, well off its price of just 18 months ago of approximately \$120/barrel. Similarly, copper, iron ore, nickel and other industrial metals all are touching lows not seen in recent years. Emerging markets, many of which are tied to China's growth by supplying it with the raw materials necessary to fuel the economic engine, sold off as investors pulled their risk capital from the markets. Within this context, there were few places to invest to generate meaningful positive returns, while other areas experienced performance not seen since the Great Financial Crisis.

Macro Themes

- Weak global growth continuing into 2017
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases
- China weakening; turmoil in emerging markets and commodities
- Volatile currency markets and sovereign debt stress

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with GDP growth not breaking through the 3% level in the U.S., Europe, or Japan in 2016 or 2017 according to both the IMF and World Bank. Inflation remains non-existent across the developed

markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, U.S. interest rate increases will continue to result in a strengthening U.S. Dollar, potentially impacting the U.S. manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets. Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt concerns in developed markets, and a collapse in energy and mineral prices. The main emerging markets, as defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing-oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential. No longer can an argument be made that emerging markets have de-coupled from the developed world.

United States

Markets in the U.S. were challenged for the year, but were among the best performers in 2015. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

Equity

- Worst year for U.S. Equities since 2008
- Valuations neither cheap nor expensive
- Risk Aversion – Large Cap outperformed small & mid cap. Growth outperformed Value
- Energy and Materials lagged the broader markets significantly
- Health Care and Consumer Sectors relatively strong
- Equity markets set for another low-return year

Large cap stocks were barely positive, with the S&P 500 and Russell 1000 posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant

performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large cap energy stocks fell by 21.1% for the year while mid cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the U.S., active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

Unlike recent years where fixed income could be counted on to deliver performance in a weak year for equities, bonds disappointed across all asset classes. Treasuries returned 0.84% for the year, with long-dated bonds outperforming shorter-dated bonds. Importantly, Treasuries were among the best performing areas of the bond markets for 2015. And perhaps more significantly, most investors have been both underweight Treasuries and positioned toward the front end of the yield curve, in anticipation of rising interest rates. This shorter-duration strategy hurt investors in 2015 as the 7-10 Year Index outperformed the 1-3 Year Index by 100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

- Intermediate Treasuries returned less than 2%
- Investment Grade Credit posted negative returns, driven by BBB-rated
- High Yield markets sold off in second half
- Declining liquidity in corporate bonds due to capital rules on dealer balance sheets
- Fixed income likely to continue to disappoint as interest rates creep higher

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market. Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as “BBB” by S&P, posted a -1.5% return for the year, underperforming “A” rated bond by nearly 200 bps. Investment in fixed income will remain challenging in 2016. Potential interest rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress. As we have likely entered the later stages of the credit cycle, prudent allocation of risk to the credit sectors will become ever more important.

International Developed

- Weak year in Developed Markets (\$U.S. returns)
- Eurozone, United Kingdom, Australia, Canada all posting negative returns
- Japan, Italy, and Scandinavia only major markets positive for the year
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2015 and expected through 2016

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In \$U.S., all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired

assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets continue to experience very weak performance in \$U.S. terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. European Treasuries returned 1.7% in 2015, and with the latest round of quantitative measures employed by the European Central Bank, returns are likely to be similar in 2016.

Emerging Markets

- Terrible year in Emerging Markets (U.S.\$ returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower
- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by MSCI, Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors. China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets (“EM”) Latin America index fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

More troubling may be the performance of the bond markets of emerging markets. In local currency terms, most emerging markets fixed income indices posted positive performance in 2-5% range. In \$U.S. terms, the declines in local currency bonds have been staggering. Brazil (-30.1%), South Africa (-28.2%), and Turkey (-20.9%) highlight the impact of currency on performance. Hard currency bonds, generally issued in \$U.S., performed better in 2015, due to the strength of the dollar. The strong performance does not mask the risk due to currency mismatches in the hard currency market and the perennial risk of devaluation, default, and repudiation. Declining currencies, commodity price volatility, high debt levels, and high inflation will likely provide little respite in 2016 for emerging markets.

Commodities

- One of the worst years on record for commodities
- Slowing China growth, weak global demand, over supply interrelated factors
- Little expectation for a recovery in commodity prices in the near term

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While potentially a benefit to consumers, the collapse in energy prices has negative effects near (U.S. shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

Contact Information

This financial report is designed to provide a general overview of the Metropolitan Transportation Authority Deferred Compensation Program's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Deferred Compensation Department, Metropolitan Transportation Authority, 2 Broadway 10th Floor, New York, NY 10004.

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**METROPOLITAN TRANSPORTATION AUTHORITY
DEFERRED COMPENSATION PROGRAM**

**STATEMENTS OF PLANS NET POSITION
AS OF DECEMBER 31, 2014 AND DECEMBER 31, 2013
(\$ In THOUSANDS)**

	2014		2013	
	457	401K	457	401K
ASSETS:				
Investments at fair value:				
Stable Income Fund	\$ 771,832	\$ 938,062	\$ 735,827	\$ 888,015
Bond Funds	73,070	106,953	53,075	79,232
Large-Cap Equity Funds	459,490	671,727	384,841	565,727
Mid-Cap Equity Funds	152,312	195,653	133,834	175,438
Small-Cap Equity Funds	88,454	125,007	87,279	124,296
International Equity Funds	92,686	131,361	82,562	115,383
Target-Year Lifecycle Funds	310,083	466,322	279,838	429,211
Self-Directed Brokerage Option	2,035	2,722	1,873	2,352
Total investments	<u>1,949,962</u>	<u>2,637,807</u>	<u>1,759,129</u>	<u>2,379,654</u>
Other plan investments:				
Participant loans receivable	<u>60,849</u>	<u>118,639</u>	<u>55,740</u>	<u>111,081</u>
Total other plan investments	<u>60,849</u>	<u>118,639</u>	<u>55,740</u>	<u>111,081</u>
Total assets	<u>2,010,811</u>	<u>2,756,446</u>	<u>1,814,869</u>	<u>2,490,735</u>
LIABILITIES:				
Administrative expense reimbursement	<u>66</u>	<u>66</u>	<u>57</u>	<u>58</u>
Total liabilities	<u>66</u>	<u>66</u>	<u>57</u>	<u>58</u>
TOTAL NET POSITION	<u><u>\$2,010,745</u></u>	<u><u>\$ 2,756,380</u></u>	<u><u>\$1,814,812</u></u>	<u><u>\$ 2,490,677</u></u>

See notes to financial statements.

**METROPOLITAN TRANSPORTATION AUTHORITY
DEFERRED COMPENSATION PROGRAM**

**STATEMENTS OF CHANGES IN PLANS NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(\$ In THOUSANDS)**

	2014		2013	
	457	401K	457	401K
ADDITIONS:				
Investment income:				
Net appreciation in fair value of investments	\$ 84,328	\$ 118,285	\$ 211,649	\$ 303,215
Interest/dividend	-	(3)	14	6
Total investment income	84,328	118,282	211,663	303,221
Contributions:				
Employee contributions, net	197,250	240,181	134,032	166,277
Participant rollovers	5,125	17,705	7,045	12,356
Employer contributions	-	3,867	-	3,864
Total contributions	202,375	261,753	141,077	182,497
Other additions:				
Loan repayments - interest	2,541	4,973	2,267	4,552
Total additions	289,244	385,008	355,007	490,270
DEDUCTIONS:				
Distribution to participants	42,368	49,663	37,327	45,739
Transfers to other plans	47,317	64,409	36,761	61,783
Net loan initiations/repayments	(73)	(207)	(37)	(256)
Loan defaults/offsets	1,923	2,461	1,352	2,128
Loan fees transfers to other plans	225	490	208	470
Other deductions	1,485	2,423	525	1,043
Administrative expense payable	66	66	57	58
Total deductions	93,311	119,305	76,193	110,965
Increase in net position	195,933	265,703	278,814	379,305
TOTAL NET POSITION				
Beginning of year	1,814,812	2,490,677	1,535,998	2,111,372
End of year	\$ 2,010,745	\$ 2,756,380	\$1,814,812	\$ 2,490,677

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

(Dollars in thousands)

1. PLANS BACKGROUND AND DESCRIPTION

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 participant charges, including investment and other fees, pay for the administrative cost of running the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. 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. Pursuant to Internal Revenue Code ("Code") Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive benefit of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 457 Plan, and all income attributable to such compensation, less expenses and fees, are in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 457 Plan is 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 Code. The 401(k) Plan remained dormant until 1988 when an IRS ruling "grandfathered" the plan under the Tax Reform Act of 1986. Participation in the 401(k) Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, less expenses and fees, are in trust for the exclusive benefit 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 greater 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 four-tier strategy:

- Tier 1 – The MTA Target-Year Lifecycle Funds, which are comprised of a mix of several funds, most of which are available separate investments 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 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. Participants may invest only a portion of their account balances in this Tier.

In 2011, the Deferred Compensation Program offered 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 year 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:

- MTA
- The Long Island Rail Road Company (“MTA Long Island Rail Road”)
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”)
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”)
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”)
- New York City Transit Authority (“MTA New York City Transit”)
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Rapid Transit”)
- MTA Capital Construction Company (“MTA Capital Construction”)
- MTA Bus Company (“MTA Bus”)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The Deferred Compensation Program's (“Program”) financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plans. Contributions from members are recorded when the employer makes payroll deductions from plans' members. Additions to the Plans consist of contributions (member and employer) and net investment income. Investment purchases and sales are recorded as of trade date.

The MTA has implemented GASB Statement No. 50, *Pension Disclosures*. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pension. This Statement, which amends Statement No. 25 requires that the notes disclosures or Required Supplementary Information (“RSI”) includes the methods and assumptions used to determine the fair value of investments, if the fair value is based on other than quoted market prices. This Statement is intended to improve transparency and the usefulness of reported information about pensions by state and local governmental plans and employers. As amended by GASB Statement No. 67.

Recent Accounting Pronouncements —

The Plan has completed the process of evaluating the impact of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 reclassifies certain items currently being reported as assets and liabilities as deferred outflows of resources and deferred inflows of resources. In addition, this Statement recognizes certain items currently being reported as assets and liabilities as outflows of resources and inflows of resources. The Plan has determined that GASB Statement No. 65 had no impact on its financial position and results of operations.

The MTA has completed the process of evaluating the impact of GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaces the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. GASB Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. GASB Statement No. 67 had no impact on the Plan’s financial statements reporting as a result of the implementation.

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.

The requirements of GASB Statement No. 73, extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through

pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement also clarifies the application of certain provisions of Statement Nos. 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions 3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 73 and are effective for fiscal years beginning after June 15, 2016.

The MTA has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool’s participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Use of Estimates - The preparation of the Program's financial statements in conformity with accounting principles generally accepted in the United States of America as prescribed by Government Accounting Standards Board ("GASB"). These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates which include fair market value of investments.

Investment Valuation and Income Recognition - Investments are stated at fair value as reported by Prudential (the "Trustee"). All investments are registered, with securities held by the Plans' Trustee, in the name of the Plans. The values of the Plans' investments are adjusted to fair value as of the last business day of the Plans' year. Gains and losses on investments that were sold during the year are included in net appreciation/(depreciation) in fair value of investments.

3. CASH AND INVESTMENTS

Investment Objective - The primary investment objective of the Program is to offer a set of investment options such that:

- Sufficient options are offered to allow participants to build portfolios consistent with their investment risk/return preferences.
- Each option is adequately diversified.
- Each option has a risk profile consistent with its position in the overall structure.
- Each option is managed so as to implement the desired risk profile of the asset class it represents.

Investment Guidelines - The Deferred Compensation Committee selects and executes agreements with qualified investment managers and/or funds which fulfill the criteria of the identified investment option. The Program is participant-directed and participants select from among the available investment options that are established by the committee.

The investment options used to fund the various asset classes may be separately managed portfolios, commingled funds, or mutual funds. The Committee may from time to time modify the number and characteristics of the investment vehicles to be made available to participants within each investment option.

The specific investment vehicles chosen by the Committee must have appropriate investment characteristics and be managed by organizations which, by their record and experience, have demonstrated their investment expertise.

Such investment vehicles also should:

- Have sufficient assets under management so that the MTA account is not more than 10% of total strategy assets; strategy is defined as assets in all vehicles (separate accounts, collective trusts and mutual funds),
- Be well diversified,
- Have a minimum of three years of verifiable investment performance information,
- Have acceptable volatility in line with investment philosophy and process,

- Have the liquidity and/or marketability to pay benefit amounts to participants due under the terms of the Program, and
- Have a reasonable expense ratio.

Concentration of Credit Risk - Individual investments held by the Plans that represent 5.0% or more of the Plans' net position available for benefits at December 31, 2014 and 2013 are as follows:

Investment at fair value – December 31, 2014	457 Value	401(k) Value
MTA Stable Value fund	\$771,831,770	\$938,061,758
MTA Large Cap Growth Portfolio	198,135,976	280,594,085
MTA Large Cap Core Index Fund	202,602,344	303,910,990
MTA Mid Cap Core Portfolio	113,926,899	151,858,747
Investment at fair value – December 31, 2013	457 Value	401(k) Value
MTA Stable Value fund	\$735,826,594	\$888,014,832
MTA Large Cap Growth Portfolio	174,548,193	249,544,773
MTA Large Cap Core Index Fund	165,872,174	248,469,993
MTA Mid Cap Core Portfolio	101,956,945	137,636,317

The following table shows the fair value of investment in the various investment options at December 31, 2014 and 2013

Investments at Fair Market Value at December 31, 2014

	<u>457 Value</u>	<u>401k Value</u>
Target-Year Lifecycle Funds		
MTA Target-Year Lifecycle 2010 Fund	\$ 6,071,672	\$ 7,729,815
MTA Target-Year Lifecycle 2015 Fund	48,311,195	68,276,734
MTA Target-Year Lifecycle 2020 Fund	30,031,823	41,501,172
MTA Target-Year Lifecycle 2025 Fund	71,330,919	110,036,644
MTA Target-Year Lifecycle 2030 Fund	21,862,278	36,836,499
MTA Target-Year Lifecycle 2035 Fund	50,488,647	83,594,292
MTA Target-Year Lifecycle 2040 Fund	11,790,448	18,178,686
MTA Target-Year Lifecycle 2045 Fund	27,871,433	45,017,949
MTA Target-Year Lifecycle 2050 Fund	13,949,998	15,914,317
MTA Income Fund	28,374,316	39,235,976
<u>International Equity Funds</u>		
MTA International Portfolio	83,398,393	119,325,244
MTA International Index Fund	9,287,343	12,035,394
<u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	63,331,498	94,979,695
MTA Small Cap Core Index	25,122,551	30,027,707
<u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	113,926,899	151,858,747
MTA Mid Cap Core Index Fund	38,384,863	43,793,917
<u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	202,602,344	303,910,990
MTA Large Cap Growth Portfolio	198,135,976	280,594,085
MTA Large Cap Value Portfolio	58,752,358	87,222,326
<u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	61,200,123	92,340,355
MTA Bond Aggregate Index Fund	11,870,236	14,612,841
<u>Fixed Investment Option</u>		
MTA Stable Value Fund	771,831,770	938,061,759
<u>Self-Directed Brokerage Account</u>	2,035,410	2,721,576
Total	\$1,949,962,493	\$ 2,637,806,720

Investments at Fair Market Value at December 31, 2013

Target-Year Lifecycle Funds	<u>457 Value</u>	<u>401k Value</u>
MTA Target-Year Lifecycle 2010 Fund	\$ 5,280,081	\$6,694,956
MTA Target-Year Lifecycle 2015 Fund	46,767,211	70,146,419
MTA Target-Year Lifecycle 2020 Fund	25,375,435	37,126,212
MTA Target-Year Lifecycle 2025 Fund	64,525,831	100,257,217
MTA Target-Year Lifecycle 2030 Fund	18,347,310	32,110,335
MTA Target-Year Lifecycle 2035 Fund	45,625,204	76,145,394
MTA Target-Year Lifecycle 2040 Fund	8,667,989	13,983,237
MTA Target-Year Lifecycle 2045 Fund	26,515,888	44,028,210
MTA Target-Year Lifecycle 2050 Fund	11,802,791	13,221,923
MTA Income Fund	26,929,973	35,497,581
<u>International Equity Funds</u>		
MTA International Portfolio	74,419,852	104,545,963
MTA International Index Fund	8,141,995	10,837,181
<u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	63,333,573	93,135,379
MTA Small Cap Core Index	23,945,247	31,160,881
<u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	101,956,945	137,636,318
MTA Mid Cap Core Index Fund	31,876,746	37,801,796
<u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	165,872,174	248,469,993
MTA Large Cap Growth Portfolio	174,548,193	249,544,773
MTA Large Cap Value Portfolio	44,421,105	67,712,477
<u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	44,598,275	68,751,684
MTA Bond Aggregate Index Fund	8,477,100	10,479,988
<u>Fixed Investment Option</u>		
MTA Stable Value Fund	735,826,594	888,014,832
<u>Self-Directed Brokerage Account</u>		
	1,873,383	2,351,529
Total	\$1,759,128,895	\$2,379,654,278

The following tables show the interest and/or dividends earned on investments and net appreciation/ (depreciation) for the years ended December 31, 2014 and 2013.

457 Investments at December 31, 2014

<u>Target-Year Lifecycle Funds</u>	<u>Cash Earnings</u>	<u>Appreciation/Depreciation in Fair Market Value - Net</u>
MTA Target-Year Lifecycle 2010 Fund	\$ -	\$ 174,825
MTA Target-Year Lifecycle 2015 Fund	-	1,498,273
MTA Target-Year Lifecycle 2020 Fund	-	906,855
MTA Target-Year Lifecycle 2025 Fund	-	2,516,056
MTA Target-Year Lifecycle 2030 Fund	-	773,414
MTA Target-Year Lifecycle 2035 Fund	-	1,916,004
MTA Target-Year Lifecycle 2040 Fund	-	426,859
MTA Target-Year Lifecycle 2045 Fund	-	1,008,927
MTA Target-Year Lifecycle 2050 Fund	-	435,429
MTA Income Fund	-	757,660
 <u>International Equity Funds</u>		
MTA International Portfolio	-	(4,015,851)
MTA International Index Fund	-	(454,906)
 <u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	-	(311,995)
MTA Small Cap Core Index	-	1,237,620
 <u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	-	9,229,799
MTA Mid Cap Core Index Fund	-	3,357,840
 <u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	-	23,539,088
MTA Large Cap Growth Portfolio	-	17,971,474
MTA Large Cap Value Portfolio	-	6,475,750
 <u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	-	2,515,097
MTA Bond Aggregate Index Fund	-	533,359
 <u>Fixed Investment Option</u>		
MTA Stable Value Fund	(1)	13,727,826
 <u>Self-Directed Brokerage Account</u>	-	108,912
 Total	(\$ 1)	\$ 84,328,315

457 Investments at December 31, 2013

<u>Target-Year Lifecycle Funds</u>	<u>Cash Earnings</u>	<u>Appreciation/Depreciation in Fair Market Value - Net</u>
MTA Target-Year Lifecycle 2010 Fund	\$25	\$252,468
MTA Target-Year Lifecycle 2015 Fund	361	2,686,172
MTA Target-Year Lifecycle 2020 Fund	154	1,780,396
MTA Target-Year Lifecycle 2025 Fund	650	6,590,769
MTA Target-Year Lifecycle 2030 Fund	274	1,909,870
MTA Target-Year Lifecycle 2035 Fund	457	5,635,460
MTA Target-Year Lifecycle 2040 Fund	87	1,241,742
MTA Target-Year Lifecycle 2045 Fund	437	5,005,095
MTA Target-Year Lifecycle 2050 Fund	162	2,144,692
MTA Income Fund	102	747,269
 <u>International Equity Funds</u>		
MTA International Portfolio	-	12,189,980
MTA International Index Fund	-	877,790
 <u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	10,792	15,846,800
MTA Small Cap Core Index	-	5,267,756
 <u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	-	29,085,339
MTA Mid Cap Core Index Fund	-	6,913,907
 <u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	-	40,317,849
MTA Large Cap Growth Portfolio	-	46,967,490
MTA Large Cap Value Portfolio	-	10,517,709
 <u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	-	(524,406)
MTA Bond Aggregate Index Fund	-	(228,158)
 <u>Fixed Investment Option</u>		
MTA Stable Value Fund	139	16,249,918
		-
<u>Self-Directed Brokerage Account</u>	-	173,656
Total	\$13,640	\$211,649,563

401(k) Investments at December 31, 2014

	<u>Cash Earnings</u>	<u>Appreciation/Depreciation in Fair Market Value- Net</u>
<u>Target-Year Lifecycle Funds</u>		
MTA Target-Year Lifecycle 2010 Fund	\$ -	\$ 231,331
MTA Target-Year Lifecycle 2015 Fund	-	2,191,544
MTA Target-Year Lifecycle 2020 Fund	-	1,316,509
MTA Target-Year Lifecycle 2025 Fund	-	3,921,093
MTA Target-Year Lifecycle 2030 Fund	-	1,298,230
MTA Target-Year Lifecycle 2035 Fund	-	3,163,268
MTA Target-Year Lifecycle 2040 Fund	-	655,203
MTA Target-Year Lifecycle 2045 Fund	-	1,637,282
MTA Target-Year Lifecycle 2050 Fund	-	510,534
MTA Income Fund	-	1,015,620
<u>International Equity Funds</u>		
MTA International Portfolio	(102)	(5,731,464)
MTA International Index Fund	-	(555,199)
<u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	(81)	(426,141)
MTA Small Cap Core Index	-	1,348,783
<u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	(561)	12,267,735
MTA Mid Cap Core Index Fund	-	3,855,394
<u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	(426)	35,247,412
MTA Large Cap Growth Portfolio	(534)	25,399,189
MTA Large Cap Value Portfolio	(158)	9,632,269
<u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	(33)	3,868,331
MTA Bond Aggregate Index Fund	-	675,379
<u>Fixed Investment Option</u>		
MTA Stable Value Fund	(1,573)	16,608,351
<u>Self-Directed Brokerage Account</u>	-	151,047
Total	(\$ 3,468)	\$118,281,700

401(k) Investments at December 31, 2013

	<u>Cash Earnings</u>	<u>Appreciation/Depreciation in Fair Market Value- Net</u>
<u>Target-Year Lifecycle Funds</u>		
MTA Target-Year Lifecycle 2010 Fund	\$ 27	\$ 284,085
MTA Target-Year Lifecycle 2015 Fund	589	4,240,721
MTA Target-Year Lifecycle 2020 Fund	231	2,587,187
MTA Target-Year Lifecycle 2025 Fund	1,043	10,416,903
MTA Target-Year Lifecycle 2030 Fund	569	3,387,152
MTA Target-Year Lifecycle 2035 Fund	802	9,560,122
MTA Target-Year Lifecycle 2040 Fund	134	1,926,843
MTA Target-Year Lifecycle 2045 Fund	720	8,265,169
MTA Target-Year Lifecycle 2050 Fund	202	2,503,586
MTA Income Fund	142	1,003,048
<u>International Equity Funds</u>		
MTA International Portfolio	-	17,109,988
MTA International Index Fund	-	1,197,045
<u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	15,883	23,368,925
MTA Small Cap Core Index	-	6,842,227
<u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	(6,305)	38,883,868
MTA Mid Cap Core Index Fund	-	8,274,753
<u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	(56)	60,709,008
MTA Large Cap Growth Portfolio	(227)	67,267,606
MTA Large Cap Value Portfolio	-	16,629,713
<u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	9	(791,119)
MTA Bond Aggregate Index Fund	-	(268,063)
<u>Fixed Investment Option</u>		
MTA Stable Value Fund	(7,679)	19,635,095
<u>Self-Directed Brokerage Account</u>		
	-	181,054
<hr/>		
Total	\$6,084	\$303,214,916

Credit Risk – The investment alternatives offered under the Program are not guaranteed by any governmental body, including the MTA, and are not risk free. The safety of funds invested in the various investment accounts is based upon the performance and stability of the securities in the underlying portfolios. Investment in these funds can be expected to increase or decrease in value depending upon market conditions. The Deferred Compensation Committee (the “Committee”), with the assistance of its independent investment consultant continuously monitors the program funds pursuant to investment policy and objectives. When funds are determined to not be meeting the investment policy and objectives, they are closed and replaced.

At December 31, 2014, the following credit quality rating has been assigned by a nationally recognized rating organization to the Fixed Income Portfolio of the Plans:

<u>Quality Rating</u>	<u>457</u>		<u>401(k)</u>	
		Percentage of Fixed Income Portfolio		Percentage of Fixed Income Portfolio
AAA	\$ 439,404,781	42.33%	\$ 559,288,148	41.65%
AA	93,498,261	9.01%	131,571,178	9.80%
A	132,472,186	12.76%	167,403,787	12.47%
BBB	65,556,932	6.31%	85,267,272	6.35%
BB	<u>1,792,504</u>	<u>0.17%</u>	<u>2,233,306</u>	<u>0.16%</u>
Credit Risk Debt Securities	732,724,664	70.58%	945,763,691	70.43%
U.S. Government Bonds	<u>305,430,576</u>	<u>29.42%</u>	<u>397,046,754</u>	<u>29.57%</u>
Total fixed income securities	1,038,155,240	<u>100.00%</u>	1,342,810,445	<u>100.00%</u>
Other securities not rated - equity, international funds and corporate bonds	<u>911,807,253</u>		<u>1,294,996,275</u>	
	<u>\$ 1,949,962,493</u>		<u>\$ 2,637,806,720</u>	

At December 31, 2013, the following credit quality rating has been assigned by a nationally recognized rating organization to the Fixed Income Portfolio of the Plans:

<u>Quality Rating</u>	<u>457</u>	<u>457</u> Percentage of Fixed Income <u>Portfolio</u>	<u>401(k)</u>	<u>401(k)</u> Percentage of Fixed Income <u>Portfolio</u>
AAA	\$ 457,565,745	47.37%	\$ 568,034,321	45.62%
AA	89,814,045	9.30%	128,958,341	10.36%
A	105,385,814	10.91%	132,529,282	10.64%
BBB	59,288,883	6.14%	76,780,654	6.17%
BB	<u>2,437,324</u>	<u>0.25%</u>	<u>3,023,384</u>	<u>0.24%</u>
Credit Risk Debt Securities	714,491,811	73.97%	909,325,982	73.03%
U.S. Government Bonds	<u>251,352,714</u>	<u>26.03%</u>	<u>335,847,935</u>	<u>26.97%</u>
Total fixed income securities	965,844,525	<u>100.00%</u>	1,245,173,917	<u>100.00%</u>
Other securities not rated - equity, international funds and corporate bonds	<u>793,284,370</u>		<u>1,134,480,361</u>	
	<u>\$ 1,759,128,895</u>		<u>\$ 2,379,654,278</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 portfolio, 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 100 basis point change in interest rates.

2014

<u>Investment Type</u>	<u>457</u>	<u>401(k)</u>	<u>Total Fair Value</u>	<u>Duration</u>
Stable Value Fund	\$ 826,879,307	\$ 1,016,655,936	\$ 1,843,535,243	2.86 *
PIMCO Total Return Institutional Fund	126,207,120	192,041,293	318,248,413	3.66
Target-Year Lifecycle Funds:				
SSgA BC Aggregate Fund	11,870,236	14,612,841	26,483,077	5.55
SSgA TIPS Index Fund	40,732,346	60,378,964	101,111,310	5.76
Total Fixed Income				
Portfolio Modified Duration	\$ 1,005,689,009	\$ 1,283,689,034	\$ 2,289,378,043	
Investment with no duration reported	944,273,484	1,354,117,686	2,298,391,170	
Total investments	\$ 1,949,962,493	\$ 2,637,806,720	\$ 4,587,769,213	

* Average Duration - the price sensitivity to yield and the rate of change of price with respect to yield due to the passage of time.

2013

<u>Investment Type</u>	<u>457</u>	<u>401(k)</u>	<u>Total Fair Value</u>	<u>Duration</u>
Stable Value Fund	\$ 735,826,594	\$ 888,014,832	\$ 1,623,841,426	2.86 *
PIMCO Total Return Institutional Fund	44,598,275	68,751,684	113,349,959	4.12
Target-Year Lifecycle Funds:				
SSgA BC Aggregate Fund	8,477,100	10,479,988	18,957,088	5.49
SSgA TIPS Index Fund	37,724,043	56,176,368	93,900,411	6.69
Total Fixed Income				
Portfolio Modified Duration	\$ 826,626,012	\$ 1,023,422,872	\$ 1,850,048,884	
Investment with no duration reported	932,502,883	1,356,231,406	2,288,734,289	
Total investments	\$ 1,759,128,895	\$ 2,379,654,278	\$ 4,138,783,173	

* Average Duration - the price sensitivity to yield and the rate of change of price with respect to yield due to the passage of time.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Program has an indirect exposure to foreign currency fluctuations for the Plans' investments are as follows:

2014	457	401(k)	Total
Currency	Holdings in U.S. Dollars	Holdings in U.S. Dollars	Holdings in U.S. Dollars
Australian Dollar	\$ 5,877,296	\$ 8,668,340	\$ 14,545,636
Brazil Cruzeiro Real	1,431,965	2,102,530	3,534,495
British Pound Sterling	31,042,364	45,982,325	77,024,689
Canadian Dollar	5,073,232	7,430,387	12,503,619
Chilean Peso	22,050	28,956	51,006
Columbian Peso	12,463	16,367	28,830
Czech Krone	4,794	6,295	11,089
Danish Krone	1,672,615	2,472,782	4,145,397
Egyptian Pound	6,711	8,813	15,524
Euro	38,393,625	56,681,297	95,074,922
Hong Kong Dollar	5,985,150	8,800,932	14,786,082
Hungarian Forint	3,835	5,036	8,871
Indian Rupee	3,945,278	5,849,750	9,795,028
Indonesia Rupiah	548,475	806,763	1,355,238
Israeli Shekel	646,543	956,205	1,602,748
Japanese Yen	29,772,832	44,087,934	73,860,766
Malaysian Ringgit	74,780	98,200	172,980
Mexican Peso	433,902	629,191	1,063,093
New Zealand Dollar	260,028	384,076	644,104
Norwegian Krone	1,878,271	2,788,040	4,666,311
Phillipine Peso	465,544	688,820	1,154,364
Polish Zloty	30,679	40,287	70,966
Qatar Riyal	16,298	21,403	37,701
Russian Ruble	76,697	100,718	177,415
Singapore Dollar	640,377	935,194	1,575,571
South African Rand	1,228,154	1,775,492	3,003,646
South Korean Won	987,170	1,442,249	2,429,419
Swedish Krona	5,105,782	7,567,395	12,673,177
Swiss Franc	10,272,918	15,197,280	25,470,198
New Taiwan Dollar	722,754	1,029,167	1,751,921
Thai Baht	668,251	986,003	1,654,254
Turkish Lira	241,605	353,427	595,032
United Arab Emirates Dirham	245,030	363,090	608,120
Yuan Renminbi (China)	556,901	829,449	1,386,350
Total	<u>\$ 148,344,369</u>	<u>\$ 219,134,193</u>	<u>\$ 367,478,562</u>

2013	457	401(k)	Total
<u>Currency</u>	<u>Holdings in</u> <u>U.S. Dollars</u>	<u>Holdings in</u> <u>U.S. Dollars</u>	<u>Holdings in</u> <u>U.S. Dollars</u>
Australian Dollar	\$ 4,997,843	\$ 7,371,813	\$ 12,369,656
Brazil Cruzeiro Real	2,342,890	3,452,803	5,795,693
British Pound Sterling	34,876,503	51,559,795	86,436,298
Canadian Dollar	4,677,228	6,799,269	11,476,497
Chilean Peso	25,227	34,063	59,290
Columbian Peso	16,818	22,709	39,527
Czech Krone	8,409	11,354	19,763
Danish Krone	3,908,322	5,736,809	9,645,131
Euro	35,757,760	52,885,049	88,642,809
Hong Kong Dollar	5,730,642	8,509,456	14,240,098
Hungarian Forint	8,409	11,354	19,763
Indian Rupee	1,874,466	2,776,240	4,650,706
Indonesia Rupiah	33,636	45,417	79,053
Israeli Shekel	490,112	726,363	1,216,475
Japanese Yen	24,760,156	36,687,492	61,447,648
Kenyan Shilling	85,918	127,948	213,866
Malaysian Ringgit	67,271	90,834	158,105
Mexican Peso	303,467	427,957	731,424
New Zealand Dollar	281,886	418,612	700,498
Nigerian Naira	103,509	154,144	257,653
Norwegian Krone	1,629,059	2,418,962	4,048,021
Panamanian Balboa	97,564	145,290	242,854
Peruvian Nuevo Sol	230,695	342,379	573,074
Phillipine Peso	16,818	22,709	39,527
Polish Zloty	25,227	34,063	59,290
Russian Ruble	517,967	756,162	1,274,129
Singapore Dollar	953,714	1,407,407	2,361,121
South African Rand	903,697	1,328,250	2,231,947
South Korean Won	1,955,512	2,873,570	4,829,082
Swedish Krona	3,137,623	4,645,634	7,783,257
Swiss Franc	10,928,730	16,136,676	27,065,406
New Taiwan Dollar	1,008,641	1,474,017	2,482,658
Thai Baht	33,636	45,417	79,053
Turkish Lira	46,239	60,415	106,654
United Arab Emirates Dirham	534,295	795,665	1,329,960
Yuan Renminbi (China)	5,271,129	7,802,961	13,074,090
Total	<u>\$ 147,641,018</u>	<u>\$ 218,139,058</u>	<u>\$ 365,780,076</u>

4. CONTRIBUTIONS

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 member's account attributable to the matching contributions and basic contributions as follows:

Years of Service	Vested Percentage
Less than 2	0%
2	20%
3	40%
4	60%
5	80%
6 or more	100%

MTA Metro-North Railroad – 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 contribution 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 contributes an amount equal to 7% of the member's compensation. Eligible MNR members vest in these employer contributions as set forth below:

Years of Service	Vested Percentage
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 contributions. 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 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. Under certain conditions, both Plans accept rollovers 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, 2014 and 2013, 34.3% and 32.6% of the eligible employees were enrolled in the 457 Plan and 46.5% and 43.1% of the eligible employees were enrolled in the 401(k) Plan, respectively. There are 29,592 and 27,188 active participants in the 457 Plan and 38,619 and 34,967 active participants in the 401(k) Plan. The average account balance in the 457 Plan is \$53,449 and \$52,240 and in the 401(k) Plan is \$57,943 and \$57,024 in 2014 and 2013, respectively.

5. DISTRIBUTIONS

In-Service Withdrawals - A 457 Plan participant who experiences an unforeseeable emergency (as defined by the Code) may apply for a withdrawal by filing an Unforeseeable Emergency Withdrawal Form with the third party administrator for a determination of whether the guidelines for an emergency withdrawal under §457 of the Code have been met. If a participant's withdrawal request is denied, the participant may file an appeal with the Deferred Compensation Committee and the decision of the Committee is final. Upon the MTA's approval, the Plans' record-keeper will disburse to the participant the amount authorized. Distributions are subject to applicable taxes. A 401(k) Plan participant who experiences an immediate and heavy financial need (as defined by the Code) may apply for a withdrawal by filing a hardship application with the third party administrator for a determination of whether the guidelines for a hardship withdrawal under §401 of the Code have been met. If a participant's withdrawal request is denied, the participant may file an appeal with the Deferred Compensation Committee. Distributions are subject to applicable taxes and penalties.

Direct Transfer for the Purpose of Purchasing Permissive Service Credit - Participants in the 457 or 401(k) Plans are eligible to use their Plan assets as a source of funding for the purchase of certain permissive service credits (as defined by the Code) in certain defined benefit plan or pension system, via a direct transfer.

Distribution of Benefits - Upon a participant's severance from the MTA, the participant is entitled to receive an amount equal to the value of his or her account, to be paid in accordance with one of the methods described below. Participants can choose to remain in the Plans and are not required to withdraw, roll over or transfer their account upon severance.

There are no distribution election requirements upon severance from the MTA and participants can make distribution requests at any time by contacting the record-keeper.

Commencement date - Subject to required minimum distribution rules, a participant may elect any commencement date after severance. A participant has the option to cancel or change their distribution schedule at any time upon proper notice to the Plans Record-keeper. Upon reaching the later of April 1st of the calendar year following: (1) the calendar year he or she reaches age 70 ½, or (2) the calendar year in which he or she severs from the MTA, participants are required to receive a minimum distribution from their account.

Method of Distribution for Direct Payment - If a participant chooses to take direct payments; the following methods of distribution are available under the Plans:

- Full lump sum payment; or
- Substantially equivalent monthly, quarterly, semi-annual or annual installment payments; or

Election of Length of Distribution - If a participant elects installment payments, he or she may specify either:

- the total number of installment payments, or
- the dollar amount of each payment.

In either case, distributions cannot be paid over a period of time which exceeds the life expectancy of the participant or, in certain circumstances, the joint life expectancy of the participant and a “designated beneficiary” (as defined by the Code). Installment payments will be recalculated annually and will be paid only until the account is exhausted.

Rollovers or Transfers Out of the Plans - If a participant chooses to transfer or roll over his or her Deferred Compensation account, or a portion thereof, it must be to an eligible retirement plan (401(a), 457, 401(k), 403(b) or rollover IRA). 457 Plan and 401(k) Plan participants are eligible to roll over or transfer their account balance(s) upon severance from service.

Distribution Elections by Beneficiaries - Subject to required minimum distribution rules, beneficiaries are eligible to select how to receive distributions from the decedent’s account by contacting the Plans record-keeper. Distributions to a “designated beneficiary” must be made over a period that does not exceed the life expectancy of the beneficiary, while all other beneficiaries must complete distribution by the fifth anniversary of the participant’s death. Beneficiaries are eligible to roll over assets to a traditional IRA or another qualified retirement plan. For a participant who has begun receiving distributions from his or her account, any amount not distributed to the participant during his or her life will be distributed after the death of the participant at least as rapidly as under the method of distribution being used by the participant. If a participant died before his or her required beginning date, distribution to a spousal beneficiary must begin on or before December 31st of the year in which such participant would have attained age 70 ½. All other beneficiaries must begin no later than December 31st of the calendar year following the calendar year in which the participant died. If a participant died after his or her required beginning date, distributions to all beneficiaries must begin no later than December 31st of the calendar year following the calendar year in which the participant died.

6. LOANS

The MTA Deferred Compensation Program offers participants the opportunity to borrow from either one or both Plans simultaneously. The MTA Plans permit one loan from the 457 Plan and up to two loans from the 401(k) Plan. However, participants are limited to a total of two loans. Thus, as a participant of both the 401(k) and the 457 Plans, you can have either two 401(k) loans or the combination of a 401(k) loan and a 457 loan. The MTA offers two types of loans: the first is a “General Purpose Loan”, which is a five year loan and, as the name implies, can be for any purpose whatsoever. The second is a “Mortgage Loan”, which is a loan for a primary residence and is a 20 year loan. For the Mortgage Loan, a signed contract to purchase the residence is necessary. Loan re-payment is made through payroll deduction. If a participant leaves the employment of the MTA, the participant may request to make coupon payments. There are no income tax consequences unless the participant defaults on the loan.

The minimum loan amount is \$1,000. The maximum amount of an approved loan may not exceed the lesser of: (i) 50 percent of the participant’s 457 or 401(k) Plan account balance; or (ii) \$50,000 less the combined balance of all outstanding loans that a participant may have under the Program. All loans are subject to interest at prime rate plus 1 percent, to a maximum of 7.4%. A loan origination fee of \$75.00 is deducted from the approved loan amount. The net loans outstanding for the 457 plan is \$60.85 million and \$55.74 million at December 31, 2014 and 2013, respectively, and for the 401(k) plan was \$118.64 million and \$111.08 million at December 31, 2014 and 2013, respectively.

7. ADDITIONAL PLAN INFORMATION

Participation - Eligible employees are allowed to participate in the 401(k) Plan and/or the 457 Plan upon employment with the MTA and any of its affiliates or subsidiaries. The record-keeper/trustee maintains a website, which participants may use, along with a telephone voice response system, or participants may use paper enrollment forms, for Program activities. Participants may make or suspend deferrals; may increase or decrease, in multiples of 1 percent, the percentage of wages to be deferred or any whole dollar amount; may change the investment option of future deferrals or initiate account transfers between investment options in multiples of 1 percent or any dollar amount. There is no restriction on the number of times a

participant may change the investment direction of future deferrals or initiate account transfers. An employee participating in both the 457 Plan and 401(k) Plan who wishes to make any changes must do so independently for each Plan.

An employee who has severed service from the MTA may rejoin the 457 Plan, the 401(k) Plan, or both and become an active participant after returning to service to the MTA by following the procedures set forth above.

Maximum Deferrals - A participant in the 457 Plan could have deferred up to \$17,500 plus an additional \$5,500 for participants age 50 and over in calendar years 2014 and 2013, respectively. However, under certain circumstances, a participant may double the annual maximum contribution during each of the last three years prior to reaching his or her designated "Normal Retirement Age" ("Retirement Catch-Up Amount") if less than the maximum was deferred during earlier years. Alternatively, participants age 50 and over could have deferred an additional \$17,500 in 2014 and 2013, irrespective of prior contributions ("Age 50 Catch-Up"). Participants may not make both the Retirement Catch-Up and the Age 50 Catch-Up to the 457 Plan in the same year.

Participants in both the 457 Plan and the 401(k) Plan are permitted to contribute the maximum to each Plan.

Membership – As of December 31, 2014 and 2013, the Plans' membership with balances consisted of:

2014	457	401(k)
Active employees	29,592	38,619
Terminated/Inactive employees	<u>6,867</u>	<u>7,208</u>
Total active and inactive members	<u>36,459</u>	<u>45,827</u>
Vested employees	29,592	38,339
 2013	 457	 401(k)
Active employees	27,188	34,967
Terminated/Inactive employees	<u>6,461</u>	<u>6,709</u>
Total active and inactive members	<u>33,649</u>	<u>41,676</u>
Vested employees	27,188	34,689

Beneficiaries - Each participant must file with the record-keeper/trustee a separate beneficiary designation form for each Plan to designate one or more beneficiaries entitled to receive the amount, if any, payable under the Plans upon the participant's death. A participant may revoke or change his or her beneficiary designation without the consent of any prior beneficiary by completing and filing a new designation form with the Plans' Record-keeper. The last such designation on file with the Plans' Record-keeper is controlling and must be received prior to the participant's death. If no beneficiary designation is in effect at the time of a participant's death, or if no primary or contingent beneficiary survives the participant, payment will be made to the participant's surviving spouse or, if the participant has no surviving spouse, to the participant's estate.

Maintenance of Accounts - For both the 457 Plan and the 401(k) Plan, the record-keeper establishes an account for each participant to which any amounts deferred, transferred or distributed under the Plans are credited or charged, including, as specified in the Participation Agreement or any amendment thereto, any increase or decrease in the value of the investment options. All investment options offered under the Plans are offered by persons, companies or entities authorized to do business in the State of New York and duly licensed, if applicable, by the appropriate federal agencies regulating such investments. The Plans are not responsible for any decrease in the value of a participant's account.

Crediting of Account - Each participant's account is credited with amounts authorized for deferral or incoming transfer, on the same day or within the next few days by the Plans' record-keeper. Funds are invested in accordance with participants' directions in one or more of the Plans' array of investment options.

Account Reporting - A statement of the total amount invested in a participant's account is furnished to each participant shortly after the end of each calendar quarter. If employees participate in both the 457 Plan and 401(k) Plan, they will receive only one statement but each plan will be separately reported. Participants may also access their balance information through the Plans' telephone voice response system or website. All reports to a participant are based on the net fair market value or book value, as applicable, of the investment options as of the effective date of the report, which is normally the end of each quarter.

Plans' Funding and Expense Payment - The MTA Deferred Compensation Program is an entirely self-funded program, which, since mid-2004, has been financed through participants' quarterly administrative fees. These fees cover all participant directed activities, communications, and administrative expenses. They also cover the cost of the Program's third party administrator, the investment advisor, outside legal counsel, in-house legal counsel and staff salaries and benefits.

8. TRUSTEE AND OTHER PROFESSIONAL SERVICES

The Trustee for the MTA is Prudential Bank & Trust FSB. Record-keeper and/or Administrative Services are provided by Prudential Retirement Insurance & Annuity Company (PRIAC). Investment management services are provided by Prudential Retirement Insurance & Annuity Company and Galliard Capital Management: separate accounts are managed by Denver Investment Advisors Conestoga Capital Advisors and TCW-Metropolitan West Asset Management. Financial Advisor Mercer reviews the investment policies as stipulated by the Investment Committee, the Plans' portfolio and the Investment Managers' performance.

9. SUBSEQUENT EVENTS

As of January 25, 2016, there were no materially significant subsequent events.

* * * * *

Metropolitan Transportation Authority Defined Benefit Pension Plan

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Supplemental Schedules, and
Independent Auditors' Report

DRAFT

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of Pensions
Metropolitan Transportation Authority Defined Benefit Pension Plan

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Metropolitan Transportation Authority Defined Benefit Pension Plan (the "Plan") as of December 31, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of Matter

As discussed in Note 2, in 2014, the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 67, Financial Reporting for Pension Plans – an amendment of GASB No. 25. 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 13 and the Schedule of Changes in the Employers' Net Pension Liability and Related Ratios-Schedule I on page 54; Schedule of Employer Contributions-Schedule II on page 55; and Schedule of Investment Returns-Schedule III on page 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 25, 2016

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013

This management's discussion and analysis of the Metropolitan Transportation Authority Defined Benefit Pension Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2014 and 2013. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with the prior year's activity and results. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with the Plan's financial statements which begin on page 14.

Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the financial statements. The basic financial statements are:

- **The Statements of Plan Net Position** — presents the financial position of the Plan at fiscal year end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), assumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan 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. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statements of Changes in Plan Net Position** present the results of activities during the year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- **The Notes to Financial Statements** provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- **Required Supplementary Information** as required by the GASB is presented after the management discussion and analysis, the statement of Plan net position, the statement of changes in Plan net position and the notes to the combined financial statements.

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

FINANCIAL HIGHLIGHTS

The assets of the Plan exceeded its liabilities by \$3,065.2 million and \$2,806.4 million as of December 31, 2014 and 2013, respectively. Plan net position is held in trust for the payment of future benefits to members and pensioners.

The Plan's net position held in trust increased by \$258.9 million during 2014, representing an increase of 9.2% over 2013. The increase in 2014 is primarily due to net appreciation on fair value of investments held and realized and unrealized gains in the amount for \$136.4 million, reduced to \$102.2 million by investment expenses of \$34.1 million. Current year employer and employee contributions and transfers into the Plan in the amount of \$357.3 million were partially offset by benefit payments and other expenses of \$200.6 million.

Deductions from plan consist mainly of benefit payments to members and their beneficiaries. Benefits paid to participants increased by 8.6% from \$176.0 million in 2013 to \$191.1 million in 2014 and increased 6.9% from \$164.6 million in 2012 to \$176.0 million in 2013. In 2014, administrative expenses were \$9.6 million, an increase of 103.7% compared with \$4.7 million incurred in 2013. In 2013, administrative expenses were \$4.7 million, an increase of 16.0% compared with \$4.1 million incurred in 2012.

FINANCIAL ANALYSIS

Plan Net Position

December 31, 2014, 2013 and 2012

(Dollars in thousands)

	2014	2013	Amount of Change	Percentage Change
Cash	\$ 6,108	\$ 23,554	\$ (17,446)	(74.1)%
Investments, at fair value	3,076,682	2,844,233	232,449	8.2
Receivables and other assets	127,137	70,474	56,663	80.4
Total assets	3,209,927	2,938,261	271,666	9.2
Due to broker for securities purchased	57,978	80,486	(22,508)	(28.0)
Other liabilities	86,729	51,408	35,321	68.7
Total liabilities	144,707	131,894	12,813	9.7
Plan net position held in trust for pension benefits	<u>\$ 3,065,220</u>	<u>\$ 2,806,367</u>	<u>\$ 258,853</u>	<u>9.2%</u>
	2013	2012	Amount of Change	Percentage Change
Cash	\$ 23,554	\$ 1,905	\$ 21,649	1136.4%
Investments, at fair value	2,844,233	2,492,228	352,005	14.1
Receivables and other assets	70,474	65,604	4,870	7.4
Total assets	2,938,261	2,559,737	378,524	14.8
Due to broker for securities purchased	80,486	91,011	(10,525)	(11.6)
Other liabilities	51,408	37,450	13,958	37.3
Total liabilities	131,894	128,461	3,433	2.7
Plan net position held in trust for pension benefits	<u>\$ 2,806,367</u>	<u>\$ 2,431,276</u>	<u>\$ 375,091</u>	<u>15.4%</u>

December 31, 2014 versus December 31, 2013

Investments at December 31, 2014 were \$3,076.7 million representing an increase of \$232.4 million from 2013. This increase is reflective of the additional contributions invested during 2014.

Receivables and other assets totaled \$127.1 million, an increase of \$56.7 million or 80.4% from 2013. The increases are primarily due to a net change in collateral fund receivable in the amount of \$69.7 and other receivables in the amount of \$0.1 million. These amounts were offset by a decrease in net securities sold at the end of 2014 in the amount of \$8.3 million, other assets of \$4.5 million, and accrued interest and dividends receivable in the amount of \$0.3 million.

Payables for securities purchased decreased by \$22.5 million reflecting timing differences on securities purchased at the end of 2013 but settled in 2014. Other liabilities increased by \$35.3 million in 2014 compared with 2013. This increase reflects an increase in forward currency contracts in the amount of \$69.0 million and amounts due to broker for administrative expenses for \$2.2 million respectively, offset by a decrease in unearned revenues of \$35.9 million.

December 31, 2013 versus December 31, 2012

Cash increased by \$21.6 million, which represents advanced employer contributions to the Plan, net of benefit payments by Metro-North Railroad Company, Long Island Railroad Company and Metropolitan Transportation Authority Headquarters on December 27, 2013 not yet invested. Investments at December 31, 2013 were \$2,844.2 million representing an increase of \$352.0 million from 2012. This increase is reflective of the additional contributions invested and the increase in the fair market value of securities in the portfolio during 2013.

Receivables and other assets totaled \$70.5 million, an increase of \$4.9 million or 7.4% from 2012. The increases are primarily due to a net change in securities sold at the end of 2013 in the amount of \$4.4 million, other assets of \$1.1 million, MTA Long Island Rail Road Additional Plan receivable of \$0.6 million and collateral funds of \$0.3 million. These amounts were offset by a decrease in accrued interest and dividends receivable in the amount of \$1.5 million.

Payables for securities purchased decreased by \$10.5 million reflecting timing differences on securities purchased at the end of 2013 but settled in 2014. Other liabilities increased by \$14.0 million in 2013 compared with 2012. This increase reflects an increase in unearned revenues in the amount of \$13.6 million and amounts due to broker for administrative expenses for \$0.3 million respectively.

Changes in Plan Net Position
For the Years Ended December 31, 2014, 2013 and 2012
(Dollars in thousands)

	2014	2013	Amount of Change	Percentage Change
Additions:				
Net investment income	\$ 102,245	\$ 279,159	\$ (176,914)	(63.4) %
Transfers and contributions	<u>357,265</u>	<u>276,642</u>	<u>80,623</u>	<u>29.1</u>
Total additions	<u>459,510</u>	<u>555,801</u>	<u>(96,291)</u>	<u>(17.3)</u>
Deductions:				
Benefit payments	191,057	175,998	15,059	8.6
Administrative expenses	<u>9,600</u>	<u>4,712</u>	<u>4,888</u>	<u>103.7</u>
Total deductions	<u>200,657</u>	<u>180,710</u>	<u>19,947</u>	<u>11.0</u>
Net increase	<u>258,853</u>	<u>375,091</u>	<u>(116,238)</u>	<u>(31.0)</u>
Plan net position held in trust for pension benefits:				
Beginning of year	<u>2,806,367</u>	<u>2,431,276</u>	<u>375,091</u>	<u>15.4</u>
End of year	<u>\$ 3,065,220</u>	<u>\$ 2,806,367</u>	<u>\$ 258,853</u>	<u>9.2 %</u>
	2013	2012	Amount of Change	Percentage Change
Additions:				
Net investment income (loss)	\$ 279,159	\$ 266,354	\$ 12,805	4.8 %
Transfers and contributions	<u>276,642</u>	<u>246,014</u>	<u>30,628</u>	<u>12.5</u>
Total additions	<u>555,801</u>	<u>512,368</u>	<u>43,433</u>	<u>8.5</u>
Deductions:				
Benefit payments	175,998	164,580	11,418	6.9
Administrative expenses	<u>4,712</u>	<u>4,061</u>	<u>651</u>	<u>16.0</u>
Total deductions	<u>180,710</u>	<u>168,641</u>	<u>12,069</u>	<u>7.2</u>
Net increase	<u>375,091</u>	<u>343,727</u>	<u>31,364</u>	<u>9.1</u>
Plan net position held in trust for pension benefits:				
Beginning of year	<u>2,431,276</u>	<u>2,087,549</u>	<u>343,727</u>	<u>16.5</u>
End of year	<u>\$ 2,806,367</u>	<u>\$ 2,431,276</u>	<u>\$ 375,091</u>	<u>15.4 %</u>

December 31, 2014 versus December 31, 2013

At the end of the 2014, the net investment income amounted to \$102.2 million. This represents a decrease of 63.4% over the prior year, due mainly to the lower interest rates still prevailing in the market place, an increase in investment expenses and the net depreciation in the investment portfolio assets in 2014.

Employer and employee contributions increased by \$80.6 million in 2014, representing a 29.1% increase over the prior year and equal the Actuarial Determined Contribution (“ADC”) for 2014 and the recognition of additional contribution paid in 2014 for 2015 as required by GASB 67. There were no net transfers from other plans into the Defined Benefit Plan in 2014.

Benefit payments increased by \$15.0 million or 8.6% over the prior year due to a continuing trend of increase in the number of retirees.

Administrative expenses increased by \$4.9 million, representing a 103.7% increase over 2013. The amount represents additional expenses charged in 2014 for various services provided to the Plan.

December 31, 2013 versus December 31, 2012

At the end of the 2013, the net investment income amounted to \$279.2 million. This represents an increase of 4.8% over the prior year, representing a relatively stable improvement in investment performance offset by an increase in investment expenses in 2013.

Employer and employee contributions increased by \$30.6 million in 2013, representing a 12.5% increase over the prior year and equal the Actuarial Required Contribution (“ARC”) for 2013. There were no net transfers from other plans into the Defined benefit Plan in 2013.

Benefit payments increased by \$11.4 million or 6.9% over the prior year due to a continuing trend of increase in the number of retirees.

Administrative expenses increased by \$0.7 million, representing a 16.0% increase over 2012. The amount represents additional expenses charged in 2013 for MTA Long Island Railroad Company.

Investments

The table below summarizes the Plan's investment allocations.

Investment Summary (Dollars in thousands)

Type of Investments	Fair Value	Allocation
December 31, 2014		
Short term investments	\$ 245,207	7.97 %
Equity securities	440,452	14.32
U.S. government bonds & agency	12,914	0.42
Corporate bonds	68,094	2.21
Other	10,370	0.34
Mutual funds	710,931	23.11
Comingled funds	1,089,589	35.41
Limited partnership and warrants	499,125	16.22
	<u>\$ 3,076,682</u>	<u>100.00 %</u>
December 31, 2013		
Short term investments	\$ 116,223	4.09 %
Equity securities	442,587	15.56
U.S. government bonds & agency	112,999	3.97
Corporate bonds	103,351	3.63
Mortgage backed securities	57,242	2.01
Other	18,060	0.64
Mutual funds	336,196	11.82
Comingled funds	1,164,740	40.96
Limited partnership and warrants	492,834	17.32
	<u>\$ 2,844,232</u>	<u>100.00 %</u>

Economic Factors

Market Overview 2014

Calendar year 2014 saw U.S. equities and bonds performed better than most analysts predicted in their 2014 investment outlook. The job market outperformed, consumer and business confidence improved and corporations aggressively put cash to work after years of staying on the side-lines. As a result, 2014 proved to be a good year for U.S. stocks, to this end, the S&P 500 returned 13.7% for the year, and the Russell 2000 gained 4.9%. These advances came amid a slump in the rest of the world with the Morgan Stanley Capital International Europe, Australia and Far East ("MSCI EAFE") Index falling 3.5% in December 2014. The drop was fueled by a 4.3% decline in European shares with investors even shrugging off intensifying expectations of additional monetary policy accommodation by the European Central Bank ("ECB"). Domestic fixed income indices, although mixed in December, ended the year on a strong note with the Barclays Aggregate Index up 6.0% for 2014. Domestic fixed income indices were bolstered through the year by narrowing Treasury yields, despite the market's anticipation of rates rising. The yield on the 10-year Treasury fell to 2.11% in December from 2.16% a month earlier. In contrast, the World Government Bond Index ("WGBI Index") declined by 0.7%, partially affected by currency depreciation in international markets. By contrast, emerging market equities returned -2.2% for 2014 after a very difficult year. The pattern of returns across asset classes over the year, and especially in the fourth quarter, drove home the impact that divergent global growth and by extension divergent monetary policy has had on asset markets.

The fourth quarter of 2014 was, in many regards, a perfect microcosm of the issues that had built in global markets over the course of the year. Three factors are notable, and persistent: i) the slow but inexorable U.S. economic recovery; ii) the contrasting sluggishness of the rest of the world economy, large parts of which remain heavily reliant on stimulus; and iii) the excess capacity that exists in parts of the global economy and is currently most visible in commodity markets. Both of the periods of market disruption in early October and early December last year were likely influenced by these factors as markets re-priced their impact.

Despite the pockets of market volatility during the fourth quarter, the Chicago Board Options Exchange Market Volatility Index ("VIX") averaged just 16 over the quarter, which was 2.5 points above the average of the prior three quarters, but still well below crisis levels. Indeed, the price action in key asset classes in the fourth quarter showed an extension of the full year trends. Global equities added 290 basis points ("bps"), global bonds added 340bps, and global credit added 160bps; meanwhile commodities, already down 7.5% at the end of the third quarter, fell a further 27.7% as oil slumped below \$60/bbl.

The anatomies of the market shakeouts that occurred in October and December are worth noting. First, the relative speed with which equity markets, specifically U.S. equities regained their footing, reinforces the view that the underlying economy is gradually improving. Secondly, the failure of high yield credit markets to rebound strongly with equities may be explained in part by the impact of weaker oil prices on the U.S. mid and small cap energy sector, but is also likely to be a function of liquidity fears. Little wonder then that markets directly affected by liquidity stimulus notably Japan, rebounded very sharply from their lows, while markets where liquidity is scarce (high yield, emerging market debt) struggled to recover. Finally, the extreme moves in bond markets were only partly to do with capitulations of short positions. The weakness in commodity markets is very likely to precipitate a marked drop in global inflation. This global disinflationary impulse, together with ongoing demand for duration from central banks, is clearly holding yields down.

In retrospect, 2014 was a year of many themes that never materialized. With the 10-year Treasury at 3.03% at the end of 2013, markets were poised for lower returns amid expectations that a continued rise in rates, in conjunction with the tapering monetary policy, would negatively affect fixed income securities; instead, bond markets posted robust returns and rode rates all the way down to pre-taper levels. Furthermore, a rally in equities lasting nearly five years and a Gross Domestic Product ("GDP") contraction in the first quarter of 2014 were reason enough to express caution around U.S. markets. That said, successive quarters of stronger-than-expected

growth quickly eased these fears and allowed U.S. equities to continue their winning streak. In June, oil prices rose to over \$110 per barrel amid conflict in Ukraine and the Middle East, only to fall by more than half by year end. Even the Federal Reserve Bank's planned winding down of its bond purchases mostly went off without a hitch when the very idea of tapering caused havoc in markets only a year earlier.

As with any investment, there exists the possibility of a risk of loss. Those risks include the risk of changes in economic and market conditions, the concentration of investments within a portfolio, and the volatility of securities or the assets underlying the investment. With alternative investments, investors may be required to hold the investment for a certain time period before they can sell and there can be conditions when fund managers are not required to make distributions. Also, in the case of certain alternative investments, management and their investment advisors use assumptions and judgments to determine the estimated fair value for these investments as they are not always readily marketable. The actual results, ultimately realized, could differ from these estimates. Additionally, each of the above discussed factors could affect the ultimate fair value realized from an investment. The fair value that management has determined for financial statement presentation purposes may not be indicative of the amounts ultimately realized upon a sale of a security.

Market Overview and Outlook – 2015

Despite low returns across all major markets and asset classes, 2015 was an eventful year. Market performance was framed by an ever complicated macro environment. Europe was the focus in the first half of the year, as renewed concern about sovereign debt weighed on the common currency. Such concern ultimately led Switzerland to abandon its currency peg to the Euro. Greece continued to make headlines with its contested austerity program, posing an existential threat to the European common currency. In the second half, eyes turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines for the year.

Weak global growth and low inflation set the stage for divergent central bank monetary policies in developed markets. The year ended with the U.S. Federal Reserve raising interest rates for the first time in nearly 10 years. The European Central Bank and Bank of Japan took a different path, as they continued their quantitative easing programs in an effort to boost inflation and lagging growth in their economies. Perhaps the story for the year was what played out in China, emerging markets, and the commodity markets. As China's ability to generate the growth expected by the markets became more suspect, the impact was felt across commodity markets. Oil ended the year below \$40/barrel, well off its price of just 18 months ago of approximately \$120/barrel. Similarly, copper, iron ore, nickel and other industrial metals all are touching lows not seen in recent years. Emerging markets, many of which are tied to China's growth by supplying it with the raw materials necessary to fuel the economic engine, sold off as investors pulled their risk capital from the markets. Within this context, there were few places to invest to generate meaningful positive returns, while other areas experienced performance not seen since the Great Financial Crisis.

Macro Themes

- Weak global growth continuing into 2017
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases
- China weakening; turmoil in emerging markets and commodities
- Volatile currency markets and sovereign debt stress

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with GDP growth not breaking through the 3% level in the U.S., Europe, or Japan in 2016 or 2017 according to both the International Monetary Fund ("IMF") and World Bank. Inflation remains non-existent across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly

different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, U.S. interest rate increases will continue to result in a strengthening U.S. Dollar, potentially impacting the U.S. manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt concerns in developed markets, and a collapse in energy and mineral prices. The main emerging markets, as defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential. No longer can an argument be made that emerging markets have de-coupled from the developed world.

United States

Markets in the U.S. were challenged for the year, but were among the best performers in 2015. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

Equity

- Worst year for U.S. Equities since 2008
- Valuations neither cheap nor expensive
- Risk Aversion – Large Cap outperformed small & mid cap. Growth outperformed Value
- Energy and Materials lagged the broader markets significantly
- Health Care and Consumer Sectors relatively strong
- Equity markets set for another low-return year

Large cap stocks were barely positive, with the S&P 500 and Russell 1000 posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large cap energy stocks fell by 21.1% for the year while mid cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the U.S., active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy

global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

Unlike recent years where fixed income could be counted on to deliver performance in a weak year for equities, bonds disappointed across all asset classes. Treasuries returned 0.84% for the year, with long-dated bonds outperforming shorter-dated bonds. Importantly, Treasuries were among the best performing areas of the bond markets for 2015. And perhaps more significantly, most investors have been both underweight Treasuries and positioned toward the front end of the yield curve, in anticipation of rising interest rates. This shorter-duration strategy hurt investors in 2015 as the 7-10 Year Index outperformed the 1-3 Year Index by 100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

- Intermediate Treasuries returned less than 2%
- Investment Grade Credit posted negative returns, driven by BBB-rated
- High Yield markets sold off in second half
- Declining liquidity in corporate bonds due to capital rules on dealer balance sheets
- Fixed income likely to continue to disappoint as interest rates creep higher

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market. Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as “BBB” by S&P, posted a -1.5% return for the year, underperforming “A” rated bond by nearly 200 bps. Investment in fixed income will remain challenging in 2016. Potential interest rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress. As we have likely entered the later stages of the credit cycle, prudent allocation of risk to the credit sectors will become ever more important.

International Developed

- Weak year in Developed Markets (\$U.S. returns)
- Eurozone, United Kingdom, Australia, Canada all posting negative returns
- Japan, Italy, and Scandinavia only major markets positive for the year
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2015 and expected through 2016

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In \$U.S., all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets continue to experience very weak performance in \$U.S. terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. European Treasuries returned 1.7% in 2015, and

with the latest round of quantitative measures employed by the European Central Bank, returns are likely to be similar in 2016.

Emerging Markets

- Terrible year in Emerging Markets (U.S.\$ returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower
- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by MSCI, Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors. China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets ("EM") Latin America index fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

More troubling may be the performance of the bond markets of emerging markets. In local currency terms, most emerging markets fixed income indices posted positive performance in 2-5% range. In \$U.S. terms, the declines in local currency bonds have been staggering. Brazil (-30.1%), South Africa (-28.2%), and Turkey (-20.9%) highlight the impact of currency on performance. Hard currency bonds, generally issued in \$U.S., performed better in 2015, due to the strength of the dollar. The strong performance does not mask the risk due to currency mismatches in the hard currency market and the perennial risk of devaluation, default, and repudiation. Declining currencies, commodity price volatility, high debt levels, and high inflation will likely provide little respite in 2016 for emerging markets.

Commodities

- One of the worst years on record for commodities
- Slowing China growth, weak global demand, over supply interrelated factors
- Little expectation for a recovery in commodity prices in the near term

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While potentially a benefit to consumers, the collapse in energy prices has negative effects near (U.S. shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

Contact Information

This financial report is designed to provide a general overview of the Metropolitan Transportation Authority Defined Benefit Pension Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Comptroller, Metropolitan Transportation Authority, 2 Broadway, 16th Floor, New York, NY 10004.

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

STATEMENTS OF PLAN NET POSITION AS OF DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS:		
Cash	\$ 6,108,201	\$ 23,554,562
Investments — at fair value:		
Short term investments	245,206,888	116,222,959
U.S. Government & Agency	12,913,657	112,999,363
Corporate	68,094,188	103,351,341
Mortgage backed securities	-	57,242,090
Other	10,369,768	18,060,433
Equity securities	440,451,666	442,586,861
Commingled funds	1,089,589,013	1,164,739,515
Mutual funds	710,931,499	336,196,144
Limited partnership and warrants	499,125,589	492,834,036
Other	62	-
Total investments	<u>3,076,682,330</u>	<u>2,844,232,742</u>
Receivables:		
Accrued interest and dividends	1,637,578	1,975,529
Collateral fund receivable	80,825,930	11,109,260
Additional plan receivable	577,559	577,559
Due from broker for Securities sold	43,943,134	52,280,822
Other receivable	111,312	1,173
Total receivables	<u>127,095,513</u>	<u>65,944,343</u>
Other assets	41,402	4,529,428
Total assets	<u>3,209,927,446</u>	<u>2,938,261,075</u>
LIABILITIES:		
Due to broker for securities purchased	57,978,104	80,485,730
Unearned revenues (See Note 5)	-	35,875,321
Due to broker for investment fee	3,664,850	1,101,724
Due to broker for administrative expenses	(377,203)	278,019
Due to MTA for administrative expenses	2,009,412	1,695,223
Due to MTA Long Island Bus for health expenses	1,300,000	1,300,000
Forward currency contract	80,132,307	11,157,610
Other liabilities	-	277
Total liabilities	<u>144,707,470</u>	<u>131,893,904</u>
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 3,065,219,976</u>	<u>\$ 2,806,367,171</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

	2014	2013
ADDITIONS:		
Investment income:		
Net realized and unrealized gains or (losses)	\$ 92,077,703	\$ 275,954,401
Dividends	37,859,037	26,220,903
Interest	6,468,111	7,959,706
Total Investment Income	136,404,851	310,135,010
Less:		
Investment expenses	(34,159,913)	(30,976,050)
Net investment income	102,244,938	279,158,960
Contributions:		
Employer:		
Metro-North Commuter Railroad Company	122,862,733	82,200,320
Long Island Rail Road Company	123,849,954	81,787,253
Metropolitan Transportation Authority Headquarters	30,249,331	27,724,081
MTA Bus Company	45,717,151	45,437,363
Staten Island Rapid Transit Operating Authority	8,579,583	5,831,533
Employee	26,005,910	33,661,325
Total contributions	357,264,662	276,641,875
Total additions	459,509,600	555,800,835
DEDUCTIONS:		
Benefits paid to participants	191,056,637	175,997,328
Administrative expenses	9,600,158	4,712,391
Total deductions	200,656,795	180,709,719
NET INCREASE	258,852,805	375,091,116
PLAN NET POSITION HELD IN TRUST FOR PENSION		
BENEFITS:		
Beginning of year	2,806,367,171	2,431,276,055
End of year	\$ 3,065,219,976	\$ 2,806,367,171

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Dollars in thousands)

1. PLAN DESCRIPTION

The following brief description of the Metropolitan Transportation Authority (the “Authority”) Defined Benefit Pension Plan (the “Plan”) is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

General — The Plan represents a cost-sharing employer defined benefit pension plan administered by the Authority covering:

- (a) management employees of the Long Island Rail Road Company (“MTA Long Island Rail Road”) hired after January 1, 1988 not governed by collective bargaining agreements;
- (b) management employees of the Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) not governed by collective bargaining agreements;
- (c) represented MTA Long Island Rail Road employees hired after January 1, 1988, covered by collective bargaining agreements which provide for participation in the plan effective January 1, 2004;
- (d) represented MTA Metro-North Railroad employees covered by collective bargaining agreements which provide for participation in the plan effective on or after January 1, 2004;
- (e) represented and non-represented MTA Long Island Rail Road employees hired prior to January 1, 1988;
- (f) Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provided public service in Nassau and Queens Counties. The Authority’s Lease and Operating Agreement with Nassau County, dated January 15, 1973, as amended, was terminated effective December 31, 2011. As of January 1, 2012, the MTA Long Island Bus is no longer a member of the MTA Group. Represented and management Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) employees hired prior to January 1, 1983 and any MTA Long Island Bus person employed by the MSBA Employees’ Pension Trust prior to July 29, 1998 under the MSBA Employees’ Pension Plan remained vested employees in the plan;
- (g) represented and management employees of the Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) effective January 1st, 2005;
- (h) certain represented and management employees of MTA Bus Company, including represented and non-represented employees who were formerly employed by Liberty Lines Express, Inc., New York Bus Tours, Inc., Command Bus Company, Green Bus Lines Inc., Jamaica Buses Inc., Triboro Coach Corporation and represented employees formerly employed by Queens Surface Corporation; and
- (i) participants in the MTA Defined Benefit Pension Plan 20 Year Police Retirement program.

The Plan contains multiple and distinct benefit structures for MTA Metro-North Railroad and MTA Long Island Rail Road management employees, for MTA Metro-North Railroad and MTA Long Island Rail Road represented employees, MTA Police, MTA Long Island Bus employees and MTA Staten Island Railways employees. In addition, there are multiple but distinct benefit structures for the employees of MTA Bus which are based on the plans covering those employees prior to their becoming MTA Bus employees. Assets and liabilities are pooled and a single cash contribution amount and annual pension cost is determined. The Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(b) of the Internal Revenue Code. Accordingly, the Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act ("ERISA") of 1974.

Membership of the Plan consisted of the following as of January 1, 2015 and 2014, respectively, the date of the latest actuarial valuations:

	2015	2014
Active Plan Members	17,158	16,688
Retirees and beneficiaries receiving benefits	11,382	11,038
Vested formerly active members not yet receiving benefits	<u>1,467</u>	<u>1,422</u>
Total	<u>30,007</u>	<u>29,148</u>

Funding for the Plan is provided by the Authority, MTA Metro-North Railroad, MTA Long Island Rail Road, MTA Bus and MTA Staten Island Railway which are public benefit corporations that receive a significant portion of their operating and capital financing requirements from New York City, New York State, federal and regional governmental units and from the sale of bonds to the public. Certain funding is made on a discretionary basis. The continuance of funding for the Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

Plan Administration – The Defined Benefit Plan is administered by the Board of Managers of Pensions which comprised of:

- (a) the persons holding the following positions:
 - (i) the Chairman of the MTA;
 - (ii) the MTA Chief Financial Officer;
 - (iii) the MTA Director of Labor Relations; and
 - (iv) the agency head of each participating Employer.
- (b) Designation of Others – Any member of the Board of Managers, serving as such by virtue of holding a position described in (a) of this section, may, by written authorization filed with the Secretary who shall notify the other members of the Board of Managers, designate another individual, not then a member of the Board of Managers, to serve in that member's stead, in accordance with procedures established with the approval of the Executive Director. Any such authorization may be revoked by the designating member at any time in writing filed in the same manner.
- (c) The Board of Managers shall be the agent for the service of legal process with respect to the Plan. No bond or other security is required in any jurisdiction of the Board of Managers or any member thereof except as required by law.

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Metro-North Railroad, MTA Staten Island Railway and post — 1987 MTA Long Island Rail Road employees as service retirement allowances or early retirement allowances. A participant is eligible for a service retirement

allowance upon termination if the participant satisfied both age and service requirement. A participant is eligible for an early retirement allowance upon termination if the participant has attained age fifty-five and completed at least ten years of credited service. Terminated participants with five or more years of credited service who are eligible for a deferred vested benefit are not eligible to receive a service retirement allowance or early retirement allowance. Deferred vested benefits are payable on an unreduced basis on the first day of the month following the participant sixty-second birthday. Effective in 2007, members and certain former members who become (or became) employed by another MTA agency which does not participate in the Plan continue to accrue service credit based on such other employment. Upon retirement, the member's vested retirement benefit from the Plan will be calculated on the final average salary of the subsequent MTA agency, if higher. Moreover, the Plan benefit will be Reduced by the benefit, if any, payable by the other plan based on such MTA agency employment. Such member's disability and ordinary death benefit will be determined in the same way.

Retirement benefits are paid from the Plan under the MTA 20-Year Police Retirement Program. A participant is eligible for service retirement at the earlier of completing twenty years of credited Police service or attainment of age sixty-two. Terminated participants with five years of credited police service, who are not eligible for retirement, are eligible for a deferred benefit. Deferred vested benefits are payable on the first of the month following the participant's attainment of age fifty-five.

Retirement benefits paid from the Plan to covered represented MTA Bus employees include service retirement allowances or early retirement allowances. Under the programs covering all represented employees at Baisley Park, Eastchester, La Guardia, Spring Creek, and Yonkers Depots and the represented employees at College Point Depot, JFK, Far Rockaway a participant is eligible for a service retirement allowance upon termination if the participant has attained age sixty-five and completed at least five years of credited service or if the participant has attained age 57 and completed at least 20 years of credited service. A participant hired prior to June 2009 from Baisley Park, College Point, and La Guardia Depots is eligible for an early retirement allowance if the participant has attained age 55 and completed 20 years of credited service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age sixty-five.

At Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek Depots, a participant who is a non-represented employee is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed 15 years of service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age sixty-two.

The MTA Bus retirement programs covering represented and non-represented employees at Eastchester and Yonkers and covering the represented employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek are fixed dollar plans, i.e., the benefits are a product of credited service and a specific dollar amount.

The retirement benefits for certain non-represented employees at Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek are based on final average salary. Certain participants may elect to receive the retirement benefit as a single life annuity or in the form of an unreduced 75% joint and survivor benefit.

Pre-1988 MTA Long Island Rail Road participants are eligible for a service retirement allowance upon termination if the participants has either: (a) attained age sixty-five and completed at least five years of credited service, or if an employee on January 1, 1988 completed at least 10 years of credited service, or (b) attained age fifty and has completed at least 20 years of credited service. Terminated participants who were not employees on January 1, 1988 with five or more years of credited service are eligible for a

deferred vested benefit. Pension benefits payable to age 65, where eligible, are calculated as 2% of the employee's applicable final average earnings for each year of qualifying service up to 25 years plus 1.5% of applicable final average earning of each year of qualifying service in excess of 25 years. For pension benefits payable at and after age 65 regardless of whether benefits commenced before or after the employee attained age 65, benefits are calculated in the same manner as pension benefits payable prior to age 65 except that the amount so determined is reduced by a percentage of the employee's annuity (not including supplemental annuity) value at age 65 under the Federal Railroad Retirement Act.

The reduction of pension benefits for amounts payable under the Federal Railroad Retirement Act is 50%.

Death and Disability Benefits — In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after ten years of covered MTA Bus service; ten years of credited service for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented employees, covered MTA Staten Island Railway employees and covered MTA police participants.

The disability retirement allowance for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented covered MTA Staten Island Railway employees is calculated based on the participant's credited service and final average salary ("FAS") but not less than $\frac{1}{3}$ of FAS. Under the MTA 20 Year Police Retirement Program, a disabled participant may be eligible for one of three forms of disability retirement: (a) ordinary disability which is payable if a participant has ten years of credited Police service and is calculated based on the participant's credited Police service and FAS but not less than $\frac{1}{3}$ of FAS; (b) performance of duty, which is payable if a participant is disabled in the performance of duty and is $\frac{1}{2}$ of FAS, and (c) accidental disability, which is payable if a participant is disabled as the result of an on-the-job accidental injury and is $\frac{3}{4}$ of FAS subject to an offset of Workers' Compensation benefits. Pursuant to the MTA Bus programs, the disability benefit is the same as the service retirement benefit.

Pre -1988 MTA Long Island Rail Road participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Plan may be eligible to receive a disability benefit. Disability pension benefits are calculated based on the participant's qualified service and a percentage of final average compensation reduced by the full amount of the disability benefit under the Federal Railroad Retirement Act.

Survivorship benefits for pre-1988 MTA Long Island Rail Road participants are paid to the spouse when a survivorship option is elected or when an active participant has not divested their spouse of benefits. The survivorship benefit is payable at the time of death or when the vested participant would have attained an eligible age. The amount payable is in the form of an annuity. A lump sum death benefit no greater than \$5,000 is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Metro-North Railroad, post-1987 MTA Long Island Rail Road or MTA Staten Island Railway employee after completion of one year of credited service. The death benefit payable is calculated based on a multiple of a participant's salary based on years of credited service up to three years and is reduced beginning at age sixty-one. There is also a post-retirement death benefit which, in the 1st year of retirement, is equal to 50% of the pre-retirement death benefit amount, whichever is greater, 25% the 2nd year and 10% of the death benefit payable at age 60 for the 3rd and later years. For the Police 20 Year Retirement Program, the death benefit is payable after ninety days of credited MTA Police service, and is equal to three times their salary. For non-Police groups, this death benefit is payable in a lump sum distribution while for Police, the member or the beneficiary can elect to have it paid as an annuity. The MTA Police do not have a post retirement benefit.

In the MSBA Employees' Pension Plan, there are special spousal benefits payable upon the death of a participant who is eligible for an early retirement benefit, or a normal service retirement benefit, or who is a vested participant or vested former participant. To be eligible, the spouse and participant must have been married at least one year at the time of death. Where the participant was eligible for an early service retirement benefit or was a vested participant or former participant, the benefit is a pension equal to 40% of the benefit payable to the participant as if the participant retired on the date of death. Where the participant was eligible for a normal service retirement benefit, the eligible spouse can elect either the benefit payable as a pension, as described in the prior sentence, or a lump sum payment based on an actuarially determined pension reserve. If there is no eligible spouse for this pension reserve benefit, a benefit is payable to the participant's beneficiary or estate.

Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Metro-North Railroad or post-1987 MTA Long Island Rail Road employee, a covered MTA Staten Island Railway employee or a covered MTA Police member and dies as the result of an on-the-job accidental injury. This death benefit is paid as a pension equal to 50% of the participant's salary and is payable to the spouse for life, or, if none, to children until age eighteen (or twenty-three, if a student), or if none, to a dependent parent.

For MTA Bus employees, there is varied death benefit coverage under the Plan. For all represented and non-represented MTA Bus employees at Eastchester and Yonkers Depots and represented MTA Bus employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek Depots, if a participant dies prior to being eligible for a retirement benefit, the participant's beneficiary may elect to receive a refund of the participant's contributions plus interest.

Moreover, the spouses of the above employees who are vested are entitled to a presumed retirement survivor annuity which is based on a 50% Joint and Survivor annuity. The date as of which such annuity is determined and on which it commences varies among the different programs depending on whether the participants are eligible for retirement and for payment of retirement benefits.

In addition, the spouse of a non-represented MTA Bus employee at Spring Creek, JFK, La Guardia, Baisley Park and Far Rockaway, if such employee is age 55 and has 15 years of service and is a terminated member with a vested benefit which is not yet payable, may elect the presumed retirement survivor annuity or 1/2 the participant's accrued benefit paid monthly and terminating on the 60th payment or the spouse's death. The spouse of a non-represented MTA Bus employee at Yonkers Depot may also receive a pre-retirement survivor annuity from the supplemental plan. If there is no such spouse, the actuarial equivalent of such annuity is payable.

The dependent children of MTA Bus employees are also entitled to an annuity based on the spouse's pre-retirement survivor annuity (1/2 of the spouse's annuity is payable to each child, but no more than 100% of the spouse's annuity is payable). In addition, the dependent children of retirees who were MTA Bus employees at these Depots are entitled to an annuity based on the presumed retirement survivor's annuity (25% of the spouse's annuity; but no more than 50% of the spouse's annuity is payable).

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresentative employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The Plan's financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Benefits and refunds are recognized when due and payable

in accordance with the terms of the Plan. Contributions from members are recorded when the employer makes payroll deductions from plan members. Employer contributions are recognized when due in accordance with the terms of the Plan. Additions to the Plan consist of contributions (member and employer) and net investment income. Investment purchases and sales are recorded as of trade date.

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America, as prescribed by Government Accounting Standards Board ("GASB").

MTA Defined Benefit Pension Plan has implemented GASB Statement No. 50, *Pension Disclosures*. The Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pension. This Statement, which amends Statement No. 25 and 27, requires that the notes disclosures or Required Supplementary Information ("RSI") includes the funded status of the plan as of the most recent actuarial valuation. This Statement is intended to improve transparency and the usefulness of reported information about pensions by state and local governmental plans and employers as amended by GASB Statement No. 67.

Recent Accounting Pronouncements —

The Plan has completed the process of evaluating the impact Statement No. 67 on its financial statements. In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which: (1) contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; (2) pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, and (3) pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 25 and Statement No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Plan has adopted the provisions of Statement No. 67, which have enhanced the financial statements required disclosures along with certain required supplementary information.

The Plan has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Statement No. 70 also requires, a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government

is released, the government would recognize revenue as a result of being relieved of the obligation. A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Plan has determined that GASB Statement No. 70 had no impact on its financial position.

The Plan 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.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of GASB Statement No. 73, extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement also clarifies the application of certain provisions of Statement Nos. 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions, 3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 73 and are effective for fiscal years beginning after June 15, 2016.

The Plan has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental

entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address: (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity, and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those

disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Use of Estimates — The preparation of the Plan's 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 the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include fair market value of investments, the annual required contribution and the unfunded actuarial accrued liability.

Benefits — Benefits are recorded when paid.

Asset Transfers — No assets were transferred to the MTA Defined Benefit Pension Plan for the years 2014 and 2013 respectively.

Administrative Expenses — Administrative expenses of the Plan are paid for by the Plan.

3. CASH AND INVESTMENTS

Investment Policy – The Plan's policy statement is issued for the guidance of fiduciaries, including the members of the Board and investment managers, in the course of investing the assets of the Trust. The investments of the Trust will be made for the exclusive benefit of the Plan participants and their beneficiaries. Policy guidelines may be amended by the Board upon consideration of the advice and recommendations of the investment professionals.

In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Board has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on, at least, a quarterly basis and will be readjusted when an asset class weighting is outside its target range. The following was the MTA Defined Benefit Pension Plan Board adopted asset allocation policy as at December 31, 2014.

Asset Class	Target Allocation (%)	Target Range (%)	Policy Benchmark
Equities	29.0	24-34	
Domestic Large Cap	10.0	5-15	S&P 500
Domestic Small Cap	5.5	2-10	Russrl 2000
International Developed Markets Equities	10.0	5-15	MSCI EAFE
Emerging Markets Equities	3.5	2-6	MSCI Emerging Markets
Fixed Income	15.0	9-21	Manager Specific
Global Asset Allocation*	20.0	15-33	50% World Equity/ 50% Citigroup WGBI unhedged
Opportunistic Investments	6.0	0-15	Manager Specific
Absolute Return	15.0	10-22	Manager Specific
Real Assets	5.0	0-10	Manager Specific
Real Estate	3.0	0-10	Manager Specific
Private Equity	7.0	0-10	Manager Specific
Total	100.0		

* The Global Asset Allocation managers will invest across numerous liquid asset classes including: stocks, bonds, commodities, TIPS and REITs.

Investment Objective — The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

Investment Guidelines — The Board of Pension Managers executes investment management agreements with professional investment management firms to manage the assets of the Plan. The fund managers must adhere to guidelines that have been established to limit exposure to risk.

All Securities managers shall be registered advisors under the Investment Advisors Act of 1940.

- **Fixed Income Managers** — Investment managers may not purchase inverse floating rate bonds, structured notes, commodities, securities on margin, sell short, lend securities, invest in private placements (other than 144A Privates), real estate investments, and oil, gas and mineral exploration investments without the written consent of the Board of Managers. The fixed-income portion of the Plan's assets shall be invested in marketable, fixed income securities. The following are acceptable:
 - a. Commercial Paper, Eurodollar Commercial Paper and Variable Rate Notes rated P-1 by Moody's Investors Service, A1 by Standard and Poor's, or F1 by Fitch Ratings.
 - b. Certificates of Deposit and Bankers Acceptances of institutions whose long-term debt is rated Baa or better by Moody's Investors Service or equivalent by Standard & Poor's.
 - c. United States Treasury Bonds, Notes and Bills.
 - d. Marketable corporate debt, Yankee Bonds, Eurodollar bonds, non-agency mortgage-backed securities, asset-backed securities and taxable municipal securities. Eighty-five percent at market value must be rated the equivalent of Baa3 or better by Moody's Investors Service or Standard & Poor's or Fitch Ratings ("investment grade securities"). Up to 15% market value at time of purchase may be invested in below investment grade securities. The average portfolio quality must be Baa1 or better. In case of split ratings, the highest rating applies.

If any of the parameters described above are not met as a result of credit downgrades, the fund manager shall have a reasonable period of time, not to exceed 90 days, to bring the portfolio into compliance with the foregoing investment guidelines.

- e. A minimum of 90% at market value must be invested in securities denominated in U.S. dollars. Up to 10% at market value may be invested in securities denominated in foreign currency.
- f. Collateralized Mortgage Obligations (“CMO’s”) backed by pools of agency or non-agency mortgages including those that are re-constructed in their original proportions from the same pool (such as IO’s/PO’s, and floater/inverse floaters). Companion tranches and support tranches are limited to 3% of the book value of the portfolio.
- g. Non-convertible preferred stock.
- h. Managers may not hold more than 5% at book value and 10% at market value of the portfolios in any one issuer’s securities other than direct or moral obligations of the U.S. Government.
- i. Unrated securities other than those issued by the U.S. Government or its Agencies and Instrumentalities may not be purchased without the prior consent of the Board of Managers.
- **Domestic Equities Managers** — The Domestic equities investment manager may not purchase commodities, securities on margin, sell short, lend securities, invest in private placements, real estate investments, oil, gas and mineral exploration investments, and nominally public issues without the written consent of the Board of Managers. The manager may purchase Rule 144A securities provided such securities are judged by the manager to be liquid and don’t in the aggregate exceed 10% of the market value of the portfolio. The manager shall also be able to purchase securities if such securities are convertible into publicly traded equities.
 - a. Managers’ cash positions are not to exceed 10%. It is the responsibility of the manager to contact the Board of Managers to obtain authorization if and when it becomes clear that a cash position of more than 10% is warranted.
 - b. No single sector shall constitute more than 35% of the market value of the portfolio.
 - c. Investment in all classes of equity securities of any one issuer must be limited to 7.5% of the portfolio at the time of purchase and 10% of the market value of the portfolio.
 - d. The maximum total fund investment in any one company shall not exceed 5% of that company’s outstanding voting stock or more than 5% in value of all outstanding shares of all classes of stock of the issuer.
 - e. The manager may invest up to a total of 10% of the market value of the portfolio in American Depository Receipts (“ADR’s”), non-convertible preferred stock, and warrants when attractive opportunities exist.
- **Non-U.S Equities Managers** — The Non-U.S. equities investment manager may not purchase commodities, securities on margin, sell short, lend securities, invest in private placements, commingled funds (except STIF funds), real estate investments, oil, gas and mineral exploration investments, and nominally public issues without the written consent of the Board of Managers.
 - a. Managers’ cash positions are not to exceed 10%. It is the responsibility of the manager to contact the Board of Managers to obtain authorization if and when it becomes clear that a cash position of more than 10% is warranted.

- b. No single industry group shall constitute more than 30% of the market value of the portfolio, or 1 1/2 times its comparable representation in Europe Australasia and Far East ("EAFE"), whichever is larger, without prior approval from the Board of Managers.
- c. Investment in any one stock, in all classes of equity securities, must be limited to 5% of the book value and 10% of the market value of the portfolio.
- d. The maximum total fund investment in any one company shall not exceed 2% of the company's outstanding voting stock or more than 2% in the value of all outstanding shares of all classes of stock of the issuer (assuming all conversions have been made by the Plans).
- e. Investments in EAFE and Non-EAFE markets are permissible. The maximum exposure to Non-EAFE cannot exceed 10%.
- f. The manager shall use its own judgment in placing securities transactions with brokerage firms. In general, it should deal with financially sound firms capable of giving a good combination of price, commission and service.
- g. The manager may invest up to a total of 10% of the market value of the portfolio in ADR's, preferred stock, warrants and convertible securities when attractive opportunities exist.

Exceptions:

- The Board of Managers, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may, from time to time, allow investment in such funds. The Board recognizes that it cannot give specific policy directives to a fund whose policies are already established; therefore, the Board is relying on the investment consultant to assess and monitor the investment policies of any funds used by the Plan to ascertain whether they are appropriate.
- The Plan requires that any exceptions taken to investment policy and guideline statements be submitted in writing pending approval by the Board of Managers. The Board must explicitly authorize each exception in writing. Failure to notify the Board and obtain written authorization will result in the investing manager being liable for any corresponding loss to the investment fund.
- The index fund manager has the Board's approval to utilize securities lending and futures contracts (for the specific reason of equitizing cash deposits with Barclays Aggregate futures contracts) in the management of the index fund.
- The domestic equity manager who has the Board's approval to invest in collective investment vehicles may invest more than 7.5% of the assets subject to such manager's discretionary in collective investment vehicles of any one issuer.
- The fixed income manager who has the Board's approval to invest in collective investment vehicles may invest more than 5% of the assets subject to such manager's discretionary authority in collective investment vehicles of any issuer.

Investment Valuation and Income Recognition — Investments are stated at fair value based on information provided by JP Morgan Chase (the "trustee"), New England Pension Consultant ("NEPC"), and the investment managers. All investments are registered, with securities held by the Plan's trustee, in the name of the Plan. The values of the Plan investments are adjusted to fair value or amortized cost as of the last business day of the plan year. Gains and losses on investments that were sold during the year are included in the statement of plan net position.

Dividend and interest income are recorded when earned. Purchases and sales of securities are recorded on a trade-date basis.

Risks and Uncertainties — The Plan's investment are exposed to various risks, such as interest rate, market, and credit risk. Due to the level of risk associated with certain investment securities and level of uncertainty related to changes in the value of investment securities, it is possible that changes in risks in the near term would materially affect the amounts reported in the Plan's financial statements.

The financial markets, both domestically and internationally, have demonstrated significant volatility on a daily basis, which affects the valuation of investments. The Plan utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and with acceptable levels of risk.

Concentration of Credit Risk – Individual investments held by the Plan that represents 5.0% or more of the Plan's net assets available for benefits at December 31, 2014 and 2013 are as follows:

	2014	2013
Investments at fair value as determined by quoted market prices:		
* EB Global Alpha 1 Fund	\$ 171,801,736	\$ 137,460,376
* Mellon All Weather Portfolio	175,853,033	141,405,428
PIMCO All Asset Fund	197,433,960	157,591,703
Wellington CIF Opportunistic	164,430,440	-

* Values represent Net Asset Value ("NAV"), as market value cannot be determined.

Credit Risk — At December 31, 2014 and 2013, the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2014 Fair Value	Percentage of Fixed Income Portfolio	2013 Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 111,945,110	10.39 %	\$ 105,412,099	16.46 %
AA	46,623,025	4.33	39,354,915	6.14
A	92,141,911	8.56	76,822,540	11.99
BBB	151,264,764	14.04	71,133,398	11.10
BB	111,325,462	10.33	13,273,572	2.07
B	76,066,100	7.06	20,963,450	3.27
CCC	29,241,171	2.71	10,866,425	1.70
Not Rated	<u>304,889,626</u>	<u>28.31</u>	<u>104,000,880</u>	<u>16.24</u>
Credit risk debt securities	923,497,169	85.73	441,827,279	68.97
U.S. Government bonds	<u>153,669,433</u>	<u>14.27</u>	<u>198,735,401</u>	<u>31.03</u>
Total fixed income securities	1,077,166,602	<u>100.00 %</u>	640,562,680	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>1,999,515,728</u>		<u>2,203,670,062</u>	
Total investments	<u>\$ 3,076,682,330</u>		<u>\$ 2,844,232,742</u>	

Interest Rate Risk Exceptions — 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 100 basis point change in interest rates.

Investment Fund	2014		2013	
	Fair Value	Duration	Fair Value	Duration
Chase	\$ 390,202,214	4.24	\$ -	-
Pimco	160,405,090	2.77	106,963,494	4.26
Wellington Emerging Debt	85,429,532	4.22	88,889,336	-
Bridgewater All Weather Fund	142,871,680	9.37	141,405,428	9.07
Wellington Opportunistic	39,008,689	4.66	119,299,639	4.25
Bridgewater Alpha	43,935,113	(0.84)	36,221,322	3.13
Bridgewater Market Limited	(141,534)	(2.05)	2,629,691	3.87
Northern Trust William Capital	8,131,396	-	-	-
Park Square Capital Credit Opportunities	9,399,938	0.33	-	-
Crescent Capital High Income Fund	50,102,159	2.21	-	-
Fit Tree Value Fund	5,150,100	-	-	-
Wellington Global Marketing	99,296,032	-	99,824,874	5.70
Wellington Trust Collective Investment Fund and Diversified Inflation Fund	5,736,854	5.71	15,223,656	5.76
Canyon Value	37,639,339	2.60	21,846,436	1.60
Total fixed income securities	1,077,166,602		632,303,876	
Portfolio modified duration		3.45		3.79
Investments with no duration reported	\$ 1,999,515,728		\$ 2,211,928,866	
Total investments	\$ 3,076,682,330		\$ 2,844,232,742	

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. The Plan also holds investments in American Depositary Receipts (“ADRs”) which are not included in the below schedule since they are denominated in U.S. dollars and accounted for at fair market value.

In addition, the Plan has investments in foreign stocks and/or bonds denominated in foreign currencies. The Plan's foreign currency exposures as of December 31, 2014 and 2013 are as follows (amounts in U.S. dollars, in thousands):

Foreign Currency Holdings in US \$	December 31, 2014	December 31, 2013
Argentina Peso	\$ -	\$ 510,999
Dollar (Australian)	8,076,097	14,226,755
Bangladesh (Taka)	594,775	-
Botswana Pula	107,958	155,646
Brazil Cruzeiro Real	18,318,280	16,255,057
Bulgarian Lev	7,956	11,118
Dollar (Canadian)	7,771,955	17,128,146
Cayman Island dollar	-	2,142,777
Chilean Peso	2,552,383	3,048,597
China (Yuan Renminbi)	6,756,029	(441,285)
Colombian Peso	9,629,679	10,146,553
Croatia Kuna	564,942	622,583
Czech Koruna	765,697	2,184,895
Krone (Danish)	1,708,741	1,214,112
Egyptian Pound	1,137,720	1,901,102
Euro	79,602,539	169,237,385
Ghanaian Cedi	45,444	111,176
Dollar (Hong Kong)	9,741,043	15,336,531
Hungary (Forint)	706,519	2,911,321
Indian Rupee	8,958,979	8,373,681
Indonesia Rupiah	13,412,187	8,698,033
Israeli (Shekel)	3,018,859	2,804,820
Yen (Japan)	15,295,494	72,432,003
Jordanian Dinar	558,622	856,052
Kenyan Shilling	590,104	1,011,698
Kuwait Dinar	1,335,872	1,723,221
Malaysian (Ringgit)	9,413,226	8,198,111
Mauritius (Rupee)	806,179	411,350
Mexican New Peso	10,493,214	18,263,618
Morocco Dirham	539,282	878,287
Dollar (New Zealand)	8,438,204	88,281
Nigerian Naira	507,309	3,293,950
Krone (Norwegian)	(3,048,265)	2,277,404
Omanian Rial	484,032	878,287
Pakistani Rupee	595,261	878,287
Peru Sol	2,559,337	5,008,391
Philippines Peso	2,030,591	2,371,849
Polish (New Zloty)	6,531,445	9,060,681
Pound (Sterling)	22,539,902	62,470,064
Qatar Riyal	987,472	1,856,632
Romanian Leu	1,895,281	3,140,431
Russian Federation Rouble	6,840,477	6,737,900
Saudi Riyal	-	1,383,039
Singapore Dollar	3,869,962	6,108,786
Rand South Africa	11,177,654	16,510,683
South Korean Won	10,832,107	13,355,092
Sri Lankan Rupee	536,504	-
Krona (Swedish)	(372,657)	5,057,655
Franc (Swiss)	7,047,726	34,886,004
Thai (Bhat)	4,354,097	(932,099)
Dollar (Taiwan, New)	7,789,162	9,575,823
Tunisian Dinar	42,730	300,174
Turkish Lira	11,284,474	13,000,311
UAE Dirham	824,392	2,068,596
Uruguayan Pesos	736,977	216,874
Other	(14,609,695)	974,375
Total	\$ 306,384,254	\$ 580,921,812

Additional Information — The plan holdings are part of the MTA Master Trust of which the MTA Defined Benefit Plan participates on a percentage basis. The percentage of the plan ownership for the year ending December 31, 2014 and December 31, 2013 was 81.24% and 86.52% respectively.

	Master Trust Total Plan	MTA Defined Benefit Plan	Master Trust Total Plan	MTA Defined Benefit Plan
	December 31, 2014		December 31, 2013	
Investments at fair value:				
Short term investments	\$ 301,811,914	\$ 245,206,888	\$ 134,334,566	\$ 116,222,959
Equity securities	542,128,164	440,451,666	511,527,391	442,586,862
Debt securities:				
Corporate bonds	83,813,458	68,094,188	119,457,098	103,351,341
Government and Agency bonds	15,894,723	12,913,657	130,608,620	112,999,363
Mortgage backed securities	-	-	66,162,412	57,242,090
Other	12,763,587	10,369,768	20,874,881	18,060,434
Mutual funds	875,047,181	710,931,499	388,587,275	336,196,144
Comingled funds	1,341,116,260	1,089,589,013	1,346,246,716	1,164,739,515
Limited partnership and warrants	614,346,802	499,125,651	569,634,836	492,834,036
Total investments	<u>\$ 3,786,922,089</u>	<u>\$ 3,076,682,330</u>	<u>\$ 3,287,463,796</u>	<u>\$ 2,844,232,742</u>

4. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2014 and 2013 were as follows (in thousands):

	December 31, 2014	December 31, 2013
Total pension liability	\$ 4,099,738	\$ 3,892,983
Fiduciary net position	3,065,220	2,806,367
Net pension liability	<u>1,034,518</u>	<u>1,086,616</u>
Fiduciary net position as a percentage of the total pension liability	74.77%	72.09%
Covered Payroll	1,395,336	N/A
Net pension liability as a percentage of covered payroll	74.14%	N/A

Actuarial Methods and Assumptions

The total pension liability as of December 31, 2014 was determined by an actuarial valuation date of January 1, 2014, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Discount Rate

The discount rate used to measure the total liability as of December 31, 2014 and 2013 was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made in accordance with the Employer funding policy as projected by the Plan's actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return

on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00 percent; as well as what the Plan's net pension would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate:

2014
(in thousands)

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	1,554,937	1,034,518	596,266

Additional information of the latest actuarial valuation follows:

Valuation date	January 1, 2014
Valuation timing	Actuarially determined contributions calculated as of December 31, for the fiscal year and discounted to expected payment dates (July 1 for these projections).
Actuarial cost method	Entry age normal
Amortization method	For FIL bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population for each group.
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA
Actuarial assumptions:	
Investment rate of return	7.0%
Projected salary increases	Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees
COLAs	55% of inflation assumption or 1.375%, if applicable
Inflation/Railroad Retirement wage base	2.5%; 3.0%

Calculation on Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the middle of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

Schedule of Calculations of Money-Weighted Rate of Return

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning Value - January 1, 2014	\$2,806,367,171	12.00	1.00	\$2,906,799,044
Monthly net external cash flows:				
January	8,072,699	11.50	0.96	8,349,845
February	8,072,699	10.50	0.88	8,326,391
March	8,072,699	9.50	0.79	8,300,083
April	8,072,699	8.50	0.71	8,276,768
May	8,072,699	7.50	0.63	8,253,519
June	8,072,699	6.50	0.54	8,227,442
July	8,072,699	5.50	0.46	8,204,331
August	8,072,699	4.50	0.38	8,181,285
September	8,072,699	3.50	0.29	8,155,436
October	8,072,699	2.50	0.21	8,132,528
November	8,072,699	1.50	0.13	8,109,683
December	67,808,184	0.50	0.04	67,903,621
Ending Value - December 31, 2014	3,065,219,976			3,065,219,976
Money-Weighted Rate of Return	3.58%			

Calculation on Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2013.

SCHEDULE OF LONG TERM EXPECTED RATE OF RETURN

Asset Class	Index	Target Allocation*	Real Rate of Return
Cash	Citigroup 90-Day T-Bills	0.00%	0.50%
Core Fixed Income	Barclays Aggregate	9.60%	2.19%
Core Bonds	Barclays Gov/Cred	0.00%	1.87%
Short-Term Bonds	Citigroup 1-3 Year Gov/Cred	0.00%	1.00%
Intermediate-Term Bonds	Barclays Intermediate Gov/Cred	0.00%	1.58%
Long-Term Bonds	Barclays Long Gov/Cred	0.00%	3.23%
Mortgages	Barclays Mortgage	0.00%	2.84%
High Yield Bonds	Barclays High Yield	11.40%	4.15%
Non-US Fixed Income	JPM GBI Global ex-US	10.00%	1.41%
Inflation-Indexed Bonds	ML Index	0.00%	1.30%
Broad US Equities	Wilshire 5000 / Russell 3000	5.00%	5.88%
Large Cap US Equities	S&P 500	7.67%	5.62%
Mid Cap US Equities	Russell Mid Caps	2.33%	6.39%
Small Cap US Equities	Russell 2000	5.50%	7.39%
Developed Foreign Equities	MSCI EAFE	15.00%	6.05%
Emerging Market Equities	MSCI Emerging Markets	3.50%	8.90%
Private Equity	Cambridge Associates	12.00%	9.15%
Hedge Funds / Absolute Return	HERI Fund of Funds	15.00%	3.12%
Real Estate (Property)	NCREIF/TBI Property	3.00%	4.43%
Real Estate (REITS)	FTSE NAREIT Equity REIT	0.00%	5.58%
Commodities	DJ UBS	0.00%	3.60%
Long Credit Bonds	Barclays Long Credit	0.00%	3.74%
Assumed Inflation - Mean			2.50%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			7.55%
Portfolio Standard Deviation			12.25%
Long-Term Expected Rate of Return selected by MTA			7.00%

* Based on target asset allocation for 2014 fiscal year

5. CONTRIBUTIONS

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 under the Metropolitan Suburban Bus Authority Employee's Pension Plan.

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, or fifteen years if hired after certain dates in 2014 as per collective bargaining agreements. Certain Metro-North represented employees, depending on their collective bargaining agreements, are required to make the employee contributions until January 1, 2014, January 1, 2017, June 30, 2017, or the completion of required years of credited service as per the relevant 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 certain 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 and Command) 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 and January 1, 2013 actuarial valuations 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 — New York City Private Bus Lines Pension Trust who 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 \$45.7 and \$45.4 for the calendar years ended December 31, 2014 and 2013, respectively. Both of these employer contributions were paid to the MTA Plan in their respective years.

GASB Statements No. 67 and 68, have substantially revised the accounting requirements previously mandated under GASB Statements No. 25 and 27. The most notable change is the distinct separation of funding from financial reporting. The Annual Required Contribution (“ARC”) has been eliminated under GASB 67 and 68 and is no longer relevant for the Plan financial reporting purposes for 2014. As a result

unearned revenues, prior to 2014 financial reporting were recognized for prepaid employer contributions to the Plan.

6. ACTUARIAL METHODS AND ASSUMPTIONS

A. Actuarial Valuation Method

The Frozen Initial Liability method was used for determining normal costs and the unfunded actuarial accrued liability. Entry Age Normal method is used for determining changes in the unfunded actuarial accrued liability due to plan provision and assumption changes. The Normal Cost is calculated as the employer normal rate adjusted with interest to December 31, multiplied by the annual compensation for those groups where benefits are related to pay and by the number of eligible members for those groups where the benefit is not pay-related, and weighted by the present value of benefits. The employer normal rate is calculated as the present value of future employer normal contributions divided by the present value of future compensation for those groups where benefits are related to pay and by the present value of future service for those groups where the benefit is not pay-related.

B. Asset Valuation Method

The Asset Valuation method smoothes gains and losses over a 5-year period. The formula for the asset valuation method is as follows:

$$\text{Actuarial Value of Assets} = MV_t - .8UR_1 - .6UR_2 - .4UR_3 - .2UR_4$$

Where

MV_t = Market Value of assets as of the valuation date.

UR_n = Unexpected return during the n^{th} year preceding the valuation date. The unexpected return for a year equals the total investment return minus the total expected return. The total expected return equals the market value of assets at the beginning of the year plus the weighted net cash flow during the year multiplied by the expected rate of return.

The resulting value cannot be less than 80% or greater than 120% of the market value of assets.

C. Actuarial Assumptions Universal to all Groups

Interest — 7.00% per annum, compounded annually.

Railroad Retirement Wage Base — 3.00% per year.

Consumer Price Index — 2.50% per year.

Provision for Expenses — Estimated administrative expenses of \$4.0 million are added to the normal cost. Administrative expenses are assumed payable in the middle of the plan year.

Mortality — Preretirement and postretirement healthy 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.

Postretirement Healthy Lives — 95% of 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.

Postretirement Disabled Lives — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

D. Changes in Actuarial Assumptions Universal to all Groups

None

E. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Management

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate of Increase
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Termination — Withdrawal rates vary by years of service and sex. Illustrative rates are shown below:

Years of Service	Male	Female
0 - 1	5.00 %	7.50 %
2 - 3	3.25	4.00
4	2.50	4.00
5 - 9	2.25	3.50
10 - 19	1.50	3.00
20+	1.00	1.50

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

A. For Management employees hired prior to January 31, 2008.

Age	Reduced Early Retirement	Unreduced Early Retirement
55	5.00 %	10.00 %
56	5.00	7.00
57	5.00	5.00
58	5.00	5.00
59	5.00	5.00

B. For all management employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service

- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Ordinary		Accidental		Age	Ordinary		Accidental	
	M	F	M	F		M	F	M	F
20	0.015 %	0.020 %	0.010 %	0.005 %	45	0.176 %	0.147 %	0.039 %	0.010 %
25	0.020	0.020	0.010	0.005	50	0.240	0.221	0.044	0.010
30	0.024	0.024	0.015	0.005	55	0.245	0.245	0.049	0.010
35	0.039	0.029	0.024	0.005	60	0.245	0.245	0.049	0.010
40	0.103	0.069	0.034	0.010	64	0.245	0.245	0.049	0.010

Marriage — 85% of members are assumed to be married with wives 3 years younger than their husbands.

Employee Contributions: No employee contributions have been anticipated for future years.

Changes in Actuarial Assumptions: The rates of termination, retirement and disability have been changed in accordance with an experience analysis completed in June 2014.

F. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Metro-North Represented Employees

Salary Scale — Salaries are assumed to increase 3.50% per year. Members are assumed to earn overtime equal to 25% of their rate of pay for years when they are retirement eligible. All other years are assumed to earn overtime equal to 18% of their rate of pay.

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Years of Service	Termination Rate
0 - 1	3.50 %
2 - 3	3.25
4	2.50
5 - 9	2.25
10 - 19	1.50
20+	1.00

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

A. For represented employees hired prior to January 31, 2008

Age	Reduced Early Retirement	Unreduced Early Retirement
55	4.50 %	10.00 %
56	4.00	7.00
57	3.00	5.00
58	3.00	5.00
59	3.50	5.00

B. For all other management employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Ordinary		Accidental		Age	Ordinary		Accidental	
	M	F	M	F		M	F	M	F
20	0.17 %	0.25 %	0.01 %	0.01 %	45	0.27 %	0.41 %	0.06 %	0.01 %
25	0.17	0.25	0.01	0.01	50	0.50	0.75	0.06	0.01
30	0.17	0.25	0.01	0.01	55	0.95	1.43	0.07	0.01
35	0.18	0.27	0.01	0.01	60	1.93	2.90	0.07	0.01
40	0.20	0.31	0.01	0.01	64	1.93	2.90	0.07	0.01

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions — The rates of overtime, termination and retirement have been changed in accordance with an experience analysis completed in June 2014.

G. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Long Island Rail Road Represented Employees

Salary Scale — Salaries are assumed to increase 3.50% per year.

Members are assumed to earn overtime equal to 30% of their pay for years when they are retirement eligible. All other years are assumed to earn overtime equal to 20% of their rate of pay. Members hired on or after January 31, 2008 have overtime capped at 20%.

Termination — Withdrawal rates vary by age. Illustrative rates are shown below:

Years of Service	Termination Rate
0	4.25 %
1 - 4	2.75
5 - 9	2.25
10+	1.25

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

A. For represented employees hired prior to January 31, 2008:

Age	Reduced Early Retirement	Unreduced Early Retirement
55	4.50 %	10.00 %
56	4.00	7.00
57	3.00	5.00
58	3.00	5.00
59	3.50	5.00

B. For all other represented employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Ordinary		Accidental		Age	Ordinary		Accidental	
	M	F	M	F		M	F	M	F
20	0.17 %	0.25 %	0.01 %	0.01 %	45	0.27 %	0.41 %	0.06 %	0.01 %
25	0.17	0.25	0.01	0.01	50	0.50	0.75	0.06	0.01
30	0.17	0.25	0.02	0.01	55	0.95	1.43	0.07	0.01
35	0.18	0.27	0.03	0.01	60	1.93	2.90	0.07	0.01
40	0.20	0.31	0.05	0.01	64	1.93	2.90	0.07	0.01

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions - The rates of termination and retirement have been changed in accordance with an experience analysis completed in June 2014.

H. Actuarial Assumptions — MTA 20-Year Police Retirement Program

Salary Scale — Salary increases vary by years of Police Service. Illustrative rates are shown below.

Years of Service	Rate of Increase
1	12.5 %
2	14.5
3 – 4	15.5
5	39.5
6 – 9	3.5
10	4.5
11 – 14	3.5
15	5.5
16 – 19	3.5
20	4.5
21 – 24	3.5
25	4.5
26+	3.5

In addition, members are assumed to earn overtime equal to 30% of their rate of pay. Overtime earnings that can be used in the calculation of a Final Average Salary for pension calculations for those hired on and after April 1, 2012 is limited to 15% of their rate of pay.

Termination — Withdrawal rates vary by length of service and age. Illustrative rates are shown below:

Years of Service	Termination Rate
0	6.50 %
1	2.50
2 – 4	2.00
5	0.50
6 – 9	0.35
10+	0.30

Retirement — Rates vary by year of eligibility. Illustrative rates are shown below:

Years of Eligibility	Retirement Rate
1	17.00 %
2	12.00
3 – 9	10.00
10+	50.00

Retirement rates at ages 62 and above are 100% regardless of year of eligibility.

Disability — Rates vary by age and type of disability. Illustrative rates are shown below:

Age	Ordinary	Accidental	Age	Ordinary	Accidental
20	0.043 %	0.095 %	45	0.256 %	0.500 %
25	0.043	0.095	50	0.559	0.527
30	0.062	0.095	55	0.819	0.539
35	0.096	0.115	60	0.896	0.544
40	0.138	0.316			

Cost of Living Expenses: assumed to be 1.375% per annum, compounded annually.

Marriage — 85% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions - The rates of salary growth, overtime, cost-of-living, termination and disability have been changed in accordance with an experience analysis completed in June 2014.

I. Actuarial Assumptions — MTA Defined Benefit Plan — SIRTOA

Salary Scale — Salary increases vary by years of service. Illustrative rates are shown below.

Years of Service	Rate
0	10.00 %
1	9.50
2	9.25
3	9.00
4	8.75
5	6.00
6+	3.25

Overtime — hourly employees are assumed to earn overtime equal to 7.50% of their rate of pay.

Termination — Withdrawal rates vary length of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	9.00 %
1 - 3	5.50
4 - 9	3.50
10 - 19	1.40
20+	0.50

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

Age	Reduced Early* Retirement	Normal Retirement	
		First Year Eligible	After First Eligibility
55	3.00 %	30.00 %	20.00 %
56	3.00	30.00	20.00
57	3.00	30.00	20.00
58	3.00	30.00	20.00
59	3.00	30.00	20.00
60	3.00	30.00	20.00
61	3.00	30.00	20.00

*Applies only to members of UTU and management employees.

For ages 62 to 80:

- 5% per year if members has fewer than 10 years of service

- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Ordinary	Accidental	Age	Ordinary	Accidental
20	0.15 %	0.03 %	45	0.44 %	0.05 %
25	0.17	0.03	50	0.54	0.06
30	0.19	0.03	55	0.61	0.07
35	0.24	0.03	60	0.81	0.08
40	0.33	0.04			

Marriage - 80% of members are assumed to be married with wives 3 years younger than their husbands.

Participant Data — Benefits were estimated for vested members. For valuations prior to 2001, these estimates were supplied by the prior actuary. Railroad offsets for current active members were supplied by the prior actuary.

Benefits Not Valued — Accidental death benefits.

Changes in Actuarial Assumptions - The rates of termination and retirement have been changed in accordance with an experience analysis completed in June 2014.

J. Actuarial Assumptions — LIRR Pension Plan

Salary Scale — Rates of pay are assumed to increase at a rate of 3.0% per annum.

Overtime/Unused Vacation Pay — Earnings in each year increased by 65% for represented employees to account for overtime and by 20% in the year prior to assumed retirement and by 10% in the year prior to termination (other than retirement) for non-represented employees to account for unused vacation pay.

Termination — Withdrawal rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	2.12 %	45	0.96 %
25	1.64	50	0.80
30	1.44	55	0.60
35	1.36	60	0.00
40	1.16		

Retirement — Assumed retirement rate varies by year of eligibility.

Eligibility Period	Rate of Retirement
First Year	40 %
Years 2-4	33
Years 5	37
Years 6 – 7	35
Years 8 – 9	33
Years 10 - 15	55
Years 16 and above	100

Terminated vested participants are assumed to retire upon first eligibility, or attained age if later.

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions — Assumed to be 3.5% per year for future years.

Tier 1 Railroad Offset — The Tier 1 Railroad offset, which is designed similar to a Social Security Benefit, was estimated by assuming that an individual would continue to earn compensation at the level in effect at his date of termination until his eligibility for Railroad Benefits and further increased by 2% per year from the date of termination to age 65.

Miscellaneous — The valuation was prepared on a going-plan basis. The valuation was based on participants in the Plan as of valuation date and did not take future participants into account. No provision has been made for contingent liabilities with respect to non-vested terminated participants who may be reemployed. Since the majority of active plan participants are at or close to retirement eligibility, the disability benefit has not been explicitly valued.

Changes in Actuarial Assumptions - The rates of salary growth, overtime and termination have been changed in accordance with an experience analysis completed in June 2014.

K. Actuarial Assumptions — MTA Defined Benefit Pension Plan – Former New York Bus Service Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — Rates vary by age. Illustrative rates are shown below

For represented TWU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

All members are assumed to retire at their Normal Retirement Age of 62.

Disability: Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions: Future years assumed to be 3.5% per year.

Benefits Not Valued:

The \$2,500 post-retirement death benefit for represented TWU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions - The rates of termination have been changed in accordance with an experience analysis completed in June 2014.

L. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Queens Surface, Triboro and Jamaica Represented Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — Rates vary by age. Illustrative rates are shown below:

For represented TWU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Retirement Rate
55-56	10 %
57	20
58-60	15
61	20
62-63	45
64	40
65	100

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions: Future years assumed to be 3.5% per year.

Benefits Not Valued:

The \$2,500 post-retirement death benefit for represented TWU members is not valued since premiums are paid outside of the plan trust.

The \$10,000 post-retirement death benefit for all other members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions - The rates of termination have been changed in accordance with an experience analysis completed in June 2014.

M. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Liberty Lines Bus Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — Rates vary by age. Illustrative rates are shown below:

For represented TWU members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Retirement Rate
60–61	7.5 %
62	40.0
63–64	20.0
65	100.0

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions: Future years assumed to be 3.5% per year.

Benefits Not Valued: The \$2,500 post-retirement death benefit for represented TWU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions:

The rates of termination have been changed in accordance with an experience analysis completed in June 2014.

N. Actuarial Assumptions- MTA Defined Benefit Pension Plan – Former Liberty Lines Bus Non-Represented MTA Bus employees

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — All members are assumed to retire at their Normal Retirement Age of 62.

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Form of Payment: All members are assumed to elect the lump sum payment option. Lump sums valued using the current (2014) lump sum mortality table published by the IRS and the 4.5% assumed interest rate.

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions: The rates of salary growth, termination and disability have been changed in accordance with an experience analysis completed in June 2014.

O. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Command Bus Represented Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — Rates vary by age. Illustrative rates are shown below:

For represented ATU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Retirement Rate	Age	Retirement Rate
50-52	5 %	59	34 %
53-54	10	60	35
55	30	61	36
56	31	62-64	40
57	32	65	100
58	33		

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 85% of male members and 50% of female members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions: Future years assumed to be 3.5% per year.

Benefits Not Valued: The \$2,500 post-retirement death benefit for represented ATU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions: The rates of termination and disability have been changed in accordance with an experience analysis completed in June 2014.

P. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Green Bus Represented Employees

Termination — Withdrawal rates vary by Years of Service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — Rates vary by age. Illustrative rates are shown below:

For represented ATU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Rate of Retirement
55-59	5 %
60-61	10
62	100

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 85% of male members and 50% of female members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions: Future years assumed to be 3.5% per year.

Benefits Not Valued: The \$2,500 post-retirement death benefit for represented ATU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions: The rates of termination and disability have been changed in accordance with an experience analysis completed in June 2014.

Q. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Certain Non-Represented Employees of Alliance Companies

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate of Increase
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Termination — Withdrawal rates vary by years. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — Rates vary by age. Illustrative rates are shown below:

Age	Retirement Rate
55–56	6 %
57–58	8
59	9
60–61	13
62	25
63–64	15
65	100

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 5 years younger than their husbands.

Changes in Actuarial Assumptions: The rates of salary growth, termination and disability have been changed in accordance with an experience analysis completed in June 2014.

7. CUSTODIAL AND OTHER PROFESSIONAL SERVICES

JP Morgan Chase Bank is the custodian of plan assets and also provides cash receipt and disbursement services to the Plan. New England Pension Consultants reviews the Plan's portfolio, the investment policies as stipulated by the Investment Committee and the performance of the Investment Managers. Actuarial services were provided to the Plan by Milliman Inc.

8. SUBSEQUENT EVENTS

As at January 25, 2016, there were no materially significant subsequent events.

* * * * *

DRAFT

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS (in thousands)

	<u>2014</u>
Total pension liability:	
Service cost	\$ 121,079
Interest	274,411
Changes of benefit terms	-
Differences between expected and actual experience	2,322
Changes of assumptions	-
Benefit payments and withdrawals	<u>(191,057)</u>
Net change in total pension liability	206,755
Total pension liability – beginning	<u>3,892,983</u>
Total pension liability – ending (a)	<u>4,099,738</u>
Plan fiduciary net position:	
Employer contributions	331,259
Member contributions	26,006
Net investment income	102,245
Benefit payments and withdrawals	(191,057)
Administrative expenses	(9,600)
Net change in plan fiduciary net position	258,853
Plan fiduciary net position – beginning	<u>2,806,367</u>
Plan fiduciary net position – ending (b)	<u>3,065,220</u>
Employer's net pension liability – ending (a)-(b)	<u>\$ 1,034,518</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74.8%</u>
Covered-employee payroll	<u>\$ 1,395,336</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>74.14%</u>

In accordance with GASB No. 67, paragraph 50, such information was not readily available for periods prior to 2014.

**METROPOLITAN TRANSPORTATION AUTHORITY
DEFINED BENEFIT PENSION PLAN**

SCHEDULE II

**Required Supplementary Information (Unaudited)
Schedule of Employer Contributions
(in thousands)**

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2005	58,239	58,239	-	-	N/A
2006	72,596	302,999	(230,403.00)	-	N/A
2007	81,700	81,700	-	-	N/A
2008	107,759	107,759	-	-	N/A
2009	146,171	146,171	-	-	N/A
2010	155,318	155,318	-	-	N/A
2011	166,188	166,188	-	-	N/A
2012	212,397	212,397	-	-	N/A
2013	242,980	242,980	-	-	N/A
2014	271,523	331,259	(59,736.00)	1,395,334	23.74%

* Excess for 2014 reflects a prepaid contribution toward the 2015 Actuarially Determined Contribution.

**METROPOLITAN TRANSPORTATION AUTHORITY
DEFINED BENEFIT PENSION PLAN**

SCHEDULE III

**Required Supplementary Information (Unaudited)
Schedule of Investment Returns**

The following table displays annual money-weighted rate of return, net of investment expense.

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2005	N/A
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	3.58%

In accordance with GASB No. 67, paragraph 50, such information was not readily available for periods prior to 2014.

Calculation on Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2013.

Metropolitan Transportation
Authority Retiree Welfare
Benefits Plan
("Other Postemployment
Benefits Plan" or "OPEB Plan")

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Supplemental Schedules, and
Independent Auditors' Report

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POST EMPLOYMENT BENEFITS PLAN

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of the
Metropolitan Transportation Authority Retiree Welfare Benefits Plan

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (the "Plan") as of December 31, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, the Schedule of Funding Progress on page 30, and the Schedule of Employer Contributions on page 31 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 25, 2016

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

The purpose of the Metropolitan Transportation Authority ("MTA") Retiree Welfare Benefits Plan ("Other Postemployment Benefits Plan" or "OPEB Plan" or the "Plan") and the related Trust Fund is to provide a vehicle for the MTA organization to set aside funds to assist it in providing health and other welfare benefits to eligible retirees and their beneficiaries. The Plan and the Trust Agreement are exempt from federal income taxation under Section 115(1) of the Code. The MTA is not required by law or contractual agreement to provide funding for the Plan, other than the "pay-as-you-go" cost of providing current benefits to current eligible retirees, spouses and dependents ("Pay-Go").

This management's discussion and analysis of the Plan's financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2014 and 2013. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the year and the effects of significant changes. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with, the Plan's financial statements which begin on page 12.

Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the financial statements. The basic financial statements are:

- **The Statement of Plan Net Position** — presents the financial position of the Plan at year end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan 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. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- **The Statement of Changes in Plan Net Position** — present the results of activities during the year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- **The Notes to Financial Statements** — provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- **Required Supplementary Information** as required by the GASB is presented after the management discussion and analysis, the statement of Plan net position, the statement of changes in Plan net position and the notes to the combined financial statements.

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Financial Highlights

Plan net position is held in trust for the payment of future benefits to members and beneficiaries. The assets of the Plan exceeded its liabilities by \$303.2 million and \$299.7 million as of December 31, 2014 and 2013, respectively. The increase in 2014 is primarily a result of net appreciation in investments values, which was a result of the reallocation of cash held at the end of 2013 to different investment classes during 2014.

Plan Net Position

December 31, 2014 and 2013

(Dollars in thousands)

	2014	2013
ASSETS		
Cash	\$ 102,320	\$ 199,513
Commitment to purchase	7,500	-
Investments, at fair value	193,367	100,231
Receivables and other assets	2	2
TOTAL ASSETS	<u>303,189</u>	<u>299,746</u>
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	<u>\$ 303,189</u>	<u>\$ 299,746</u>

Changes in Plan Net Position For the Years Ended December 31, 2014 and 2013 (Dollars in thousands)

	2014	2013
ADDITIONS		
Net realized and unrealized gains or (losses)	\$ 3,950	\$ (409)
Less:		
Investment expenses	507	97
Net investment income	<u>3,443</u>	<u>(506)</u>
Add:		
Employer contributions	-	50,000
Total additions	<u>3,443</u>	<u>49,494</u>
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS		
Beginning of year	<u>299,746</u>	<u>250,252</u>
End of year	<u>\$ 303,189</u>	<u>\$ 299,746</u>

The Plan's net position held in trust increased by \$3.4 million and \$49.5 million during 2014 and 2013, respectively. In 2014, the Plan's net appreciation on fair value of investments increased by \$3.9 million which was offset by investment fees of \$0.5 million. In 2013, the increase was primarily due to current employer contributions into the Plan in the amount of \$50 million, partially offset by net depreciation on fair value of investments held, investment fees and unrealized gains in the amount of \$0.5 million.

Investments — The table below summarizes the Plan's investment allocations.

December 31, 2014
(Dollars in thousands)

Type of Investments

	Fair Value	Allocation
Mutual funds	\$ 96,728	50.02 %
Commingled funds	70,237	36.32
Limited partnership	26,402	13.66
	<u>\$ 193,367</u>	<u>100.00 %</u>

December 31, 2013
(Dollars in thousands)

Type of Investments

	Fair Value	Allocation
Mutual funds	\$ 45,978	45.87 %
Commingled funds	36,914	36.83
Limited partnership	17,339	17.30
	<u>\$ 100,231</u>	<u>100.00 %</u>

Overview of Actuarial Information

GASB 43 requires employers with more than 200 employees or beneficiaries receiving benefits to perform periodic actuarial valuations at least biennially to determine annual accounting costs and liabilities.

The following is a summary of information from the January 1, 2012, the most recent OPEB actuarial valuation for the Plan (\$ in millions):

	<u>2012</u>
Actuarial value of assets	\$ 246
Actuarial accrued liability	(20,188)
Unfunded actuarial accrued liability	<u>\$ (19,942)</u>

Actuarial Value of Assets

The actuarial value of assets (which is equal to the Plan's net position) as of January 1, 2012, the date of the most recent OPEB actuarial valuation, was \$246.0 million.

Actuarial Accrued Liability

The actuarial accrued liability (“AAL”) as of January 1, 2012, the date of the most recent OPEB actuarial valuation, was \$20.2 billion determined under the Entry Age (“EA”) Normal Actuarial Cost Method.

Unfunded AAL

The increase in AAL was not fully offset by the MTA contributions to the Plan and other changes in Plan net position, resulting in an Unfunded AAL of \$19.9 billion as of January 1, 2012, which is \$2.2 billion higher than the January 1, 2010 actuarial valuation. The MTA determines the amount of its annual employer contributions on the annual Pay-Go, adjusted by prepayments and trust asset usages, which are determined through its normal budgetary process.

Economic Factors

Market Overview 2014

Calendar year 2014 saw U.S. equities and bonds performed better than most analysts predicted in their 2014 investment outlook. The job market outperformed, consumer and business confidence improved and corporations aggressively put cash to work after years of staying on the side-lines. As a result, 2014 proved to be a good year for U.S. stocks, to this end, the S&P 500 returned 13.7% for the year, and the Russell 2000 gained 4.9%. These advances came amid a slump in the rest of the world with the Morgan Stanley Capital International Europe, Australia and Far East (“MSCI EAFE”) Index falling 3.5% in December 2014. The drop was fueled by a 4.3% decline in European shares with investors even shrugging off intensifying expectations of additional monetary policy accommodation by the European Central Bank (“ECB”). Domestic fixed income indices, although mixed in December, ended the year on a strong note with the Barclays Aggregate Index up 6.0% for 2014. Domestic fixed income indices were bolstered through the year by narrowing Treasury yields, despite the market’s anticipation of rates rising. The yield on the 10-year Treasury fell to 2.11% in December from 2.16% a month earlier. In contrast, the World Government Bond Index (“WGBI Index”) declined by 0.7%, partially affected by currency depreciation in international markets. By contrast, emerging market equities returned -2.2% for 2014 after a very difficult year. The pattern of returns across asset classes over the year, and especially in the fourth quarter, drove home the impact that divergent global growth and by extension divergent monetary policy has had on asset markets.

The fourth quarter of 2014 was, in many regards, a perfect microcosm of the issues that had built in global markets over the course of the year. Three factors are notable, and persistent: i) the slow but inexorable U.S. economic recovery; ii) the contrasting sluggishness of the rest of the world economy, large parts of which remain heavily reliant on stimulus; and iii) the excess capacity that exists in parts of the global economy and is currently most visible in commodity markets. Both of the periods of market disruption in early October and early December last year were likely influenced by these factors as markets re-priced their impact.

Despite the pockets of market volatility during the fourth quarter, the Chicago Board Options Exchange Market Volatility Index (“VIX”) averaged just 16 over the quarter, which was 2.5 points above the average of the prior three quarters, but still well below crisis levels. Indeed, the price action in key asset classes in the fourth quarter showed an extension of the full year trends. Global equities added 290 basis points (“bps”), global bonds added 340bps, and global credit added 160bps; meanwhile commodities, already down 7.5% at the end of the third quarter, fell a further 27.7% as oil slumped below \$60/bbl.

The anatomies of the market shakeouts that occurred in October and December are worth noting. First, the relative speed with which equity markets, specifically U.S. equities regained their footing, reinforces the view

that the underlying economy is gradually improving. Secondly, the failure of high yield credit markets to rebound strongly with equities may be explained in part by the impact of weaker oil prices on the U.S. mid and small cap energy sector, but is also likely to be a function of liquidity fears. Little wonder then that markets directly affected by liquidity stimulus notably Japan, rebounded very sharply from their lows, while markets where liquidity is scarce (high yield, emerging market debt) struggled to recover. Finally, the extreme moves in bond markets were only partly to do with capitulations of short positions. The weakness in commodity markets is very likely to precipitate a marked drop in global inflation. This global disinflationary impulse, together with ongoing demand for duration from central banks, is clearly holding yields down.

In retrospect, 2014 was a year of many themes that never materialized. With the 10-year Treasury at 3.03% at the end of 2013, markets were poised for lower returns amid expectations that a continued rise in rates, in conjunction with the tapering monetary policy, would negatively affect fixed income securities; instead, bond markets posted robust returns and rode rates all the way down to pre-taper levels. Furthermore, a rally in equities lasting nearly five years and a Gross Domestic Product ("GDP") contraction in the first quarter of 2014 were reason enough to express caution around US markets. That said, successive quarters of stronger-than-expected growth quickly eased these fears and allowed U.S. equities to continue their winning streak. In June, oil prices rose to over \$110 per barrel amid conflict in Ukraine and the Middle East, only to fall by more than half by year end. Even the Federal Reserve Bank's planned winding down of its bond purchases mostly went off without a hitch when the very idea of tapering caused havoc in markets only a year earlier.

As with any investment, there exists the possibility of a risk of loss. Those risks include the risk of changes in economic and market conditions, the concentration of investments within a portfolio, and the volatility of securities or the assets underlying the investment. With alternative investments, investors may be required to hold the investment for a certain time period before they can sell and there can be conditions when fund managers are not required to make distributions. Also, in the case of certain alternative investments, management and their investment advisors use assumptions and judgments to determine the estimated fair value for these investments as they are not always readily marketable. The actual results, ultimately realized, could differ from these estimates. Additionally, each of the above discussed factors could affect the ultimate fair value realized from an investment. The fair value that management has determined for financial statement presentation purposes may not be indicative of the amounts ultimately realized upon a sale of a security.

Market Overview and Investment Outlook 2015

Despite low returns across all major markets and asset classes, 2015 was an eventful year. Market performance was framed by an ever complicated macro environment. Europe was the focus in the first half of the year, as renewed concern about sovereign debt weighed on the common currency. Such concern ultimately led Switzerland to abandon its currency peg to the Euro. Greece continued to make headlines with its contested austerity program, posing an existential threat to the European common currency. In the second half, eyes turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines for the year.

Weak global growth and low inflation set the stage for divergent central bank monetary policies in developed markets. The year ended with the U.S. Federal Reserve raising interest rates for the first time in nearly 10 years. The European Central Bank and Bank of Japan took a different path, as they continued their quantitative easing programs in an effort to boost inflation and lagging growth in their economies. Perhaps the story for the year was what played out in China, emerging markets, and the commodity markets. As China's ability to generate the growth expected by the markets became more suspect, the impact was felt across commodity markets. Oil ended the year below \$40/barrel, well off its price of just 18 months ago of approximately \$120/barrel. Similarly, copper, iron ore, nickel and other industrial metals all are touching lows

not seen in recent years. Emerging markets, many of which are tied to China's growth by supplying it with the raw materials necessary to fuel the economic engine, sold off as investors pulled their risk capital from the markets. Within this context, there were few places to invest to generate meaningful positive returns, while other areas experienced performance not seen since the Great Financial Crisis.

Macro Themes

- Weak global growth continuing into 2017
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases
- China weakening; turmoil in emerging markets and commodities
- Volatile currency markets and sovereign debt stress

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with GDP growth not breaking through the 3% level in the U.S., Europe, or Japan in 2016 or 2017 according to both the IMF and World Bank. Inflation remains non-existent across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, U.S. interest rate increases will continue to result in a strengthening U.S. Dollar, potentially impacting the U.S. manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt concerns in developed markets, and a collapse in energy and mineral prices. The main emerging markets, as defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential. No longer can an argument be made that emerging markets have de-coupled from the developed world.

United States

Markets in the U.S. were challenged for the year, but were among the best performers in 2015. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

Equity

- Worst year for U.S. Equities since 2008
- Valuations neither cheap nor expensive
- Risk Aversion – Large Cap outperformed small & mid cap. Growth outperformed Value
- Energy and Materials lagged the broader markets significantly
- Health Care and Consumer Sectors relatively strong
- Equity markets set for another low-return year

Large cap stocks were barely positive, with the S&P 500 and Russell 1000 posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large cap energy stocks fell by 21.1% for the year while mid cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the U.S., active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

Unlike recent years where fixed income could be counted on to deliver performance in a weak year for equities, bonds disappointed across all asset classes. Treasuries returned 0.84% for the year, with long-dated bonds outperforming shorter-dated bonds. Importantly, Treasuries were among the best performing areas of the bond markets for 2015. And perhaps more significantly, most investors have been both underweight Treasuries and positioned toward the front end of the yield curve, in anticipation of rising interest rates. This shorter-duration strategy hurt investors in 2015 as the 7-10 Year Index outperformed the 1-3 Year Index by 100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

- Intermediate Treasuries returned less than 2%
- Investment Grade Credit posted negative returns, driven by BBB-rated
- High Yield markets sold off in second half
- Declining liquidity in corporate bonds due to capital rules on dealer balance sheets
- Fixed income likely to continue to disappoint as interest rates creep higher

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market. Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as “BBB” by S&P, posted a -1.5% return for the year, underperforming “A” rated bond by nearly 200 bps. Investment in fixed income will remain challenging in 2016. Potential interest rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress. As we have likely entered the later stages of the credit cycle, prudent allocation of risk to the credit sectors will become ever more important.

International Developed

- Weak year in Developed Markets (\$U.S. returns)
- Eurozone, United Kingdom, Australia, Canada all posting negative returns
- Japan, Italy, and Scandinavia only major markets positive for the year
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2015 and expected through 2016

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In \$U.S., all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets continue to experience very weak performance in \$U.S. terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. European Treasuries returned 1.7% in 2015, and with the latest round of quantitative measures employed by the European Central Bank, returns are likely to be similar in 2016.

Emerging Markets

- Terrible year in Emerging Markets (U.S.\$ returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower
- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by MSCI, Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors. China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets (“EM”) Latin America index fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

More troubling may be the performance of the bond markets of emerging markets. In local currency terms, most emerging markets fixed income indices posted positive performance in 2-5% range. In \$U.S. terms, the declines in local currency bonds have been staggering. Brazil (-30.1%), South Africa (-28.2%), and Turkey (-20.9%) highlight the impact of currency on performance. Hard currency bonds, generally issued in \$U.S., performed better in 2015, due to the strength of the dollar. The strong performance does not mask the risk due to currency mismatches in the hard currency market and the perennial risk of devaluation, default, and

repudiation. Declining currencies, commodity price volatility, high debt levels, and high inflation will likely provide little respite in 2016 for emerging markets.

Commodities

- One of the worst years on record for commodities
- Slowing China growth, weak global demand, over supply interrelated factors
- Little expectation for a recovery in commodity prices in the near term

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While potentially a benefit to consumers, the collapse in energy prices has negative effects near (U.S. shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

Contact Information

This financial report is designed to provide a general overview of the Metropolitan Transportation Authority Other Postemployment Benefits Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Comptroller, Metropolitan Transportation Authority, 2 Broadway, 16th Floor, New York, NY 10004.

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**METROPOLITAN TRANSPORTATION AUTHORITY
OTHER POSTEMPLOYMENT BENEFITS PLAN**

**STATEMENTS OF PLAN NET POSITION
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)**

	2014	2013
ASSETS:		
Cash and cash equivalents	\$ 102,320	\$ 199,513
Commitment to purchase	7,500	-
Investments — at fair value	193,367	100,231
Accrued interest receivable	<u>2</u>	<u>2</u>
Total assets	<u>303,189</u>	<u>299,746</u>
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	<u>\$ 303,189</u>	<u>\$ 299,746</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (In thousands)

	2014	2013
ADDITIONS:		
Net realized and unrealized gains or (losses)	\$ 3,950	\$ (409)
Total Investment Income	3,950	(409)
Less:		
Investment expenses	507	97
Net Investment Income	3,443	(506)
Add:		
Employer contributions	-	50,000
Total additions	3,443	49,494
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS:		
Beginning of year	299,746	250,252
End of year	<u>\$ 303,189</u>	<u>\$ 299,746</u>
See notes to financial statements.		

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013

1. BACKGROUND AND ORGANIZATION

The MTA Retiree Welfare Benefits Plan (“Other Postemployment Benefits Plan” or “OPEB Plan” or the (“Plan”) and the related Trust Fund was established effective January 1, 2009 for the exclusive benefit of The MTA Group’s retired employees and their eligible spouses and dependents, to fund some of the OPEB costs provided in accordance with The MTA’s various collective bargaining agreements and The New York State Administrative Code. The MTA Group comprises the following agencies and former agencies:

- MTA New York City Transit
- MTA Long Island Rail Road
- MTA Metro-North Railroad
- MTA Bridges and Tunnels
- MTA Headquarters (“MTAHQ”)
- MTA Long Island Bus
- MTA Staten Island Railway
- MTA Bus Company
- MTA Capital Construction

The Trust is tax exempt in accordance with Section 115 of the Internal Revenue Code. The Plan is classified as a single employer plan for Governmental Accounting Standards Board (“GASB”) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 43”) purposes.

The MTA is not required by law or contractual agreement to provide funding for the Plan, other than the “pay-as-you-go” amount necessary to provide the current benefits to current eligible retirees, spouses and dependents (Pay-Go).

GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* prescribes uniform financial reporting standards for other postemployment benefits (“OPEB”) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes postemployment healthcare benefits which are covered under The MTA OPEB plan.

GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (“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.

The MTA has implemented GASB 45. This Statement establishes the 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.

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.

During 2012, MTA funded \$250 million into the Trust allocated between MTAHQ and the MTA New York City Transit. In addition, \$50 million was funded during 2013 allocated between MTA Long Island Rail Road and MTA 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 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.

2. PLAN DESCRIPTION, ELIGIBILITY AND MEMBERSHIP INFORMATION

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 according to relevant collective bargaining agreements. Benefits are provided upon retirement. "Retirement" is defined by the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Defined Benefit Pension Plan ("MTADBPP"), the MTA Long Island Rail Road Plan for Additional Pensions, the Metro-North Cash Balance Plan, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") Pension Plan, New York City Employees' Retirement System ("NYCERS") and New York State and Local Employees' Retirement System ("NYSLERS").

The MTA Group participates in the New York State Health Insurance Program ("NYSHIP"), and provides medical and prescription drug benefits, including Medicare Part B reimbursements, to many of its employees and retirees. NYSHIP offers a Preferred Provider Organization ("PPO") plan and several Health Maintenance Organization ("HMO") plans. However, represented MTA New York City Transit employees, other MTA New York City Transit former employees who retired prior to January 1, 1996 or January 1, 2001, and MTA Bus Company retirees do not participate in NYSHIP. These benefits are provided through a self-insured health plan, a fully insured health plan 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 with a valuation date of January 1, 2012. The total number of plan participants as of December 31, 2013 receiving retirement benefits was 47 thousand, respectively.

Plan Eligibility — Generally, to qualify for benefits under the Plan, a retired employee of the MTA must:

- have at least 10 years of credited service as a member of the City of New York or New York State retirement systems, or have at least 5 years of credited service if he or she became an employee on or before December 27, 2001 (if retirement is due to accidental disability, the service requirement for retirement does not apply); and
- have retired and be receiving a pension from the MTADBPP, City of New York or State of New York retirement systems (unless within 5 years of commencing retirement for certain members); provided, however, that if he or she is a retired member of the MTADBPP (covering MTA Metro-North Railroad, MTA Long Island Rail Road, MTA Staten Island Railway, MTA Police, MTA Bus Company, and certain former MTA Long Island Bus employees), such retiree may be eligible depending on represented or non-represented status, and if represented, pursuant to the relevant collective bargaining agreement.

Surviving Spouse and Other Dependents

- Dependent coverage is terminated when a retiree dies, except in the following situations:
 - (i) Lifetime coverage is provided to the surviving spouses or domestic partners and coverage to age 26 for children of uniformed members of the Police Department whose death was sustained while in performance of duty.
 - (ii) Effective November 13, 2001, surviving spouses of retired uniformed members of the Police Department may elect to continue coverage by paying 102% of the stated premium.

Plan Membership — As permitted under GASB 43, the Plan has elected to use January 1, 2012, as the date of the OPEB actuarial valuation. The Plan's combined membership consisted of the following at January 1, 2012, the date of the most recent OPEB actuarial valuation:

	January 1, 2012
Actives	65,730
Inactives	-
Deferreds	276
Retirees	46,686
	<hr/>
Total number of participating employees	<u>112,692</u>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The Plan's financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Employer contributions are recognized when paid in

accordance with the terms of the Plan. Additions to the Plan consist of employer contributions and net investment income. Investment purchases and sales are recorded as of trade date.

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America, as prescribed by Government Accounting Standards Board ("GASB").

Recent Accounting Pronouncements —

The Plan has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is *more likely than not* that the guarantor will be required to make a payment to the obligation holders under the agreement. Statement No. 70 also requires, a government guarantor to consider qualitative factors when determining if a payment on its guarantee is *more likely than not* to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Plan has determined that GASB Statement No. 70 had no impact on its financial position and results of operations.

The Plan 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.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*. Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, establishes new accounting and financial reporting requirements for governments whose

employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities.

The scope of Statement No. 74 includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 74 and are effective for fiscal years beginning after June 15, 2016.

The Plan has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The Plan has not completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool’s participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool’s participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those

disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Investments — The Plan's investments are those which are held in the Trust. Investments are reported on the statement of plan net position at fair value based on quoted market prices or amortized costs. Investment income, including changes in the fair value of investments, is reported in changes in plan net position during the reporting period.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents balances as of December 31, 2014 and 2013, represent securities in the Plan's portfolio, held in the Trust, that mature within three months. The Plan held \$102,320 thousand and \$199,513 thousand in money market funds as of December 31, 2014 and 2013, respectively

Investment Objective — The Plan's investments are those which are held in the Trust. The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

Investment Guidelines — The Committee of the MTA Retiree Welfare Benefits Plan is in the process of creating investment guidelines with the Plan's investment advisor ("NEPC") that will address and execute investment management agreements with professional investment management firms to manage the assets of the Plan.

Credit Risk — At December 31, 2014 and 2013, the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2014		2013	
	Fair Value	Percentage of Fixed Income Portfolio	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 7,693,047	6.07 %	\$ 9,569,180	17.65 %
AA	(3,085,579)	(2.43)	13,785,590	25.42
AA-	16,736,246	13.20	-	-
A	3,243,344	2.56	9,991,593	18.43
A-	10,270,392	8.10	-	-
BAA	20,160,411	15.91	-	-
BBB	8,813,679	6.95	1,664,514	3.07
BB	1,082,786	0.86	260,080	0.48
B	1,885,629	1.49	1,387,095	2.55
CCC	562,656	0.44	52,016	0.09
Not Rated	<u>31,885,576</u>	<u>25.15</u>	<u>7,661,698</u>	<u>14.13</u>
Credit risk debt securities	99,248,188	78.30	44,371,766	81.82
U.S. Government bonds	<u>27,513,249</u>	<u>21.70</u>	<u>9,859,214</u>	<u>18.18</u>
Total fixed income securities	126,761,437	<u>100.00 %</u>	54,230,980	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>66,606,116</u>		<u>46,000,000</u>	
Total investments	<u>\$ 193,367,553</u>		<u>\$ 100,230,980</u>	

Interest Rate Risk Exceptions — 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 100 basis point change in interest rates.

Investment Fund	2014		2013	
	Fair Value	Duration	Fair Value	Duration
Allianz Structured Alpha	\$ 7,832,010	0.25	\$ -	-
Bridgewater Alpha Pure Markets Fund	11,541,815	(2.05)	10,914,099	3.87
Bridgewater All Weather Fund	26,402,145	9.37	17,338,685	9.07
Pimco All Asset Fund	20,160,411	2.77	-	-
Pimco Total Return Fund	16,736,246	4.87	15,986,603	5.40
Pimco Unconstrained Bond Fund	10,270,392	(0.06)	9,991,593	4.10
Wellington Diversified Inflation Hedge Fund	8,592,287	5.71	-	-
Wellington Opportunistic Investment Fund	15,857,417	4.66	-	-
	117,392,723		54,230,980	
Portfolio modified duration		4.13		6.03
Investments with no duration reported	75,974,830		46,000,000	
Total investments	\$ 193,367,553		\$ 100,230,980	

Custodial Credit Risk — For investments, custodial credit risk is the risk that in the event of the failure of the Trustee Bank, the Trust will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Trust.

The Trust manages custodial credit risk by limiting its investments to highly rated institutions and requiring high quality collateral be held by the Trustee Bank in the name of the Trust.

Concentration of Credit Risk — The Trust places no limit on the amount the Trust may invest in any one issuer of a single issue. Individual investments held by the Plan that represents 5.0% or more of the Plan's net assets available for benefits at December 31, 2014 and 2013 are as follows:

Issuer	2014		2013	
	of Total Investments	of Total Investments	of Total Investments	of Total Investments
Artisan Global Opportunities Fund	9 %	26,668,954	9 %	26,000,000
Dreyfus Global Stock Fund	8	22,892,026	-	-
Bridgewater All Weather Fund	8	26,402,145	6	17,338,685
PIMCO All Asset Fund	7	20,160,411	7	20,000,000
PIMCO Total Return Fund	6	16,736,246	5	15,986,603
Wellington Trust	5	15,857,417	-	-

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. In addition, the Plan has investments in foreign stocks and/or bonds denominated in foreign currencies. The Plan's foreign currency exposures as of December 31, 2014 and 2013, are as follows (amounts in U.S. dollars, in thousands):

Foreign Currency Holdings in US \$	December 31, 2014	December 31, 2013
Australian Dollar	\$ 4,245,106	\$ 476,440
Brazilian Cruzeiro Real	4,484,382	819,769
Canadian Dollar	1,417,372	196,284
Chilean Peso	(61,662)	21,782
Columbian Peso	846,575	-
Chinese Yuan Renminbi	684,416	(2,985,988)
Czech Republic Koruna	50,401	-
Danish Krone	528,623	-
Euro	12,441,800	6,585,659
Great Britain Pound Sterling	9,518,105	(1,503,915)
Hong Kong Dollar	2,150,511	1,049,592
Hungarian Forint	543,293	-
Indian Rupee	1,622,468	(243,914)
Indonesia Rupiah	1,403,915	65,345
Israeli Shekel	528,871	-
Japanese Yen	(1,554,444)	83,407
Malaysian Ringgit	1,276,683	-
Mauritian Rupee	41,229	-
Mexican New Peso	3,293,036	656,917
Moroccan Dirham	2,016	-
New Zealand Dollar	(79,711)	-
Nigerian Naira	84,626	-
Norwegian Krone	149,676	-
Peruvian Nuevo Sol	185,101	-
Philippine Peso	107,874	-
Polish Zloty	1,361,707	-
Qatar Riyal	-	44,562
Romanian Leu	301,758	-
Russian Federation Rouble	1,453,384	(815,113)
Singapore Dollar	699,649	-
South African Rand	1,367,411	-
South Korean Won	(1,300,222)	(505,477)
Swedish Krona	1,477,282	317,748
Swiss Franc	879,672	70,637
Taiwanese New Dollar	1,241,140	442,000
Thai Baht	771,637	-
Turkish Lira	1,206,481	7,394
UAE Dirham	6,195	23,580
Uruguayan Peso	42,165	-
Venezuelan Bolivar	(16,736)	-
Total	\$ 53,401,785	\$ 4,825,293

5. FUNDED STATUS AND FUNDING PROGRESS — OPEB PLAN

The funded status of the Plan as of the most recent OPEB actuarial valuation date is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
January 1, 2012	\$ 246,009	\$ 20,187,800	\$ 19,941,791	1.2 %	\$ 4,360,578	457.3 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Plan by employers in comparison to the annual required contribution (“ARC”), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover costs under the actuarial assumptions and methods utilized for each year.

Projections of benefits for financial reporting purposes are based on the substantive OPEB plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The MTA may not be obligated to provide the same types or levels of benefits to retirees in the future.

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 on the statement 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.

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 and 2013 is as follows:

Year Ended	Annual OPEB Cost	% of Annual Cost Contributed	Net OPEB Obligation
(In Thousands)			
December 31, 2014	\$ 2,522,880	19.2 %	\$ 12,066,311
December 31, 2013	2,378,446	21.2	10,027,341

Actuarial Cost, Amortization Methods and Assumptions — For determining the ARC, the MTA has chosen to use 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. As of the last valuation date the remaining amortization period is 16 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 12 months prior to the beginning of the 2013 fiscal year.

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 discount rate for this valuation has been lowered from 4.0% to 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
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 NYC Transit members and represented MTA Bus Company members are self-insured as well as some Pre-NYSHIP NYC Transit members. For these benefits we developed per capita claims cost assumptions that vary by age, gender and benefit type. The per capita costs assumptions reflect medical and pharmacy claims information for 2013.

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 NYC 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 as 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	5,809	2,255	1,302	60	3	436	19	182	10,066
Total Number	34,080	5,828	2,596	1,173	504	839	82	1,584	46,686
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

6. TRUSTEE, CUSTODIAL, AND OTHER PROFESSIONAL SERVICES

The Plan and the Trust are administered by the MTA, including the day-to-day administration of the health insurance program. JP Morgan Chase, the trustee and custodian of the Trust makes payments to health insurers and to welfare funds for retiree benefits, and reimbursements of retiree Medicare Part B premiums to retirees, as directed by the MTA. The MTA also directs the investment of Trust resources in accordance with advisory from NEPC.

7. SUBSEQUENT EVENTS

As of January 25, 2016, there were no materially significant subsequent events.

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

(In thousands)

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	\$246,009	\$20,187,800	\$19,941,791	1.2 %	\$ 4,360,578	457.3 %
December 31, 2013	January 1, 2012	246,009	20,187,800	19,941,791	1.2	4,360,578	457.3

**METROPOLITAN TRANSPORTATION AUTHORITY
OTHER POSTEMPLOYMENT BENEFITS PLAN**

SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

(In thousands)

Fiscal Years Ended	Annual Required Contribution	Percentage Contributed
December 31, 2014	\$ 2,522,880	19.2 %
December 31, 2013	\$ 2,378,446	21.2 %

DRAFT

The Long Island Rail Road Company Plan for Additional Pensions

Financial Statements as of and for the
Years Ended December 31, 2014 and 2013,
Supplemental Schedules and
Independent Auditors' Report

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

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INDEPENDENT AUDITORS' REPORT

To the Participants and Administrator of
The Long Island Rail Road Company Plan
for Additional Pensions:

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the The Long Island Rail Road Company Plan for Additional Pensions (the "Additional Plan") as of December 31, 2014 and 2013, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Additional Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Additional Plan's net position as of December 31, 2014 and 2013, and the changes in plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2, in 2014, the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB No. 25*. 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 13 and the Schedule of Changes in the Employers' Net Pension Liability and Related Ratios-Schedule I on page 36; Schedule of Employer Contributions-Schedule II on page 37; and Schedule of Investment Returns-Schedule III on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 25, 2016

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2014 AND 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction — This management's discussion and analysis ("MD&A") of The Long Island Rail Road Company Plan for Additional Pensions (the "Additional Plan") financial performance for the years ended December 31, 2014, 2013 and 2012, provides an overview of the Additional Plan's financial activities. It is meant to assist the reader in understanding the Additional Plan's financial statements by providing an overview of the financial activities and the effects of significant changes, as well as a comparison with the prior year's activities and results. This discussion and analysis is intended to be read in conjunction with the Additional Plan document as well as the Additional Plan's financial statements. Additionally, an analysis of major economic factors and industry decisions that have contributed to significant changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are extracted from the Additional Plan's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America.

Overview of Basic Financial Statements — The following discussion and analysis are intended to serve as an introduction to the Additional Plan's financial statements. The basic financial statements are:

- *The Statements of Plan Net Position* — Presents the financial position of the Additional Plan at year-end. It indicates the assets available for payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- *The Statement of Changes in Plan Net Position* — Presents the results of activities during the year. All changes affecting the assets and liabilities of the Additional Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- *The Notes to Financial Statements* — Provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Additional Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- *Required Supplementary Information* — As required by the Governmental Accounting Standards Board ("GASB"), is presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with GASB Pronouncements.

Financial Highlights

December 31, 2014 versus December 31, 2013

The assets of the Additional Plan exceeded its liabilities by \$783 million and \$511 million as of December 31, 2014 and 2013, respectively. Plan net position is held in trust for the payment of future benefits to members and pensioners.

The Additional Plan's net position held in trust increased by \$272 million during 2014, representing an increase of 53% over 2013. The increase in 2014 was primarily due to \$295 million for additional employer contributions from the Company's parent company, Metropolitan Transportation Authority ("MTA") as an infusion towards improving the funding for the Plan's unfunded pension liability.

Investments at December 31, 2014, were \$784 million representing an increase of \$273 million from 2013. The increase is reflective of the additional contributions invested in the portfolio during 2014.

Payables for investments purchased at December 31, 2014, amounted to \$31 million. Investments are purchased on a trade-date settlement basis and that generate timing differences in settlement dates, similar to receivables for investments sold discussed earlier.

December 31, 2013 versus December 31, 2012

The assets of the Additional Plan exceeded its liabilities by \$511 million and \$412 million as of December 31, 2013 and 2012, respectively. Plan net position is held in trust for the payment of future benefits to members and pensioners.

The Additional Plan's net position held in trust increased by \$99 million during 2013, representing an increase of 24% over 2012. The increase in 2013 was primarily due to the receipt of a non-recurring \$80 million from the MTA as an infusion towards improving the funding for the Plan's unfunded pension liability. The remaining increase is due to higher gains on investments and increased employer contributions, offset by increases of benefit payments to members and their beneficiaries. During 2013, the Additional Plan paid \$157 million in benefit payments to members and their beneficiaries, an increase of \$1 million or 1% over 2012. The increase was primarily due to the impact of higher benefits for recent retirees.

Investments at December 31, 2013, were \$511 million representing an increase of \$94 million from 2012. The increase was due to higher investment returns and additional contributions invested in the Additional Plan's portfolio. Receivables for securities sold, which are due from broker amounted to \$8 million at December 31, 2013.

Payables for investments purchased at December 31, 2013, amounted to \$12 million. Investments are purchased on a trade-date settlement basis and that generate timing differences in settlement dates, similar to receivables for investments sold discussed earlier.

**Financial Analysis
Plan Net Position
As of December 31, 2014, 2013 and 2012
(amounts in thousands)**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Amount of Change 2014-2013</u>	<u>Percentage Change 2014-2013</u>	<u>Amount of Change 2013-2012</u>
Cash	\$ 1,411	\$ 3,670	\$ 278	\$ (2,259)	-62%	\$ 3,392
Investments, at fair value	783,939	511,423	416,732	272,516	53%	94,691
Receivables	29,372	7,993	8,686	21,379	267%	(693)
Total assets	<u>814,722</u>	<u>523,086</u>	<u>425,696</u>	<u>291,636</u>	<u>56%</u>	<u>97,390</u>
Other liabilities	-	-	35	-	0%	(35)
Additional plan payable	578	578	-	-	0%	578
Due to broker for securities purchased	31,292	11,755	13,659	19,537	166%	(1,904)
Total liabilities	<u>31,870</u>	<u>12,333</u>	<u>13,694</u>	<u>19,537</u>	<u>158%</u>	<u>(1,361)</u>
Plan net position held in trust for pension benefits	<u>\$ 782,852</u>	<u>\$ 510,753</u>	<u>\$ 412,002</u>	<u>\$ 272,099</u>	<u>53%</u>	<u>\$ 98,751</u>

CHANGES IN PLAN NET POSITION

December 31, 2014 versus December 31, 2013

At the end of 2014, the net investment income amounted to \$21 million. This represents a decrease of 62% over the prior year, due mainly to the lower interest rates still prevailing in the market place, an increase in investment expenses and the depreciation in the investment portfolio in 2014.

Employer and employee contributions for the year ended December 31, 2014, totaled \$409 million, which represents a 104% increase from 2013. This increase was the result of the additional \$215 million in employer contributions the MTA infused into the plan in 2014, compared to the \$80 million infused in 2013. Actual plan experience on key actuarial assumptions, which are not in line with the actuary's expectations, may require a higher level of employer contributions or result in further under funding in future years.

Benefit payments for the year ended December 31, 2014, totaled \$157 million, which was consistent with 2013.

December 31, 2013 versus December 31, 2012

At the end of 2013, the net investment income amounted to \$56 million. This represents an increase of 24% over the prior year as a result of a relatively stable improvement in investment performance.

Employer and employee contributions for the year ended December 31, 2013, totaled \$201 million, which represents a 71% increase from 2012. This increase was the result of the additional \$80 million in employer contributions the MTA infused into the plan in 2013. Employer contributions are made on a statutory basis as a result of the actuarial valuations performed as of January 1, 2014 and 2013, respectively. Actual plan experience on key actuarial assumptions, which are not in line with the actuary's expectations, may require a higher level of employer contributions or result in further under funding in future years.

Benefit payments for the year ended December 31, 2013, totaled \$157 million; a \$1 million or 1% increase over the prior year. This increase in benefits was primarily the result of the impact of higher benefits for current retirees.

Changes in Plan Net Position
For the Years Ended December 31, 2014, 2013 and 2012
(Amounts in thousands)

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>Amount of Change 2014-2013</u>	<u>Percentage Change 2014-2013</u>	<u>Amount of Change 2013-2012</u>
Additions:						
Net investment gain	\$ 21,231	\$ 56,098	\$ 45,303	\$ (34,867)	-62%	\$ 10,795
Employer contributions	407,513	199,336	116,011	208,177	104%	83,325
Employee contributions	<u>1,304</u>	<u>1,243</u>	<u>1,559</u>	<u>61</u>	<u>5%</u>	<u>(316)</u>
Total additions	<u>430,048</u>	<u>256,677</u>	<u>162,873</u>	<u>173,371</u>	<u>68%</u>	<u>93,804</u>
Deductions:						
Benefits paid directly to participants	156,974	157,464	156,196	(490)	0%	1,268
Administrative expenses	975	462	464	513	111%	(2)
Transfer to MTA						
Defined Benefit Pension	-	-	62	0	0%	(62)
Other	<u>-</u>	<u>-</u>	<u>(1)</u>	<u>0</u>	<u>0%</u>	<u>1</u>
Total deductions	<u>157,949</u>	<u>157,926</u>	<u>156,721</u>	<u>23</u>	<u>0%</u>	<u>1,205</u>
Net increase	<u>272,099</u>	<u>98,751</u>	<u>6,152</u>	<u>173,348</u>	<u>176%</u>	<u>92,599</u>
Net assets held in trust for pension benefits:						
Beginning of year	<u>510,753</u>	<u>412,002</u>	<u>405,850</u>			
End of year	<u>\$ 782,852</u>	<u>\$ 510,753</u>	<u>\$ 412,002</u>			

Investments — The table below summarizes the Additional Plan's investment allocation:

Investment Summary
(Dollars in thousands)

Type of Investments	Fair Value	Allocation
December 31, 2014		
Commingled funds	\$ 245,126	31.27%
Common Stock	127,190	16.22%
Strategic property fund	50,278	6.41%
Mutual funds	162,019	20.67%
Corporate bonds and debentures	15,715	2.00%
Collective short-term investments	58,092	7.41%
Limited partnership	115,192	14.69%
Mortgage backed securities	464	0.06%
Commercial mortgage backed securities	473	0.06%
U.S. government securities	3,670	0.47%
Foreign government bonds	1,704	0.22%
American Depositary Receipts	904	0.12%
Asset backed securities	257	0.03%
Collateralized mortgage obligations	861	0.11%
Real Estate Investment Trust	932	0.12%
Preferred stock	1,062	0.14%
Other	-	0.00%
	<u>\$ 783,939</u>	<u>100.00%</u>
December 31, 2013		
Commingled funds	\$ 177,349	34.68%
Common Stock	93,270	18.24%
Strategic property fund	43,634	8.53%
Mutual funds	52,374	10.24%
Corporate bonds and debentures	16,101	3.15%
Collective short-term investments	19,746	3.86%
Limited partnership	76,773	15.01%
Mortgage backed securities	8,917	1.74%
Commercial mortgage backed securities	1,135	0.22%
U.S. government securities	17,604	3.44%
Foreign government bonds	686	0.13%
American Depositary Receipts	1,520	0.30%
Assets backed securities	569	0.11%
Collateralized mortgage obligations	423	0.08%
Real Estate Investment Trust	663	0.13%
Preferred stock	656	0.13%
Other	3	0.00%
	<u>\$ 511,423</u>	<u>100.00%</u>

The composite 2014 return for the fund was 3.9% as opposed to the 2013 return of 11.3%. The Additional Plan's investment assets were commingled for investment purposes into the MTA Master Trust and the MTA DB's Board of Managers of Pension oversee investment allocations and returns, effective October 2, 2006.

ECONOMIC FACTORS AND INDUSTRY DECISIONS

Market Overview 2014

Calendar year 2014 saw U.S. equities and bonds performed better than most analysts predicted in their 2014 investment outlook. The job market outperformed, consumer and business confidence improved and corporations aggressively put cash to work after years of staying on the side-lines. As a result, 2014 proved to be a good year for U.S. stocks, to this end, the S&P 500 returned 13.7% for the year, and the Russell 2000 gained 4.9%. These advances came amid a slump in the rest of the world with the Morgan Stanley Capital International Europe, Australia and Far East ("MSCI EAFE") Index falling 3.5% in December 2014. The drop was fueled by a 4.3% decline in European shares with investors even shrugging off intensifying expectations of additional monetary policy accommodation by the European Central Bank ("ECB"). Domestic fixed income indices, although mixed in December, ended the year on a strong note with the Barclays Aggregate Index up 6.0% for 2014. Domestic fixed income indices were bolstered through the year by narrowing Treasury yields, despite the market's anticipation of rates rising. The yield on the 10-year Treasury fell to 2.11% in December from 2.16% a month earlier. In contrast, the World Government Bond Index ("WGBI Index") declined by 0.7%, partially affected by currency depreciation in international markets. By contrast, emerging market equities returned -2.2% for 2014 after a very difficult year. The pattern of returns across asset classes over the year, and especially in the fourth quarter, drove home the impact that divergent global growth and by extension divergent monetary policy has had on asset markets.

The fourth quarter of 2014 was, in many regards, a perfect microcosm of the issues that had built in global markets over the course of the year. Three factors are notable, and persistent: i) the slow but inexorable U.S. economic recovery; ii) the contrasting sluggishness of the rest of the world economy, large parts of which remain heavily reliant on stimulus; and iii) the excess capacity that exists in parts of the global economy and is currently most visible in commodity markets. Both of the periods of market disruption in early October and early December last year were likely influenced by these factors as markets re-priced their impact.

Despite the pockets of market volatility during the fourth quarter, the Chicago Board Options Exchange Market Volatility Index ("VIX") averaged just 16 over the quarter, which was 2.5 points above the average of the prior three quarters, but still well below crisis levels. Indeed, the price action in key asset classes in the fourth quarter showed an extension of the full year trends. Global equities added 290 basis points ("bps"), global bonds added 340bps, and global credit added 160bps; meanwhile commodities, already down 7.5% at the end of the third quarter, fell a further 27.7% as oil slumped below \$60/bbl.

The anatomies of the market shakeouts that occurred in October and December are worth noting. First, the relative speed with which equity markets, specifically U.S. equities regained their footing, reinforces the view that the underlying economy is gradually improving. Secondly, the failure of high yield credit markets to rebound strongly with equities may be explained in part by the impact of weaker oil prices on the U.S. mid and small cap energy sector, but is also likely to be a function of liquidity fears. Little wonder then that markets directly affected by liquidity stimulus notably Japan, rebounded very sharply from their lows, while markets where liquidity is scarce (high yield, emerging market debt) struggled to recover. Finally, the extreme

moves in bond markets were only partly to do with capitulations of short positions. The weakness in commodity markets is very likely to precipitate a marked drop in global inflation. This global disinflationary impulse, together with ongoing demand for duration from central banks, is clearly holding yields down.

In retrospect, 2014 was a year of many themes that never materialized. With the 10-year Treasury at 3.03% at the end of 2013, markets were poised for lower returns amid expectations that a continued rise in rates, in conjunction with the tapering monetary policy, would negatively affect fixed income securities; instead, bond markets posted robust returns and rode rates all the way down to pre-taper levels. Furthermore, a rally in equities lasting nearly five years and a Gross Domestic Product ("GDP") contraction in the first quarter of 2014 were reason enough to express caution around U.S. markets. That said, successive quarters of stronger-than-expected growth quickly eased these fears and allowed U.S. equities to continue their winning streak. In June, oil prices rose to over \$110 per barrel amid conflict in Ukraine and the Middle East, only to fall by more than half by year end. Even the Federal Reserve Bank's planned winding down of its bond purchases mostly went off without a hitch when the very idea of tapering caused havoc in markets only a year earlier.

As with any investment, there exists the possibility of a risk of loss. Those risks include the risk of changes in economic and market conditions, the concentration of investments within a portfolio, and the volatility of securities or the assets underlying the investment. With alternative investments, investors may be required to hold the investment for a certain time period before they can sell and there can be conditions when fund managers are not required to make distributions. Also, in the case of certain alternative investments, management and their investment advisors use assumptions and judgments to determine the estimated fair value for these investments as they are not always readily marketable. The actual results, ultimately realized, could differ from these estimates. Additionally, each of the above discussed factors could affect the ultimate fair value realized from an investment. The fair value that management has determined for financial statement presentation purposes may not be indicative of the amounts ultimately realized upon a sale of a security.

Investment Outlook 2015

Despite low returns across all major markets and asset classes, 2015 was an eventful year. Market performance was framed by an ever complicated macro environment. Europe was the focus in the first half of the year, as renewed concern about sovereign debt weighed on the common currency. Such concern ultimately led Switzerland to abandon its currency peg to the Euro. Greece continued to make headlines with its contested austerity program, posing an existential threat to the European common currency. In the second half, eyes turned toward a weakening Chinese economy, resulting in commodity markets continuing their steep decline and volatility rising across the equity and fixed income markets. Emerging markets, particularly those centered on commodities where demand is tied to Chinese growth, experienced sharp declines for the year.

Weak global growth and low inflation set the stage for divergent central bank monetary policies in developed markets. The year ended with the U.S. Federal Reserve raising interest rates for the first time in nearly 10 years. The European Central Bank and Bank of Japan took a different path, as they continued their quantitative easing programs in an effort to boost inflation and lagging growth in their economies. Perhaps the story for the year was what played out in China, emerging markets, and the commodity markets. As China's ability to generate the growth expected by the markets became more suspect, the impact was felt across commodity markets. Oil ended the year below \$40/barrel, well off its price of just 18 months ago of approximately \$120/barrel. Similarly, copper, iron ore, nickel and other industrial metals all are touching lows not seen in recent years. Emerging markets, many of which are tied to China's growth by supplying it with the raw materials necessary to fuel the economic engine, sold off as investors pulled their risk capital from the markets. Within this context, there were few places to invest to generate meaningful positive returns, while other areas experienced performance not seen since the Great Financial Crisis.

Macro Themes

- Weak global growth continuing into 2017
- Central Bank policy divergence, U.S. tightening while Europe and Japan eases
- China weakening; turmoil in emerging markets and commodities
- Volatile currency markets and sovereign debt stress

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with GDP growth not breaking through the 3% level in the U.S., Europe, or Japan in 2016 or 2017 according to both the International Monetary Fund (“IMF”) and World Bank. Inflation remains non-existent across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The U.S. is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, U.S. interest rate increases will continue to result in a strengthening U.S. Dollar, potentially impacting the U.S. manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe’s exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery, such as in Greece, Portugal, Italy, and Spain, are likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt concerns in developed markets, and a collapse in energy and mineral prices. The main emerging markets, as defined as the “BRICs” all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential. No longer can an argument be made that emerging markets have de-coupled from the developed world.

United States

Markets in the U.S. were challenged for the year, but were among the best performers in 2015. Unlike other regions, the U.S. appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate. The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

Equity

- Worst year for U.S. Equities since 2008
- Valuations neither cheap nor expensive
- Risk Aversion – Large Cap outperformed small & mid cap. Growth outperformed Value
- Energy and Materials lagged the broader markets significantly
- Health Care and Consumer Sectors relatively strong
- Equity markets set for another low-return year

Large cap stocks were barely positive, with the S&P 500 and Russell 1000 posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large cap energy stocks fell by 21.1% for the year while mid cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the U.S., active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

Unlike recent years where fixed income could be counted on to deliver performance in a weak year for equities, bonds disappointed across all asset classes. Treasuries returned 0.84% for the year, with long-dated bonds outperforming shorter-dated bonds. Importantly, Treasuries were among the best performing areas of the bond markets for 2015. And perhaps more significantly, most investors have been both underweight Treasuries and positioned toward the front end of the yield curve, in anticipation of rising interest rates. This shorter-duration strategy hurt investors in 2015 as the 7-10 Year Index outperformed the 1-3 Year Index by 100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

- Intermediate Treasuries returned less than 2%
- Investment Grade Credit posted negative returns, driven by BBB-rated
- High Yield markets sold off in second half
- Declining liquidity in corporate bonds due to capital rules on dealer balance sheets
- Fixed income likely to continue to disappoint as interest rates creep higher

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market. Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as “BBB” by S&P, posted a -1.5% return for the year, underperforming “A” rated bond by nearly 200 bps. Investment in fixed income will remaining challenging in 2016. Potential interest

rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress. As we have likely entered the later stages of the credit cycle, prudent allocation of risk to the credit sectors will become ever more important.

International Developed

- Weak year in Developed Markets (\$U.S. returns)
- Eurozone, United Kingdom, Australia, Canada all posting negative returns
- Japan, Italy, and Scandinavia only major markets positive for the year
- Equity valuations in developed markets appear relatively cheaper than the U.S.
- Low returns in fixed income in 2015 and expected through 2016

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In \$U.S., all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the U.S., equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from U.S. to European Equities. In Asia, most developed markets continue to experience very weak performance in \$U.S. terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

Fixed income markets in Europe and Japan are largely centered on government bonds, with corporate and asset-backed issuance making up a fraction of the overall markets. European Treasuries returned 1.7% in 2015, and with the latest round of quantitative measures employed by the European Central Bank, returns are likely to be similar in 2016.

Emerging Markets

- Terrible year in Emerging Markets (U.S.\$ returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower
- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by MSCI, Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors. China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets (“EM”) Latin America index fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

More troubling may be the performance of the bond markets of emerging markets. In local currency terms, most emerging markets fixed income indices posted positive performance in 2-5% range. In \$U.S. terms, the declines in local currency bonds have been staggering. Brazil (-30.1%), South Africa (-28.2%), and Turkey (-20.9%) highlight the impact of currency on performance. Hard currency bonds, generally issued in \$U.S., performed better in 2015, due to the strength of the dollar. The strong performance does not mask the risk due to currency mismatches in the hard currency market and the perennial risk of devaluation, default, and repudiation. Declining currencies, commodity price volatility, high debt levels, and high inflation will likely provide little respite in 2016 for emerging markets.

Commodities

- One of the worst years on record for commodities
- Slowing China growth, weak global demand, over supply interrelated factors
- Little expectation for a recovery in commodity prices in the near term

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While potentially a benefit to consumers, the collapse in energy prices has negative effects near (U.S. shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

Conclusion

Markets overall provided negligible returns for investors for the year, but did provide periods of increased volatility and high anxiety. The return of volatility, particularly in the U.S., coincides with the pull-back of intervention by the Federal Reserve and a decrease in liquidity in the markets due to new regulations on dealer balance sheets. Weak global growth in the developed markets and a further weakening in China will likely mute returns for 2016 across all major asset classes. Increased volatility, whether in the equity, bond, or currency markets, has the potential to frame investor behavior in the next year as investment decisions and allocations will be need to be re-tuned to a more difficult market environment. As the markets will remain challenged, portfolios will need to work more effectively and more efficiently in order to generate the required level of returns.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the Long Island Rail Road Company for Additional Pensions' finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Controller, Long Island Rail Road, 146-01 Archer Avenue, Jamaica, New York 11435-4380.

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

STATEMENTS OF PLAN NET POSITION
AS OF DECEMBER 31, 2014 AND 2013
(Amounts in thousands)

	2014	2013
ASSETS:		
Cash	\$ 1,411	\$ 3,670
Investments — at fair value:		
Commingled funds	245,126	177,349
Common stock	127,190	93,270
Strategic property fund	50,278	43,634
Mutual funds	162,019	52,374
Corporate bonds and debentures	15,715	16,101
Collective short-term investments	58,092	19,746
Limited partnership	115,192	76,773
Mortgage backed securities	464	8,917
Commercial mortgage backed securities	473	1,135
U.S. government securities	3,670	17,604
Foreign government bonds	1,704	686
American Depository Receipts	904	1,520
Asset backed securities	257	569
Collateralized mortgage obligations	861	423
Real Estate Investment Trust	932	663
Preferred stock	1,062	656
Other	-	3
Total investments	<u>783,939</u>	<u>511,423</u>
Receivables:		
Participant and union contributions	258	114
Other Assets	9	706
Due from broker for securities sold	<u>29,105</u>	<u>7,173</u>
Total receivables	<u>29,372</u>	<u>7,993</u>
Total assets	<u>814,722</u>	<u>523,086</u>
LIABILITIES:		
Additional plan payable	578	578
Due to broker for securities purchased	<u>31,292</u>	<u>11,755</u>
Total liabilities	<u>31,870</u>	<u>12,333</u>
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$782,852</u>	<u>\$510,753</u>

See notes to financial statements.

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Amounts in thousands)

	2014	2013
ADDITIONS:		
Investment income:		
Net appreciation in fair value of investments	\$ 14,090	\$ 51,667
Interest income	1,086	1,162
Dividend income	6,977	4,084
Other income	<u>75</u>	<u>10</u>
Total investment gain	22,228	56,923
Less investment expenses	<u>(997)</u>	<u>(825)</u>
Total net investment gain	<u>21,231</u>	<u>56,098</u>
Contributions:		
Employer	407,513	199,336
Participant and union	<u>1,304</u>	<u>1,243</u>
Total contributions	<u>408,817</u>	<u>200,579</u>
Total additions	<u>430,048</u>	<u>256,677</u>
DEDUCTIONS:		
Benefits paid to participants	156,974	157,464
Administrative expenses	<u>975</u>	<u>462</u>
Total deductions	<u>157,949</u>	<u>157,926</u>
NET INCREASE	272,099	98,751
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>510,753</u>	<u>412,002</u>
End of year	<u>\$ 782,852</u>	<u>\$ 510,753</u>

See notes to financial statements.

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013 (Dollars in thousands)

1. PLAN DESCRIPTION

The Long Island Rail Road Company Plan for Additional Pensions (the “Additional Plan”) is a defined benefit plan administered by the Board of Pension Managers. The following brief description of the Additional Plan is provided for general information purposes only. Participants should refer to the Additional Plan document for more complete information.

General — Effective July 1, 1971, The Long Island Rail Road Company (the “Company”) adopted two fully integrated defined benefit pension plans, The Long Island Rail Road Company Pension Plan (the “Plan”) and the Additional Plan. These plans cover employees hired before January 1, 1988. Effective January 1, 1989, the Plan was amended to limit the accrual of credited service time and determination of average earnings through December 31, 1988. All pension plan benefits were frozen as of that date by virtue of a Plan amendment. All benefit accruals subsequent to that date are provided under the Additional Plan, which was amended to provide for accruals on and after January 1, 1989. The Additional Plan benefits are now the total benefit that would have been paid previously from the sum of the two plans reduced by any portion of benefits that a participant received from the frozen pension plan benefits. The total benefits payable to participants have not been changed. These financial statements do not include any amounts related to the Plan.

Both of the Company’s pension plans are governmental plans and, accordingly, are not subject to funding and other requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”).

The Metropolitan Transportation Authority Defined Benefit Pension Plan and The Long Island Rail Road Company Plan for Additional Pensions comprise the Metropolitan Transportation Authority’s Master Trust. The MTA Master Trust is governed by the Board of Pension Managers (the “Board”). The Board has contracted with JP Morgan Chase, as the Trustee for the Trust, and has provided the Master Trust Investment Guidelines to the respective Trustee. These guidelines provide the specific goals and objectives of the Trust as well as the allowable investments permitted under the Trust. Under the Investment Guidelines, the Trustee is permitted to invest in commingled funds on behalf of the Master Trust.

The total asset allocation of the Master Trust is 81.25% for the Metropolitan Transportation Authority Defined Benefit Pension Plan and 18.75% for the Long Island Rail Road Company Plan for Additional Pensions for the year ended December 31, 2014.

Pension Benefits — All full-time employees who were hired before January 1, 1988, are eligible for Additional Plan membership. At January 1, 2015, the most recent valuation date, the Additional Plan’s membership consisted of the following:

	January 1, 2015	January 1, 2014
Active plan members	282	321
Retirees and beneficiaries receiving benefits	5,985	6,089
Vested formerly active members not yet receiving benefits	<u>53</u>	<u>67</u>
Total	<u>6,320</u>	<u>6,477</u>

An employee who retires under the Additional Plan, either: (a) after completing at least 20 years of credited service, or (b) after both attaining age 65 while in service and completing at least five years of credited service, or in the case of those who were active employees on January 1, 1988, after completing at least 10 years of credited service, is entitled to an annual retirement benefit, payable monthly for life. Payments commence to an employee referred to in: (a) only after attaining age 50, or (b) only after attaining age 65.

Benefit and contribution provisions, which are based on the point in time at which participants last entered qualifying service and their length of credited service, are established by, and may only be amended by the Company, subject to the obligations of the Company under its collective bargaining agreements. The Company's Board of Directors must approve all amendments. The Additional Plan has both contributory and non-contributory requirements, with retirement ages varying from 50 to 65 depending upon a participant's length of credited service. Pension benefits payable to age 65, where eligible, are calculated as 2% of the employee's applicable final average earnings for each year of qualifying service up to 25 years plus 1.5% of applicable final average earnings for each year of qualifying service in excess of 25 years. For pension benefits payable at and after age 65, regardless of whether benefits commenced before or after the employee attained age 65, benefits are calculated in the same manner as pension benefits payable prior to age 65 except that the amount so determined is reduced by a percentage of the employee's annuity (not including any supplemental annuity) value at age 65 under the Federal Railroad Retirement Act.

The reduction of pension benefits for amounts payable under the Federal Railroad Retirement Act is as follows:

- (i) 25% for an employee who had 20 years credited service prior to July 1, 1974,
- (ii) 50% for any other employee first employed before July 1, 1974, and
- (iii) 100% for any employee first employed on or after July 1, 1974

Beginning in 1999, for all represented employees who were hired between July 1, 1974, and December 31, 1987, who were employees after January 1, 1999, and were not retired when their collective bargaining agreement was ratified and approved by MTA Board after that date, the offset of Railroad Retirement Benefits is reduced to 50% (under the Additional Plan). For all management employees who were hired between July 1, 1974, and December 31, 1987, and who were employees on September 30, 1999, the offset of Railroad Retirement Benefits was reduced to 50% (under the Additional Plan).

For participants, the Additional 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, are required to contribute 3% of their wages to the Additional Plan. The Company contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.

Death and Disability Benefits — Participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Additional Plan receive a disability benefit. Disability pension benefits are calculated based on the participant's qualifying service and a percentage of final average compensation reduced by the full amount of benefit under the Federal Railroad Retirement Act.

Survivorship benefits are paid to the participant's spouse when a survivorship option is elected or when an active participant has not divested his or her spouse of benefits. The survivorship benefit is payable at the time of death or when the vested participant would have attained an eligible age. The amount payable is in the form of an annuity. A lump sum death benefit no greater than \$5,000 is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The Additional Plan's financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan. Contributions from members are recorded when the employer makes payroll deductions from plan members. Employer contributions are recognized when due in accordance with the terms of the Plan. Additions to the Plan consist of contributions (member and employer) and net investment income. Investment purchases and sales are recorded as of trade date.

Recent Accounting Pronouncements — The Additional Plan has completed the process of evaluating the impact Statement No. 67 on its financial statements. In June of 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. This Statement establishes financial reporting standards for state and local governmental pension plans, defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements in which: (1) contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable; (2) pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms, and (3) pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members. For defined benefit pension plans, this statement establishes standards of financial reporting for separately issued financial reports and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which information is required to be presented. Distinctions are made regarding the particular requirements depending upon the type of pension plan administered. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. The requirements of Statements No. 25 and Statement No. 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. The Additional Plan has adopted the provisions of Statement No. 67, which have enhanced the financial statements required disclosures along with certain required supplementary information.

The Additional Plan has completed the process of evaluating the impact of GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization or government to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. Statement No. 70 also requires, a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization. An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation. A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Additional Plan has determined that GASB Statement No. 70 had no impact on its financial position.

The Additional Plan 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.

The Additional Plan has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The requirements of GASB Statement No. 73, extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities. This Statement also clarifies the application of certain provisions of Statement Nos. 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported; 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and nonemployer contributing entities for defined benefit pensions, and 3) Timing of employer recognition of revenue for the support of nonemployer contributing entities not in a special funding situation. The requirements of this Statement should be applied simultaneously with the provisions of GASB Statement No. 73 and are effective for fiscal years beginning after June 15, 2016.

The Additional Plan has not completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted.

The Additional Plan has not completed the process of evaluating the impact of Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of

this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan; (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is permitted.

The Additional Plan has not completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address: (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity, and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged.

Use of Management's 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 amount of assets and liabilities and disclosure of contingent assets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include fair market value of investments, the annual required contribution and the unfunded actuarial accrued liability.

Payment of Benefits — Benefits are recorded when paid.

Investment and Administrative Expenses — Investment and administrative expenses are paid by the Additional Plan assets and accordingly are reflected in the accompanying financial statements.

Income Tax Status — The Additional Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) of the Internal Revenue Code. Accordingly, the Additional Plan is tax-exempt and is not subject to the provisions of ERISA.

3. CASH AND INVESTMENTS

Investment Objective — The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

Investment Guidelines — The Board of Managers of Pension executes investment management agreements with professional investment management firms to manage the assets of the Additional Plan. The fund managers must adhere to guidelines that have been established to limit exposure to risk.

All Securities managers shall be registered advisors under the Investment Advisors Act of 1940.

Fixed Income Managers — Investment managers may not purchase inverse floating rate bonds, structured notes, commodities, securities on margin, sell short, lend securities, invest in private placements (other than 144A Privates), real estate investments, and oil, gas and mineral exploration investments without the written consent of the Board of Managers. The fixed-income portion of the Additional Plan's assets shall be invested in marketable, fixed income securities. The following are acceptable:

- a. Commercial Paper, Eurodollar Commercial Paper and Variable Rate Notes rated P-1 by Moody's Investors Service, A1 by Standard and Poor's, or F1 by Fitch Ratings.
- b. Certificates of Deposit and Bankers Acceptances of institutions whose long-term debt is rate Baa or better by Moody's Investors Service or equivalent by Standard & Poor's.
- c. United States Treasury Bonds, Notes and Bills.
- d. Marketable corporate debt, Yankee Bonds, Eurodollar bonds, non-agency mortgage-backed securities, asset-backed securities and taxable municipal securities. Eighty-five percent at market value must be rated the equivalent of Baa3 or better by Moody's Investors Service or Standard & Poor's or Fitch Ratings ("investment grade securities"). Up to 15% market value at time of purchase may be invested in below investment grade securities. The average portfolio quality must be Baa1 or better. In case of split ratings, the highest rating applies.

If any of the parameters described above are not met as a result of credit downgrades, the fund manager shall have a reasonable period of time, not to exceed 90 days, to bring the portfolio into compliance with the foregoing investment guidelines.

- e. A minimum of 90% at market value must be invested in securities denominated in U.S. dollars. Up to 10% at market value may be invested in securities denominated in foreign currency.
- f. Collateralized Mortgage Obligations ("CMO's") backed by pools of agency or non-agency mortgages including those that are re-constructed in their original proportions from the same pool

(such as IO's/PO's, and floater/inverse floaters). Companion tranches and support tranches are limited to 3% of the book value of the portfolio.

- g. Non-convertible preferred stock.
- h. Managers may not hold more than 5% at book value and 10% at market value of the portfolios in any one issuer's securities other than direct or moral obligations of the U.S. Government.
- i. Unrated securities other than those issued by the U.S. Government or its Agencies and Instrumentalities may not be purchased without the prior consent of the Board of Managers.

Domestic Equities Managers — The Domestic equities investment manager may not purchase commodities, securities on margin, sell short, lend securities, invest in private placements, real estate investments, oil, gas and mineral exploration investments, and nominally public issues without the written consent of the Board of Managers. The manager may purchase Rule 144A securities provided such securities are judged by the manager to be liquid and don't in the aggregate exceed 10% of the market value of the portfolio. The manager shall also be able to purchase securities if such securities are convertible into publicly traded equities.

- a. Managers' cash positions are not to exceed 10%. It is the responsibility of the manager to contact the Board of Managers to obtain authorization if and when it becomes clear that a cash position of more than 10% is warranted.
- b. No single sector shall constitute more than 35% of the market value of the portfolio.
- c. Investment in all classes of equity securities of any one issuer must be limited to 7.5% of the portfolio at the time of purchase and 10% of the market value of the portfolio.
- d. The maximum total fund investment in any one company shall not exceed 5% of that company's outstanding voting stock or more than 5% in value of all outstanding shares of all classes of stock of the issuer.
- e. The manager may invest up to a total of 10% of the market value of the portfolio in American Depositary Receipts ("ADR's"), non-convertible preferred stock, and warrants when attractive opportunities exist.

Non-US Equities Managers — The Non-US equities investment manager may not purchase commodities, securities on margin, sell short, lend securities, invest in private placements, commingled funds (except STIF funds), real estate investments, oil, gas and mineral exploration investments, and nominally public issues without the written consent of the Board of Managers.

- a. Managers' cash positions are not to exceed 10%. It is the responsibility of the manager to contact the Board of Managers to obtain authorization if and when it becomes clear that a cash position of more than 10% is warranted.
- b. No single industry group shall constitute more than 30% of the market value of the portfolio, or 1 1/2 times its comparable representation in EAFE, whichever is larger, without prior approval from the Board of Managers.
- c. Investment in any one stock, in all classes of equity securities, must be limited to 5% of the book value and 10% of the market value of the portfolio.
- d. The maximum total fund investment in any one company shall not exceed 2% of the company's outstanding voting stock or more than 2% in the value of all outstanding shares of all classes of stock of the issuer (assuming all conversions have been made by the Plans).

- e. Investments in EAFE and Non-EAFE markets are permissible. The maximum exposure to Non-EAFE cannot exceed 10%.
- f. The manager shall use its own judgment in placing securities transactions with brokerage firms. In general, it should deal with financially sound firms capable of giving a good combination of price, commission and service.
- g. The manager may invest up to a total of 10% of the market value of the portfolio in ADR's, preferred stock, warrants and convertible securities when attractive opportunities exist.

Exceptions:

- The Board of Managers, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may, from time to time, allow investment in such funds. The Board recognizes that it cannot give specific policy directives to a fund whose policies are already established; therefore, the Board is relying on the investment consultant to assess and monitor the investment policies of any funds used by the Trust to ascertain whether they are appropriate.
- The Additional Plan requires that any exceptions taken to investment policy and guideline statements be submitted in writing pending approval by the Board of Managers. The Board must explicitly authorize each exception in writing. Failure to notify the Board and obtain written authorization will result in the investing manager being liable for any corresponding loss to the investment fund.
- The index fund manager has the Board's approval to utilize securities lending and futures contracts (for the specific reason of equalizing cash deposits with Lehman Aggregate futures contracts) in the management of the index fund.
- The domestic equity manager who has the Board's approval to invest in collective investment vehicles may invest more than 7.5% of the assets subject to such manager's discretionary in collective investment vehicles of any one issuer.
- The fixed income manager who has the Board's approval to invest in collective investment vehicles may invest more than 5% of the assets subject to such manager's discretionary authority in collective investment vehicles of any issuer.

Investment Valuation — Investments primarily include money market funds, equity securities, United States government securities, corporate bonds and debentures, asset backed securities, mortgage and commercial backed securities, mutual and commingled funds. All investments are registered with securities held by the trustee under a grantor trust, in the name of the Additional Plan. The values of Additional Plan investments are adjusted to fair value as of the last business day of each month based on quoted market prices, except for certain cash equivalents, which are stated at cost and approximate market value. Purchases and sales of securities are recorded on a trade-date basis.

Income Recognition — Gains or losses from investment transactions are recognized on a trade date basis. Such investment gains or losses are determined using the average cost method. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis.

Risks and Uncertainties — The Additional Plan's contributions and the actuarial value of assets and actuarial accrued liabilities are prepared based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

The Additional Plan provides for various investment options in a combination of stocks, bonds, mortgage backed securities and other investment securities. Investment securities are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Additional Plan's Financial Statements.

Concentration of Credit Risk — Individual investments held by the Additional Plan that represent 5.0% or more of the Additional Plan's net assets available for benefits at December 31, 2014 and 2013, are as follows:

(amounts in thousands)

Investments at fair value as determined by quoted market prices:	December 31,	
	2014	2013
JPMCB Strategic Property Fund	\$ 43,940	\$ 43,634

Credit Risk — The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2014 and 2013:

(amount in thousands)

Quality Rating- S&P	2014	Percentage of	2013	Percentage of
	Fair Value	Fixed Income	Fair Value	Fixed Income
		Portfolio		Portfolio
AAA	\$ 25,836	10.39 %	\$ 16,422	16.46 %
AA	10,760	4.33	6,131	6.14
A	21,265	8.55	11,968	11.99
BBB	34,910	14.04	11,081	11.10
BB	25,693	10.33	2,068	2.07
B	17,555	7.06	3,266	3.27
CCC	6,749	2.71	1,693	1.70
Not rated	70,365	28.30	16,202	16.24
Total credit risk debt securities	213,133	85.72	68,831	68.97
* U.S. Government bonds	35,465	14.28	30,960	31.03
Total Fixed Income Securities	\$ 248,598	100.00 %	\$ 99,791	100.00 %

* U.S. Treasury Bonds, Notes and Treasury-inflation protected securities are obligations of the U.S. government or explicitly guaranteed by the U.S. government and therefore not considered to have a credit risk.

Custodial Credit Risk — Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Additional Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Additional Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the Additional Plan's name.

Consistent with the Additional Plan's trust custodial administration agreement, the investments are held by the Additional Plan's custodian and registered in the Additional Plan's name.

All of the Additional Plan's securities are held by the Additional Plan's custodial bank in the Additional Plan's name.

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 100-basis point change in interest rates.

The lengths of investment maturities (in years) are as follows:

(amount in thousands) <u>Investment Type</u>	2014		2013	
	<u>Fair Value</u>	<u>Duration</u>	<u>Fair Value</u>	<u>Duration</u>
Chase	\$ 90,054	4.24	\$ -	-
PIMCO	37,020	2.77	16,663	4.26
Wellington Emerging Debt	19,716	4.22	13,848	-
All Weather Fund	32,973	9.37	22,029	9.07
Wellington Opportunistic	9,003	4.66	18,585	4.25
Bridgewater Alpha	10,140	(0.84)	5,643	3.13
Bridgewater Market Limited	(33)	(2.05)	410	3.87
Northern Trust William Capital	1,877	-	-	-
Park Square Capital Credit Opportunities	2,169	0.33	-	-
Crescent Capital High Income Fund	11,563	2.21	-	-
Fit Tree Value Fund	1,189	-	-	-
Wellington Global Marketing	22,916	-	15,551	5.70
Wellington Trust Collective Investment Fund and Diversified Investment Fund	1,324	5.71	2,372	5.76
Canyon Value	8,687	2.60	3,403	1.60
Total Fair Value	<u>\$ 248,598</u>		<u>\$ 98,504</u>	
Portfolio modified duration		<u>3.45</u>		<u>4.84</u>

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. The Additional Plan also holds investments in American Depositary Receipts ("ADRs"), which are not included in the below schedule since they are denominated in US dollars and accounted for at fair market value.

The Additional Plan's foreign currency exposures as December 31, 2014 and 2013 are follows (amounts in U.S. dollars, in thousands):

Foreign Currency	December 31,	
	2014	2013
Euro	\$ 18,371	\$ 26,365
British Pound (Sterling)	5,202	9,732
Japanese Yen	3,530	11,284
Franc (Swiss)	1,627	5,435
Dollar (Hong Kong)	2,248	2,389
Australian Dollar	1,864	2,216
Sri Lankan Rupee	124	788
Krona (Swedish)	(86)	788
Brazil Cruzeiro Real	4,228	2,532
Chilean Peso	589	475
Dollar (Canadian)	1,794	2,668
Krone (Danish)	394	189
Mexican New Peso	2,422	2,845
China (Yuan Renminbi)	1,559	(69)
Czech Koruna	177	340
Egyptian Pound	263	296
Hungary (Forint)	163	454
South Korean Won	2,500	2,081
Indian Rupee	2,068	1,304
Indonesia Rupiah	3,095	1,355
Israel (Shekel)	697	437
Malaysian (Ringgit)	2,172	1,277
Philippines Peso	469	369
Dollar (New Zealand)	1,947	14
Krone (Norwegian)	(704)	355
Thai Bhat	1,005	(145)
Polish (New Zloty)	1,507	1,412
Russian Federation Ruble	1,579	1,050
Singapore Dollar	893	952
Argentina Peso	-	80
Colombian Peso	2,222	1,581
South Africa Rand	2,580	2,572
Dollar (Taiwan, New)	1,798	1,492
Turkish Lira	2,604	2,026
Kenyan Shilling	136	158
Uruguayan Pesos	170	34
Peru Sol	591	780
Bangladesh (Taka)	137	24
Botswana Pula	25	24
Bulgarian Lev	2	2
Croatia Kuna	130	97
Ghanaian Cedi	10	17
UAE Dirham	190	322
Omanian Rial	112	137
Pakistani Rupee	137	137
Qatar Rial	228	289
Mauritius (Rupee)	186	64
Morocco Dirham	124	137
Nigerian Naira	117	513
Jordanian Dinar	129	133
Romanian Leu	437	489
Kuwait Dinar	308	268
Tunisian Dinar	10	47
Cayman Island Dollar	-	334
Saudi Riyal	-	215
Other	(3,372)	152
Totals	\$ 70,710	\$ 91,312

Additional Information — The Additional Plan is part of the MTA Master Trust of which the Additional Plan participates on a percentage basis. JP Morgan Chase is the trustee of the MTA Master Trust. The percentage of the Additional Plan ownership for the years ended December 31, 2014 and 2013, were 18.75% and 13.48%, respectively. The Master Trust invests in commingled funds whereby various invested funds are invested in funds, which have readily determinable fair market values.

	December 31, 2014		December 31, 2013	
	Master Trust Total Plan	Additional Plan	Master Trust Total Plan	Additional Plan
Investments - at fair value (000's):				
Short-term investments	\$ 301,812	\$ 56,591	\$ 134,335	\$ 18,106
Equity Securities	542,128	101,651	511,557	68,948
Corporate bonds	83,813	15,715	119,457	16,101
Government bonds	15,895	2,980	130,609	17,604
Mortgage backed securities	-	-	66,162	8,917
Other	12,764	2,393	20,875	2,813
Mutual funds	875,047	164,074	388,587	52,374
Commingled funds	1,341,116	251,464	1,346,247	181,448
Limited partnership and warrants	614,347	115,192	569,635	76,776
Total investments	<u>\$ 3,786,922</u>	<u>\$ 710,059</u>	<u>\$ 3,287,464</u>	<u>\$ 443,087</u>

4. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2014 and 2013 were as follows (in thousands):

	December 31, 2014	December 31, 2013
Total pension liability	\$ 1,602,159	\$ 1,645,284
Fiduciary net position	<u>782,852</u>	<u>510,753</u>
Net pension liability	<u>819,307</u>	<u>1,134,531</u>
Fiduciary net position as a percentage of the total pension liability	48.86%	31.04%
Covered Payroll	29,334	33,043
Net pension liability as a percentage of covered payroll	2793.05%	3433.50%

Actuarial Methods and Assumptions

The total pension liability as of December 31, 2014 was determined by an actuarial valuation date of January 1, 2014, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Discount Rate

The discount rate used to measure the total liability as of December 31, 2014 and 2013 was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made in accordance with the Employer funding policy as projected by the Plan's actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00 percent; as well as what the Plan's net pension would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate:

2014
(in thousands)

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	\$ 951,790	\$ 819,307	\$ 704,647

Additional information of the latest actuarial valuation follows:

Valuation date	January 1, 2014
Valuation timing	Actuarially determined contributions calculated as of December 31, for the fiscal year and discounted to July 1 to reflect monthly payments throughout the year.
Actuarial cost method	Entry age normal.
Amortization method	Period specified in current valuation report (closed 19-year period beginning January 1, 2014) with level dollar payments.
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA
Actuarial assumptions:	
Investment rate of return	7%, net of investment expenses
Projected salary increases	3.0%
Inflation/Railroad Retirement wage base	2.5%; 3.5%

Calculation on Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the middle of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

Schedule of Calculations of Money-Weighted Rate of Return

(amounts in thousands)

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning Value - January 1, 2014	\$510,753	12.00	1.00	\$529,827
Monthly net external cash flows:				
January	9,656	11.50	0.96	10,002
February	9,656	10.50	0.88	9,972
March	9,656	9.50	0.79	9,939
April	9,656	8.50	0.71	9,910
May	9,656	7.50	0.63	9,881
June	9,656	6.50	0.54	9,849
July	9,656	5.50	0.46	9,820
August	9,656	4.50	0.38	9,791
September	9,656	3.50	0.29	9,759
October	9,656	2.50	0.21	9,730
November	9,656	1.50	0.13	9,702
December	144,656	0.50	0.04	144,670
Ending Value - December 31, 2014				<u>\$ 782,852</u>
Money-Weighted Rate of Return	3.73%			

SCHEDULE OF LONG TERM EXPECTED RATE OF RETURN

Asset Class	Index	Target Allocation*	Real Rate of Return
Cash	Citigroup 90-Day T-Bills	0.00%	0.50%
Core Fixed Income	Barclays Aggregate	9.60%	2.19%
Core Bonds	Barclays Gov/Cred	0.00%	1.87%
Short-Term Bonds	Citigroup 1-3 Year Gov/Cred	0.00%	1.00%
Intermediate-Term Bonds	Barclays Intermediate Gov/Cred	0.00%	1.58%
Long-Term Bonds	Barclays Long Gov/Cred	0.00%	3.23%
Mortgages	Barclays Mortgage	0.00%	2.84%
High Yield Bonds	Barclays High Yield	11.40%	4.15%
Non-US Fixed Income	JPM GBI Global ex-US	10.00%	1.41%
Inflation-Indexed Bonds	ML Index	0.00%	1.30%
Broad US Equities	Wilshire 5000 / Russell 3000	5.00%	5.88%
Large Cap US Equities	S&P 500	7.67%	5.62%
Mid Cap US Equities	Russell Mid Caps	2.33%	6.39%
Small Cap US Equities	Russell 2000	5.50%	7.39%
Developed Foreign Equities	MSCI EAFE	15.00%	6.05%
Emerging Market Equities	MSCI Emerging Markets	3.50%	8.90%
Private Equity	Cambridge Associates	12.00%	9.15%
Hedge Funds / Absolute Return	HFRI Fund of Funds	15.00%	3.12%
Real Estate (Property)	NCREIF/TBI Property	3.00%	4.43%
Real Estate (REITS)	FTSE NAREIT Equity REIT	0.00%	5.58%
Commodities	DJ UBS	0.00%	3.60%
Long Credit Bonds	Barclays Long Credit	0.00%	3.74%
Assumed Inflation - Mean			2.50%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			7.55%
Portfolio Standard Deviation			12.25%
Long-Term Expected Rate of Return selected by MTA			7.00%

* Based on target asset allocation for 2014 fiscal year

Calculation on Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2013.

5. CONTRIBUTIONS

Employer contributions are actuarially determined on an annual basis and are recognized when due. The Additional Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of ERISA.

Upon termination of employment before retirement, vested participants who have been required to contribute must choose to: (1) receive a refund of their own contributions, including accumulated interest at rates established by the Company's Board of Managers of Pensions (1.5% in 2014 and 2013), or (2) leave their contributions in the Additional Plan until they retire and become entitled to the pension benefits. Non-vested participants who have been required to contribute will receive a refund of their own contributions, including accumulated interest at rates established by the Company's Board of Managers of Pensions (1.5% in 2014 and 2013).

The Company performs a public service of providing essential passenger transportation between New York City and Long Island. Substantial deficits result from providing these services and the Company expects that such deficits will continue in the foreseeable future. Funding for the Additional Plan by the Company is provided by MTA, which obtains the required funds from New York State, federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to the Company on a discretionary basis. The continuance of the Company's funding for the Additional Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

6. ACTUARIAL METHODS AND ASSUMPTIONS

A. ACTUARIAL VALUATION METHOD

The Entry Age Normal method was used for determining normal costs and the unfunded actuarial accrued liability.

B. ASSET VALUATION METHOD

The Asset Valuation method smoothes gains and losses over a 5-year period.

The formula for the asset valuation method is as follows:

$$\text{Actuarial Value of Assets} = MV_1 - 0.8*UR_1 - 0.6*UR_2 - 0.4*UR_3 - 0.2*UR_4$$

Where

MV_1 = Market Value of assets as of the valuation date.

UR_n = Unexpected return during the n^{th} year preceding the valuation date. The unexpected return for a year equals the total investment return minus the total expected return. The total expected return equals the market value of assets at the beginning of the year plus the weighted net cash flow during the year multiplied by the expected rate of return.

The resulting value cannot be less than 80% or greater than 120% of the market value of assets.

C. ACTUARIAL ASSUMPTIONS

Interest — 7.00% per annum, compounded annually, net of investment expenses.

Salary Scale — Salaries are assumed to increase 3.00% per year.

Overtime/Unused Vacation Pay — Earnings in each year increased by 65% for represented employees to account for overtime and by 20% in the year prior to assumed retirement and by 10% in the year prior to termination (other than retirement) for non-represented employees to account for unused vacation pay.

Railroad Retirement Wage Base — 3.50% per year.

Consumer Price Index — 2.50% per year.

Provision for Expenses — \$500,000 is added to the normal cost to account for administrative expenses paid by plan assets throughout the year.

Termination — Withdrawal rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	2.12 %	45	0.96 %
25	1.64	50	0.80
30	1.44	55	0.60
35	1.36	60	0.00
40	1.16	65	0.00

Retirement — Assumed retirement age varies by year of eligibility.

Eligibility Period	Rate of Retirement
First year	40%
Years 2-4	33
Year 5	37
Years 6-7	35
Years 8-9	33
Years 10-15	55
Years 16 and above	100

Mortality — Pre-Termination — RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustment, projected on generational basis using Scale AA.

Post-Termination — 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, both projected on a generational basis using Scale AA.

Marriage — 80% of employees are assumed to be married with wives 3 years younger than husbands.

Interest on Employee Contributions — Assumed to be 3.5% per year for future years.

Tier 1 Railroad Offset — The Tier 1 Railroad offset, which is designed similar to a Social Security Benefit, was estimated by assuming that an individual would continue to earn compensation at the level in effect at his date of termination until eligibility for Railroad Benefits and further increased by 2% per year from the date of termination to age 65.

Miscellaneous — The valuation was prepared on a going-plan basis. The valuation was based on participants in the Additional Plan as of the valuation date and did not take future participants into account. No provision has been made for contingent liabilities with respect to non-vested terminated participants who may be reemployed. Since the majority of active plan participants are at or close to retirement eligibility, the disability benefit has not been explicitly valued.

D. CHANGES IN ACTUARIAL ASSUMPTIONS

The rates of salary growth, overtime and retirement have been changed in accordance with an experience analysis completed in June 2014.

7. PLAN TERMINATION

While the Company expects to continue the Additional Plan indefinitely, it may, subject to its collective bargaining agreements, amend, restrict, or terminate the Additional Plan at any time. In the event of termination, all participants will become fully vested to the extent of their then accrued benefits based on their compensation and service up to the date of termination. The net assets of the Additional Plan will be allocated to provide benefits in accordance with the disposition of the Additional Plan assets in a prescribed manner as defined in the Additional Plan document.

8. COMMINGLING OF PENSION ASSETS FOR INVESTMENT PURPOSES

On July 26, 2006, the MTA Board passed a resolution to transfer the responsibilities for the administration of the Additional Plan to the MTA Defined Benefit Pension Plan (“MTA DB”) with no changes in the pension and death benefits and appeal rights provided by the Additional Plan. The trust agreement under the Additional Plan was replaced by the MTA Master Trust Agreement, which allows for the commingling of pension assets for investment purposes under the management of the MTA DB’s Board of Managers of Pensions. The Additional Plan and Trust Agreements were amended in September 2006 and all Plan assets were commingled into the MTA Master Trust for investment purposes, effective October 2, 2006.

9. CUSTODIAL AND OTHER PROFESSIONAL SERVICES

JP Morgan Chase Bank is the custodian of plan assets and also provides cash receipt and disbursement services to the Additional Plan. New England Pension Consultants reviews the Additional Plan’s portfolio, the investment policies as stipulated by the Investment Committee and the performance of the Investment Managers. Actuarial services were provided to the Additional Plan by Milliman Inc.

10. SUBSEQUENT EVENTS

As at January 25, 2016, there were no materially significant events.

* * * * *

SUPPLEMENTAL SCHEDULES

DRAFT

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

(in thousands)

	<u>2014</u>
Total pension liability:	
Service cost	\$ 3,813
Interest	110,036
Changes of benefit terms	0
Differences between expected and actual experience	0
Changes of assumptions	0
Benefit payments and withdrawals	(156,974)
Net change in total pension liability	(43,125)
Total pension liability – beginning	1,645,284
Total pension liability – ending (a)	1,602,159
Plan fiduciary net position:	
Employer contributions	407,513
Member contributions	1,304
Net investment income	21,231
Benefit payments and withdrawals	(156,974)
Administrative expenses	(975)
Net change in plan fiduciary net position	272,099
Plan fiduciary net position – beginning	510,753
Plan fiduciary net position – ending (b)	782,852
Employer's net pension liability – ending (a)-(b)	\$ 819,307
Plan fiduciary net position as a percentage of the total pension liability	48.86%
Covered-employee payroll	\$ 29,334
Employer's net pension liability as a percentage of covered-employee payroll	2793.05%

In accordance with GASB No. 67, paragraph 50, such information was not readily available for periods prior to 2014.

**THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS**

SCHEDULE II

**Required Supplementary Information (Unaudited)
Schedule of Employer Contributions
(in thousands)**

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2005	\$ 96,971	\$ 96,971	\$ -	\$ 137,090	70.74%
2006	108,517	243,216	(134,699)	117,336	207.28%
2007	100,907	100,907	-	93,998	107.35%
2008	100,337	100,337	-	80,927	123.98%
2009	108,677	108,677	-	72,718	149.45%
2010	107,249	107,249	-	65,198	164.50%
2011	108,980	108,284	696	51,159	211.66%
2012	116,011	116,011	-	40,033	289.79%
2013	119,325	199,336	(80,011)	33,043	603.26%
2014	112,513	407,513	(295,000)	29,334	1389.22%

* Excess for 2014 reflects a prepaid contribution toward the 2015 Actuarially Determined Contribution.

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**THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS**

SCHEDULE III

Required Supplementary Information (Unaudited)
Schedule of Investment Returns

The following table displays annual money-weighted rate of return, net of investment expense.

Fiscal Year Ending <u>December 31</u>	Net Money-Weighted <u>Rate of Return</u>
2005	N/A
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	3.73%

In accordance with GASB No. 67, paragraph 50, such information was not readily available for periods prior to 2014.

Annual Technology Report MTA IT Department

**MTA Audit Committee
January 25, 2016**



Purpose/Overview

This report is prepared annually to update the MTA Audit Committee on major enterprise-level technology strategies and initiatives underway.

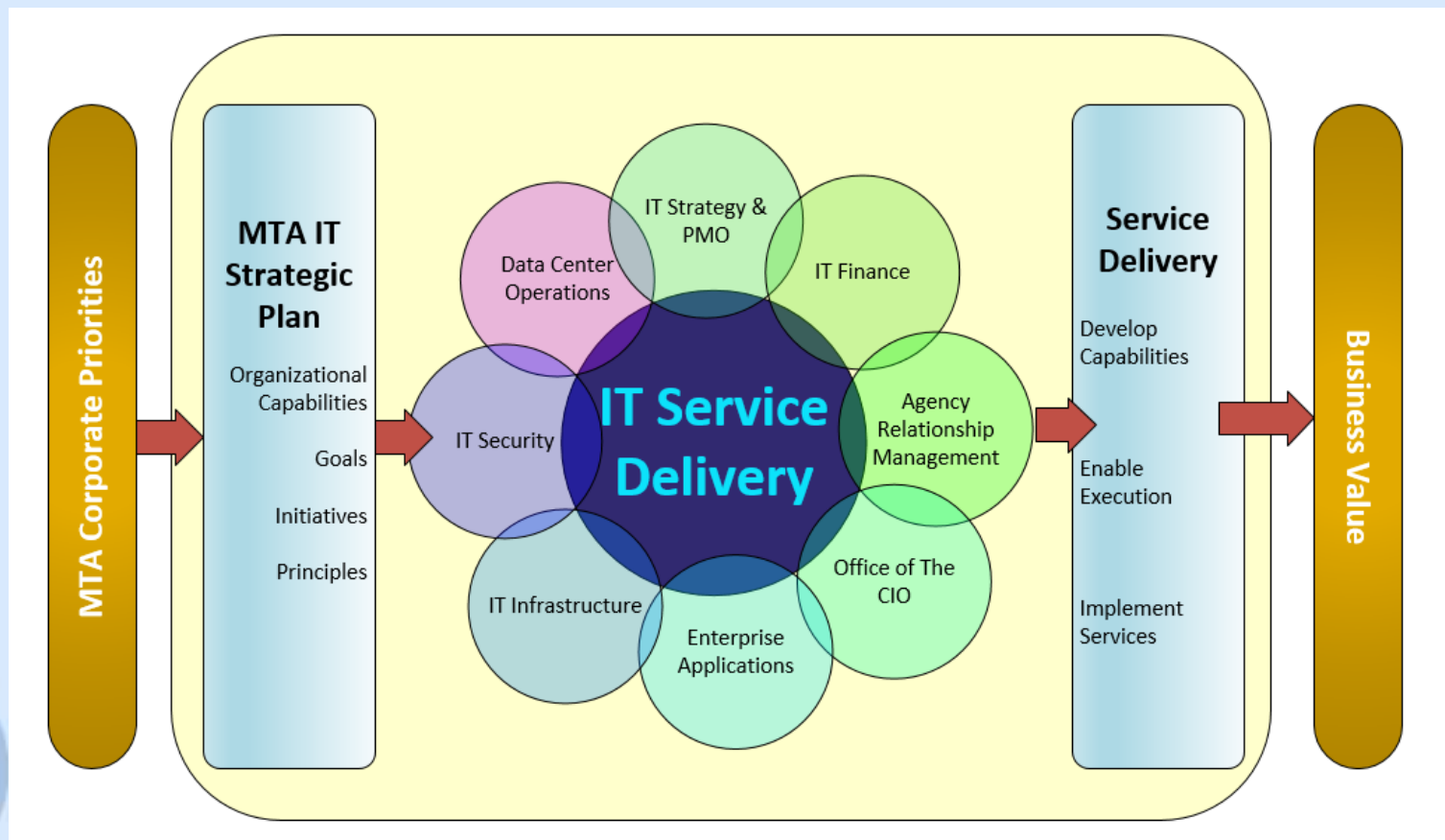
- The transformation of our IT service delivery model has been completed.
 - A unified service desk
 - Consolidation of all IT budget and finances
 - Establishment of new IT job descriptions and titles
 - Agreements with MTA unions on the relaxation of scope rules to allow represented IT employees to work across all MTA agencies.
- The MTA IT Strategic Plan has been finalized and published. It will guide the departments evolution over the coming years, and defines the initiatives MTA IT will undertake in support of the MTA's Corporate Priorities.



Delivering Value to the Enterprise

The IT Service Model takes into account all aspects of IT service delivery, including people, process, organization, technology and finances.

It is intended to enhance the delivery and consistency of IT services across the organization, better leveraging IT resources and talent and positioning the department to support the MTA's mission and corporate priorities



The IT Strategic Plan is informed by business priorities

MTA Mission

"The Metropolitan Transportation Authority ("MTA") preserves and enhances the quality of life and economic health of the region we serve through cost-efficient provision of safe, on-time, reliable and clean transportation services"

MTA Corporate Priorities

A Safe & Secure network for our customers and employees

Regular capital investments to ensure reliability & resiliency of the MTA network

Customer service

Aggressive Management of MTA finances

MTA IT Mission

The Information Technology Department's mission is to deliver innovative and responsive solutions that enable safe, effective, and efficient transportation operations that strategically align with the overarching corporate MTA goals. Information Technology will partner with all MTA business units to understand the overall information needs of the transit agencies and the communities they serve to optimize the adoption and use of information technology.

MTA IT Vision

The MTA Information Technology Department aims to deliver cost effective, reliable and best-in-class service to its customers while achieving a consistent high-level user satisfaction.

MTA IT Goals

Secure access to MTA systems from any location, any time, on a variety of devices

An efficient, secure, reliable and sustainable IT environment

Provide governance and resources that optimize technology

Business-driven view of Information Technology

Transform MTA IT into a learning organization

2015 Highlights and Accomplishments

Security

Given the growing threat of cyber security and the MTA's continually increasing reliance on computerized systems, we concentrated on information security from both a policy and operational aspect to best protect the assets of the MTA. We also began to evaluate the security aspects of our most essential systems and implemented several technologies to enhance the MTA's overall security profile.

Microsoft's Office 365

For our business clients, we continue to make notable investments such as the move to Microsoft's Office 365 cloud based collaboration suite. This year we began to build out a new generation network to meet expanding telecommunications needs and to increase the resilience, reliability and performance of the MTA's network. We have also continued to implement Desktop Virtualization to provide administrative efficiency as well as greater resilience and mobility options for users of the MTA network. The benefits of these improvements have begun to be realized in 2015 and we expect they will have even greater impact in 2016.

Customer Service

For our customers, we completed a number of important initiatives that provided better access to MTA's real time information and hosted the third annual MTA App Quest competition to promote the development of applications that make using MTA's services easier and more convenient. We also made technical improvements to MTA's website – MTA.INFO - which increased the resilience and performance of the site and we are readying a major redesign of MTA.INFO which will make navigating the site more enjoyable and informative for our customers.

2015 Highlights and Accomplishments (continued)

PeopleSoft – Human Resources 9.2 Upgrade

In support of the administrative operations of the MTA we undertook a major systems upgrade of the MTA's PeopleSoft Human Capital Management system which went live this January.

Enterprise Budget System

Along with our partners in Finance and Budget, we successfully implemented an enterprise-wide budgeting system (Oracle's Hyperion) and we will shortly deliver an enterprise-wide capital project management and reporting system (PSR) across all of the MTA's agencies.

Enterprise Asset Management

This multi-year project will involve nearly every operational and capital department within the MTA, including subject matter experts in all of the major functional areas and disciplines, to help transform the task of managing the MTA's vast infrastructure.

IT Strategic Plan

During 2015, we completed a long-range planning process which resulted in the publication of the MTA IT Strategic Plan. The plan will enable us to maintain a focus on current IT initiatives and will provide a vehicle for the identification of new initiatives to support the MTA's technology needs.

Project Governance

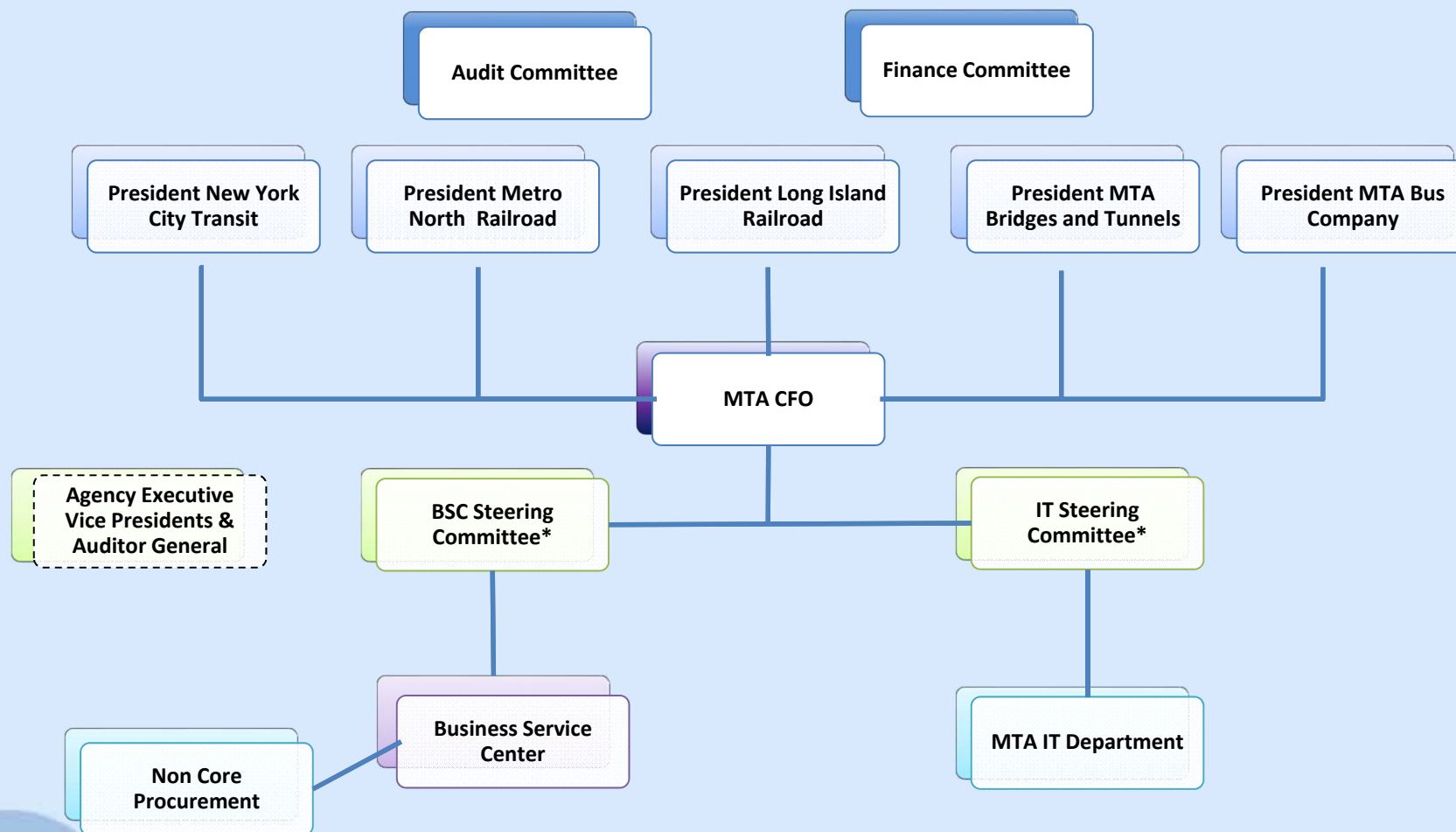
In 2015, we also completed the development of an enterprise-wide project management framework based on best practices and standards such as ITIL (Information Technology Infrastructure Library) . Going forward we will utilize this framework to ensure a consistent and structured approach for delivering IT solutions

Key IT Challenges

A number of key challenges have been identified based on collaborative interactions with the IT Steering Committee as well as through formal customer surveys.

MTA IT Challenges	
	To become more efficient and timely in the delivery of desktop services to our clients.
	To set spending priorities and maintain effective project control through the governance processes.
	To identify and adopt common and repeatable processes based on business and IT needs.
	To implement technology, processes, and data with improved coordination, minimizing stovepipes and duplicated efforts.
	To communicate effectively and provide a clear understanding of the value that MTA IT delivers to customers.
	To continue to mature key functions including enterprise-level solutions architecture planning, data, governance, customer relationship management, and vendor management.

Governance and oversight interactions for IT and the BSC occur at all management levels



****The status of major projects is reported at every Steering Committee Meeting; issues are explained and discussed with all agencies***

Ensuring Success – Performance Measurement

The performance measures represent the manner in which MTA IT will measure progress of the initiatives over the multi year term of our strategic plan.

MTA IT believes that measuring performance at various levels and through different lenses will allow us to monitor incremental progress toward achieving our goals, and can help us identify where changes should be made.

Therefore, for all 14 MTA IT initiatives, performance measurements were established to continuously assess the quality of the IT services being provided:

Security Access
IT Services Support Excellence
Application Portfolio Modernization
Standardized Infrastructure
Consolidate and Broaden IT Services
Optimized IT Portfolio
IT Workforce Transformation

Unified Vendor Management
Effective Business Line Partnership
Business Capability Consulting
IT Service Delivery Excellence
Leverage Emerging Technologies
Workforce Skills Modernization
Collaborative IT Organization



Ensuring Success – Performance Measurement

Initiative Name	Performance Measures
Secure Access	<ul style="list-style-type: none"> • Increase in number of mobile users who securely access MTA systems • Increase in number of tools and methodologies provided that support mobile users in securely accessing MTA systems via any approved device • Increase in number of ICS/SCADA (Industrial Control System, Supervisory Control And Data Acquisition) systems being monitored for compliance with relevant security standards.
Standardized Infrastructure	<ul style="list-style-type: none"> • Decrease in environmental footprint in accordance with MTA IT plans for electronic stewardship and data center consolidation • Increase in availability of demand-based infrastructure
Unified Vendor Management	<ul style="list-style-type: none"> • Decrease in number of contracts • Savings from economy of scale and Enterprise License Agreements (ELA's)
IT Service Delivery Excellence	<ul style="list-style-type: none"> • Increase in number of IT services that have defined cost drivers and return on investment. • Increase in number of IT services available in an IT service catalog • Increase in number of IT services meeting service-level agreements (SLAs)
Workforce Skills Modernization	<ul style="list-style-type: none"> • Increase in the average number of external training classes attended per IT employee. • Increase in aggregate number and adequate distribution of skills which support modern frameworks and technologies

Questions ?



MTA AUDIT SERVICES

2015 Year End Status and 2016 Proposed Audit Plan



January 25, 2016

2015 Audit Plan Summary

Financial/Operational/Technology

- Projects Completed = 178
- Recommendations = 626
- Savings/Cost Efficiencies = \$ 28 M

Contracts

- Projects Completed = 134
- Pre-Award OH Reviews = 157
- \$ Audited = \$ 741 M
- Questioned Costs = \$ 49 M

2015 Audit Plan

Superstorm Sandy Audits

- Total Grant Expenditures = \$887.7 M
- Total \$ Audited = \$218.9 M
- Projects Completed = 53
- Recommendations = 149
- Total Cost Adjustments = \$ 46.6 M

MTA AUDIT SERVICES

2016 AUDIT PLAN

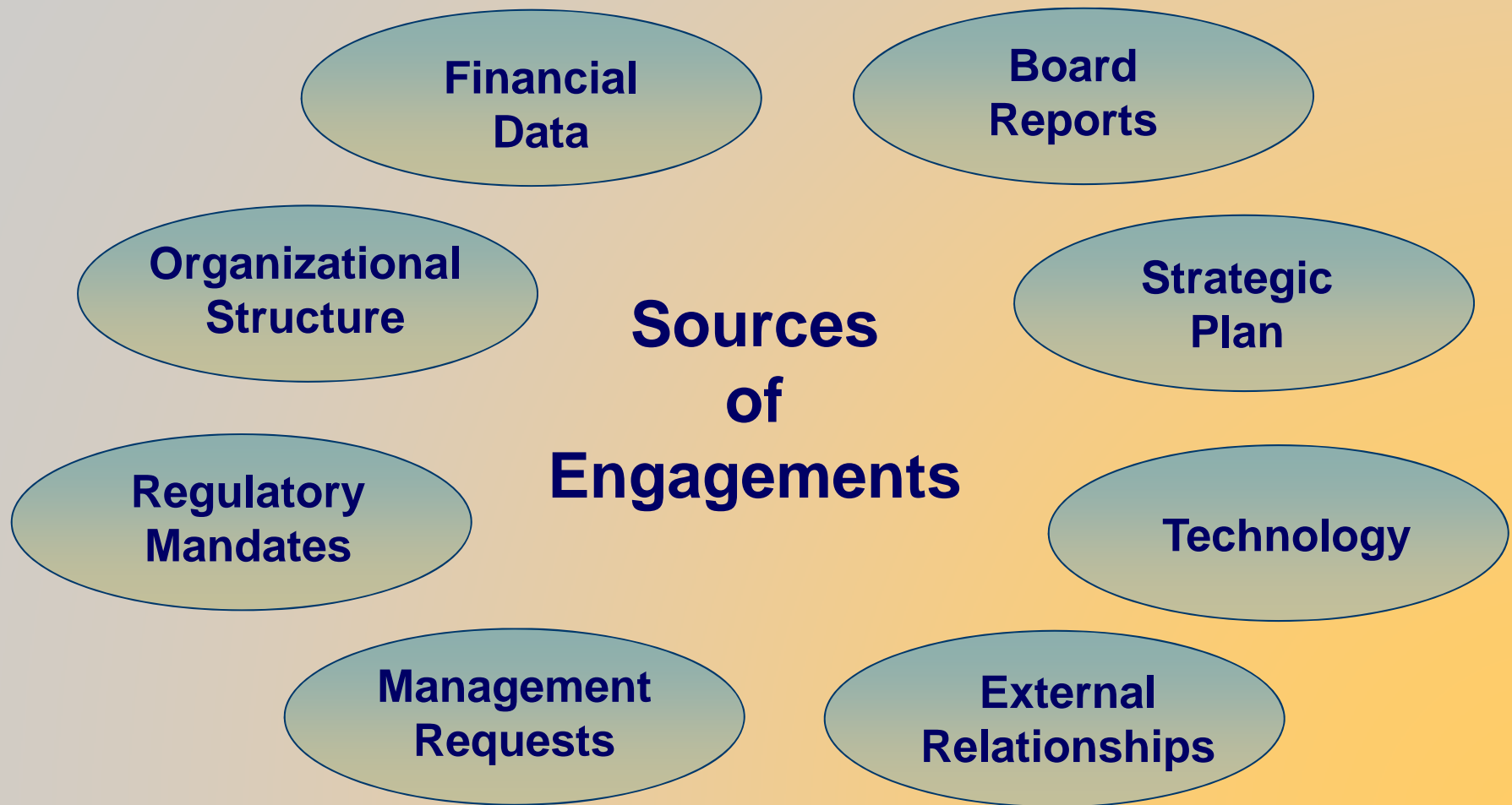


Audit Plan Formulation



The Audit Plan Sources

The Metropolitan Transportation Authority Mission is to preserve and enhance the quality of life and economic health of the region it services through the cost-efficient provisions of safe, on-time, reliable, and clean transportation services.



Risk Factor Considerations

Financial Exposure

Condition of Internal Controls

Change in Operations

Impact of Technology

Previous Audit Results

Management Interest



**Conducted
97 Interviews**

Risk Assessment Results



Audit Universe

306 Activities
(690 Sub-Activities)

2016 Audit Plan
174 Audits

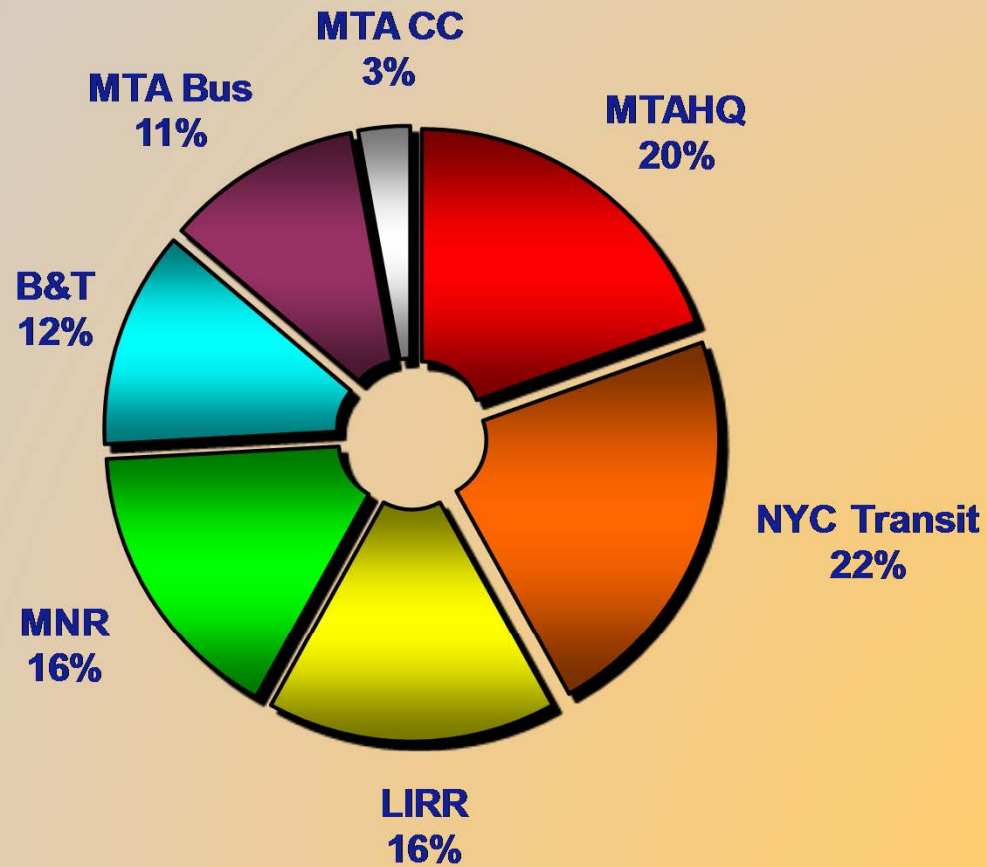
136 High

116 Moderate

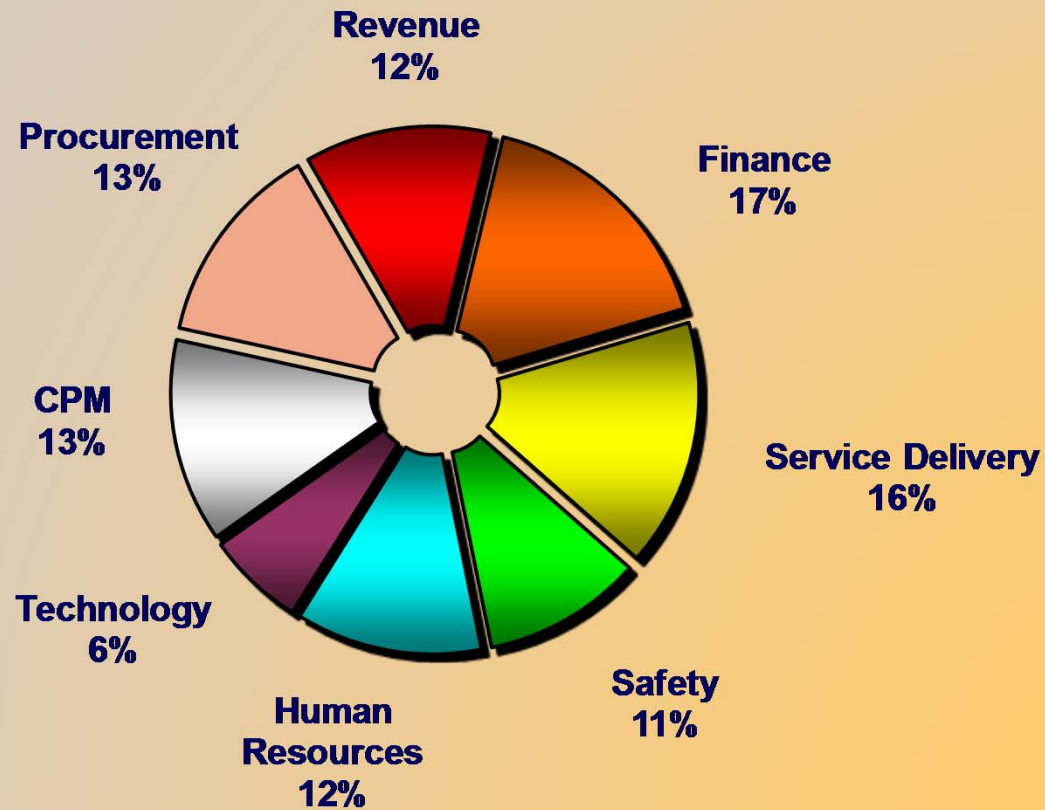
54 Low

Audit Universe based on a Five Year Cycle

2016 AGENCY RESOURCE ALLOCATION



2016 RESOURCE ALLOCATION BUSINESS FUNCTIONS



2016 Audit Strategy

- ☐ **Focus Audit work on Governance, Risk, and Control Environment**
- ☐ **Review efficiency & effectiveness of Operations**
- ☐ **Support Agency-wide Goals & Initiatives**
- ☐ **Validate the implementation of Audit Recommendations**

2016 Audit Areas

Finance	Safety	Capital Program
Treasury Payroll Accounts Payable Timekeeping Overtime Vacation Cash Outs Enterprise Asset Management ERM Assessments Prior Audit Recommendations	Blue Ribbon Panel Safety Program Plan Hours of Service Hearing Conservation Random Drug & Alcohol Testing	Superstorm Sandy Fulton Center Closeout 7 Line Extension Closeout 2 nd Avenue East Side Access Capital Contracts
	Procurement	
	Procurement Transformation DBE & MW/DBE Programs Operating Contracts Inventory Management Non-PO Purchases Third Party Contracts	Human Resources
Service Delivery		Medical Services Pensions Workers' Compensation Injury on Duty EEO Reporting/Compliance
Track Maintenance Signal Maintenance Depot Operations Bridge & Tunnel Operations Station Maintenance Car Equipment Customer Services Center Elevators & Escalators Key Performance Indicators	Revenue	Technology
	Rental Property Income Advertising Contracts MetroCard E-ZPass Transit Adjudication Bureau On-Board Fare Collection	BSC PeopleSoft Upgrade & QA Help Desk Information Security Enterprise Change Mgmt. Application Controls Data Centers

Internal Quality Assurance Review (2015)

Results: "Fully Complies"		
Seq#	IIA - Audit Elements	Compliance
1	Purpose, Authority & Responsibility	✓
2	Independence & Objectivity	✓
3	Proficiency & Due Professional Care	✓
4	Quality Assurance & Improvement Program	✓
5	Managing the Internal Audit Activity	✓
6	Nature of Work	✓
7	Engagement Planning	✓
8	Performing the Engagement	✓
9	Communicating Results	✓
10	Monitoring Progress	✓
11	Resolution of Management's Acceptance of Risk	✓

Other Activities

- ❑ **Continue to coordinate audit activities with:**
 - **External Auditors**
 - **City/State Comptrollers' Offices**
 - **MTA Chief Compliance Officer**
- ❑ **Perform Internal Quality Assurance Review**

QUESTIONS?

Metropolitan Transportation Authority

Department of Diversity and Civil Rights

Report to the Audit Committee
January 25, 2016



MTA Headquarters

DDCR Update - Status of the MTA IG Recommendations

The MTA Office of the Inspector General assessed DDCR's performance in completing monitoring tasks that have the potential to detect and deter contractor fraud and other serious compliance violations. Their recommendations are related to the topics listed below.

1) Establish Performance Metrics – Implemented	6) Establish protocols for contract close outs – Implemented
2) Revise Standard Operating Procedures (“SOPs”) – On-going. Target completion date is March 2016	7) Report to Audit Committee – Implemented
3) Increase Site Visits – Implemented	8) Improve Record Management – On-going
4) Adjust Payment Verification Procedures - Implemented	9) Monitor Goal Compliance – On-going
5) Establish list of contracts to be closed out and plan to address backlog - Implemented	10) Improve Contract Compliance System – Implemented

MTA Headquarters
DDCR Update
Inactive Contracts - Status as of December 31, 2015

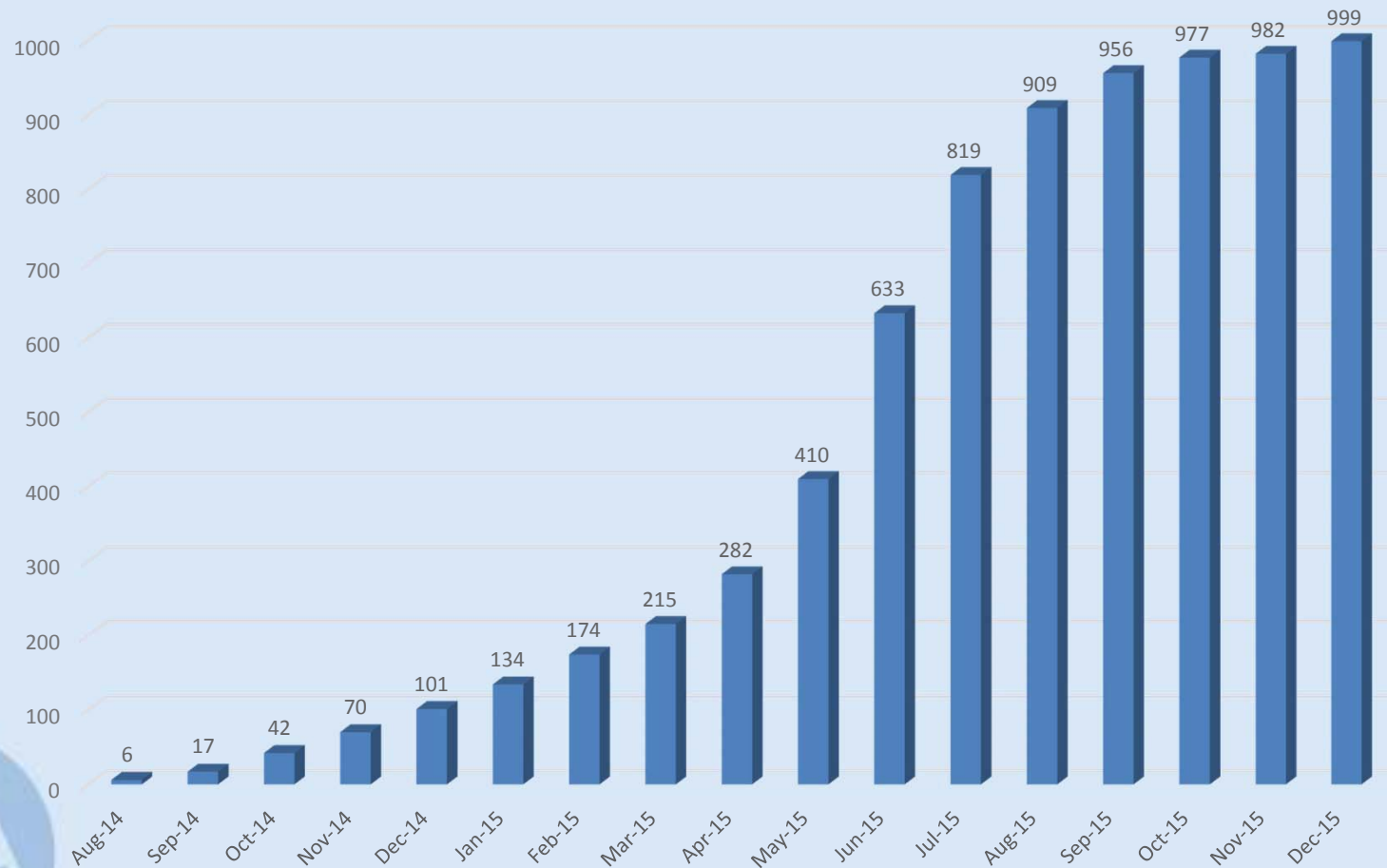
Inactive Contracts with Goals	#
1. Total Contracts Reviewed and Closed	720
2. Contracts Administratively Closed	279 (a)
Sub-Total	999 (94%)
3. Close-Outs in Progress	39
4. Contracts Pending Agency Action	29
Total	1,067 (b) (100%)

- a. Contracts administratively closed because of the age of the contract (beyond the established seven-year record retention period).*
- b. Total number of inactive contracts as of December 31, 2015.*



MTA Headquarters DDCR Update

DDCR Contract Closeout Progression - August 2014 to December 31, 2015



MTA Headquarters DDCR Update

Project Site Visits - January 1, 2015 to December 31, 2015
Total Site Visits Performed = 419

