



Metropolitan Transportation Authority

Audit Committee Meeting

April 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, 4/18/2016
2:45 - 4:00 PM ET

1. PUBLIC COMMENTS PERIOD

2. APPROVAL OF MINUTES

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6. FINANCIAL INTEREST REPORTS

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8. EXECUTIVE SESSION

**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, JANUARY 25, 2016 – 2:45 P.M.
RONAN BOARD ROOM – 20th FLOOR
2 BROADWAY**

The following were present:

Honorable:

**Fernando Ferrer
Charles Moerdler**

**Robert Bickford
Andrew Albert**

Susan Metzger

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

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

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

Vice-Chair Fernando Ferrer presided over the meeting.

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the November 16, 2015 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORKPLAN

There were no changes to the work plan. The next meeting in April will include: Deloitte's review of the results of their audit of the 2015 Financial Statements; Financial Management's review of the MTA Consolidated Financial Statements; a briefing on the Financial Interest Reports; an update on DDCC performance measures; and a review by agency General Counsels of its agency claims and litigations in Executive Session.

4. INDEPENDENT ACCOUNTANTS REVIEW REPORT – 3RD QUARTER 2015

Michael Fritz (Deloitte) introduced the senior members of the audit team: Glen Friedrich and Mike Malloy. He indicated their review noted no significant fluctuations in the accounts or changes in the accounting principles and procedures used in the statements and that they agreed with management's estimates on the significant liabilities reflected in the statements. Lastly, he said no significant adjustments were made to the financial statements as a result of their review. Pat Kane (MTA Comptroller) commented that a \$283 million accrual was made in the third quarter to record the additional workers' compensation and third party claims liabilities determined based on recent actuarial reports. In response to a Committee inquiry, he said no re-statement was necessary as the adjustment was reflected in the 3rd Quarter 2015 financial statements.

A motion was made and seconded to approve the 3rd Quarter 2015 financial statements.

5. 2014 PENSION PLAN AUDITS

Mike Fritz (Deloitte) stated that the results of their audits of the pension plans, namely: the MABSTOA Pension Plan, the Metro-North (MNR) Cash Balance Plan, the MTA Deferred Compensation Program, the MTA Defined Benefit Pension Plan, the MTA Retiree Welfare Benefits Plan, the LIRR Plan for Additional Pensions, are presented in the Agenda book. He said their audits were conducted in accordance with Generally Accepted Auditing Standards and that the audited financial statements are as of and for the year ended December 31, 2014. He emphasized that, with the adoption of GASB 67, the pension liabilities of the individual plans, including those related to multi-employer plans (NYSLERS and NYCERS) would be actuarially-based and the unfunded liabilities would be recorded in the 2015 financial statements. With regards to the 2014 pension audits, he said they have looked at the demographic census data of employees in the plan, tested the actuarial assumptions, management estimates and the fair value of plan assets (i.e., investments). He stated they have no adjustments, current or past period, to the financial statements and have encountered “no significant difficulty in performing the audits.” He highlighted the net positions (assets) of the LIRR Plan, the MTA Defined Benefit Plan, the MABSTOA Plan and the MNR Cash Balance Plan and cited the extent to which each plan’s pension liabilities were not fully funded. There were discussions with regards to “benchmarks” or percentage funding and the current and future funding of the plans. Bob Foran (MTA Chief Financial Officer) stated that MTA has adopted making ARC (Actuarially Required Contribution)-like contributions to the plans so that over time the plans would be fully funded.

A motion was made and seconded to accept the audit reports on the various pension plans for the year ended December 31, 2014.

6. INFORMATION TECHNOLOGY REPORT

Sid Gellineau (MTA Chief Information Officer) presented the MTA IT annual report to the Committee, highlighting the two major enterprise-level strategies and initiatives it has accomplished during the year, namely: (1) the completion of the transformation of IT service delivery model, which encompassed people, process, organization, technology and finances. and (2) the finalization and publication of MTA IT Strategic Plan, which he said will guide the department’s evolution going forward and defines the initiatives it will undertake in support of MTA corporate priorities. He cited his department’s accomplishments and major activities in 2015, which covered several areas including: Security, Customer Service, Microsoft Office 365, PeopleSoft – HR 9.2 Upgrade, Enterprise Budget System, Enterprise Asset Management, IT Strategic Plan and Project Governance. He also elaborated on how MTA IT would address the key IT challenges it has identified based on collaborative interactions with the IT Steering Committee and customer surveys during the year. Lastly, Sid discussed the Performance Measures MTA IT established against each of the five initiatives listed in his presentation. There were discussions about the vulnerabilities of Office systems to “hacking;” system redundancies; overall system security; business continuity and disaster recovery plans. In response to a Committee inquiry, Sid said he will consider looking into ARMA (American Records Management Association) with regards to electronic record maintenance.

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

The Auditor General (AG) first stated he had met with the Chairman, the Chief Financial Officer and the agency Presidents as well as financial management and provided them briefings on the 2015 audit activities and the proposed 2016 Audit Plan. He then presented a summary of Audit Services accomplishments in 2015. Overall, Audit Services completed 178 audits, made over 600 audit recommendations for improvement and cost efficiencies with a total dollar impact of \$28 million. On the contract side, savings were achieved totaling \$49 million mostly from cost proposal audits which ensured third party contracts presented for Board approval have the lowest and reasonable price.

Additionally, the Sandy audit unit that was established in 2014 with this Committee's approval completed 53 audits, made 149 recommendations, including Sandy costs adjustments totaling \$46.6 million. He also highlighted some of the department's activities in 2015 either conducting reviews or providing management assistance in the following areas: M/WBE, PeopleSoft Upgrade, Enterprise Asset Management, Paratransit Call Center, the Transit Adjudication Bureau's New System and the Thin Client Environment. The AG presented the 2016 Audit Plan and described that the plan was developed, through a risk assessment, performed in accordance with the Institute of Internal Audit Standards and that the formal documented risk assessment process resulted in the identification of 174 audits for 2016. The AG also described the four Audit Strategies adopted by Audit Services for 2016 and provided the Committee with a snapshot of the audits in 2016 in the functional areas of: Finance, Service Delivery, Safety, Procurement, Revenue, Human Resources, Technology and Capital Program. The AG informed the Committee of the results of an internal quality assurance review conducted in accordance with policies which found Audit Services to be in compliance with policy guides and applicable professional standards. The AG also informed the Committee of the audit staff breakdown in terms of education, experience and professional certification, noting nearly 60% are certified. Lastly, the AG noted that Audit Services will continue to coordinate its Plan and audit activities with the external auditors, the State and City auditors and the MTA IG.

A motion was made and seconded to approve the 2016 Audit Plan.

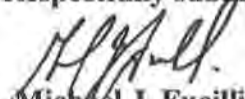
8. DDCR PERFORMANCE MEASURES UPDATE

Michael Garner (MTA Chief Diversity Officer) briefed the Committee on the efforts undertaken to implement the recommendations made by the MTA OIG and clear the back log in contract closeouts. He reported that seven of the 10 recommendations by the MTA OIG have been fully implemented and the remaining three are in various stages of completion and that 999 of 1,067 completed contracts have been closed out. He said this significant accomplishment would not have been possible without the assistance DDCR received from MTA Audit Services and the MTA OIG. He reiterated the need for an All-Agency Contract Closeout policy and procedures to avert backlog in closeouts in the future. Michael also reported, with DDCR now fully staffed, they are now able to conduct 50 project site visits per month to verify that the M/W/BE firms comply with the contract requirements and are performing according to their certification status. There were discussions about the authorization or what mandate allows DDCR to conduct project field visits and the Committee requested that DDCR consult with MTA Legal about this matter. In response to a Committee inquiry, Michael said that the B2G (Business to Government) system that DDCR will use to monitor M/W/BE compliance and activities would be implemented in the third quarter of 2016. He said staff is meeting weekly with a B2G knowledgeable consultant so that they can use the system as soon as it is installed.

9. MOTION TO ADJOURN

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,


Michael J. Fucilli
Auditor General

2016 - 2017 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	Committee Chair & Members
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

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 – 2nd Quarter 2016
Appointment of External Auditors
Review of MTA/IG's Office
DDCR Performance Measures

External Auditor/CFOs
Committee Chair & Members
External Auditor/IG
Chief Diversity Officer

November 2016

MTA Enterprise Risk Management
and Internal Control Guidelines
Enterprise Risk Management Update
Compliance with the Requirements
of the Internal Control Act
Annual Audit Committee Report
Review of Audit Committee Charter
Audit Approach Plans/Coordination
Open Audit Recommendations
Security of Sensitive Data

Chief Compliance Officer
Chief Compliance Officer
Chief Compliance Officer/Agency ICOs

Audit Committee
Committee Chair
External Auditor
Agency ICOs/Chief Compliance Officer
Chief Information Officer

January 2017

Quarterly Financial Statements – 3rd Quarter 2016
Pension Audits
2016 Audit Plan Status Report
2017 Audit Plan
Information Technology Report
DDCR Performance Measures

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

2016 - 2017 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

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.

JANUARY 2017

Quarterly Financial Statements – 3rd Quarter 2016

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 2016.

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.

2016 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.

2017 Audit Plan

A discussion by Audit Services of the areas scheduled to be reviewed in 2017 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.

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Consolidated Financial Statements as of and
for the Years Ended December 31, 2015 and 2014
Required Supplementary Information,
Supplementary Information and
Independent Auditors' Report

DRAFT

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

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2015 and 2014, and the related consolidated statements of revenues, expenses, and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the MTA's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the MTA as of December 31, 2015 and 2014, and the respective changes in the consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the consolidated financial statements, the MTA is a component unit of the State of New York. The MTA requires significant subsidies from, and has material transactions with, The City of New York,

the State of New York, and the State of Connecticut, and depends on certain tax revenues that are economically sensitive. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2015, the MTA adopted Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 25, the Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for the Additional Plan, MNR Cash Balance Plan, MaBSTOA Plan and MTA Defined Benefit Plan on page 128, the Schedule of the MTA's Proportionate Share of Net Pension Liability in the New York City Employees' Retirement System and the New York State and Local Employees' Retirement System on page 129, the Schedule of MTA's Contributions for All Pension Plans on pages 130-131, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 135 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated financial statements. The Schedule of 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 financial statements.

The Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, and Schedule of Financial Plan to Financial Statements Reconciliation, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

April XX, 2016

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

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

1. OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

This report consists of five parts: Management's Discussion and Analysis ("MD&A"), Consolidated Financial Statements, Notes to the Consolidated 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 and for the years ended December 31, 2015 and 2014. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated 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 financial statements.

The Consolidated Financial Statements

The Consolidated 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 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 year and can be used to determine how the MTA has funded its costs.

The Consolidated 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 Financial Statements

The notes provide information that is essential to understanding the consolidated 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 about the changes in the net pension liability, employer contributions, actuarial assumptions used to calculate the net pension liability, historical trends, and other required supplementary information related to the MTA Group's cost-sharing multiple-employer and single-employer defined benefit pension plans as required by provisions for pensions under GASB Statement No. 68.

The Schedule of Funding Progress 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 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

The following entities, listed by their legal names, are subsidiaries of the MTA:

- 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.

The following entities, listed by their legal names, are affiliates of the MTA:

- 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

The following sections discuss the significant changes in the MTA Group’s financial position as of and for the years ended December 31, 2015 and 2014. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group’s consolidated 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

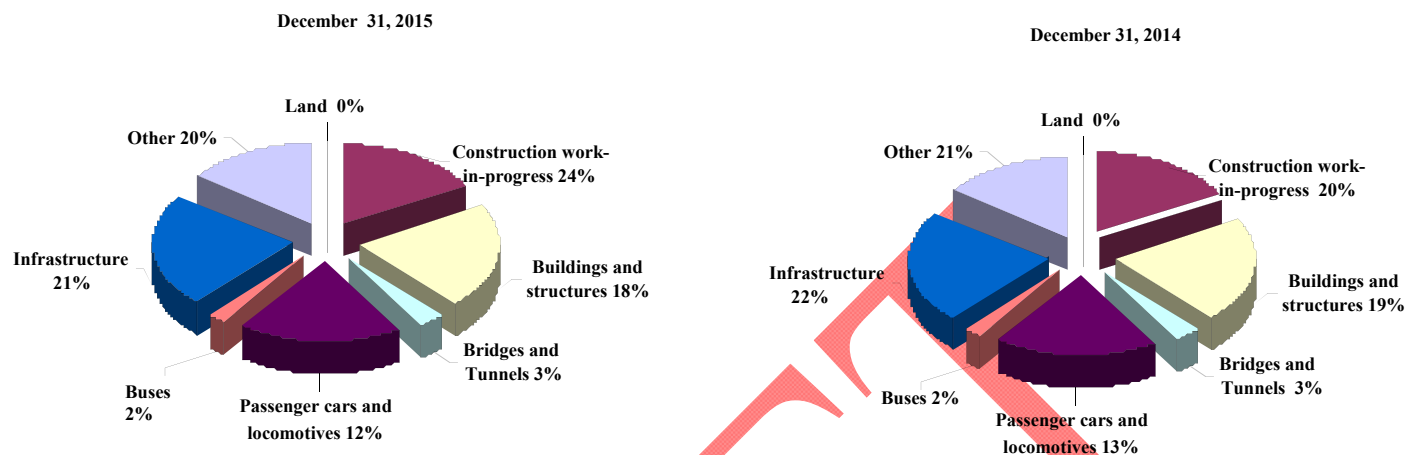
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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, unamortized loss on refunding, and deferred outflows from pension activities.

	December 31, 2015	December 31, 2014	December 31, 2013	Increase/(Decrease) 2015 - 2014 2014 - 2013	
(In millions)					
Capital assets — net (see Note 6)	\$ 61,377	\$ 59,060	\$ 56,729	\$ 2,317	\$ 2,331
Other assets	9,161	8,502	8,215	659	287
Deferred outflows of resources	<u>2,635</u>	<u>1,066</u>	<u>980</u>	<u>1,569</u>	<u>86</u>
Total assets and deferred outflows of resources	<u>\$ 73,173</u>	<u>\$ 68,628</u>	<u>\$ 65,924</u>	<u>\$ 4,545</u>	<u>\$ 2,704</u>

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

December 31, 2015 versus December 31, 2014

- Net capital assets increased at December 31, 2015 by \$2,317. This increase is attributable to net increases in construction work-in-progress of \$2,512, infrastructure for \$546, buses for \$492, buildings and structures for \$467, other capital assets of \$336; passenger cars and locomotives for \$156, bridges and tunnels for \$144, and land for \$9. Those increases were offset by a net increase in accumulated depreciation of \$2,345. 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;
 - Subway customer information and station accessibility improvements; 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 \$659. The major items contributing to this change include:
 - An increase in investments of \$1,377 derived from:

- An increase in restricted investments of \$419, 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 and Series 2015F in December 2015.
- An increase in unrestricted investments of \$949, due primarily to new funds from real estate.
- An increase in capital lease related investments of \$9 as per the capital lease debt service schedule.
- A decrease in current and non-current net receivables of \$254 derived mainly from:
 - A decrease in other various receivables of \$151 mainly due to the receipt of reinsurance recoveries related to Tropical Storm Sandy of \$141.
 - A decrease in other State and local assistance of \$107 mainly due to a decrease in New York State service contracts of \$70.
 - A decrease in Federal and State Governments for capital projects of \$14.
 - An increase in due from State and regional mass transit taxes of \$18.
- A decrease in other current and non-current assets of \$464 derived from:
 - An increase in cash of \$143 from net cash flow activities.
 - An increase in material and supplies of \$63 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 \$21 due largely to a reduction in insurance premium prepayments.
 - A decrease in advance to defined benefit pension trust of \$636 as a result of adopting GASB Statement No. 68, which requires advances to pension be reflected as a restatement to beginning net position.
 - A decrease in various other non-current assets of \$13.
- Deferred outflows of resources increased by \$1,569 due to increase in deferred outflows of resources related to pensions of \$1,528 as a result of adopting GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date*. The MTA is reporting deferred outflows related to pension activities at December 31, 2015. For more information regarding pensions, refer to Note 4 to the financial statements. In addition, deferred outflows for unamortized losses on refundings increased by \$46, offset by a \$4 decrease in a change in fair market value of derivative instruments.

December 31, 2014 versus December 31, 2013

- Net capital assets increased at December 31, 2014 by \$2,331. This increase is attributable to net increases in other capital assets of \$1,826, infrastructure for \$880, buildings and structures for \$631, construction work-in-progress of \$508, passenger cars and locomotives for \$435, bridges and tunnels for \$202, buses for \$34 and land for \$25. The net increases were offset by a net increase in accumulated depreciation of \$2,210. Some of the more significant projects contributing to the net increase included:
 - Continued progress on the East Side Access, Second Avenue Subway and Number 7 Extension Project.
 - Infrastructure work including:
 - Repairs and improvements continued at four facilities, namely Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, the Throgs Neck Bridge and the Verrazano-Narrows Bridge;

- Switch replacement and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas; and
 - Ventilation system upgraded and installed at various facilities.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and construction of three Montauk bridges.
- Passenger station rehabilitations continued 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 \$287. The major items contributing to this change include:
 - An increase in current and non-current net receivables of \$35 derived mainly from:
 - An increase in due from State and regional mass transit taxes of \$51.
 - An increase in due from Federal and State Governments for capital projects of \$76.
 - A decrease in due from other State and local assistance of \$9.
 - A decrease in other various receivables of \$101 resulting from a decrease in New York State service contract bonds of \$63, a reduction of reinsurance recoverable losses for Hurricane Irene from FMTAC of \$29 and a decrease in other receivables of \$9.
 - An increase in other current and non-current assets of \$319 derived from:
 - An increase in advance to defined benefit pension trust of \$321 primarily from additional pension funding by MTA Long Island Rail Road of \$308 and by MTA Metro-North Railroad of \$14.
 - An increase in material and supplies of \$59 due largely to increases in MTA New York City Transit of \$38 and cumulative increases in other Agencies of \$21 for maintenance material requirements for vehicles and facilities.
 - An increase in prepaid expenses and other current asset of \$41 due largely to prepayment of insurance premiums of \$33 and a prepayment to NYSHIP by MTA Metro-North Railroad of \$8.
 - A decrease in cash of \$47 from net cash flow activities.
 - A decrease in derivative fuel hedge assets of \$27 as a result of changes in the current fair market value.
 - A decrease in other various assets of \$28 due to amortization of advances to Defined Benefit Pension Plan.
 - A decrease in investments of \$67 derived from:
 - A decrease in restricted investments of \$73 resulting from the use of funds for capital projects.
 - A decrease in unrestricted investments of \$3, due primarily to the usage of operating funds for agency operations and lower Mortgage Recording Tax and Mobility Tax collections.
 - An increase in capital lease related investments of \$9 due to a net increase in collateral funds related to capital leases.
- Deferred outflows of resources increased by \$86 due to an increase in fair market value of derivative instruments of \$196 (See Notes 2 and 8), offset by a decrease in the loss on refunding of debt of \$110.

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

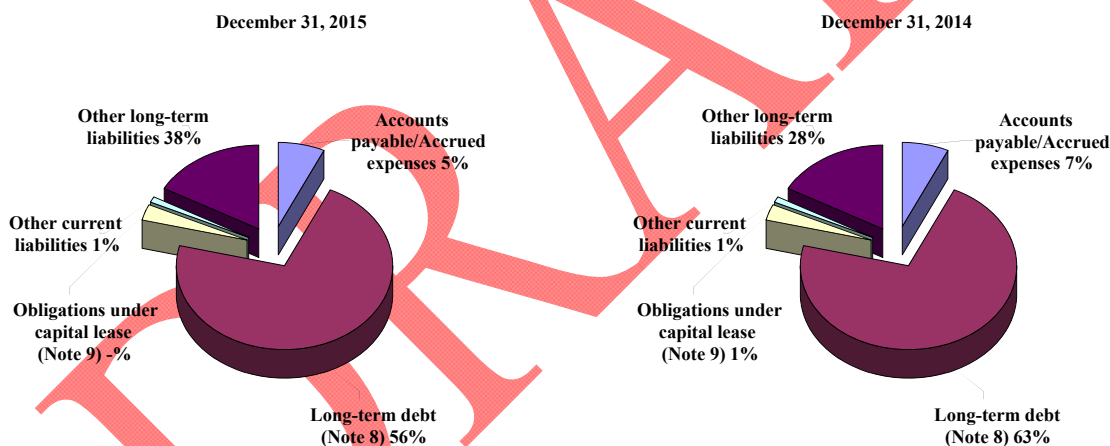
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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 and pension related deferred inflows.

	December 31, 2015	December 31, 2014	December 31, 2013	Increase/(Decrease)	
				2015 - 2014	2014 - 2013
(In millions)					
Current liabilities	\$ 6,473	\$ 5,273	\$ 5,142	\$ 1,200	\$ 131
Non-current liabilities	59,891	50,038	46,577	9,853	3,461
Deferred inflows of resources	<u>987</u>	<u>35</u>	<u>-</u>	<u>952</u>	<u>35</u>
Total liabilities and deferred inflows of resources	<u>\$ 67,351</u>	<u>\$ 55,346</u>	<u>\$ 51,719</u>	<u>\$ 12,005</u>	<u>\$ 3,627</u>

Total Liabilities



Significant Changes in Liabilities Include:

December 31, 2015 versus December 31, 2014

Current liabilities increased by \$1,200. The major items contributing to this change include:

- An increase in the current portion of long-term debt of \$1,604, primarily due to Bond Anticipation Notes issued on June 25, 2015, September 17, 2015 and December 10, 2015.
- An increase in unearned revenues of \$49 due largely to increases in MTA New York City Transit for school and elderly fare subsidies, unused fare cards sold, and advertising revenue.
- A decrease in accrued expenses of \$404 due to:

- A decrease in current portion of retirement and death benefits of \$369, primarily due to the classification of pension liability as long-term as a result of adopting GASB Statement No. 68.
- A decrease in other various accrued expenses of \$35.
- A decrease in other various current liabilities of \$49 primarily due to a decrease in accounts payable due to vendors.

Noncurrent liabilities increased by \$9,853. The major items contributing to this increase include:

- An increase in net pension liability of \$7,704 as a result of adopting GASB Statement No. 68.
- An increase in postemployment benefits other than pension liability (“OPEB”) of \$1,494 as a result of actuarial determined calculations as required by GASB Statement No. 45 (See Note 5).
- An increase in estimated liability arising from injuries to persons of \$343 based on recent actuarial valuations for reserve requirements.
- An increase in long-term debt of \$323 due to the issuance of MTA Transportation Revenue Bonds, Series 2015A to Series 2015F (See Note 8). The increase was offset by retirements and debt payments as of December 31, 2015.
- A decrease in other various non-current liabilities of \$11.

Deferred inflows of resources increased by \$952 primarily as a result of adopting GASB Statement No. 68 which requires changes in net pension liability not included in pension expense to be reported as deferred inflows of resources. At December 31, 2015, the MTA reported \$955 of deferred inflows related to pension activities.

December 31, 2014 versus December 31, 2013

Current liabilities increased by \$131. The major items contributing to this change include:

- An increase in accounts payable of \$28 primarily due to timing of payments.
- A decrease in accrued expenses of \$43 due to:
 - An increase in interest payable of \$6 due to issuance of new bonds in 2014.
 - A decrease in accrued salaries, wages, vacation and payroll taxes of \$168 due largely to a decrease in MTA New York City Transit of \$218 for retroactive wages related to TWU union contract negotiations recorded in 2013 and cumulative decreases in other Agencies of \$53 related to retroactive wage payments. The decrease was offset by increases for MTA Long Island Railroad of \$11 for represented employees that have not settled their contracts as of December 2014 and for MTA Metro-North Railroad of \$92 for retroactive wage adjustments covering employees from 2011-2014.
 - An increase in the current portion of retirement and death benefits of \$13 primarily due to a revised actuarial calculation for the MTA New York City Transit for the New York City Employees’ Retirement System (“NYCERS”).
 - An increase in the current portion of estimated liabilities from injuries to persons of \$41 as a result of changes in actuarially determined insurance reserve requirements.

- An increase in other various accrued expenses of \$65 primarily due to accrued vacation and sick pay benefits of \$37 and other accrued expenses of \$28.
- An increase in the current portion of long-term debt of \$99 due to new debt issuances.
- An increase in unearned revenues of \$25 due largely to increases in MTA New York City Transit for unbilled paratransit reimbursements of \$17 and a reserve for unexpired metrocards of \$4.
- An increase in derivative fuel hedge liability of \$48 due to change, in market value.
- A decrease in various other current liabilities of \$26.

Noncurrent liabilities increased by \$3,461. The major items contributing to this increase include:

- An increase in postemployment benefits other than pension liability (“OPEB”) of \$2,039 due to funding shortfalls of the actuarial required contribution (“ARC”) (See Note 5).
- An increase in long-term debt of \$1,056 due to the issuance of MTA Transportation Revenue Bonds, Series 2014A, Series 2014B, Series 2014C, Series 2014D, MTA Bridges and Tunnels General Revenue Bonds, Series 2014A and MTA Bridges and Tunnels General Revenue Bond Anticipation Notes, Series 2014A (See Note 8). This increase was offset by retirements and debt payments as of December 31, 2014.
- An increase in derivative liabilities of \$172 due to changes in fair market value.
- An increase in the noncurrent portion of estimated liabilities arising from injuries to persons of \$156 resulting from changes in actuarially determined liabilities.
- An increase in other various non-current liabilities of \$38.

Deferred inflows of resources increased by \$35 due to a gain 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

	December 2015	December 2014	December 2013	Increase	
				2015 - 2014	2014 - 2013
(In millions)					
Net investment in capital assets	\$ 23,777	\$ 22,944	\$ 22,020	\$ 833	\$ 924
Restricted for debt service	487	434	478	53	(44)
Restricted for claims	142	167	135	(25)	32
Restricted for other purposes	1,051	1,011	906	40	105
Unrestricted	<u>(19,635)</u>	<u>(11,274)</u>	<u>(9,334)</u>	<u>(8,361)</u>	<u>(1,940)</u>
Total Net Position	<u>\$ 5,822</u>	<u>\$ 13,282</u>	<u>\$ 14,205</u>	<u>\$ (7,460)</u>	<u>\$ (923)</u>

Significant Changes in Net Position Include:

December 31, 2015 versus December 31, 2014

At December 31, 2015, total net position decreased by \$7,460 when compared with December 31, 2014. This change is a result of net non-operating revenues of \$5,309 and appropriations, grants and other receipts externally restricted for capital projects of \$1,979, offset by operating losses of \$6,940 and a restatement of beginning net position of \$7,808 as a result of adopting GASB Statement No. 68.

The net investment in capital assets increased by \$833. Funds restricted for debt service, claims and other purposes increased by \$68 in the aggregate, while unrestricted net position decreased by \$8,361.

December 31, 2014 versus December 31, 2013

At December 31, 2014, total net position decreased by \$923 when compared with December 31, 2013. This change is comprised of net non-operating revenues of \$5,201 and appropriations, grants and other receipts externally restricted for capital projects of \$1,754. This increase is offset by operating losses of \$7,878.

The net investment in capital assets increased by \$924. Funds restricted for debt service, claims and other purposes increased by \$93 in the aggregate, while unrestricted net position decreased by \$1,940.

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

(In millions)	December 31 2015	December 31 2014	December 31 2013	Increase/(Decrease)	
				2015 - 2014	2014 - 2013
Operating revenues					
Passenger and tolls	\$ 7,770	\$ 7,385	\$ 5,305	\$ 385	\$ 2,080
Other	<u>638</u>	<u>585</u>	<u>399</u>	<u>53</u>	<u>186</u>
Total operating revenues	<u>8,408</u>	<u>7,970</u>	<u>5,704</u>	<u>438</u>	<u>2,266</u>
Non-operating revenues					
Grants, appropriations and taxes	5,997	5,775	4,537	222	1,238
Other	<u>718</u>	<u>789</u>	<u>540</u>	<u>(71)</u>	<u>249</u>
Total non-operating revenues	<u>6,715</u>	<u>6,564</u>	<u>5,077</u>	<u>151</u>	<u>1,487</u>
Total revenues	<u>15,123</u>	<u>14,534</u>	<u>10,781</u>	<u>589</u>	<u>3,753</u>
Operating expenses					
Salaries and wages	5,471	5,416	3,564	55	1,852
Retirement and other employee benefits	2,391	2,738	2,071	(347)	667
Postemployment benefits other than pensions	1,997	2,523	1,662	(526)	861
Depreciation and amortization	2,444	2,266	1,616	178	650
Other expenses	<u>3,040</u>	<u>2,906</u>	<u>1,999</u>	<u>134</u>	<u>907</u>
Operating expenses	<u>15,343</u>	<u>15,849</u>	<u>10,912</u>	<u>(506)</u>	<u>4,937</u>
Net expenses related to asset impairment	<u>5</u>	<u>(1)</u>	<u>83</u>	<u>6</u>	<u>(84)</u>
Total operating expenses	<u>15,348</u>	<u>15,848</u>	<u>10,995</u>	<u>(500)</u>	<u>4,853</u>
Non-operating expenses (revenues)					
Interest on long-term debt	1,401	1,358	1,001	43	357
Change in fair value of derivative financial instruments (Note 8)	(2)	(1)	-	(1)	(1)
Other net non-operating expenses	<u>7</u>	<u>6</u>	<u>4</u>	<u>1</u>	<u>2</u>
Total non-operating expenses	<u>1,406</u>	<u>1,363</u>	<u>1,005</u>	<u>43</u>	<u>358</u>
Total expenses	<u>16,754</u>	<u>17,211</u>	<u>12,000</u>	<u>(457)</u>	<u>5,211</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>1,979</u>	<u>1,754</u>	<u>1,398</u>	<u>225</u>	<u>356</u>
Change in net position	348	(923)	179	1,271	(1,102)
Net position, beginning of period	13,282	14,205	15,679	(923)	(1,474)
Restatement of beginning net position	<u>(7,808)</u>	<u>-</u>	<u>(552)</u>	<u>(7,808)</u>	<u>552</u>
Net position, end of period	<u>\$ 5,822</u>	<u>\$ 13,282</u>	<u>\$ 15,306</u>	<u>\$ (7,460)</u>	<u>\$ (2,024)</u>

Revenues and Expenses, by Major Source:

Years ended December 31, 2015 versus 2014

- Total operating revenues increased by \$438.
 - Fare and toll revenue increased by \$385 primarily due to an increase in vehicle crossings for the year ended December 31, 2015, when compared to the year ended December 31, 2014.
 - Other operating revenues increased by \$53. 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 \$151.
 - Total grants, appropriations, and taxes were higher by \$222 for the year ended December 31, 2015.
 - o Tax supported subsidies from New York City and from MTA service areas increased by \$242; this increase was from Urban Tax for \$175 and Mortgage Recording Tax for \$67.
 - o Tax supported subsidies from New York State decreased by \$16, due to decreases from the Mass Transportation Trust Fund by \$49, MTA aid trust account by \$3, while Payroll Mobility Tax increased by \$36.
 - o Other subsidies decreased by \$4 due to a decrease in New York State service contract subsidy.
 - Other non-operating revenues decreased by \$71. There was a decrease in subsidies from New York City of \$36 for MTA Bus and MTA Staten Island Railway. In addition, there were decreases from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$11, Station Maintenance and Use assessments of \$4, and lower reimbursement from the Federal Transit Administration (“FTA”) and the Federal Emergency Management Agency (“FEMA”) relating to Tropical Storm Sandy of \$18. Other non-operating expenses decreased by \$2.
- Labor costs decreased by \$818. The major changes within this category are:
 - Postemployment benefits other than pensions decreased by \$526, based on the most recent valuation, primarily from a reduction in pharmacy claims due to the introduction of an employee group waiver plan.
 - Retirement and employee benefits decreased by \$347 primarily due to lower pension expenses as a result of adopting GASB Statement No. 68.
 - Salaries and wages increased by \$55 due largely to an increase in MTA New York City Transit overtime, due mostly to adverse weather, maintenance, unscheduled service and vacancy/absentee coverage requirements.
- Non-labor operating costs increased by \$318. The variance was due to:

- Increase in depreciation of \$178 due largely to MTA New York City Transit placing additional facilities, trackwork and new buses and subway cars into service.
- Increase in professional service contracts by \$104 due largely to additional IT consultants, higher technical services requirement and an increase in Workers' Compensation Board reserve requirements based on the current actuarial valuation.
- Increase in claims arising from injuries to persons of \$69 based on most recent actuarial valuations which reflected an increase in major claims.
- Increase in maintenance and other contracts by \$36 and paratransit service contracts by \$13.
- Increase in other business expenses of \$22 primarily due to higher operating expenses.
- Increase in insurance by \$21 due to higher property and liability premiums.
- 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 \$6, primarily related to the MTA Metro-North Railroad Harlem Line train accident on a highway-rail grade crossing between Valhalla and Hawthorne stations and costs associated with Tropical Storm Sandy for repairs and clean-up expenses related to MTA Bridges and Tunnels.
- Decrease in electric power and fuel by \$148 due to lower prices in the current year.
- Total net non-operating expenses increased by \$43 due to:
 - Interest on long-term debt increased by \$43.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$225, mainly due to an increase in the availability of Federal grants for capital projects.

Years ended December 31, 2014 versus 2013

- Total operating revenues increased by \$271.
 - Fare and toll revenue increased by \$233 due to higher ridership and vehicle crossings for the year ended December 31, 2014 when compared to year ended 2013, and due to system wide fare and toll increases that took place in March 2013.
 - Other operating revenues increased by \$38. 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 \$382.
 - Total grants, appropriations, and taxes were higher by \$386 for the year ended December 31, 2014.

- Tax supported subsidies from New York State increased by \$218, due to increases from Mass Transportation Trust Fund for \$92 and Metropolitan Mass Transportation Operating Assistance for \$49, Payroll Mobility Tax for \$67 and MTA Aid Trust Account for \$10.
- Tax supported subsidies from New York City increased by \$170, from Urban Tax for \$169 and Mortgage Recording Tax for \$1.
- Other subsidies decreased by \$2 from New York State service contract subsidy by \$3 offset by an increase in Build America Bond subsidy of \$1.
- Other non-operating revenues decreased by \$4 due primarily to lower reimbursement from the Federal Transit Administration (“FTA”) and the Federal Emergency Management Agency (“FEMA”) relating to Tropical Storm Sandy of \$137. Other non-operating income decreased by \$14. The decrease was offset by higher reimbursement from Connecticut Department of Transportation of \$35 for the MTA Metro-North Railroad, from New York City of \$110 for MTA Bus and MTA Staten Island Railway, and from Station Maintenance and Use assessments of \$2.
- Labor costs increased by \$735. The major changes within this category are:
 - Salaries and wages increased by \$472, due largely to increases in MTA Long Island Railroad of \$151, MTA Metro-North Railroad of \$130, and MTA New York City Transit of \$137, other agencies increase by \$54, all related to wage rate increases and retroactive labor contract settlements.
 - Postemployment benefits other than pensions increased by \$145 from changes in actuarial estimates.
 - Retirement and employee benefits increased by \$118 due to increased rates for health and welfare plans and to higher Workers’ Compensation reserve requirements based on current actuarial calculations.
- Non-labor operating costs increased by \$105. The variance was due to:
 - Increase in electric power and fuel of \$32 due to higher fuel cost.
 - Increase in depreciation by \$85 due to additional facilities placed into service.
 - Increase in material and supplies by \$58 mainly due to ongoing maintenance and repairs for transit and commuter systems.
 - Increase in professional service contracts by \$11 due largely to an increase in professional services across the Agencies of \$31 offset by a reduction in the Workers’ Compensation Board fees for MTA New York City Transit of \$20.
 - Increase in maintenance and other operating contracts by \$56, mainly from MTA New York City Transit for \$18, MTA Long Island Railroad for \$12, MTA Metro-North for \$8 and MTA Bridges and Tunnels for \$13 as a result of higher facility repairs and maintenance services.
 - Increase in pollution remediation projects by \$7 for MTA Long Island Railroad due to the Jamaica Capacity and Hicksville Station Improvement projects for \$19 offset by a decrease in pollution remediation costs expensed in accordance with the provisions of GASB Statement No. 49 by MTA New York City Transit of \$12.

- Increase in other business expenses by \$7.
- Decrease in insurance expenses by \$11. FMTAC’s premium earned is recorded in the insurance category as a reduction of expenses. FMTAC earned premium from Owner Controlled Insurance Programs (“OCIP”) and Excess Loss Policy of \$25. All other agencies insurance expenses increased by \$14.
- Decrease in claims expense arising from injuries to persons by \$45 primarily due to prior year estimated reserves recorded by FMTAC of \$34 and MTA Metro-North Rail Road claims of \$33 related to the May 2013 New Haven Line and December 2012 Spuyten-Duyvil train derailments. A comparable amount was not recorded in 2014. This was offset by an increase in claims of \$22 based on current actuarial calculations.
- Decrease in paratransit service contracts by \$1.
- Decrease in net recoverables/expenses of \$94 due to impairments recorded in prior year, and no additional impairments being recorded in the current year.
- Total net non-operating expenses increased by \$3 due to:
 - Interest on long-term debt increase by \$1.
 - Change in fair value of derivative financial instruments increase by \$4.
 - Other non-operating expenses decrease by \$2.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$189, mainly due to an increase in the availability of Federal grants and MTA bonds for capital projects.

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

Economic Conditions

Metropolitan New York is the most transit-intensive region in the United States, 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 fourth quarter of 2015 declined relative to 2014, with ridership down by 2.1 million trips (0.1%); this decline was driven by a decline in bus ridership, with a 16.4 million decline in bus ridership at MTA New York City Transit and a 0.2 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 11.6 million crossings (4.0%) through the fourth 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 fourth quarter was higher in 2015 than in 2014 by 95.3 thousand jobs (2.3%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-one 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 0.7% in the fourth quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The slowdown in RGDP in the third quarter primarily reflected a deceleration in personal consumption expenditures and downturns in nonresidential fixed investment, in exports, and in state and local government spending that were partly offset by a smaller decrease in private inventory investment, a deceleration in imports, and an acceleration in federal government spending. The annualized RGDP growth for the fourth quarter was under the annualized rate of 2.0% in the third quarter; nevertheless, the national economy has now seen expansion in twenty-four of the last twenty-five quarters.

The New York City metropolitan area’s price inflation, as represented by the Consumer Price Index for All Urban Consumers (“CPI-U”), was slightly higher than the national average in the fourth quarter of 2015 with the metropolitan area index increasing 0.6% while the national index increased 0.5%. A 17.6% fall in the regional price of energy products, along with a 14.9% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.9%; nationally, inflation exclusive of energy prices increased 1.7%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 35.2% from an average price of \$2.082 to an average of \$1.350 per gallon between the fourth quarters of 2014 and 2015.

In December 2015, the Federal Open Market Committee (“FOMC”) announced it would raise its target for the Federal Funds rate to the range of 0.25% to 0.50%, its first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises first deepened. In announcing its decision, the FOMC cited recent evidence that economic activity has been expanding at a moderate rate. Household spending and business fixed investment have been increasing, and the housing sector has further improved. While net exports have been soft, a range of labor market indicators have shown further improvement, confirming that underutilization of labor resources has diminished since the early part of 2015, and inflation continues to run below the FOMC’s long-term objective of 2 percent. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. Given its judgement that there has been considerable improvement in labor market conditions and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective, and further recognizing the time necessary for policy actions to affect future economic outcomes, the FOMC raised the Federal Funds target rate. The FOMC expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that in the near-term rates will remain below levels that are expected to prevail in the longer run. Additionally, the FOMC is maintaining its policy of reinvesting 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 the 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; while continuing through the third quarter of 2015, receipts during the fourth quarter of 2015 took a slip dip. Mortgage Recording Tax collections through the fourth quarter of 2015 were higher than through the fourth quarter of 2014 by \$73.2 million (20.4%); however, the fourth quarter of 2015 was \$2.7 million (2.3%) less than the third 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 fourth quarter remain \$27.5 million (43.3%) worse than the monthly average in 2006, just prior to the steep decline in Mortgage Recording Tax revenues. 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 fourth quarter of 2015 were higher by \$134.5 million (16.7%). Quarterly receipts of Urban Taxes in the fourth quarter of 2015 totaled \$211.1 million, and the monthly average was \$4.8 million (6.5%) greater than the monthly average in 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations

MTA Bridges and Tunnels - Toll revenues were \$1,808.9 and \$1,676.4 for the years ended December 31, 2015 and 2014, respectively. The primary reasons for the increase were gas prices averaged \$2.50 in 2015, which was \$1.05 below the annual average for 2014. While snowfall was comparable in both years (48 inches in 2015 vs. 47 inches in 2014), rainfall totaled 37 inches over 106 days in 2015, compared to 50 inches over 117 days in 2014.

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 December 31, 2015 was 85.1% compared with 84.2% in 2014. The average weekday market shares were 86.8% and 85.9% for December 31, 2015 and 2014, respectively.

MTA New York City Transit - Total revenue from fares were \$4,371 in 2015, an increase of \$180 or 4.3%. This increase was due mostly to a March 2015 fare increase. Total ridership was 2,422, a decrease of 0.2% from 2014.

MTA Long Island Rail Road – Total operating revenues increased by \$749.5 in 2015 compared to 2014. In 2015, ridership experienced strong growth finishing the year with 87.6 million passengers, which was 2.1% above the 2014 ridership. A steadily improving economy and service enhancements contributed to the increase.

MTA Metro-North Railroad – Passenger fares accounted for 91.6% and 92.0% of operating revenues in 2015 and 2014, respectively. MTA Metro-North (East of Hudson) passenger revenue increased in 2015 by \$27,796 or 4.3%, and ridership increased by 1.297 million or 1.6%. The revenue increase is primarily a reflection of a 1.0% Connecticut fare increase implemented on January 1, 2015 and a 4.0% New York fare increase implemented on March 22, 2015. MTA Metro-North (East of Hudson) passenger revenue increased in 2014 by \$30,874 or 5.0%, and ridership increased by 1.170 million or 1.4%. The revenue increase is primarily a reflection of a 5.04% Connecticut fare increase implemented on January 1, 2014.

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 31, 2013, from \$365.5 to \$366.6. However, the total MRT at December 31, 2015 increased by 0.18% compared to December 31, 2014, from \$366.6 to \$434.1.

Capital Programs

At December 31, 2015, \$186 had been committed and \$2 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, and \$23,536 had been committed and \$13,419 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$23,836 had been committed and \$22,881 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 \$21,357 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.

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 in capital expenditures, of which \$15,849 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 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 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$264 relates to MTA Interagency and MTA Police Department; \$376 relates to MTA Bus Company initiatives; and \$2,856 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 in MTA Bonds, \$2,856 in MTA Bridges and Tunnels dedicated funds, \$8,336 in funding from the State of New York, \$6,375 in Federal Funds, \$2,492 from City Capital Funds, \$1,846 in pay-as-you-go (PAYGO) capital, and \$1,162 from Other Sources.

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 December 31, 2015, the 2010-2014 MTA Capital Programs budget increased by \$88 primarily due to additional work scope funded through additional grants. Of the \$34,888 now provided in capital expenditures, \$11,646 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; \$3,899 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; \$2,108 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, \$2,112 in MTA Bridges and Tunnels dedicated funds, \$6,340 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 \$9,376 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 \$988 in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2015, \$23,536 had been committed and \$13,418 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 December 31, 2015, the 2005-2009 MTA Capital Programs budget increased by \$790 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 \$24,507 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; \$3,761 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$508 relates to a security program throughout the transit, commuter and bridge and tunnel network; \$168 relates to certain interagency projects; \$7,175 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and No. 7 subway line); \$1,127 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 \$9,816 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 December 31, 2015, \$23,836 had been committed and \$22,881 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 December 31, 2015, the budget increased by \$563, 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 \$21,710 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; \$963 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 \$7,368 in bonds, \$7,417 in Federal funds, \$4,561 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,364 from other sources.

At December 31, 2015, \$21,596 had been committed and \$21,357 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 year ended December 31, 2015, deteriorated credit quality of bond insurers continued to put pressure on the auction segments of the MTA's variable rate portfolio. Auctions for all of the \$276.4 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of December 31, 2015, had been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

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 emergency relief funding from the 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. FTA Emergency Relief Grants totaling \$2.97 billion have been executed, including five grants in the amounts of \$194 million, \$886 million, \$684.5 million, \$344 million and \$787.6 million respectively for repair/local priority resiliency; and three grants for competitive resiliency totaling \$77.9 million. As of December 31, 2015, MTA has drawn down a total of \$863.1 million in grant reimbursement for eligible operating and capital expenses. The balance of funds to be drawn down from all eight 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 \$2.42 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 MTA Metro-North Railroad'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 TWU, 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 STATEMENTS OF NET POSITION

DECEMBER 31, 2015 AND 2014

(\$ In millions)

	December 31, 2015	December 31, 2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 454	\$ 311
Unrestricted investments (Note 3)	3,928	2,966
Restricted investment (Note 3)	1,519	1,107
Restricted investments held under capital lease obligations (Notes 3 and 9)	3	4
Receivables:		
Station maintenance, operation, and use assessments	121	122
State and regional mass transit taxes	153	135
Mortgage Recording Tax receivable	40	39
State and local operating assistance	13	8
Other receivable from New York City and New York State	249	260
Connecticut Department of Transportation	-	17
Due from Build America Bonds	1	1
Due from Nassau County for Long Island Bus	-	14
Capital project receivable from federal and state government	145	159
Other	241	330
Less allowance for doubtful accounts	(24)	(37)
Total receivables — net	939	1,048
Materials and supplies	582	519
Advance to defined benefit pension trust	-	448
Prepaid expenses and other current assets (Note 2)	173	194
Total current assets	7,598	6,597
NON-CURRENT ASSETS:		
Capital assets (Note 6):		
Land and construction work-in-progress	14,718	12,197
Other capital assets (net of depreciation)	46,659	46,863
Unrestricted investments (Note 3)	57	70
Restricted investments (Note 3)	357	350
Restricted investment held under capital lease obligations (Notes 3 and 9)	460	450
Other non-current receivables	496	571
Receivable from New York State	187	257
Other non-current assets	6	207
Total non-current assets	62,940	60,965
TOTAL ASSETS	70,538	67,562
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decreases in fair value of derivative instruments (Note 8)	526	531
Loss on debt refunding	581	535
Deferred outflows related to pensions (Note 4)	1,528	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,635	1,066
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 73,173	\$ 68,628

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF NET POSITION

DECEMBER 31, 2015 AND 2014

(\$ In millions)

	December 31, 2015	December 31, 2014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 393	\$ 437
Accrued expenses:		
Interest	210	211
Salaries, wages and payroll taxes	256	374
Vacation and sick pay benefits	880	838
Current portion — retirement and death benefits	15	384
Current portion — estimated liability from injuries to persons (Note 11)	444	413
Other	1,047	1,036
Total accrued expenses	2,852	3,256
Current portion — long-term debt (Note 8)	2,587	983
Current portion — obligations under capital lease (Note 9)	9	10
Current portion — pollution remediation projects (Note 13)	26	25
Derivative fuel hedge liability (Note 14)	43	48
Unearned revenues	563	514
Total current liabilities	6,473	5,273
NON-CURRENT LIABILITIES:		
Net pension liability (Note 4)	7,704	-
Estimated liability arising from injuries to persons (Note 11)	2,439	2,096
Post employment benefits other than pensions (Note 5)	13,560	12,066
Long-term debt (Note 8)	34,483	34,160
Obligations under capital leases (Note 9)	510	505
Pollution remediation projects (Note 13)	74	74
Contract retainage payable	281	296
Derivative liabilities (Note 8)	433	431
Derivative liabilities with off market elements (Note 8)	100	108
Other long-term liabilities	307	302
Total non-current liabilities	59,891	50,038
Total liabilities	66,364	55,311
DEFERRED INFLOWS OF RESOURCES:		
Gain on debt refunding	32	35
Deferred Inflows related to pensions (Note 4)	955	-
TOTAL DEFERRED INFLOWS OF RESOURCES	987	35
NET POSITION:		
Net investment in capital assets	23,777	22,944
Restricted for debt service	487	434
Restricted for claims	142	167
Restricted for other purposes (Note 2)	1,051	1,011
Unrestricted	(19,635)	(11,274)
Total net position	5,822	13,282
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 73,173	\$ 68,628

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

(\$ In millions)

	December 31, 2015	December 31, 2014
OPERATING REVENUES:		
Fare revenue	\$ 5,961	\$ 5,709
Vehicle toll revenue	1,809	1,676
Rents, freight, and other revenue	<u>638</u>	<u>585</u>
Total operating revenues	<u>8,408</u>	<u>7,970</u>
OPERATING EXPENSES:		
Salaries and wages	5,471	5,416
Retirement and other employee benefits	2,391	2,738
Postemployment benefits other than pensions (Note 5)	1,997	2,523
Electric power	474	516
Fuel	162	268
Insurance	57	36
Claims	332	263
Paratransit service contracts	379	366
Maintenance and other operating contracts	536	500
Professional service contracts	345	241
Pollution remediation projects (Note 13)	21	21
Materials and supplies	543	526
Depreciation	2,444	2,266
Other	<u>191</u>	<u>169</u>
Total operating expenses	<u>15,343</u>	<u>15,849</u>
Net expenses/(recoverables) related to asset impairment (Note 7)	<u>5</u>	<u>(1)</u>
OPERATING LOSS	<u>(6,940)</u>	<u>(7,878)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	610	659
Metropolitan Mass Transportation Operating Assistance subsidies	1,564	1,564
Payroll Mobility Tax subsidies	1,626	1,590
MTA Aid Trust Account subsidies	310	313
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	434	367
Urban Tax subsidies	975	800
Other subsidies:		
New York State Service Contract subsidy	13	17
Operating Assistance - 18-B program	376	376
Build America Bond subsidy	89	89
Other Aid	<u>-</u>	<u>-</u>
Total grants, appropriations and taxes	<u>\$ 5,997</u>	<u>\$ 5,775</u>

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

YEARS ENDED DECEMBER 31, 2015 AND 2014

(\$ In millions)

	December 31, 2015	December 31, 2014
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 107	\$ 118
Subsidies paid to Dutchess, Orange, and Rockland Counties	(7)	(6)
Interest on long-term debt	(1,401)	(1,358)
Station maintenance, operation and use assessments	160	164
Operating subsidies recoverable from NYC	436	472
Other net non-operating expenses	8	10
Federal Transit Authority/Federal Emergency Management Agency reimbursement related to tropical storm Sandy	7	25
Change in fair value of derivative financial instruments (Note 8)	<u>2</u>	<u>1</u>
Net non-operating revenues	<u>5,309</u>	<u>5,201</u>
LOSS BEFORE APPROPRIATIONS	(1,631)	(2,677)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,979</u>	<u>1,754</u>
CHANGE IN NET POSITION	348	(923)
NET POSITION— Beginning of year	13,282	14,205
Restatement of beginning net position (Note 2)	<u>(7,808)</u>	<u>0</u>
NET POSITION — End of year	<u>\$ 5,822</u>	<u>\$ 13,282</u>

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

(\$ In millions)

	December 31, 2015	December 31, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 8,116	\$ 7,715
Rents and other receipts	450	417
Payroll and related fringe benefits	(8,542)	(8,606)
Other operating expenses	(3,109)	(3,343)
Net cash used by operating activities	(3,085)	(3,817)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	6,528	6,208
Operating subsidies from CDOT	122	93
Subsidies paid to Dutchess, Orange, and Rockland Counties	(6)	(8)
Net cash provided by noncapital financing activities	6,644	6,293
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	3,762	2,706
MTA Bridges and Tunnels bond proceeds	886	332
MTA bonds refunded/reissued	(1,792)	(744)
TBTA bonds refunded/reissued	(610)	(66)
MTA anticipation notes proceeds	3,551	2,562
MTA anticipation notes redeemed	(2,394)	(2,456)
MTA credit facility refunded	(300)	-
Capital lease payments and terminations	-	(2)
Grants and appropriations	2,324	1,995
Payment for capital assets	(4,960)	(4,576)
Debt service payments	(2,606)	(2,484)
Net cash used by capital and related financing activities	(2,139)	(2,733)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(6,843)	(7,608)
Sales or maturities of long-term securities	5,637	5,586
Net (purchases)/sales or maturities of short-term securities	(94)	2,204
Earnings on investments	23	28
Net cash used by investing activities	(1,277)	210
NET INCREASE/(DECREASE) IN CASH	143	(47)
CASH — Beginning of period	311	358
CASH — End of period	\$ 454	\$ 311

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2015 AND 2014

(\$ In millions)

	December 31, 2015	December 31, 2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (6,940)	\$ (7,878)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	2,444	2,266
Loss on asset impairment related expenses and recovery	(3)	(5)
Net increase in payables, accrued expenses, and other liabilities	1,395	2,137
Net (decrease) increase in receivables	(75)	61
Net increase (decrease) in materials and supplies and prepaid expenses	<u>94</u>	<u>(398)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (3,085)</u>	<u>\$ (3,817)</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital assets and related liabilities	\$ 479	\$ 533
Capital leases and related liabilities	<u>519</u>	<u>515</u>
TOTAL NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 998</u>	<u>\$ 1,048</u>
See Independent Auditors' Report and notes to the consolidated financial statements.		(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2015 AND 2014 (\$ In millions)

1. BASIS OF PRESENTATION

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

These consolidated 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 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 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 year ended December 31, 2015 and 2014 totaled \$6.0 billion and \$5.8 billion, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying consolidated 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*.

New Accounting Standards —

In 2015, the MTA adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution

pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. 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 also are legally protected from creditors of the plan members.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental non-employer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions this Statement identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. As a result of adopting this Statement, the MTA is reporting net pension liabilities, deferred outflows of resources and deferred inflows of resources for each of its qualified plans and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$ 7.808 billion, representing the retroactive effect of adoption. The MTA did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. An aggregate net pension liability of 7.704 billion, an aggregate deferred outflow of resources of \$1.528 billion, and an aggregate deferred inflows of resources of \$954.6 million, were reported at December 31, 2015. The MTA recognized aggregate pension expense of \$870.5 million for the year-end December 31, 2015. Refer to Note 4 for more information regarding the MTA's pension plans.

In 2015, The MTA adopted 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68. The aggregate deferred outflow of resources includes \$932.6 million related to contributions made by the MTA between each pension plan's measurement date and December 31, 2015. Refer to Note 4 for more information regarding the MTA's pension plans.

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 non-employer 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 non-employer contributing entities for defined benefit pensions. 3) Timing of employer recognition of revenue for the support of non-employer 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 non-employer 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 non-employer 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, non-employer 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 non-employer 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 non-employer 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, non-employer 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.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other

beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 82, *Pension Issues*. The objective of GASB Statement No. 82 is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Use of Management Estimates — The preparation of the consolidated 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 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 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 December 31st have been classified as current assets in the consolidated financial statements.

Investments are recorded on the consolidated 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 statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at December 31, 2015 and 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 December 31, 2015 and 2014, the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0, respectively. Of the MTA New York City Transit portion, the MTA distributed \$0 and \$0 as of December 31, 2015 and 2014, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland ("DOR") Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of December 31, 2015, the MTA paid to Dutchess, Orange and Rockland Counties the 2014 excess amounts of MRT-1 and MRT-2 totaling \$1.2.
- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of 0.625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

Mobility tax — In June of 2009, Chapter 25 of the NYS Laws of 2009 added Article 23, which establishes the Metropolitan Commuter Transportation Mobility Tax ("MCTMT"). The proceeds of this tax, administered by the New York State Tax Department, are to be distributed to the Metropolitan Transportation Authority. This tax is imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district which includes New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This Tax is imposed on certain employers that have payroll expenses within the Metropolitan Commuter Transportation District, to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The employer is prohibited from deducting from wages or compensation of an employee any amount that represents all or any portion of the MCTMT. The effective date of this tax was March 1, 2009 for employers other than public school district; September 1, 2009 for Public school districts and January 1, 2009 for individuals.

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

Dedicated Taxes — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund (“MTTF”) and Metropolitan Mass Transportation Operating Assistance Fund (“MMTOA”). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to the Transit System (defined as MTA New York City Transit and MaBSTOA), 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 December 31, 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 years ended December 31, 2015 and 2014, respectively, from New York City for the reimbursement of transit police costs. Similarly, MTAHQ bills MTA Metro-North Railroad through its consolidated services for MTA police costs in the New Haven line of which MTA Metro-North Railroad recovers approximately 65% from Connecticut Department of Transportation. The amounts billed for the years ended December 31, 2015 and 2014 were \$20.4 and \$20.3, respectively. The amounts recovered for the years ended December 31, 2015 and 2014 were approximately \$13.3 and \$13.2, 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 \$208.5 and \$194.1 for the years ended December 31, 2015 and 2014, respectively.

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

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

Liability Insurance — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: \$8 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 for MTA Long Island Bus and MTA Staten

Island Railway; and \$1.6 for MTAHQ and MTA Bridges and Tunnels. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limits are: \$9 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015, the self-insured retention limits for ELF were increased to the following amounts: \$11 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 for MTA Staten Island Railway, 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 December 31, 2015, the balance of the assets in this program was \$107.5.

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, 2015, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$11 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*, as amended by GASB Statement No. 50, which established standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The MTA adopted this standard for its pension plans for the year-ended December 31, 2014. Under this Statement, pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost for

the year ended December 31, 2014 is equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

Effective for the year ended December 31, 2015, the MTA adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

GASB Statements Nos. 67 and 68 have substantially revised the accounting requirements previously mandated under GASB Statements Nos. 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 Statements Nos. 67 and 68 and is no longer relevant for the financial reporting of pension plans for 2015. As a result, unearned revenues, prior to 2015 financial reporting, were recognized as prepaid employer contributions to the pension plans.

The MTA recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA’s proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the measurement date of each of the qualified pension plans. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of GASB Statements No. 68 and 71 is a restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, deferred inflows of resources, and the removal of any net pension obligations (assets) along with any payables to the pension plans, as follows:

Net position as of December 31, 2014, as previously reported	\$ 13,282
Composition of Restatement:	
Net pension assets	(600)
Deferred outflows related to pensions	(57)
Net pension liabilities	(5,927)
Deferred inflows related to pensions	(1,224)
Total Restatement:	<u>(7,808)</u>
Net position as of December 31, 2014, as restated	<u>\$ 5,474</u>

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 December 31, 2015 and 2014 (in millions):

	December 31, 2015		December 31, 2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 180	\$ 174	\$ 157	\$ 152
Uninsured and not collateralized	<u>274</u>	<u>222</u>	<u>154</u>	<u>99</u>
	<u>\$ 454</u>	<u>\$ 396</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 December 31, 2015 and 2014 (in millions):

	December 31, 2015	December 31, 2014
Repurchase agreements	\$ 172	\$ 94
Commercial paper	1,551	1,584
Federal Agencies due 2016	708	828
U.S. Treasuries due 2016–2021	3,007	1,592
Investments restricted for capital lease obligations:		
U.S. Treasury Notes due 2016 - 2033	\$ 199	\$ 201
Short-term investment fund	77	77
Federal Agencies due 2030 - 2033	40	40
Other Agencies due 2022-2033	<u>147</u>	<u>136</u>
Sub-total	<u>463</u>	<u>454</u>
Other Agencies due 2015-2030	168	108
Asset and mortgage backed securities*	27	25
Commercial mortgage backed securities*	45	62
Corporate bonds*	153	160
Foreign bonds*	11	20
Equities*	<u>19</u>	<u>20</u>
Total	<u>\$ 6,324</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 0.51% and 0.12% for the year ended December 31, 2015 and year ended December 31, 2014, respectively.

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

	December 31, 2015	December 31, 2014
Construction or acquisition of capital assets	\$ 3,230	\$ 2,265
Funds received from affiliated agencies for investment	605	779
Debt service	488	434
Payment of claims	735	582
Restricted for capital leases	464	454
Other	527	528
	<u>6,049</u>	<u>5,042</u>
Unrestricted funds	729	216
Total cash and investments	<u>\$ 6,778</u>	<u>\$ 5,258</u>

Credit Risk — At December 31, 2015 and 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	December 31, 2015	Percent of Portfolio	December 31, 2014	Percent of Portfolio
A-1+	\$ 739	12 %	\$ 828	17 %
A-1	1,551	25	1,584	33
AAA	112	2	120	3
AA+	40	1	40	1
AA	27	0	34	1
A	91	2	100	2
BBB	51	1	55	1
Not rated	180	3	100	2
U.S. Government	<u>3,322</u>	<u>54</u>	<u>1,876</u>	<u>40</u>
Total	6,113	100 %	4,737	100 %
Equities and capital leases	<u>211</u>		<u>210</u>	
Total investment	<u>\$ 6,324</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	December 31, 2015		December 31, 2014	
	Fair Value	Duration	Fair Value	Duration
U.S. Treasuries	\$ 3,007	4.55	\$ 1,592	4.82
Federal Agencies	708	0.02	828	0.08
Other Agencies	162	3.34	102	4.32
Tax benefits lease investments	269	9.66	261	10.69
Repurchase agreement	172	-	94	-
Certificate of deposits	6	-	6	-
Commercial paper	1,551	0.00	1,584	-
Asset-backed securities ⁽¹⁾	27	0.99	25	0.99
Commercial mortgage-backed securities ⁽¹⁾	45	1.87	62	1.64
Foreign bonds ⁽¹⁾	11	0.01	20	-
Corporates ⁽¹⁾	<u>153</u>	<u>2.96</u>	<u>160</u>	<u>2.46</u>
Total fair value	6,111		4,734	
Modified duration		2.90		2.43
Equities ⁽¹⁾	<u>19</u>		<u>20</u>	
Total	6,130		4,754	
Investments with no duration reported	<u>194</u>		<u>193</u>	
Total investments	<u>\$ 6,324</u>		<u>\$ 4,947</u>	

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

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

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

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

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

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

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

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

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

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

- certain equities; and
- certain mutual funds.

FMTAC is prohibited from making the following investments:

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

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

4. EMPLOYEE BENEFITS

Pensions — The MTA Related Groups sponsors and participates in several defined benefit pension plans for their employees, the Long Island Railroad Company Plan for Additional Pensions (the “Additional Plan”), The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the “MaBSTOA Plan”), the Metro-North Commuter Railroad Company Cash Balance Plan (the “MNR Cash Balance Plan”), the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”), the New York City Employees’ Retirement System (“NYCERS”), and the New York State and Local Employees’ Retirement System (“NYSLERS”). A brief description of each of these pension plans follows:

Plan Descriptions

1. Additional Plan —

The Additional Plan is a single-employer defined benefit pension plan that provides retirement, disability and survivor benefits to members and beneficiaries. The Additional Plan is administered by the Board of Managers of Pensions. The Additional 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 Additional Plan is a closed plan and members include MTA Long Island Railroad employees hired prior to January 1, 1988.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to Long Island Rail Road, Controller, 93-02 Sutphin Boulevard – mail code 1421, Jamaica, New York 11435 or at www.mta.info.

2. MaBSTOA Plan —

The MaBSTOA Plan is a single-employer governmental retirement plan administered by MTA New York City Transit covering MaBSTOA employees, who are specifically excluded from NYCERS. Effective January 1, 1999, in order to afford managerial and non-represented MaBSTOA employees the same pension rights as like title employees in MTA New York City 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. Article 12.08 of the MaBSTOA Plan assigns authority to the MaBSTOA Board to establish and amend the benefit provisions.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This 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 or at www.mta.info.

3. MNR Cash Balance Plan —

The MNR Cash Balance Plan is a single employer, closed, defined benefit pension plan administered by MTA Metro-North Railroad. The MNR Cash Balance Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these management employees 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 ERISA.

The MTA Board of Trustees appoints a Board of Managers of Pensions that controls and manages the operation and administration of the MNR Cash Balance Plan.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to MTA Metro-North Railroad, Controller, 420 Lexington Avenue, New York, New York, 10170-3739 or at www.mta.info.

4. MTA Defined Benefit Plan —

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 Railroad 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 Railroad 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”). The Authority, MTA Long Island Railroad, MTA Metro-North Railroad, 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 Defined Benefit Plan is administered by the Board of Managers of Pensions. The MTA Plan may be amended by action of the MTA Board.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004 or at www.mta.info.

5. NYCERS —

NYCERS is a cost-sharing, multiple-employer retirement system for employees of The City of New York (“The City”) and certain other governmental units whose employees are not otherwise members of The City’s four other pension systems. The NYCERS plan combines features of a defined benefit pension plan with those of a defined contribution pension plan. NYCERS administers the New York City Employees Retirement System qualified pension plan.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the laws of 1920. NYCERS functions in accordance with the governing statutes contained in the New York State Retirement and Social Security Law (“RSSL”), and the Administrative Code of the City of New York (“ACNY”), which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York City Employees’ Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All persons holding permanent civil service positions in the competitive or labor class are required to become members of the system six months after their date of appointment, but may voluntarily elect to join the system prior to their mandated membership date. All other eligible employees have the option of joining the system upon appointment or anytime thereafter.

Tier 1	All members who joined prior to July 1, 1973.
Tier 2	All members who joined on or after July 1, 1973 and before July 27, 1976.
Tier 3	Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012.
Tier 4	All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership.
Tier 6	Members who joined on or after April 1, 2012.

6. NYSLERS —

NYSLERS is a cost-sharing, multiple-employer defined benefit retirement system. The New York State Comptroller’s Office administers the NYSLERS pension plan. The net position of NYSLERS is held in the New York State Common Retirement Fund (the “Fund”), which was established to hold all net assets and record changes in fiduciary net position allocated to the plan. The Comptroller of the State of New York serves as the trustee of the Fund and is the administrative head of NYSLERS. The Comptroller is an elected official determined in a direct statewide election and serves a four year term. NYSLERS’ benefits are established under the provisions of the New York State RSSL. Once a public employer elects to participate in NYSLERS, the election is irrevocable. The New York State Constitution provides that pension membership is a contractual relationship and plan benefits cannot be diminished or impaired. Benefits can be changed for future members only by enactment of a State statute.

NYSLERS is included in New York State’s financial report as a pension trust fund. This report may be found at www.osc.state.ny.us/retire/publications/index.php or obtained by writing to the New York State and Local Retirement System, 110 State Street, Albany, NY 12244.

Pension legislation enacted in 1973, 1976, 1983, 2009 and 2012 established distinct classes of tier membership.

Tier 1	All members who joined prior to July 1, 1973.
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Tier 2	All members who joined on or after July 1, 1973 and before July 27, 1976.
Tier 3	Generally, certain members who joined on or after July 27, 1976 but before January 1, 2010 and all other members who joined on or after July 27, 1976, but before September 1, 1983.
Tier 4	Generally, members (with certain member exceptions) who joined on or after September 1, 1983, but before January 1, 2010.
Tier 5	Members who joined on or after January 1, 2010, but before April 1, 2012.
Tier 6	Members who joined on or after April 1, 2012.

Benefits Provided

1. Additional Plan —

Pension Benefits — 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 MTA Long Island Railroad, subject to the obligations of the MTA Long Island Railroad under its collective bargaining agreements.

The MTA Long Island Railroad'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.

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 MTA Long Island Railroad contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.

The Additional Plan also provides 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 five thousand dollars is payable upon death on behalf of a nonvested participant or vested participant whose pension rights were waived.

2. MaBSTOA Plan —

The MaBSTOA Plan provides retirement as well as death, accident, and disability benefits. The benefits provided by the MaBSTOA 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.

Tier 1 —

Eligibility and Benefit Calculation: Tier 1 members must be at least age 50 with the completion of 20 years of service to be eligible to collect a service retirement benefit. Generally, the benefit is 1.50% 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, up to a maximum of 50%, is multiplied by the member's compensation, which is the greater of earned salary during the year prior to retirement. Once the accumulated 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, which is the highest average earnings over five consecutive years.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 1 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by final compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 1 members is equal to 75% of final compensation reduced by 100% of any worker's compensation payments.

Ordinary Death Benefits — Tier 1 members requires the completion of six months of service but completion of twenty years of service is required to receive a lump sum equal to the present value of the retirement benefit.

Tier 2 —

Eligibility and Benefit Calculation: Tier 2 members must be at least age 55 with the completion of 25 years of service to be eligible to collect a service retirement benefit. Generally, the benefit equals 50% of final 3-year average compensation, defined as the highest average earnings over three consecutive years, plus 1% of final 5-year average compensation, defined as the highest average earnings over five consecutive years, per year of credited service in excess of 20 years. For early retirement, members must be at least age 50 with the completion of at least 20 years of service. The benefit is determined in the same manner as the service retirement but not greater than 2.0% of final 3-year average compensation per year of service.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 2 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by the final 5- year average compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 2 members is equal to 75% of the final 5-year average compensation reduced by any worker's compensation payments.

Ordinary Death Benefits — Tier 2 members require the completion of 90 days of service to receive a lump sum equal to 3 times salary, raised to the next multiple of \$1,000 dollars.

Tiers 3, 4—

Eligibility and Benefit Calculation: Tier 3 and 4 members in the Regular 62 and 5 Plan must be at least age 62 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of Final Average Compensation ("FAS") for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. FAS is defined as the highest average earnings over three consecutive years, of which earnings in a year cannot exceed 110% of the average of the two preceding years. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. For early retirement, members must be at least age 55 with the completion of at least 5 years of service. 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.

Tier 3 and 4 members in the Regular 55 and 25 Plan must be at least age 55 with the completion of at least 25 years of service, or be at least age 62 with the completion of at least 5 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 25 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Tier 4 members in the 57 & 5 Plan must be at least age 57 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Ordinary and Accidental Disability Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan and 57 and 5 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan, 57 and 5 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of 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. Upon retirement, the post-retirement benefit is 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.

Tier 6—

Eligibility and Benefit Calculation: Tier 6 members in the 55 and 25 Special Plan must be at least age 55 with the completion of at least 25 years, or at least age 63 with the completion of at least 10 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years.

Tier 6 members in the Basic 63 and 10 Plan must be at least age 63 with the completion of at least 10 years to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 35% of FAS plus 2.0% of FAS for years of service in excess of 20. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years. For early retirement, members must be at least age 55 with the completion of at least 10 years of service. The benefit equals the service retirement benefit reduced by 6.5% for each year prior to age 63.

Ordinary and Accidental Disability Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of 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. Upon retirement, the post-retirement benefit is 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.

3. MNR Cash Balance Plan —

Pension Benefits — Participants of the MNR Cash Balance 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 62. The accrued benefit is a participant's Initial Account Balance increased each month by the benefit escalator. The benefit escalator is defined as the Pension Benefit Guaranty Corporation ("PBGC") immediate annuity rate in effect for December of the year preceding the year for which the determination is being made) divided by 180. The accrued benefit is paid as an escalating annuity. Vested participants are entitled to receive pension benefits commencing at age sixty-five. Participants of the MNR Cash Balance Plan 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.

Participants of the MNR Cash Balance Plan are eligible for early retirement benefits upon termination of employment, the attainment of age 62, or age 60 and completion of 15 years of service, or age 55 and the completion of 30 years of service. The early retirement benefits paid is the normal retirement pension deferred to age 65 or an immediate pension equal to the life annuity actuarial equivalent of a participant's escalating annuity at normal retirement date indexed by the Initial Benefit Escalator from early retirement

date to normal retirement date and reduced by 5/9 of 1% for each month retirement precedes age 65 up to 60 months and 5/18 of 1% for each month after 60 months.

For members with cash balances who are currently members of the Metropolitan Transportation Authority Defined Benefit Pension Plan, an additional benefit is provided equal to the amount needed to bring their total benefits (i.e., Railroad Retirement Tier I and II benefits, Conrail Plan benefits, Cash Balance Plan benefits, and MTA Defined Benefit Pension Plan benefits) up to a minimum of 65% of their 3-year final average pay under the MTA Defined Benefit Plan. In no event will the Additional Benefit exceed 2% of 3-year final average pay multiplied by the Conrail Management Service prior to July 1, 1983. This benefit is payable as a life annuity and is reduced for commencement prior to age 65 in the same manner as the regular cash balance benefit. This additional benefit is payable only in the form of a life annuity or 100% or 50% contingent annuity

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. Pre-retirement death benefits paid for a participant's death after 55 is equal to the amount the spouse would have received had the participant elected retirement under the normal form of payment on the day preceding his death. Pre-retirement death benefits paid for a participant's death before 55 is equal to the amount the spouse would have received had the participant survived to age 55 and retired under the normal form of payment on that date. The benefit is based on service to the participant's date of death and is payable beginning on the date the participant would have attained age 55.

In lieu of the above benefit, the surviving spouse can elect to receive the participant's account balance in a single lump sum payment immediately. If the participant was not married, the participant's beneficiary is entitled to receive the participant's Account Balance as of the participant's date of death in a single lump sum payment.

4. MTA Defined Benefit Plan —

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.

5. NYCERS —

NYCERS provides three main types of retirement benefits: Service Retirements, Ordinary Disability Retirements (non-job-related disabilities) and Accident Disability Retirements (job-related disabilities) to participants generally based on salary, length of service, and member Tiers.

The Service Retirement benefits provided to Tier 1 participants fall into four categories according to the level of benefits provided and the years of service required. Three of the four categories provide annual benefits of 50% to 55% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.2% to 1.7%) of final salary. The fourth category has no minimum service requirement and instead provides an annual benefit for each year of service equal to a specified percentage (currently 0.7% to 1.53%) of final salary.

Tier 2 participants have provisions similar to Tier 1, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

Tier 3 participants were later mandated into Tier 4, but could retain their Tier 3 rights. The benefits for Tier 3 participants are reduced by one half of the primary Social Security benefit attributable to service, and provides for an automatic annual cost-of-living escalator in pension benefits of not more than 3.0%.

During March 2012, the Governor signed Chapter 18 of the Laws of 2012 that placed certain limitations on the Tier 3 and Tier 4 benefits available to participants who joined on and after April 1, 2012. In

general, these changes, commonly referred to as Tier 6, increase the age requirement to 63 for most non-uniformed employees to retire and receive a full pension, require member contributions for all years of service for non-uniformed employees, institute progressive member contributions for non-uniformed employees, and lengthen the final average salary period from 3 to 5 years.

NYCERS also provides automatic Cost-of-Living Adjustments (“COLA”) for certain retirees and beneficiaries, death benefits; and certain retirees also receive supplemental benefits. Subject to certain conditions, members generally become fully vested as to benefits upon the completion of 5 years of service.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired.

6. NYSLERS — NYSLERS provides retirement benefits as well as death and disability benefits. Members who joined NYSLERS prior to January 1, 2010 need five years of service to be fully vested. Members who joined NYSLERS on or after January 1, 2010 need ten years of service to be fully vested.

Tiers 1 and 2 —

Eligibility: Tier 1 members, with the exception of those retiring under special retirement plans, must be at least age 55 to be eligible to collect a retirement benefit. There is no minimum service requirement for Tier 1 members. Tier 2 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. The age at which full benefits may be collected for Tier 1 is 55, and the full benefit age for Tier 2 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If the member retires with 20 or more years of service, the benefit is 2 percent of final average salary for each year of service. Tier 2 members with five or more years of service can retire as early as age 55 with reduced benefits. Tier 2 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. As a result of Article 19 of the RSSL, Tier 1 and Tier 2 members who worked continuously from April 1, 1999 through October 1, 2000 received an additional month of service credit for each year of credited service they have at retirement, up to a maximum of 24 additional months. Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 1 members who joined on or after June 17, 1971, each year of final average salary is limited to no more than 20 percent of the average of the previous two years.

Tiers 3, 4, and 5 —

Eligibility: Tier 3 and 4 members, with the exception of those retiring under special retirement plans, must have five years of service and be at least age 55 to be eligible to collect a retirement benefit. Tier 5 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tiers 3, 4 and 5 is 62.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with between 20 and 30 years of service, the benefit is 2 percent of final average salary for each year of service. If a member retires with more than 30 years of service, an additional benefit of 1.5 percent of final average salary is applied for each year of service over 30 years. Tier 3 and 4 members with five or more years of service and Tier 5 members with ten or more years of service can retire as early as age 55 with reduced benefits. Tier 3 and 4 members age 55 or older with 30 or more years of service can retire with no reduction in benefits. Final average salary is the average of the wages earned in the three highest consecutive years. For Tier 3, 4 and 5 members,

each year of final average salary is limited to no more than 10 percent of the average of the previous two years.

Tier 6 —

Eligibility: Tier 6 members, with the exception of those retiring under special retirement plans, must have ten years of service and be at least age 55 to be eligible to collect a retirement benefit. The full benefit age for Tier 6 is 63.

Benefit Calculation: Generally, the benefit is 1.67 percent of final average salary for each year of service if the member retires with less than 20 years. If a member retires with 20 years of service, the benefit is 1.75 percent of final average salary for each year of service. If a member retires with more than 20 years of service, an additional benefit of 2 percent of final average salary is applied for each year of service over 20 years. Tier 6 members with ten or more years of service can retire as early as age 55 with reduced benefits. Final average salary is the average of the wages earned in the five highest consecutive years. For Tier 6 members, each year of final average salary is limited to no more than 10 percent of the average of the previous four years.

Ordinary Disability Benefits — Generally, ordinary disability benefits, usually one-third of salary, are provided to eligible members after ten years of service; in some cases, they are provided after five years of service.

Accidental Disability Benefits — For all eligible Tier 1 and Tier 2 members, the accidental disability benefit is a pension of 75 percent of final average salary, with an offset for any Workers' Compensation benefits received. The benefit for eligible Tier 3, 4, 5 and 6 members is the ordinary disability benefit with the years-of-service eligibility requirement dropped.

Ordinary Death Benefits — Death benefits are payable upon the death, before retirement, of a member who meets eligibility requirements as set forth by law. The first \$50,000 dollars of an ordinary death benefit is paid in the form of group term life insurance. The benefit is generally three times the member's annual salary. For most members, there is also a reduced post-retirement ordinary death benefit available.

Post-Retirement Benefit Increases — A cost-of-living adjustment is provided annually to: (i) all pensioners who have attained age 62 and have been retired for five years; (ii) all pensioners who have attained age 55 and have been retired for ten years; (iii) all disability pensioners, regardless of age, who have been retired for five years; (iv) recipients of an accidental death benefit, regardless of age, who have been receiving such benefit for five years and (v) the spouse of a deceased retiree receiving a lifetime benefit under an option elected by the retiree at retirement. An eligible spouse is entitled to one-half the cost-of-living adjustment amount that would have been paid to the retiree when the retiree would have met the eligibility criteria. This cost-of-living adjustment is a percentage of the annual retirement benefit of the eligible member as computed on a base benefit amount not to exceed \$18,000 dollars of the annual retirement benefit. The cost-of-living percentage shall be 50 percent of the annual Consumer Price Index as published by the U.S. Bureau of Labor, but cannot be less than 1 percent or exceed 3 percent.

Membership

As of January 1, 2014, the date of the most recent actuarial valuation, membership data for the following pension plans is as follows:

	Additional Plan	MaBSTOA Plan	MNR Cash Balance Plan	MTA Defined Benefit Plan	TOTAL
Active Plan Members	321	7,889	15	16,688	24,913
Retirees and beneficiaries receiving benefits	6,089	5,245	26	11,038	22,398
Vested formerly active members not yet receiving benefits	67	954	19	1,422	2,462
Total	6,477	14,088	60	29,148	49,773

Contributions and Funding Policy

1. Additional Plan —

Employer contributions are actuarially determined on an annual basis and are recognized when due. The Additional Plan 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 MTA Long Island Railroad'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 MTA Long Island Railroad's Board of Managers of Pensions (1.5% in 2014 and 2013).

Funding for the Additional Plan by the MTA Long Island Railroad 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 MTA Long Island Railroad on a discretionary basis. The continuance of the MTA Long Island Railroad's funding for the Additional Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

The Additional Plan's contribution rate as a percent of covered payroll was 1389.22% for the year ended December 31, 2014. The MTA Long Island Railroad's contributions to the Additional Plan for the years ended December 31, 2015 and 2014 were \$100.0 and \$407.5, respectively. The MTA Long Island Railroad makes additional contributions based on actuarially determined amounts designed to accumulate sufficient assets to pay benefits when due.

2. MaBSTOA Plan —

The contribution requirements of MaBSTOA 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 MaBSTOA Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976, are noncontributing (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).

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 6. The highlights of Tier 6 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 3 and Tier 4.
- 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 under Tier 4, instead of 60% percent under Tier 4.
- Adjustments to the Final Average Salary 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 dollars per year plus an inflation factor.
- Pension buyback in Tier 6 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.

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.

MaBSTOA's contribution rate is 31.0% and 33.7% of annual covered payroll for the years ended December 31, 2015 and 2014, respectively. MTA New York City Transit Authority's contributions to the MaBSTOA Plan for the years ended December 31, 2015 and 2014 were \$214.9 and \$226.4, respectively, based on actuarial determined calculations.

3. MNR Cash Balance Plan —

MTA Metro-North Railroad, a public benefit corporation, receives funding for its operations and capital needs from the MTA and the Connecticut Department of Transportation ("CDOT"). MTA Metro-North Railroad provides funding for the MNR Cash Balance Plan. 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 with respect to the MNR Cash Balance Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately \$2.977 to the trust fund in 1989. As participants retire, the Trustee has made distributions from the MNR Cash Balance Plan. MTA Metro-North Railroad anticipated that no further contributions would be made to the MNR Cash Balance Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded accrued liabilities were paid to the MNR Cash Balance Plan in several subsequent years.

MNR Cash Balance Plan's contribution rate was 0.68% of annual covered payroll for the year ended December 31, 2014. The actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2015. As of January 1, 2014, the unfunded accrued liability was \$18 thousand, which included administrative fees reimbursable to the MNR Cash Balance Plan from MTA Metro-North Railroad. The full amount was paid to the MNR Cash Balance Plan in 2015. The actuarial value of assets exceeded the actuarial accrued liability and, as a result, no payment was required for 2015.

4. MTA Defined Benefit Plan —

Employer contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the MTA Defined Benefit 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 employee contributions made to the MTA Defined Benefit Plan:

Effective January 1, 1994, covered MTA Metro-North Railroad and MTA Long Island Railroad non-represented employees are required to contribute to the MTA 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 MTA Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1993 and MTA Long Island Railroad 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 MTA 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 Railroad represented employees who first became eligible to be MTA 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 Railroad 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 Railroad 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 MTA Defined Benefit 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 in 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.

The MTA Defined Benefit Plan's contribution rate is 12.48% and 23.74% of annual covered payroll for the years ended December 31, 2015 and 2014, respectively. The MTA's contributions to the MTA Defined Benefit Plan for the years ended December 31, 2015 and 2014 were \$221.7 and \$331.3, respectively, based on actuarial determined calculations.

5. NYCERS —

NYCERS funding policy is to contribute statutorily-required contributions ("Statutory Contributions"), determined by the Chief Actuary for the New York City Retirement Systems, in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS' assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. In addition, members

who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from City service or until they retire.

NYCERS established a "special program" for employees hired on or after July 26, 1976. A plan for employees, who have worked 20 years, and reached age 50, is provided to Bridge and Tunnel Officers, Sergeants and Lieutenants and Maintainers. Also, an age 57 retirement plan is available for all other such MTA Bridges and Tunnels employees. Both these plans required increased employee contributions.

Certain retirees also receive supplemental benefits from MTA Bridges and Tunnels. Certain participants are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such participants' contribution accounts. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. MTA Bridges and Tunnels' contribution rate to the NYCERS plan is 32.80% and 19.4% of covered payroll for the years ended December 31, 2015 and 2014, respectively. MTA New York City Transit's contribution rate to the NYCERS plan is 21.6% and 25.0% of covered payroll for the years ended December 31, 2015 and 2014, respectively.

The contribution requirements of plans members, MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law.

MTA New York City Transit's required contributions to NYCERS for the years ended December 31, 2015 and 2014 were \$694.4 and \$708.2, respectively.

MTA Bridges and Tunnels' required contributions to NYCERS for the years ended December 31, 2015 and 2014 were \$41.8 and \$33.0, respectively.

6. NYSLERS —

Employer Contributions - Under the authority of the RSSL, the Comptroller annually certifies the actuarially determined rates expressly used in computing the employers' contributions based on salaries paid during the NYSLERS fiscal year ending March 31. The average contribution rate for employers of the plan for the fiscal year ended March 31, 2015 was approximately 20.1% of payroll.

Member Contributions - NYSLERS is noncontributory except for employers who joined the plan after July 27, 1976. Generally, Tier 3, 4, and 5 members must contribute 3% of their salary to NYSLERS. As a result of Article 19 of the RSSL, eligible Tier 3 and 4 employees, with a membership date on or after July 27, 1976, who have ten or more years of membership or credited service with the System, are not required to contribute. Members cannot be required to begin making contributions or to make increased contributions beyond what was required when membership began. For Tier 6 members, the contribution rate varies from 3% to 6% depending on salary. Generally, Tier 5 and 6 members are required to contribute for all years of service.

MTAHQ, MTA Capital Construction and MTA Long Island Bus, are required to contribute at an actuarially determined rate. The contribution rate of annual covered payroll for MTAHQ and MTA Long Island Bus is 17.93% and 0%, and 16.10% and 0%, respectively, for the years ended December 31, 2015 and 2014, respectively.

The MTAHQ's required contributions for the fiscal years ended December 31, 2015 and 2014 were \$15.792 and \$13.816, respectively. MTA Long Island Bus' required contributions for the years ended December 31, 2015 and 2014 were \$0.0 and \$0.0, respectively.

Net Pension Liability

The MTA's net pension liabilities for each of the pension plans reported at December 31, 2015 were measured as of the fiscal year-end dates for each respective pension plan. The total pension liabilities used to calculate those net pension liabilities were determined by actuarial valuations as of each pension plan's valuation date, and rolled forward to the respective year-ends for each pension plan. Information about the fiduciary net position of each qualified pension plan's fiduciary net position has been determined on the same basis as reported by each respective qualified pension plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the respective qualified pension plan, and investments are reported at fair value. The following table provides the measurement and valuation dates used by each pension plan to calculate the MTA's aggregate net pension liability.

Pension Plan	Plan Measurement Date	Plan Valuation Date
Additional Plan	December 31, 2014	January 1, 2014
MaBSTOA Plan	December 31, 2014	January 1, 2014
MNR Cash Balance Plan	December 31, 2014	January 1, 2014
MTA Defined Benefit Plan	December 31, 2014	January 1, 2014
NYCERS	June 30, 2015	June 30, 2013
NYSLERS	March 31, 2015	April 1, 2014

Pension Plan Fiduciary Net Position

Detailed information about the fiduciary net position of the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, MTA Defined Benefit Plan, NYCERS plan and the NYSLERS plan is available in the separately issued pension plan financial reports for each respective plan.

Actuarial Assumptions

The total pension liabilities in each pension plan's actuarial valuation dates were determined using the following actuarial assumptions for each pension plan, applied to all periods included in the measurement date:

	Additional Plan	MaBSTOA Plan	MNR Cash Balance Plan
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	4.5% per annum, net of investment expenses.
Salary Increases	3.00%	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.	Not applicable
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%.	2.50%
Cost-of Living Adjustments	Not applicable	1.375% per annum.	Not applicable
Mortality:	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the MTA plans.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the MTA plans.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the MTA plans.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.
Post-retirement- 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.	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.	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.
Post-retirement Disabled Lives	N/A	75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.	N/A

	MTA Defined Benefit Plan	NYCERS	NYSLERS
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of expenses.	7.5% per annum, including inflation, net of investment expenses.
Salary Increases	Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees.	In general, merit and promotion increases plus assumed General Wage increases of 3.0% per year.	4.9% in ERS, 6.00% in PFRS
Inflation	2.5%; 3.0% for Railroad Retirement Wage Base.	2.50%	2.70%
Cost-of Living Adjustments	55% of inflation assumption or 1.375%, if applicable.	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 4 retirees. 2.5% per annum for certain Tier 3 and Tier 4 retirees.	1.4% per annum.
Mortality:	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.	Mortality tables for service and disability pensioners were developed from an experience study of NYCERS' pensioners. The mortality tables for beneficiaries were developed from an experience review of NYCERS' beneficiaries. The most recently completed study was published by Gabriel Roeder Smith & Company ("GRS"), dated October 2015, and analyzed experience for Fiscal Years 2010 through 2013.	Annuitant mortality rates are based on NYSLERS's 2010 experience study of the period April 1, 2005 through March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries' Scale MP-2014.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	N/A	N/A
Post-retirement 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.	N/A	N/A
Post-retirement 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.	N/A	N/A

Pursuant to Section 96 of the New York City Charter, an independent actuarial firm conducts studies of the actuarial assumptions used to value liabilities of the NYCERS Pension Plan every two years. The most recent actuarial study analyzed experience for the four-year and ten-year periods ended June 30, 2013. In a report dated October 23, 2015, the independent actuarial auditor confirmed that the Actuary's calculations of employer contributions for Fiscal Year 2014 were reasonable and appropriate and recommended the consideration of changes to the mortality, overtime, and investment return assumptions.

In accordance with ACNY and with appropriate practice, the Boards of Trustees of NYCERS are to periodically review and adopt certain actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions, which are also generally used to determine the total pension liability, as applicable. Based, in part, upon a review of the then two most recently completed experience studies, the Actuary issued reports for NYCERS proposing changes in actuarial assumptions and methods for Fiscal Years beginning on and after July 1, 2011 (February 2012 Reports). Where required, the Boards of Trustees of the NYCERS adopted those changes to actuarial assumptions that require Board approval. The State Legislature enacted Chapter 3/13 to provide for those changes to the actuarial assumptions and methods that require legislation, including the Actuarial Interest Rate ("AIR") assumption of 7.0% per annum, net of investment expenses.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments for each pension plan is presented in the following table.

Pension Plan	Long-Term Expected Rate of Return
Additional Plan	7.00%
MaBSTOA Plan	7.00%
MNR Cash Balance Plan	4.50%
MTA Defined Benefit Plan	7.00%
NYCERS	7.00%
NYSLERS	7.50%

For the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, MTA Defined Benefit and the NYCERS plan, the long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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.

For the NYSLERS plan, the long-term expected rate of return on pension plan investments was determined in accordance with Actuarial Standard of Practice ("ASOP") No. 27, Selection of Economic Assumptions for Measuring Pension Obligations. ASOP No. 27 provides guidance on the selection of an appropriate assumed investment rate of return. Consideration was given to expected future real rates of return for equities and fixed income as well as historical investment data and plan performance.

The target asset allocation of each of the funds and the expected real rate of returns ("RROR") for each of the asset classes are summarized in the following tables for each of the pension plans:

Asset Class	Additional Plan			MaBSTOA Plan		
	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	20.50%	6.25%	1.28%	20.50%	6.25%	1.28%
International Public Market Equities	15.00%	6.05%	0.91%	15.00%	6.05%	0.91%
Emerging Public Market Equities	3.50%	8.90%	0.31%	3.50%	8.90%	0.31%
Private Market Equities	12.00%	9.15%	1.10%	12.00%	9.15%	1.10%
Fixed Income	31.00%	2.66%	0.82%	31.00%	2.66%	0.82%
Alternatives (Real Assets, Hedge Funds)	18.00%	3.34%	0.60%	18.00%	3.34%	0.60%
Portfolio Long Term Average Arithmetic RROR	100.00%		5.02%	100.00%		5.02%
Assumed Inflation - Mean			2.50%			2.50%
Assumed Inflation - Standard Deviation			2.00%			2.00%
Portfolio Arithmetic Mean Return as per Actuary			7.55%			7.55%
Portfolio Standard Deviation			12.25%			12.25%
Calculated RROR per Summarized Asset Class			7.52%			7.52%
Long Term Expected Rate of Return selected by MTA			7.00%			7.00%
Asset Class	NYCERS Plan			NYSLERS Plan		
	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	20.50%	6.25%	1.28%	0.00%	0.00%	0.00%
International Public Market Equities	15.00%	6.05%	0.91%	0.00%	0.00%	0.00%
Emerging Public Market Equities	3.50%	8.90%	0.31%	0.00%	0.00%	0.00%
Private Market Equities	12.00%	9.15%	1.10%	0.00%	0.00%	0.00%
Fixed Income	31.00%	2.66%	0.82%	100.00%	2.19%	2.19%
Alternatives (Real Assets, Hedge Funds)	18.00%	3.34%	0.60%	0.00%	0.00%	0.00%
Portfolio Long Term Average Arithmetic RROR	100.00%		5.02%	100.00%		2.19%
Assumed Inflation - Mean			2.50%			2.50%
Assumed Inflation - Standard Deviation			2.00%			2.00%
Portfolio Arithmetic Mean Return as per Actuary			7.55%			4.69%
Portfolio Standard Deviation			12.25%			6.45%
Calculated RROR per Summarized Asset Class			7.52%			4.69%
Long Term Expected Rate of Return selected by MTA			7.00%			4.50%

Asset Class	NYCERS			NYSLERS		
	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	32.60%	6.60%	2.15%	38.00%	7.30%	2.77%
International Public Market Equities	10.00%	7.00%	0.70%	13.00%	8.55%	1.11%
Emerging Public Market Equities	6.90%	7.90%	0.55%	0.00%	0.00%	0.00%
Private Market Equities	7.00%	9.90%	0.69%	10.00%	11.00%	1.10%
Fixed Income	33.50%	2.70%	0.90%	22.00%	3.84%	0.85%
Alternatives (Real Assets, Hedge Funds)	10.00%	4.00%	0.40%	17.00%	8.12%	1.38%
Portfolio Long Term Average Arithmetic RROR	100.00%		5.39%	100.00%		7.21%
Assumed Inflation - Mean			2.50%			2.50%
Calculated RROR per Summarized Asset Class			7.89%			9.71%
Long Term Expected Rate of Return selected by MTA			7.00%			7.50%

Discount Rate

The discount rate used to measure the total pension liability of each pension plan is presented in the following table:

Pension Plan	Discount Rate
Additional Plan	7.00%
MaBSTOA	7.00%
MNR Cash Balance plan	4.50%
MTA Defined Benefit Plan	7.00%
NYCERS	7.00%
NYSLERS	7.50%

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable for each pension plan and that employer contributions will be made at the rates determined by each pension plan's actuary. Based on those assumptions, each pension 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.

Changes in Net Pension Liability – Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan and the MTA Defined Benefit Plan

Changes in the MTA's net pension liability for the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan and the MTA Defined Benefit Plan for the year ended December 31, 2015, based on the December 31, 2014 measurement date, are as follows:

	Additional Plan			MaBSTOA Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(in thousands)					
Balance as of December 31, 2013	\$ 1,645,284	\$ 510,753	\$ 1,134,531	\$ 3,212,528	\$ 2,093,895	\$ 1,118,633
Changes for fiscal year 2014:						
Service Cost	3,813	-	3,813	72,091	-	72,091
Interest on total pension liability	110,036	-	110,036	223,887	-	223,887
Effect of assumption changes or inputs	-	-	-	(1,596)	-	(1,596)
Benefit payments	(156,974)	(156,974)	-	(175,446)	(175,446)	-
Administrative expense	-	(975)	975	-	(74)	74
Member contributions	-	1,304	(1,304)	-	15,460	(15,460)
Net investment income	-	21,231	(21,231)	-	105,084	(105,084)
Employer contributions	-	407,513	(407,513)	-	226,374	(226,374)
Balance as of December 31, 2014	\$ 1,602,159	\$ 782,852	\$ 819,307	\$ 3,331,464	\$ 2,265,293	\$ 1,066,171

	MNR Cash Balance Plan			MTA Defined Benefit Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(in thousands)					
Balance as of December 31, 2013	\$ 766	\$ 748	\$ 18	\$ 3,892,983	\$ 2,806,367	\$ 1,086,616
Changes for fiscal year 2014:						
Service Cost	-	-	-	121,079	-	121,079
Interest on total pension liability	32	-	32	274,411	-	274,411
Differences between expected and actual experience	-	-	-	2,322	-	2,322
Benefit payments	(88)	(88)	-	(191,057)	(191,057)	-
Administrative expense	-	(3)	3	-	(9,600)	9,600
Member contributions	-	-	-	-	26,006	(26,006)
Net investment income	-	41	(41)	-	102,245	(102,245)
Employer contributions	-	-	-	-	331,259	(331,259)
Balance as of December 31, 2014	\$ 710	\$ 698	\$ 12	\$ 4,099,738	\$ 3,065,220	\$ 1,034,518

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

The following presents the MTA's net pension liability calculated for the Additional Plan, MaBSTOA Plan, and the MTA Defined Benefit Plan using the current discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)		
Additional Plan	\$ 951,790	\$ 819,307	\$ 704,647
MaBSTOA Plan	1,448,685	1,066,171	740,824
MTA Defined Benefit Plan	1,554,937	1,034,518	596,266

The following presents the MTA's net pension liability calculated for the MNR Cash Balance Plan using the current discount rate of 4.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.5%) or 1-percentage point higher (5.5%) than the current rate:

	1% Decrease (3.5%)	Current Discount Rate (4.5%)	1% Increase (3.5%)
	(in whole dollars)		
MNR Cash Balance Plan	\$ 48,625	\$ 11,625	\$ (20,375)

The MTA's Proportion of Net Pension Liability – NYCERS and NYSLERS

The following table presents the MTA's proportionate share of the net pension liability of NYCERS and NYSLERS based on the June 30, 2013 and April 1, 2014 actuarial valuations, respectively, rolled forward to June 30, 2015 and March 31, 2015, respectively, and the proportion percentage of the aggregate net pension liability of each of those plans allocated to the MTA:

	NYCERS June 30, 2015	NYSLERS March 31, 2015
	(\$ in thousands)	
MTA's proportion of the net pension liability	23.585%	0.289%
MTA's proportionate share of the net pension liability	\$ 4,773,787	\$ 9,768

The MTA's proportion of each respective Plan's net pension liability was based on the MTA's actual required contributions made to NYCERS for the plan's fiscal year-end June 30, 2015 and to NYSLERS for the plan's fiscal year-end March 31, 2015, relative to the contributions of all employers in each plan.

Sensitivity of the MTA's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the MTA's proportionate share of the net pension liability for NYCERS calculated using the current discount rate of 7.0%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	Proportionate Share of the Net Pension Liability		
	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)		
NYCERS	\$ 6,602,050	\$ 4,773,787	\$ 3,075,494

The following presents the MTA's proportionate share of the net pension liability for NYSLERS calculated using the current discount rate of 7.5%, as well as what the proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage point higher (8.5%) than the current rate:

Proportionate Share of the Net Pension Liability

	Current Discount		
	1% Decrease (6.5%)	Rate (7.5%)	1% Increase (8.5%)
	(in thousands)		
NYSLERS	\$ 65,107	\$ 9,768	\$ (36,952)

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the MTA recognized pension expense related to each pension plans as follows:

Pension Plan	December 31, 2015 (in thousands)
Additional Plan	\$ 77,482
MaBSTOA Plan	134,139
MNR Cash Balance plan	1
MTA Defined Benefit Plan	199,113
NYCERS	451,016
NYSLERS	8,774
Total	\$ 870,525

At December 31, 2015, the MTA reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan		MTA Defined Benefit Plan	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)							
Differences between expected and actual experience	\$ -	\$ -	\$ -	\$ 1,329	\$ -	\$ -	\$ 2,020	\$ -
Changes in assumptions	-	-	-	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	14,806	-	34,849	-	-	8	78,027	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-	13,395	13,395
Employer contributions to the plan subsequent to the measurement of net pension liability	100,000	-	214,881	-	14	-	221,694	-
Total	\$ 114,806	\$ -	\$ 249,730	\$ 1,329	\$ 14	\$ 8	\$ 315,136	\$ 13,395

	NYCERS		NYSLERS		TOTAL	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)					
Differences between expected and actual experience	\$ -	\$ 47,868	\$ 313	\$ -	\$ 2,333	\$ 49,197
Changes in assumptions	-	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	495,232	885,781	1,697	-	624,612	885,789
Changes in proportion and differences between contributions and proportionate share of contributions	(44,529)	5,950	-	265	(31,134)	19,610
Employer contributions to the plan subsequent to the measurement of net pension liability	380,227	-	15,792	-	932,608	-
Total	<u>\$ 830,930</u>	<u>\$ 939,599</u>	<u>\$ 17,802</u>	<u>\$ 265</u>	<u>\$ 1,528,419</u>	<u>\$ 954,596</u>

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs.

The following table presents the recognition periods used by each pension plan to amortize the annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions, beginning the year in which the deferred amount occurs.

Pension Plan	Recognition Period (in years)	
	Differences between expected and actual experience	Changes in proportion and differences between employer contributions and proportionate share of contributions
Additional Plan	0.10	N/A
MaBSTOA Plan	6.00	N/A
MNR Cash Balance Plan	0.90	N/A
MTA Defined Benefit Plan	7.70	7.70
NYCERS	3.37	3.37
NYSLERS	5.00	5.00

\$932.6 reported as deferred outflows of resources related to pensions resulting from the MTA's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows:

	Additional Plan	MaBSTOA Plan	MNR Cash Balance plan	MTA Defined Benefit Plan	NYCERS	NYSLERS	Total
				(in thousands)			
Year Ending December 31:							
2016	\$ 3,702	\$ 8,446	\$ (2)	\$ 19,808	\$ (243,758)	436	(211,368)
2017	3,702	8,446	(2)	19,808	(243,758)	436	(211,368)
2018	3,701	8,446	(2)	19,808	(125,189)	436	(92,800)
2019	3,701	8,446	(2)	19,808	123,809	436	156,198
2020	-	(264)	-	301	-	-	37
Thereafter	-	-	-	513	-	-	513
	<u>\$ 14,806</u>	<u>\$ 33,520</u>	<u>\$ (8)</u>	<u>\$ 80,047</u>	<u>\$ (488,896)</u>	<u>\$ 1,744</u>	<u>\$ (358,786)</u>

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.

The Deferred Compensation Program is administered and may be amended by the Deferred Compensation Committee.

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 began offering 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 \$18,000 dollars or \$24,000 dollars for those over age 50 for the year ending December 31, 2015.

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 MTA 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.

Forfeitures – Nonvested contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses. For the year-ended December 31, 2014, forfeitures reduced the Plan’s expense by \$114 thousand.

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, with \$4.8 billion and \$4.3 billion dollars in total net position in 2014 and 2013, respectively. The average account balance in the 457 Plan is \$53.4 and \$52.2 and in the 401(k) Plan is \$57.9 and \$57.0 in 2014 and 2013, respectively.

(In thousands)

	2014		2013	
	457	401K	457	401K
Contributions:				
Employee contributions, net of loans	\$ 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

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 Additional Plan, the MNR Cash Balance 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 employees and retirees. NYSHIP provides a Preferred Provider Organization (“PPO”) plan and several Health Maintenance Organization (“HMO”) plans. 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 retirees do not participate in NYSHIP. These benefits are provided either 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 for the year ended December 31, 2014, and was performed with a valuation date of January 1, 2014. The total number of plan participants as of December 31, 2014, the last valuation reporting period receiving retirement benefits was 45 thousand.

During 2012, MTA funded \$250 million into an OPEB Trust (“Trust”) allocated between MTA Headquarters and MTA New York City Transit and funded an additional \$50 million during 2013 allocated between MTA Long Island Railroad and MTA Metro-North Railroad. There have been no further contributions made to the Trust. 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 this 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 3.25% resulting in a discount rate under GASB 45 of 3.5%, which is slightly lower than the discount rate of 3.75% 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 cost method (the “FIL 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, 2015 is 14 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 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, 2014, which is 12 months prior to the beginning of the 2015 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2016.

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 3.50%.

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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

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

Valuation date	January 1, 2014
Actuarial cost method	Frozen Initial Liability
Discount rate	3.50%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Remaining amortization period	14 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.

Based on an initial, as well as an updated 2014 report, 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, it 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 so 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 MTA Transit members, represented MTA Bus Company members and represented SIRTOA members are non-NYSHIP as well as some Pre-NYSHIP MTA New York City 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, including the Employer Group Waiver Plan ("EGWP") for providing pharmacy benefits to Medicare-eligible retirees, for 2014 and 2015.

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 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 2014 valuation excludes any RDS payments expected to be received by the MTA and its agencies.

Health Cost Trend: The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real Gross Domestic Product

(“GDP”) of 1.8% and inflation of 2.5%. 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 (4.5%). The NYSHIP trend reflects actual increases in premiums through 2015. 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. The non-NYSHIP trend is applied directly for represented employees of MTA New York City Transit, SIRTOA and MTA Bus Company. Note, due to the Excise Tax, the non-NYSHIP trends for MTA Bus and MTA New York City Transit differ. The following lists illustrative rates for the NYSHIP and self-insured trend assumptions for MTA New York City Transit (amounts are in percentages).

Health Care Cost Trend Rates

<u>Fiscal Year</u>	<u>NYSHIP</u>	<u>Transit and SIRTOA</u>		<u>MTA Bus Company</u>	
		<u>< 65</u>	<u>>=65</u>	<u>< 65</u>	<u>>=65</u>
2014	0.0*	7.5	9.5	7.5	8.1
2015	6.0	7.6	9.5	7.6	8.2
2016	6.0	6.7	8.1	6.7	7.3
2017	6.0	6.2	6.8	6.2	6.3
2018	5.3	5.4	5.4	5.4	5.4
2019	5.2	12.1	5.4	11.3	5.4
2024	5.2	6.1	5.4	6.2	5.4
2029	5.5	6.1	5.4	6.1	5.4
2034	6.4	6.1	5.5	6.1	5.5
2039	5.9	5.7	5.2	5.7	5.2
2044	5.7	5.5	5.1	5.5	5.1
2049	5.6	5.4	5.3	5.4	5.3
2054	5.5	5.3	5.3	5.3	5.3

* Trend not applicable as actual 2015 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, 2014

	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	47,447	6,772	6,288	1,569	1,641	-	260	3,539	67,516
Average Age	49.5	44.2	45.5	46.5	46.3	-	45.1	47.1	48.3
Average Service	14.4	11.8	13.4	13.3	12.9	-	13.6	11.7	13.8
<u>Retirees</u>									
Single Medical Coverage	12,400	674	417	612	158	105	19	624	15,009
Employee/Spouse Coverage	16,784	2,314	909	663	329	234	58	893	22,184
Employee/Child Coverage	916	136	54	36	20	23	3	43	1,231
No medical Coverage	867	2,308	2,423	5	8	468	15	126	6,220
Total Number	<u>30,967</u>	<u>5,432</u>	<u>3,803</u>	<u>1,316</u>	<u>515</u>	<u>830</u>	<u>95</u>	<u>1,686</u>	<u>44,644</u>
Average Age	71.9	67.6	74.0	68.9	65.2	67.6	63.9	69.8	71.2
Total Number with Dental/Vision	6,427	857	470	406	445	58	46	85	8,794
Total Number with Vision	25,858	857	470	406	445	58	67	1,529	29,690
Total Number with Supplement	25,442	1,747	-	910	-	459	22	1,454	30,034
Average Monthly Supplement Amount (Excluding Part B Premium)	\$33	\$218	\$ -	\$207	\$ -	\$ -	\$238	\$25	\$49
Total Number with Life Insurance	5,616	4,890	2,406	353	435	713	78	199	14,690
Average Life Insurance Amount	\$2,076	\$22,181	\$2,623	\$5,754	\$4,994	\$8,636	\$2,763	\$5,214	\$9,397

* No active members as of January 1, 2014. In addition, there are 155 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 coverage in the Empire PPO Plan. However, for MTA Bridges and Tunnels, 15% of represented members and 10% of non-represented members are assumed to elect the Health Insurance Plan ("HIP"), a HMO Plan. For MTA Metro-North Railroad represented members, 15% are assumed to elect ConnectiCare. For groups that do not participate in NYSHIP, notably MTA New York City Transit and MTA Bus Company members are assumed to elect Empire Blue Cross Blue Shield ("BCBS") or Aetna/ United Healthcare with percentages varying by agency.

Dependent Coverage - Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement and 60% of male and 35% of female eligible members participating in non-NYSHIP programs administered by MTA New York City Transit are assumed to cover a dependent. Actual 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 from the valuation date.

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 year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the years ended December 31, 2015 and 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)	December 31, 2015	December 31, 2014
Annual required contribution ("ARC")	\$ 2,673.8	\$ 3,092.9
Interest on net OPEB obligation	422.3	376.0
Adjustment to ARC	<u>(1,098.9)</u>	<u>(946.0)</u>
OPEB cost	1,997.2	2,522.9
Payments made	<u>(503.4)</u>	<u>(483.7)</u>
Increase in net OPEB obligation	1,493.8	2,039.2
Net OPEB obligation — beginning of year	<u>12,066.3</u>	<u>10,027.1</u>
Net OPEB obligation — end of year	<u>\$ 13,560.1</u>	<u>\$ 12,066.3</u>

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2015, 2014 and 2013 are as follows (in millions):

Year Ended	Annual OPEB Cost	% of Annual Cost Contributed	Net OPEB Obligation
December 31, 2015	\$ 1,997.2	25.2 %	\$ 13,560.1
December 31, 2014	2,522.9	19.2	12,066.3
December 31, 2013	2,378.5	21.2	10,027.1

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, 2015	January 1, 2014	\$ 299.7	\$ 18,471.6	\$ 18,171.9	1.6%	\$ 4,669.8	389.1 %

* Based on Entry Age Normal

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

6. CAPITAL ASSETS

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

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

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

	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015
Capital assets not being depreciated:							
Land	\$ 174	\$ 25	\$ -	\$ 199	\$ 9	\$ -	\$ 208
Construction work-in-progress	11,490	4,553	4,045	11,998	4,958	2,446	14,510
Total capital assets not being depreciated	11,664	4,578	4,045	12,197	4,967	2,446	14,718
Capital assets being depreciated:							
Buildings and structures	16,142	631	-	16,773	558	91	17,240
Bridges and tunnels	2,325	202	-	2,527	144	-	2,671
Equipment:							
Passenger cars and locomotives	13,365	473	38	13,800	216	60	13,956
Buses	2,683	34	-	2,717	492	-	3,209
Infrastructure	19,412	890	10	20,292	719	173	20,838
Other	16,401	1,842	16	18,227	814	478	18,563
Total capital assets being depreciated	70,328	4,072	64	74,336	2,943	802	76,477
Less accumulated depreciation:							
Buildings and structures	5,362	442	-	5,804	474	4	6,274
Bridges and tunnels	473	23	-	496	24	-	520
Equipment:							
Passenger cars and locomotives	5,672	438	38	6,072	454	57	6,469
Buses	1,373	186	-	1,559	238	(4)	1,801
Infrastructure	6,893	618	10	7,501	647	16	8,132
Other	5,490	559	8	6,041	607	26	6,622
Total accumulated depreciation	25,263	2,266	56	27,473	2,444	99	29,818
Total capital assets being depreciated — net	45,065	1,806	8	46,863	499	703	46,659
Capital assets — net	\$ 56,729	\$ 6,384	\$ 4,053	\$ 59,060	\$ 5,466	\$ 3,149	\$ 61,377

Interest capitalized in conjunction with the construction of capital assets for the years ended December 31, 2015 and 2014, was \$49.8 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 December 31, 2015 and 2014, these securities totaled \$99.6 and \$89.0, respectively, had a market value of \$87.8 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 December 31, 2015 and 2014 are \$723 and \$725, respectively, of which \$2 and (\$1) were incurred during the years ended December 31, 2015 and 2014, respectively. Offsetting these total storm related expenses are estimated insurance recoveries of \$775 under the property insurance policy, with a receivable of \$465 and \$631 as of December 31, 2015 and 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 years ended December 31, 2015 and 2014, MTA received \$289 and \$412, 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 local priority resiliency projects to help ensure transit assets are better able to withstand future disasters. On September 22, 2014, MTA was allocated \$1.599 billion through the FTA's Sandy Relief Competitive Resiliency Program, bringing the total allocation of emergency relief funding from the FTA to MTA in connection with Superstorm Sandy to \$5.39 billion. 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 year ended December 31, 2015.

8. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2014	Issued	Retired	Refunded	December 31, 2015
MTA:						
Transportation Revenue Bonds						
2.00%-5.50% due through 2046	\$ 29,166	\$ 19,556	\$ 3,456	\$ 462	\$ 1,822	\$ 20,728
Bond Anticipation Notes						
2.0% due through 2015	2,000	300	1,700	300	-	1,700
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	-	68	-	218
Dedicated Tax Fund Bonds						
3.00%-7.34% due through 2041	8,878	4,990	-	133	-	4,857
Certificates of Participation						
4.40%-5.75% due through 2030	807	85	-	14	-	71
	<u>\$ 44,146</u>	<u>25,767</u>	<u>5,156</u>	<u>1,527</u>	<u>1,822</u>	<u>27,574</u>
Net unamortized bond discount and premium		<u>419</u>	<u>314</u>	<u>251</u>	<u>(82)</u>	<u>564</u>
		<u>26,186</u>	<u>5,470</u>	<u>1,778</u>	<u>1,740</u>	<u>28,138</u>
TBTA:						
General Revenue Bonds						
4.00%-5.77% due through 2038	\$ 13,044	6,665	1,198	191	922	6,750
Subordinate Revenue Bonds						
4.00%-5.77% due through 2032	3,958	1,631	58	47	58	1,584
General Revenue Anticipation Notes						
5.0% due through 2015	100	100	-	100	-	-
	<u>\$ 17,102</u>	<u>8,396</u>	<u>1,256</u>	<u>338</u>	<u>980</u>	<u>8,334</u>
Net unamortized bond discount and premium		<u>561</u>	<u>54</u>	<u>17</u>	<u>-</u>	<u>598</u>
		<u>8,957</u>	<u>1,310</u>	<u>355</u>	<u>980</u>	<u>8,932</u>
Total		<u>\$ 35,143</u>	<u>\$ 6,780</u>	<u>\$ 2,133</u>	<u>\$ 2,720</u>	<u>\$ 37,070</u>
Current portion		<u>(983)</u>				<u>(2,587)</u>
Long-term portion		<u>\$ 34,160</u>				<u>\$ 34,483</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 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 under its Railroad Rehabilitation and Improvement Financing Program. MTA, on behalf of MTA Metro-North Railroad, and the MTA 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 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 \$408 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 of MTA Transportation Revenue Variable Rate Bonds, Subseries 2005E-1 and \$75 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 MTA Transportation Revenue Variable Rate Bonds, Series 2015E to retire \$550 Transportation Revenue Bond Anticipation Notes, Series CP-2 Credit Enhanced and to generate \$100 new money proceeds to finance existing approved transit and commuter projects.

On October 15, 2015, MTA extended the 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 November 2, 2015, MTA effectuated a mandatory tender and remarketed \$43 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002G-1g and \$125 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 December 17, 2015, MTA issued \$330 of Transportation Revenue Refunding Bonds, Series 2015F. The proceeds from the transaction were used to refund (via advance refunding) \$338 of MTA Transportation Revenue Bonds, Series 2006B and \$23 of MTA Transportation Revenue Bonds, Series 2011A (for an aggregate amount of \$361). The Series 2015F bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2036.

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.

On December 10, 2015, MTA issued \$700 of MTA Transportation Revenue Bond Anticipation Notes, Series 2015B to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2015B Notes were issued in two subseries through a competitive method of sale. Subseries 2015B-1 were issued as \$628 of fixed rate tax-exempt notes and Subseries 2015B-2 were issued as \$72 fixed rate federally taxable notes. The Series 2015B Notes have a final maturity of February 1, 2018.

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 \$218. 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 \$8,734. 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 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 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 includes approximately \$358 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 \$71.

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. 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 \$140 of TBTA General Revenue Variable Rate Bonds, Series 2003B, \$122 of TBTA General Revenue Variable Rate Bonds, Series 2005A, and \$193 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 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 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.

On October 28, 2015, MTA effectuated a mandatory tender and remarketed \$188 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 November 3, 2015, MTA issued and remarketed \$65 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2015B and \$91 of Triborough Bridge and Tunnel 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.

On November 10, 2015, MTA effectuated a mandatory tender and remarketed \$28 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4a because its current interest rate period was set to expire by its terms. The Subseries 2005B-4a Bonds will remain in the Term Rate Mode as a Floating Rate Tender Notes with a purchase date of November 1, 2016.

On November 12, 2015, MTA effectuated a mandatory tender and remarketed \$44 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4d because its current interest rate period was set to expire by its terms. The Subseries 2005B-4d Bonds will remain in the Term Rate Mode as a Floating Rate Tender Notes with a purchase date of December 1, 2018.

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. 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 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.

On December 17, 2015, MTA effectuated a mandatory tender and remarketed \$58 of Triborough Bridge and Tunnel Authority Subordinate Revenue Refunding Bonds, Subseries 2013D-2a and \$90 of Triborough Bridge and Tunnel Authority Subordinate Revenue Refunding Bonds, Subseries 2013D-2b 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. Both Subseries are supported by an irrevocable direct-pay letter of credit issued by Bank of America, N.A. The letter of credit is scheduled to expire on December 14, 2018.

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 December 31, 2015 and, 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.

	December 31, 2015	December 31, 2014
(In millions)		
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	94	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>\$ 1,835</u>	<u>\$ 2,307</u>

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

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 2,326	\$ 1,316	\$ 275	\$ 372	\$ 2,601	\$ 1,688
2017	801	1,279	286	360	1,087	1,639
2018	803	1,244	320	347	1,123	1,591
2019	752	1,208	332	333	1,084	1,541
2020	753	1,174	337	317	1,090	1,491
2021-2025	4,487	5,259	1,814	1,345	6,301	6,604
2026-2030	5,695	3,971	2,216	956	7,911	4,927
2031-2035	5,670	2,537	1,605	590	7,275	3,127
2036-2040	4,446	1,250	936	164	5,382	1,414
2041-2045	1,562	241	155	34	1,717	275
2046-2050	279	55	59	9	338	64
	<u>\$ 27,574</u>	<u>\$ 19,534</u>	<u>\$ 8,335</u>	<u>\$ 4,827</u>	<u>\$ 35,909</u>	<u>\$ 24,361</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 2015C-2* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2015D-2* — 4.00% per annum
- *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 years ended December 31, 2015 and 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 Facility	Exp. Date
Transportation Revenue	2005D-1	Y	Helaba	LOC	11/7/2018
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	N	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	11/1/2018
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 December 31, 2015, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2014 are as follows:

Derivative Instruments

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

Summary Information at December 31, 2015

(\$ In Millions)	Bond Resolution	Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	Notional Amount as of 12/31/2015 (in millions)	Fair Value as of 12/31/2015 (in millions)
Investment Swaps	2 Broadway Certificate of Participation	2004A	Pay-Fixed Swap	N/a	N/a	8/10/2004	\$84.675	(\$6.177)
Hedging Swaps	MTA Transportation Revenue Bonds	2002D-2	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(79.045)
	MTA Transportation Revenue Bonds	2012G	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	12/12/2007	357.850	(99.160)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	193.100	(37.154)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	579.300	(111.462)
	MTA Transportation Revenue Bonds	2005D & 2005E	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	9/10/2004	400.000	(88.624)
	MTA Dedicated Tax Fund Bonds	2008A	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	3/8/2005	331.020	(61.257)
	MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	169.070	(20.055)
	MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	35.835	(17.245)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	23.520	(4.283)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	76.150	(8.055)
Total							\$ 2,450.520	\$ (532.518)

	Changes In Fair Value		Fair Value at December 31, 2015		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
Government activities					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$4.461	Debt	(\$526.341)	\$2,365.845
Investment hedges:					
Pay-fixed interest rate swaps	Unrealized investment gain	1.971	Debt	(6.177)	84.675

For the year ended December 31, 2015, the MTA recorded \$1.971 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 year ended December 31, 2015, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of thirteen (13) swaps and fourteen (14) hedging relationships that were reviewed 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 (December 31, 2015) of the swaps are reflected in the following charts. As of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should a swap with a positive fair value be terminated.

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

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

MTA TRANSPORTATION REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/15 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/15 (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	\$200.000	01/01/07	4.450 %	69% of one-month LIBOR ⁽¹⁾	\$(79.045)	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	(20.055)	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⁾	(66.465)	11/01/35	UBS AG
Series 2005E-1,2,3	100.000	11/02/05	3.561	67% of one-month LIBOR ⁽¹⁾	(22.159)	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	(17.245)	01/01/30	UBS AG
Series 2012G ⁽³⁾	357.850	11/15/12	3.563	67% of one-month LIBOR ⁽¹⁾	(99.160)	11/01/32	JPMorgan Chase Bank, NA
Total	\$1,162.755				\$ (304.130)		

⁽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 12/31/15 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/15 (in millions)	Swap Termination Date	Counterparty
Series 2008A ⁽⁴⁾⁽⁵⁾	\$331.020	03/24/05	3.316%	67% of one-month LIBOR ⁽¹⁾	\$ (61.257)	11/01/31	Bank of New York Mellon ⁽⁶⁾
Total	\$331.020				\$ (61.257)		

⁽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 12/31/15 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/15 (in millions)	Swap Termination Date	Counterparty
Series 2002F & 2003B-2 ⁽⁶⁾	\$193.100	07/07/05	3.076%	67% of one-month LIBOR ⁽¹⁾	\$ (37.154)	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	(4.283)	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⁾	(111.462)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$795.920				\$ (152.899)		

⁽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 12/31/15 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/15 (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD ⁽⁷⁾⁽⁸⁾	\$76.150	01/01/01	6.080%	SIFMA – 15 bp ⁽¹¹⁾	\$ (8.055)	01/01/19	JPMorgan Chase Bank, NA
Total	\$76.150				\$ (8.055)		

⁽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 \$70.50 in notional amount as of December 31, 2015, of which MTA New York City Transit is responsible for \$48.434, MTA for \$14.805, and MTA Bridges and Tunnels for \$7.261. As of December 31, 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 December 31, 2015.

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
AIG Financial Products Corp.	A-	Baa1	BBB+
Bank of New York Mellon	AA-	Aa2	AA
BNP Paribas North America, Inc.	A+	A1	A+
Citibank, N.A.	A	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 December 31, 2015 (in millions).

<u>Series</u>	<u>Outstanding Principal</u>	<u>Notional Amount</u>
TRB 2012G-4	\$73.400	\$73.400
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 (c, d, f, g, h)	169.070	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	118.675	23.520
TBTA 2003B (1,2,3)	185.875	5.405
TBTA 2002F	187.695	187.695
DTF 2008A-2 (a, b)	168.590	165.510
DTF 2008A-1	168.595	165.510
COPs 2004A	70.500	84.675
Total	\$2,934.410	\$2,450.520

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

Counterparty	Notional Amount (in thousands)	% of Total Notional Amount
JPMorgan Chase Bank, NA	\$827,100	33.75%
UBS AG	806,200	32.90
The Bank of New York Mellon	331,020	13.51
Citibank, N.A.	193,100	7.88
BNP Paribas North America, Inc.	193,100	7.88
AIG Financial Products Corp.	100,000	4.08
Total	\$2,450,520	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 & 2003B-2 (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 & 2003B-2 (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	<ol style="list-style-type: none"> 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. 2. Negative financial events relating to the related swap insurer, MBIA. 3. MTA Bridges and Tunnels fails to have at least one Senior issue with a rating of "BBB-" or higher as determined by S&P or "Baa3" or higher as determined by Moody's.

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
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A (swaps with UBS AG and Citibank, N.A.)	November 1, 2035	January 1, 2030 (UBS) January 1, 2032 (Citibank)

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)				
Year Ended December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2016	\$ 22.2	\$ 52.4	\$ (6.4)	\$ 68.2
2017	34.4	51.4	(6.3)	79.6
2018	35.8	50.1	(6.1)	79.8
2019	55.6	48.6	(5.8)	98.4
2020	38.4	46.5	(5.5)	79.4
2021-2025	326.3	199.8	(22.4)	503.6
2026-2030	431.3	212.4	(12.9)	630.9
2031-2035	620.1	323.7	(3.6)	940.1

MTA Bridges and Tunnels (in millions)				
Year Ended December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2016	\$ 56.2	\$ 44.6	\$ (5.6)	\$ 95.2
2017	59.2	42.2	(6.1)	95.3
2018	62.5	39.7	(6.7)	95.6
2019	43.4	38.0	(7.0)	74.4
2020	25.4	37.0	(7.0)	55.5
2021-2025	170.3	166.5	(33.5)	303.2
2026-2030	408.3	116.8	(26.8)	498.3
2031-2035	350.2	9.0	(1.6)	357.6

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. Notice of the exercise of the purchase option has been delivered and the purchase option closing is scheduled for August 15, 2016. The capital lease obligation is included in other long-term liabilities.

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 December 31, 2015, the market value of total collateral funds was \$36.7.

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

Other Lease Transactions — On July 29, 1998, the MTA, (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad, MTA New York City Transit, and MTA Bridges and Tunnels) entered into a lease and related agreements whereby each agency, as subleasee, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2013, the MTA made rent payments of \$23. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately \$358 of certificates of participation that partially refunded the two previously issued certificates. As of December 31, 2015, there was \$70,500 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 \$65.0 and \$60.3 for the years ended December 31, 2015 and 2014 respectively.

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

Years	Operating	Capital
2016	\$ 55	\$ 32
2017	62	120
2018	61	22
2019	61	24
2020	59	32
2021–2025	221	154
2026–2030	284	105
2031–2035	290	540
2036–2040	243	126
2041–2045	243	133
Thereafter	<u>492</u>	<u>257</u>
Future minimum lease payments	<u>\$ 2,071</u>	1,545
Amount representing interest		<u>(1,026)</u>
Total present value of capital lease obligations		<u>519</u>
Less current present value of capital lease obligations		<u>9</u>
Noncurrent present value of capital lease obligations		<u>\$ 510</u>

Capital Leases Schedule
For the Year Ended December 31, 2015
(in millions)

Description	December 31, 2014	Increase	Decrease	December 31, 2015
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	2	-	32
Bank of America Equity	16	-	-	16
Sumitomo	40	1	3	38
Met Life Equity	45	2	-	47
Grand Central Terminal & Harlem Hudson Railroad Lines	15	-	1	14
2 Broadway Lease Improvement	164	2	-	166
2 Broadway	38	-	-	38
Subway Cars	105	5	3	107
Total MTA Capital Lease	\$ 515	\$ 12	\$ 8	\$ 519
Current Portion Obligations under Capital Lease	10			9
Long Term Portion Obligations under Capital Lease	<u>\$ 505</u>			<u>\$ 510</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 years ended December 31, 2015 and December 31, 2014 is presented below (in millions):

	December 31, 2015	December 31 2014
Balance — beginning of year	\$ 2,509	\$ 2,312
Activity during the year:		
Current year claims and changes in estimates	762	583
Claims paid	<u>(388)</u>	<u>(386)</u>
Balance — end of year	2,883	2,509
Less current portion	<u>(444)</u>	<u>(413)</u>
Long-term liability	<u>\$ 2,439</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

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, MTA recognized pollution remediation expenses of \$21 and \$20 for the years ended December 31, 2015 and 2014, respectively. 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. A summary of the activity in pollution remediation liability at December 31, 2015 and 2014 were as follows:

	December 31, 2015	December 31, 2014
Balance at beginning of year	\$ 99	\$ 109
Activity during the year:		
Current year encumbrances	21	21
Current year expenditures	<u>(20)</u>	<u>(31)</u>
Balance at end of year	100	99
Less current portion	<u>(26)</u>	<u>(25)</u>
Long-term liability	<u>\$ 74</u>	<u>\$ 74</u>

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-four (24) active ultra-low sulfur diesel (“ULSD”) hedges:

Counterparty	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	Bank of America Merrill Lynch	J. Aron & Company
Trade Date	1/29/2014	2/26/2014	3/31/2014	4/30/2014	5/15/2014	6/25/2014	7/29/2014	8/27/2014
Effective Date	12/1/2014	2/1/2015	3/1/2015	4/1/2015	7/1/2014	6/1/2015	7/1/2015	8/1/2015
Termination Date	12/31/2015	1/31/2016	2/28/2016	3/31/2016	4/30/2016	5/31/2016	6/30/2016	7/31/2016
Price/Gal	\$2.7690	\$2.8360	\$2.8065	\$2.8210	\$2.8630	\$2.9265	\$2.8645	\$2.8175
Original Notional Quantity (\$)	15,299,678	7,892,588	7,810,490	7,850,843	12,865,827	8,644,395	8,461,232	8,322,340

Counterparty	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	Bank of America Merrill Lynch	Bank of America Merrill Lynch
Trade Date	9/24/2014	10/29/2014	11/25/2014	12/23/2014	1/29/2015	2/26/2015	3/25/2015	4/29/2015
Effective Date	4/1/2015	10/1/2015	11/1/2015	12/1/2015	1/1/2016	2/1/2016	3/1/2016	4/1/2016
Termination Date	8/31/2016	9/30/2016	10/31/2016	11/30/2016	12/31/2016	1/31/2017	2/28/2017	3/30/2017
Price/Gal	\$2.7360	\$2.5510	\$2.3950	\$2.0340	\$1.8095	\$2.0520	\$1.9195	\$2.0855
Original Notional Quantity (\$)	8,050,125	7,487,723	7,029,766	5,970,231	5,253,199	6,017,839	5,629,297	5,957,391

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	J. Aron & Company	Bank of America Merrill Lynch	J. Aron & Company
Trade Date	5/28/2015	6/30/2015	7/30/2015	8/27/2015	9/28/2015	10/29/2015	11/24/2015	12/17/2015
Effective Date	5/1/2016	6/1/2016	7/1/2016	8/1/2016	9/1/2016	2/1/2016	11/1/2016	12/1/2016
Termination Date	4/30/2017	5/31/2017	6/30/2017	7/31/2017	8/31/2017	9/30/2017	10/31/2017	11/30/2017
Price/Gal	\$1.9970	\$2.0130	\$1.8145	\$1.6600	\$1.6950	\$1.7100	\$1.6515	\$1.4825
Original Notional Quantity (\$)	5,831,540	5,882,999	5,298,402	4,847,240	5,130,241	5,631,317	4,863,189	4,266,180

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 December 31, 2015, the total outstanding notional value of the ULSD contracts was 54.2 million gallons with a negative fair market value of \$43.1.

15. OPERATING ACTIVITY INFORMATION

(In millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
For the year ended December 31, 2015						
Operating revenue	\$ 259	\$ 1,489	\$ 4,827	\$ 1,843	\$ (10)	\$ 8,408
Depreciation and amortization	85	556	1,692	111	-	2,444
Subsidies and grants	3,811	-	2,429	9	(2,271)	3,978
Tax revenue	1,043	-	1,214	-	(238)	2,019
Interagency subsidy	(751)	-	(318)	-	1,069	-
Operating (loss) surplus	(1,285)	(1,718)	(5,169)	1,217	15	(6,940)
Net surplus (deficit)	(1,010)	(1,527)	(4,837)	(83)	(3)	(7,460)
Payment for capital assets	4,900	304	1,371	392	(2,007)	4,960
December 31, 2015						
Total assets and deferred outflows of of resources	16,622	10,784	40,357	6,111	(701)	73,173
Net working capital	2,484	(34)	(1,003)	196	(518)	1,125
Long-term debt — (including current portion)	28,138	-	-	8,940	(8)	37,070
Net position (deficit)	(18,282)	7,528	21,303	(4,568)	(159)	5,822
For the year ended December 31, 2015						
Net cash (used in)/provided by operating activities	(951)	(1,127)	(2,398)	1,399	(8)	(3,085)
Net cash provided by/(used in) noncapital financing activities	6,199	1,134	3,826	(741)	(3,774)	6,644
Net cash (used in)/provided by capital and related financing activities	(3,983)	(3)	(1,188)	(798)	3,833	(2,139)
Net cash provided by/(used in) investing activities	(1,129)	(3)	(233)	139	(51)	(1,277)
Cash at beginning of period	222	20	55	14	-	311
Cash at end of period	358	21	62	13	-	454

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

(Continued)

(In millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
For the year ended December 31, 2014						
Operating revenue	\$ 250	\$ 1,413	\$ 4,616	\$ 1,698	\$ (7.00)	\$ 7,970
Depreciation and amortization	85	557	1,520	104	-	2,266
Subsidies and grants	3,784	-	2,690	8	(2,533)	3,949
Tax revenue	1,026	-	1,068	-	(268)	1,826
Interagency subsidy	(638)	-	(266)	638	266	-
Operating (loss) surplus	(1,094)	(1,973)	(5,902)	1,080	11	(7,878)
Net surplus (deficit)	(1,307)	213	54	126	(9)	(923)
Payment for capital assets	4,606	289	1,015	350	(1,684)	4,576
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 year ended December 31, 2014						
Net cash (used in)/provided by operating activities	(840)	(1,495)	(2,752)	1,280	(10)	(3,817)
Net cash provided by/(used in) noncapital financing activities	5,401	1,540	3,909	(623)	(3,934)	6,293
Net cash (used in)/provided by capital and related financing activities	(5,213)	(71)	(955)	(600)	4,106	(2,733)
Net cash (used in)/provided by investing activities	605	22	(194)	(61)	(162)	210
Cash at beginning of period	268	25	47	18	-	358
Cash at end of period	221	21	55	14	-	311

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

(Concluded)

16. SUBSEQUENT EVENTS

On January 28, 2016, MTA issued \$541 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2016A. The proceeds from the transaction were used to finance bridge and tunnel projects and to advance refund \$61 TBTA General Revenue Bonds, Series 2006A; \$78 TBTA General Revenue Bonds, Series 2007A; \$32 TBTA General Revenue Bonds, Series 2008B; \$26 TBTA General Revenue Bonds, Series 2008C; \$5 TBTA General Revenue Bonds, Series 2009A; \$35 TBTA General Revenue Refunding Bonds, Series 2011A; \$12 TBTA General Revenue Refunding Bonds, Series 2012A; \$5 TBTA General Revenue Refunding Bonds, Series 2013C; and \$2 TBTA General Revenue Bonds, Series 2014A. The Series 2016A bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2046.

On February 25, 2016, MTA issued \$783 of Transportation Revenue Green and Refunding Green Bonds, Series 2016A. This issue was MTA's inaugural issuance of Climate Bonds Initiative certified green bonds. The proceeds from the transaction will be used to pay off the existing outstanding 2015A Bond Anticipation Notes, in the amount of \$500 and to advance refund \$72 of Transportation Revenue Bonds, Series 2006A and \$294 of Transportation Revenue Bonds, Series 2008C. The Series 2016A bonds were issued as \$445 Transportation Revenue Green Bonds, Series 2016A-1 and \$338

Transportation Revenue Refunding Green Bonds, Series 2016A-2. The Series 2016A-1 and Series 2016A-2 bonds were both issued as tax-exempt fixed-rate bonds with final maturities of November 15, 2056 and November 15, 2028, respectively.

On January 27, 2016, MTA executed a 2,935,682 gallon ultra-low sulfur diesel fuel hedge with Goldman, Sachs & Co./ J Aron at an all-in price of \$1.276/gallon. The hedge covers the period from January 2017 through December 2017.

On February 23, 2016, MTA executed a 2,935,686 gallon ultra-low sulfur diesel fuel hedge with J.P. Morgan Ventures Energy Corporation at an all-in price of \$1.310/gallon. The hedge covers the period from February 2017 through January 2018.

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

Required Supplementary Information

SCHEDULE I

Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for the Additional Plan, MNR Cash Balance Plan, MaBSTOA Plan and MTA Defined Benefit Plan

	<u>Additional Plan</u>	<u>MaBSTOA Plan</u>	<u>MNR Cash Balance Plan</u>	<u>MTA Defined Benefit Plan</u>
	(in thousands)			
Total pension liability:				
Service cost	\$ 3,813	\$ 72,091	\$ -	\$ 121,079
Interest	110,036	223,887	32	274,411
Differences between expected and actual experience		(1,596)		2,322
Benefit payments and withdrawals	(156,974)	(175,447)	(88)	(191,057)
Net change in total pension liability	(43,125)	118,935	(56)	206,755
Total pension liability—beginning	1,645,284	3,212,529	766	3,892,983
Total pension liability—ending(a)	1,602,159	3,331,464	710	4,099,738
Plan fiduciary net position:				
Employer contributions	407,513	226,374	-	331,259
Member contributions	1,304	15,460	-	26,006
Net investment income	21,231	105,084	41	102,245
Benefit payments and withdrawals	(156,974)	(175,447)	(88)	(191,057)
Administrative expenses	(975)	(74)	(3)	(9,600)
Net change in plan fiduciary net position	272,099	171,397	(50)	258,853
Plan fiduciary net position—beginning	510,753	2,093,896	748	2,806,367
Plan fiduciary net position—ending(b)	782,852	2,265,293	698	3,065,220
Employer's net pension liability—ending(a)-(b)	\$ 819,307	\$ 1,066,171	\$ 12	\$ 1,034,518
Plan fiduciary net position as a percentage of the total pension liability	48.86%	68.0%	98.36%	74.77%
Covered-employee payroll	\$ 29,334	\$ 616	\$ 2,080	\$ 1,395,336
Employer's net pension liability as a percentage of covered-employee payroll	2793.05%	172.98%	0.56%	74.14%

Note: In accordance with GASB No. 67, paragraph 50, information was not readily available for periods prior to 2014. The data provided in this schedule is based on the measurement date of December 31, 2014 used by the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, and the MTA Defined Benefit Plan.

METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE II

Schedule of the MTA's Proportionate Share of Net Pension Liability in the New York City Employees' Retirement System the New York State and Local Employees' Retirement System

	<u>NYCERS Plan</u>	<u>NYSLERS Plan</u>
	(in thousands)	
MTA's proportion of the net pension liability	23.585%	0.289%
MTA's proportionate share of the net pension liability	\$ 4,773,787	\$ 9,768
MTA's actual covered-employee payroll	\$ 2,625,179	\$ 87,315
MTA's proportionate share of the net pension liability as a percentage of the MTA's covered-employee payroll	181.846%	11.187%
Plan fiduciary net position as a percentage of the total pension liability	73.125%	97.947%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in this schedule is based on the measurement date used by NYCERS and NYSLERS for the net pension liability, which was June 30, 2015 and March 31, 2015, respectively.

METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE III

Schedule of the MTA's Contributions for All Pension Plans for the Year Ended December 31,

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
	(in thousands)									
Additional Plan										
Actuarially Determined Contribution	\$ 100,000	\$ 112,513	\$ 119,325	\$ 116,011	\$ 108,980	\$ 107,249	\$ 108,677	\$ 100,337	\$ 100,907	\$ 108,517
Actual Employer Contribution	100,000	407,513	199,336	116,011	108,284	107,249	108,677	100,337	100,907	243,216
Contribution Deficiency (Excess)	\$ -	\$ (295,000)	\$ (80,011)	\$ -	\$ 696.00	\$ -	\$ -	\$ -	\$ -	\$ (134,699)
Covered Payroll	\$ -	\$ 29,334	\$ 33,043	\$ 40,033	\$ 51,159	\$ 65,198	\$ 72,718	\$ 80,927	\$ 93,998	\$ 117,336
Contributions as a % of Covered Payroll	N/A	1389.22%	603.26%	289.79%	211.66%	164.50%	149.45%	123.98%	107.35%	207.28%
MaBSTOA Plan										
Actuarially Determined Contribution	\$ 214,881	\$ 226,374	\$ 234,474	\$ 228,918	\$ 186,454	\$ 200,633	\$ 204,274	\$ 201,919	\$ 179,228	\$ 159,638
Actual Employer Contribution	214,881	226,374	234,474	228,918	186,454	200,633	204,274	201,919	179,228	259,638
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (100,000)
Covered Payroll	\$ 693,900	\$ 671,600	\$ 582,081	\$ 575,989	\$ 579,696	\$ 591,073	\$ 569,383	\$ 562,241	\$ 519,680	\$ 498,039
Contributions as a % of Covered Payroll	30.97%	33.71%	40.28%	39.74%	32.16%	33.94%	35.88%	35.91%	34.49%	52.13%
Metro-North Cash Balance plan										
Actuarially Determined Contribution	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ 2	\$ 0	\$ 14	\$ 10	\$ 13
Actual Employer Contribution	-	14	-	-	-	12	0	14	10	13
Contribution Deficiency (Excess)	\$ -	\$ (9)	\$ -	\$ -	\$ -	\$ (10)	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ -	\$ 2,080	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	N/A	0.68%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MTA Defined Benefit Plan										
Actuarially Determined Contribution	\$ 221,694	\$ 271,523	\$ 242,980	\$ 212,397	\$ 166,188	\$ 155,318	\$ 146,171	\$ 107,759	\$ 81,700	\$ 72,596
Actual Employer Contribution	221,694	331,259	242,980	212,397	166,188	155,318	146,171	107,759	81,700	302,999
Contribution Deficiency (Excess)	\$ -	\$ (59,736)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (230,403)
Covered Payroll	\$ 1,776,467	\$ 1,395,334	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	12.48%	23.74%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* For both the Additional Plan and the MTA Defined Benefit Plan, the excess for 2014 reflects a prepaid contribution towards the 2015 Actuarially Determined Contribution.

** For the MTA Defined Benefit Plan, covered payroll data prior to 2014 was not readily available.

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REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE III (Continued)

Schedule of the MTA's Contributions for All Pension Plans for the Year Ended December 31,

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
	(in thousands)									
NYCERS										
Actuarially Determined Contribution	\$ 736,212	\$ 741,223	\$ 736,361	\$ 731,983	\$ 657,771	\$ 574,555	\$ 548,721	\$ 499,603	\$ 406,837	\$ 289,826
Actual Employer Contribution	736,212	741,223	736,361	731,983	657,771	574,555	548,721	499,603	406,837	289,826
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 3,342,577	\$ 3,004,960	\$ 2,943,195	\$ 2,925,834	\$ 2,900,630	\$ 2,886,789	\$ 2,800,882	\$ 2,656,778	\$ 2,548,889	\$ 2,476,051
Contributions as a % of Covered Payroll	22.03%	24.67%	25.02%	25.02%	22.68%	19.90%	19.59%	18.80%	15.96%	11.71%
NYSLERS										
Actuarially Determined Contribution	\$ 15,792	\$ 13,816	\$ 16,046	\$ 15,031	\$ 10,552	\$ 9,244	\$ 5,693	\$ 5,602	\$ 5,810	\$ 5,728
Actual Employer Contribution	15,792	13,816	16,046	15,031	10,552	9,244	5,693	5,602	5,810	5,728
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 88,071	\$ 85,826	\$ 85,240	\$ 89,404	\$ 139,764	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	17.93%	16.10%	18.82%	16.81%	7.55%	N/A	N/A	N/A	N/A	N/A

***For the NYSLERS plan, covered payroll data prior to 2011 was not readily available.

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REQUIRED SUPPLEMENTARY INFORMATION

Notes to Schedule of the MTA's Contributions for all Pension Plans

The methods and assumptions used to determine the actuarially determined and contractually required contributions are as follows:

	<u>Additional Plan</u>	<u>MaBSTOA Plan</u>	<u>MNR Cash Balance Plan</u>	<u>MTA Defined Benefit Plan</u>	<u>NYCERS Plan</u>	<u>NYSLERS Plan</u>
Valuation Dates	January 1, 2014	January 1, 2014	January 1, 2014	January 1, 2014	June 30, 2013	April 1, 2013
Measurement Date	December 31, 2014	December 31, 2014	December 31, 2014	December 31, 2014	June 30, 2015	March 31, 2015
Actuarial cost method	Entry Age Normal Cost	Frozen Initial Liability (FIL)	Unit Credit	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Period specified in current valuation report (closed 19 year period beginning January 1, 2014) with level dollar payments.	For FIL bases, period specified in current valuation 30-year level dollar. 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	Period specified in current valuation report (closed 10 year period beginning January 1, 2008 - 4 year period for the January 1, 2014 valuation).	For Frozen Initial Liability ("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.	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.	Evenly over the remaining working lifetimes of the active membership.
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.	Actuarial value equals market value less unrecognized Market value restart as of 1/1/96, then gains/losses over a 5-year period. Gains/losses are five-year moving average of market values based on market value of assets.	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.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.	Modified six-year moving average of market values with a Market Value Restart as of June 30, 2011.	5-year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.
Salary increases	3.00%	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.	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.	Varies by years of employment, and employee group.	3% per annum.	4.90%

METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

Notes to Schedule of the MTA's Contributions for all Pension Plans

	Additional Plan	MaBSTOA Plan	MNR Cash Balance Plan	MTA Defined Benefit Plan	NYCERS Plan	NYSLERS Plan
Actuarial assumptions:						
Discount Rate	7.00%	7.00%	4.50%	7.00%	7.00%	7.50%
Investment rate of return	7.00%, net of investment expenses.	7.00%, net of investment expenses.	4.50%, net of investment expenses.	7.00%	7.00%, net of investment expenses.	7.5%, net of investment expenses.
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all MTA plans.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all MTA plans.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all MTA plans.	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. Mortality assumption is based on a 2012 experience study for all MTA plans.	Mortality tables for service and disability pensioners were developed from an experience study of NYCERS's pensioners. The mortality tables for beneficiaries were developed from an experience review of NYCERS' beneficiaries. The most recently completed study was published by Gabriel Roeder & Company ("GRS"), dated October 2015, and analyzed experience for Fiscal Years 2010 through 2013.	Annuitant mortality rates are based on NYSLERS's 2010 experience study of the period April 1, 2005 through March 31, 2010 with adjustments for mortality improvements based on the Society of Actuaries's Scale MP-2014.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	N/A	N/A
Post-retirement 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.	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.	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.	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.	N/A	N/A
Post-retirement Disabled Lives	N/A	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.	N/A	75% of the rates from the RP-2000 Healthy 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 females healthy rates, respectively.	N/A	N/A
Inflation/Railroad Retirement Wage Base	2.50%; 3.50%	2.50%	2.50%	2.50%; 3.00%	2.50%	2.70%
Cost-of-Living Adjustments	N/A	1.375% per annum	N/A	55% of inflation assumption or 1.375%, if applicable.	2.5% per annum.	1.4% per annum.

METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION

(Continued)

Notes to Schedule of MTA's Contributions for Pension Plans

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in Cost Sharing, Multiple-Employer pension plans, the NYCERS plan and the NYSLERS plan, are presented as notes to the schedule.

Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms:

There were no changes of benefit terms in the June 30, 2013 funding valuation for the NYCERS plan.

There were no changes of benefit terms in the April 1, 2013 funding valuation for the NYSLERS plan.

Changes of Assumptions:

There were no changes of benefit assumptions in the June 30, 2013 funding valuation for the NYCERS plan.

There were no changes of benefit assumptions in the April 1, 2013 funding valuation for the NYSLERS plan.

METROPOLITAN TRANSPORTATION AUTHORITY

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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, 2015	January 1, 2014	\$ 300	\$ 18,472	\$ 18,172	1.60 %	\$ 4,669.8	389.1 %
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

METROPOLITAN TRANSPORTATION AUTHORITY
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SUPPLEMENTARY INFORMATION

**SCHEDULE OF CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2015**
(\$ in millions)

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 5,929	\$ 5,961	\$ 32
Vehicle toll revenue	1,792	1,809	17
Other operating revenue	651	638	(13)
Total revenue	<u>8,372</u>	<u>8,408</u>	<u>36</u>
OPERATING EXPENSES:			
Labor:			
Payroll	4,689	4,700	11
Overtime	755	771	16
Health and welfare	1,052	1,052	0
Pensions	1,282	855	(427)
Other fringe benefits	644	852	208
Postemployment benefits	2,559	1,997	(562)
Reimbursable overhead	(392)	(368)	24
Total labor expenses	<u>10,589</u>	<u>9,859</u>	<u>(730)</u>
Non-labor:			
Electric power	500	474	(26)
Fuel	188	162	(26)
Insurance	52	57	5
Claims	260	332	72
Paratransit service contracts	383	379	(4)
Maintenance and other	604	536	(68)
Professional service contract	413	345	(68)
Pollution remediation project costs	7	21	14
Materials and supplies	558	543	(15)
Other business expenses	198	191	(7)
Total non-labor expenses	<u>3,163</u>	<u>3,040</u>	<u>(123)</u>
Depreciation	2,380	2,444	64
Other Expenses Adjustment	43	0	(43)
Net expenses related to asset impairment	-	5	5
Total operating expenses	<u>16,175</u>	<u>15,348</u>	<u>(827)</u>
NET OPERATING LOSS	<u>\$ (7,803)</u>	<u>\$ (6,940)</u>	<u>\$ 863</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 YEAR ENDED DECEMBER 31, 2015

(\$ in millions)

	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Accrued Subsidies				
Mass transportation operating assistance	\$ 1,564	\$ 1,564	\$ -	
Mass transit trust fund subsidies	610	610	-	
Mortgage recording tax 1 and 2	441	434	(7)	{1}
MRT transfer	(8)	(7)	1	{1}
Urban tax	948	975	27	{1}
State and local operating assistance	376	376	-	
Station maintenance	163	160	(3)	{1}
Connecticut Department of Transportation (CDOT)	149	107	(42)	{1}
Subsidy from New York City for MTA Bus and SIRTOA	451	436	(15)	{1}
NYS Grant for debt service	-	13	13	{3}
Build American Bonds Subsidy	-	89	89	{1}
Change in fair value of derivative financial instruments (Note 7)	-	2	2	{2}
Mobility tax	1,926	1,935	9	{1}
FTA/FEMA reimbursement related to tropical storm sandy	-	3	3	{2}
Other nonoperating income	-	12	12	{2}
Total accrued subsidies	6,620	6,709	89	
Net operating deficit before subsidies and debt service	(7,803)	(6,940)	863	
Debt Service	(2,383)	(1,401)	982	
Conversion to Cash basis: Depreciation	2,380	-	(2,380)	
Conversion to Cash basis: OPEB Obligation	2,030	-	(2,030)	
Conversion to Cash basis: Pollution & Remediation	7	-	(7)	
Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects	\$ 851	\$ (1,632)	\$ (2,483)	

{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 non-operating income or changes in market value.

{3} The Financial Plan records do not include other non-operating subsidy or expense for the refunding of NYS Service Contract Bonds.

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

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

Financial Plan Actual Operating Loss at December 31, 2015	<u>\$ (7,803)</u>
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The Audited Financial Statements Includes:

Higher operating revenues based on accrual adjustments	49
Lower labor expense based on most recent actuarial results for Worker's Compensation and OPEB	353
Lower pension expense related to the adoption of GASB Statement No. 68	419
Higher claims expense based on most recent actuarial results for non-employee claims	72
Higher pollution remediation expense	14
Intercompany eliminations and other adjustments	<u>(44)</u>

Total Operating Reconciling Items	<u>863</u>
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Audited Financial Statement Operating Loss	<u><u>\$ (6,940)</u></u>
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Financial Plan Actual Surplus after Subsidies and Debt Service at December 31, 2015	<u>\$ 851</u>
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The Financial Plan Actual Includes:

Debt Service Bond Principal Payments	982
Adjustments for non-cash liabilities:	
Depreciation	(2,380)
Unfunded OPEB Expense	(2,030)
Unfunded Pollution Remediation Expense	<u>(7)</u>
	<u>(4,417)</u>

The Audited Financial Statements Includes:

Higher subsidies and other non-operating revenues as follows:	89
Total Operating Reconciling Items	<u>863</u>

Financial Statements Loss Before Appropriations	<u><u>\$ (1,632)</u></u>
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New York City Transit Authority

(Component Unit of the Metropolitan Transportation
Authority)

Consolidated Financial Statements as of and
for the Years Ended December 31, 2015 and 2014,
Required Supplementary Information, and
Independent Auditors' Report

DRAFT

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the New York City Transit Authority (the "Authority"), a public benefit corporation which is a component unit of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related consolidated statements of revenues, expenses, and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the Authority's consolidated financial statements, as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the Authority as of December 31, 2015 and 2014, and the respective changes in the consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Note 1 to the consolidated financial statements, the Authority is a component unit of the MTA. The MTA is a component unit of the State of New York. The Authority requires significant subsidies from and has material transactions with MTA, The City of New York and the State of New York. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2015, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

As Accounting principles generally accepted in the United States of America require that the Management’s Discussion and Analysis on pages 3 through 15, Schedule of Changes in the Authority’s Net Pension Liability and Related Ratios for the MABSTOA Pension Plan on Page 72, Schedule of the Authority’s Proportionate Share of the Net Pension Liability in the NYCERS Pension Plan on page 73, Schedule of the Authority’s Contributions to all Pension Plans on page 74, and Schedule of Funding Progress for the New York City Transit Postemployment Benefit Plan on page 77 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

April XX, 2016

**NEW YORK CITY TRANSIT AUTHORITY
(COMPONENT UNIT OF THE METROPOLITAN TRANSPORTATION AUTHORITY)
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

1. OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction to the Annual Report:

This annual report consists of three parts: Management's Discussion and Analysis, Consolidated Financial Statements and Notes to the Consolidated Financial Statements and Required Supplementary Information.

Management's Discussion and Analysis:

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

The Consolidated Financial Statements Include:

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

The Consolidated Statements of Revenues, Expenses and Changes in Net Position show how the Authority's net position changed during each year. They account for all of the current year's revenues and expenses, measures the financial results of the Authority's operations over the past year and can be used to determine how the Authority has funded its costs.

The Consolidated Statements of Cash Flows provide information about the Authority's cash receipts, cash payments and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities.

The Notes to the Consolidated Financial Statements:

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

Required Supplementation Information:

The Required Supplementary Information provides information concerning the Authority's net pension liabilities, related ratios and contributions to its pension plans, and progress in funding its obligation to provide other postemployment benefits to its employees.

2. FINANCIAL REPORTING ENTITY

The New York City Transit Authority and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority) are public benefit corporations established pursuant to the New York State (the State) Public Authorities Law, to operate public subway, bus and paratransit services within The City of New York (The City). The Authority is a component unit of the Metropolitan Transportation Authority (MTA), which is a component unit of the State, and 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.

3. CONDENSED FINANCIAL INFORMATION

All amounts are in millions, except as noted.

The following sections will discuss the significant changes in the Authority's financial position for the years ended December 31, 2015 and 2014. Additionally, an examination 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, summaries of the consolidated financial statements and the various exhibits presented conform to the Authority's consolidated financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

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

(In millions)	2015	2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Capital assets	\$ 57,654	\$ 54,703	\$ 52,044	\$ 2,951	\$ 2,659
Accumulated depreciation	<u>(18,939)</u>	<u>(17,249)</u>	<u>(15,727)</u>	<u>(1,690)</u>	<u>(1,522)</u>
Capital assets, net of accumulated depreciation	38,715	37,454	36,317	1,261	1,137
Other assets	<u>2,368</u>	<u>1,923</u>	<u>1,320</u>	<u>445</u>	<u>603</u>
Total assets	<u>41,083</u>	<u>39,377</u>	<u>37,637</u>	<u>1,706</u>	<u>1,740</u>
Deferred outflows of resources	<u>997</u>	<u>-</u>	<u>-</u>	<u>997</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 42,080</u>	<u>\$ 39,377</u>	<u>\$ 37,637</u>	<u>\$ 2,703</u>	<u>\$ 1,740</u>

The Authority's capital assets totaled \$57.7 billion at December 31, 2015. Of the total, depots, yards, signals, and stations were 44.6%, subway cars and buses accounted for 21.3% and track and structures were 20.9%. These gross capital assets exclude significant infrastructure assets such as tunnels and

elevated structures, which are assets owned by The City. More detailed information about the Authority's capital assets is presented in Note 5 to the consolidated financial statements.

Significant changes in assets include:

December 31, 2015 versus 2014

Capital assets increased from December 31, 2014 to December 31, 2015 by \$2,951, or 5.4%. This increase was primarily due to under construction work of \$876, station rehabilitation work of \$640, track and structures of \$409, new buses of \$465 and new subway cars of \$187. Accumulated depreciation has increased by \$1,690, or 9.8%, due to annual depreciation expense of \$1,692, partly offset by normal retirements of \$2.

Other assets increased by \$445, or 23.1%, compared with the prior year. This increase was mostly due to increased MTA investment pool assets of \$234 and higher receivables due from MTA for the purchase of capital assets (labor reimbursements) of \$243, partly offset by lower current receivables of \$39.

As a result of adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, the Authority is reporting deferred outflows of resources related to pension liabilities of \$997 at December 31, 2015. See Note 7 to the consolidated financial statements for more information regarding the Authority's pensions.

December 31, 2014 versus 2013

Capital assets increased from December 31, 2013 to December 31, 2014 by \$2,662, or 5.2%. This increase was primarily due to station rehabilitation work of \$1,777, track and structures of \$586, new subway cars of \$430 and signals enhancements of \$297. Accumulated depreciation has increased by \$1,518, or 9.8%, due to annual depreciation expense of \$1,520, partly offset by normal retirements of \$2.

Other assets increased by \$603, or 45.7%, compared with the prior year. This increase was mostly due to higher current receivables from MTA and constituent authorities of \$256 and increased MTA investment pool assets of \$195.

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

(In millions)	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Increase/(Decrease)</u>	
				<u>2015-2014</u>	<u>2014-2013</u>
Current liabilities	\$ 1,648	\$ 1,998	\$ 2,105	\$ (350)	\$ (107)
Long-term liabilities	<u>18,236</u>	<u>11,239</u>	<u>9,446</u>	<u>6,997</u>	<u>1,793</u>
Total liabilities	<u>19,884</u>	<u>13,237</u>	<u>11,551</u>	<u>6,647</u>	<u>1,686</u>
Deferred inflows of resources	<u>893</u>	<u>-</u>	<u>-</u>	<u>893</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>\$ 20,777</u>	<u>\$13,237</u>	<u>\$11,551</u>	<u>\$ 7,540</u>	<u>\$1,686</u>

At the end of 2015, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for retirement, health and other benefits), 56.7%, net pension liability of 28.1%, and injuries to

persons (public liability and workers' compensation), 10.4%. Included in the employee fringe benefit-related liabilities was \$10,602 of post-employment benefits other than pensions.

Significant changes in liabilities include:

December 31, 2015 versus 2014

Liabilities increased from December 31, 2014 to December 31, 2015 by \$6,647, or 50.2%. Current liabilities decreased by \$350, or 17.5%, and long-term liabilities increased by \$6,997, or 62.3%.

The net decrease in current liabilities was mainly due to a decrease in retirement and death benefits of \$365 resulting from the adoption of GASB Statement No. 68, which classifies pension liability under long-term and a the decrease of \$17 in accrued salaries and wages offset, in part, by an increase in vacation and sick pay benefits of \$31 and an increase in the current portion of injuries to persons (public liability and workers' compensation) of \$24. See Note 7 to the consolidated financial statements for more information regarding the Authority's pensions.

The increase in long-term liabilities was primarily the result of the addition of \$5,596 of net pension liability resulting from the adoption of GASB Statement No. 68, and an increase of \$1,130 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation, and an increase of \$281 in liabilities arising from injuries to persons, also based on the most current actuarial valuation.

As a result of adopting GASB Statement No. 68, the Authority is reporting deferred inflows of resources related to pension liabilities of \$893 at December 31, 2015. See Note 7 to the consolidated financial statements for more information regarding the Authority's pensions.

December 31, 2014 versus 2013

Liabilities increased from December 31, 2013 to December 31, 2014 by \$1,686, or 14.6%. Current liabilities decreased by \$107, or 5.1%, and long-term liabilities increased by \$1,793, or 19.0%.

The net decrease in current liabilities was mainly due to a decrease in accrued salaries, wages and payroll taxes of \$226, partly offset by increases in accounts payable of \$34 and estimated liability arising from injuries to persons of \$32.

The increase in long-term liabilities was primarily the result of the addition of \$1,638 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation.

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

(In millions)	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>Increase/(Decrease)</u>	
				<u>2015-2014</u>	<u>2014-2013</u>
Net investment in capital assets	\$ 38,516	\$ 37,249	\$ 36,106	\$ 1,267	\$ 1,143
Unrestricted	<u>(17,213)</u>	<u>(11,109)</u>	<u>(10,020)</u>	<u>(6,104)</u>	<u>(1,089)</u>
Total net position	<u>\$ 21,303</u>	<u>\$ 26,140</u>	<u>\$ 26,086</u>	<u>\$ (4,837)</u>	<u>\$ 54</u>

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consist of three components: net investment in capital assets, restricted and unrestricted. Net investment in capital assets include capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net position is reported as restricted when constraints are imposed by third parties or enabling legislation. All other net position are unrestricted.

December 31, 2015 versus 2014

Total net position was \$21,303 at the end of 2015, a net decrease of \$4,837, or 18.5% from the end of 2014. The net decrease was primarily due to an operating loss of \$5,169 and decrease of \$5,500 for the restatement of beginning net position related to the adoption of GASB Statements No. 68 and 71 (see Note 2 to the consolidated financial statements), offset by net nonoperating income of \$3,939 and capital contributions from the MTA of \$1,893.

December 31, 2014 versus 2013

Total net position was \$26,140 at the end of 2014, a net increase of \$54, or 0.2% from the end of 2013. The net decrease was due to net nonoperating income of \$4,010, and capital contributions from the MTA of \$1,951, offset by operating losses of \$5,907.

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

(In millions)	Year Ended December 31,		
	<u>2015</u>	<u>2014</u>	<u>2013</u>
Operating revenues	\$ 4,827	\$ 4,611	\$ 4,451
Operating expenses	(9,996)	(10,518)	(10,023)
Asset impairment and related expenses	-	-	(80)
Operating loss	<u>(5,169)</u>	<u>(5,907)</u>	<u>(5,652)</u>
Nonoperating revenues (expenses):			
Subsidies: New York State and The City of New York	3,639	3,753	3,552
Triborough Bridge and Tunnel Authority	318	266	247
FTA/FEMA reimbursement	1	12	115
Interest expense	(21)	(22)	(24)
Other nonoperating revenue/(expenses)	<u>2</u>	<u>1</u>	<u>1</u>
Total nonoperating revenues (expenses)	<u>3,939</u>	<u>4,010</u>	<u>3,891</u>
Loss before capital contributions	<u>(1,230)</u>	<u>(1,897)</u>	<u>(1,761)</u>
Capital contributions	<u>1,893</u>	<u>1,951</u>	<u>1,754</u>
Change in net position	663	54	(7)
Net position — beginning of year	26,140	26,086	26,109
Restatement of beginning net position	<u>(5,500)</u>	-	(16)
Net position — end of year	<u>\$ 21,303</u>	<u>\$ 26,140</u>	<u>\$ 26,086</u>

Revenue from Fares/Ridership

(In millions)	2015	2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Subway revenue	\$ 3,314	\$3,172	\$3,031	\$ 142	\$ 141
Bus revenue	965	950	941	15	9
Expired fare media revenue	75	53	64	22	(11)
Paratransit revenue	17	16	16	1	-
Total revenue from fares	<u>\$ 4,371</u>	<u>\$4,191</u>	<u>\$4,052</u>	<u>\$ 180</u>	<u>\$ 139</u>
Total ridership (millions)	<u>2,422</u>	<u>2,427</u>	<u>2,394</u>	<u>(5)</u>	<u>33</u>
Non-student average fare	<u>\$ 1.87</u>	<u>\$ 1.80</u>	<u>\$ 1.76</u>	<u>\$ 0.07</u>	<u>\$ 0.04</u>

2015 versus 2014

Total revenue from fares was \$4,371 in 2015, an increase of \$180 or 4.3%. This increase was due mostly to a March 2015 fare increase. Total ridership was 2,422, a decrease of 5, or 0.2% from 2014.

2014 versus 2013

Total revenue from fares was \$4,191 in 2014, an increase of \$139 or 3.4%. This increase was due mostly to higher subway ridership and the annualization of the March 2013 fare increase. Total ridership was 2,427, an increase of 33, or 1.4% from 2013.

Operating Expenses, by Major Function

(In millions)	2015	2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Salaries and wages	\$ 3,535	\$ 3,455	\$ 3,318	\$ 80	\$137
Health and welfare	741	667	618	74	49
Pensions	553	908	919	(355)	(11)
Other fringe benefits	512	437	382	75	55
Reimbursed overhead expenses	(241)	(226)	(209)	(15)	(17)
Postemployment benefits other than pensions	1,501	1,991	1,880	(490)	111
Electric Power	287	313	299	(26)	14
Fuel	102	172	160	(70)	12
Insurance	72	69	62	3	7
Public liability claims	184	147	144	37	3
Paratransit service contracts	379	366	367	13	(1)
Maintenance and other operating contracts	196	185	167	11	18
Professional service contracts	94	124	144	(30)	(20)
Pollution remediation projects	13	12	24	1	(12)
Materials and supplies	290	302	264	(12)	38
Depreciation	1,692	1,520	1,421	172	99
Other expenses	86	76	63	10	13
Total operating expenses	<u>\$ 9,996</u>	<u>\$10,518</u>	<u>\$10,023</u>	<u>\$ (522)</u>	<u>\$ 495</u>

2015 versus 2014

Total operating expenses decreased by \$522, or 5.0% compared to 2014 as follows:

- Salaries and wages were higher than 2014 by \$80, or 2.3%. Payroll increased by 1.2% as most represented and non-represented personnel received wage increases in 2015 and headcount increased in support of various maintenance programs and operations requirements. Overtime expenses increased by 10.6%, due mostly to adverse weather, maintenance, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$74, or 11.1%, due primarily to increased rates for health and welfare plans.
- Pension expenses decreased by \$355, or 39.1%, resulting from the adoption of GASB Statement No. 68.
- Other fringe benefit expenses increased by \$75, or 17.2%, due primarily to higher Workers' Compensation reserve requirements based upon the current actuarial valuation.
- Post-employment benefits other than pensions decreased by \$490, or 24.6%, based on the most recent actuarial valuation, which reflects a significant reduction in pharmacy claims due to the introduction of an Employee Group Waiver Plan.
- Fuel expenses decreased by \$70, or 40.7%, due mostly to lower prices.
- Public liability claims expenses increased by \$37, or 25.2%, due primarily to an actuarial valuation update, which reflected the increase in major claims.
- Professional service contracts expenses decreased by \$30, or 24.2%, due primarily to the MTA consolidation of IT functions.
- Depreciation expenses increased by \$172, or 11.3%, due to the capitalization of construction work, new station rehabilitations, trackwork, signal enhancements and new buses and subway cars in 2015.

2014 versus 2013

Total operating expenses increased by \$495, or 4.9% compared to 2013 as follows:

- Salaries and wages were higher than 2013 by \$137, or 4.1%. Payroll increased by 2.8% as most represented and non-represented personnel received wage increases in 2014 and headcount increased in support of various maintenance programs and operations requirements. Overtime expenses increased by 15.0%, due mostly to adverse weather, maintenance, unscheduled service, and vacancy/absentee coverage requirements.
- Health and welfare expenses increased by \$49, or 7.9%, due primarily to increased rates for health and welfare plans.
- Other fringe benefit expenses increased by \$55, or 14.4%, due primarily to higher Workers' Compensation reserve requirements based upon the current actuarial valuation.

- Post-employment benefits other than pensions increased by \$111, or 5.9%, based on the most recent actuarial valuation.
- Maintenance and other operating contracts increased by \$18, or 10.8%, due mostly to increases in vehicle purchases, safety equipment, security services, water and sewage, and rent.
- Professional service contract expenses decreased by \$20, or 13.9%, due primarily to a reduction in Workers' Compensation Board administrative expenses, based on new legislation.
- Pollution remediation project costs, which have decreased by \$12 to \$12 in 2014, are being expensed in accordance with the provisions of GASB Statement No. 49. Project encumbrances (expenses) for 2014 were lower than 2013 (see Note 16).
- Materials and supplies expenses increased by \$38, or 14.4%, due largely to additional maintenance material requirements for both vehicles and facilities.
- Depreciation expenses increased by \$99, or 7.0%, due to the capitalization of new station rehabilitations, trackwork, signal enhancements and new subway cars in 2014.

Nonoperating Revenues and Expenses

The Authority receives a variety of tax-supported subsidies from New York State and The City of New York. These subsidies represent a State Mobility Tax and corporate franchise, sales, energy, mortgage recording and real estate taxes and are impacted by the strength of the State and City economies and prevailing interest rates.

Operating assistance subsidies from New York State and The City have been maintained at the same level each year.

The Triborough Bridge & Tunnel Authority, another affiliate of the MTA, distributes to the Authority, each year, funds that vary based upon its operating surplus.

Capital contributions from the MTA of \$1,893 in 2015 and \$1,951 in 2014, represent capital program funding from several sources including bonds, Federal, State and City funding.

Changes in Net Position

The change in net position represents the net total of capital contributions, operating losses and nonoperating income. The net position increased by \$663 in 2015 before a restatement of beginning net position and increased by \$54 in 2014. The accumulated prior year net position restatement of \$5,500 was related to the adoption of GASB Statements No. 68 and 71 (see Note 2 to the consolidated financial statements).

Budget Highlights

Total operating revenues in 2015 of \$4,827 were higher than budget by \$20, or 0.4%. Total revenue from fares exceeded budget by \$17, or 0.4%, due mostly to higher than anticipated fare media expiration revenue. Other operating revenue exceeded budget by \$3, or 0.6%.

Total operating expenses in 2015 of \$9,996 were less than budget by \$644, or 6.1%. Labor-related expenses of \$6,601 were below budget by \$683, or 9.4%. This net result was due to a decrease in pension

expenses of \$405, or 42.3%, based on the adoption of GASB Statement No. 68. This significant favorable variance was mostly offset by an overrun in other fringe benefits of \$196, or 61.9 percent, based largely on an actuarial update resulting in additional Workers' Compensation reserve requirements, and lower postemployment benefits other than pensions of \$492, or 24.7%, also based on an actuarial update. Non labor expenses exceeded budget by \$39, or 1.2%, of which public liability claims expenses were higher by \$77, or 72.3% based largely on a current actuarial update of additional reserve requirements. Depreciation expenses were also above budget by \$54, or 3.3%, based on the timing of assets reaching beneficial use. Partly offsetting these unfavorable results was a fuel expense underrun of \$64, or 38.7%, resulting from lower prices.

4. OVERALL FINANCIAL POSITION, 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 Authority consists of urban subway and bus systems. In order to achieve maximum efficiency and success in its operations, the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Preliminary the Authority system-wide utilization through the fourth quarter of 2015 declined relative to 2014, with ridership down by 5.1 million trips (0.2%). This net decline was driven by a decrease in bus ridership of 16.4 million. During the first quarter of the year, harsh weather affected 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 the Authority subways, however, ridership improved by 11.3 million trips.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2015 than in 2014 by 95.3 thousand jobs (2.3%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-one 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 0.7% in the fourth quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The slowdown in RGDP in the third quarter primarily reflected a deceleration in personal consumption expenditures and downturns in nonresidential fixed investment, in exports, and in state and local government spending that were partly offset by a smaller decrease in private inventory investment, a deceleration in imports, and an acceleration in federal government spending. The annualized RGDP growth for the fourth quarter was under the annualized rate of 2.0% in the third quarter; nevertheless, the national economy has now seen expansion in twenty-four of the last twenty-five quarters.

The New York City metropolitan area's price inflation, as represented by the Consumer Price Index for All Urban Consumers (CPI-U), was slightly higher than the national average in the fourth quarter of 2015 with the metropolitan area index increasing 0.6% while the national index increased 0.5%. A 17.6% fall

in the regional price of energy products, along with a 14.9% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.9%; nationally, inflation exclusive of energy prices increased 1.7%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 35.2% from an average price of \$2.082 to an average of \$1.350 per gallon between the fourth quarters of 2014 and 2015.

In December 2015, the Federal Open Market Committee (FOMC) announced it would raise its target for the Federal Funds rate to the range of 0.25% to 0.50%, its first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises first deepened. In announcing its decision, the FOMC cited recent evidence that economic activity has been expanding at a moderate rate. Household spending and business fixed investment have been increasing, and the housing sector has further improved. While net exports have been soft, a range of labor market indicators have shown further improvement, confirming that underutilization of labor resources has diminished since the early part of 2015, and inflation continues to run below the FOMC's long-term objective of 2 percent. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. Given its judgement that there has been considerable improvement in labor market conditions and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective, and further recognizing the time necessary for policy actions to affect future economic outcomes, the FOMC raised the Federal Funds target rate. The FOMC expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that in the near-term rates will remain below levels that are expected to prevail in the longer run. Additionally, the FOMC is maintaining its policy of reinvesting 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 Authority, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Urban Tax, an important source of the Authority revenue.

Results of Operations and Overall Financial Position

Total revenue from fares was \$4,371 in 2015, an increase of \$180 or 4.3% from 2014. Total ridership was 2,422 million, a decrease of \$5 or 0.2% from 2014. Total operating expenses, including depreciation, other post-employment benefits and environmental remediation expenses, were \$9,996 in 2015, a decrease of 5.0%.

Going forward, the stability of the Authority's financial position is subject to certain risks, requiring the efficient management of costs, including the establishment of new cost reduction programs, in order to counteract any adverse impacts to revenue streams or cost increases.

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

2000-2004 Capital Program — The 2000-2004 Capital Program, which was approved by the State Review Board in May 2000, provided for \$17.1 billion in capital expenditures, of which the Authority's portion was \$10.3 billion. In May and December of 2002, the MTA Board approved amendments to the program reflecting changes to budgets, schedules, funding and added to the infrastructure and facilities security programs. In December 2003, the MTA Board approved a general update to the plan to incorporate changes and authorized its submission to the MTA Capital Program Review Board (CPRB). In January 2004, the MTA Board approved a further modification to that program to support the accelerated purchase of additional commuter railcars. In December 2004, the MTA Board approved an amendment that incorporated the creation of the MTA Bus Company, and included additional funding from The City for the #7 Extension design work, as well as additional security grant funding. In December 2005, the MTA Board approved an amendment that increased the overall capital program total to \$19.9 billion, of which the Authority's share was \$10.2 billion. This amendment included additional federal funds for the Fulton Street Transit Center, South Ferry Station, a new Bus Depot on Staten Island and CCTV installation in NYCT stations. In December 2006, the MTA Board approved an amendment that increased the overall capital program total to \$21.2 billion, of which the Authority's share was increased to \$10.3 billion. In 2009, the capital program received \$0.2 billion in federal stimulus funding. Reallocation between programs resulted in an additional \$0.5 billion to the 2000-2004 Capital Program, increasing the overall total plan to \$21.7 billion, of which the Authority's share is \$10.4 billion. Among the projects included in the 2000-2004 Transit Capital Program and subsequent amendments are the following: rebuilding the 1/9 line track and structures destroyed by the September 11, 2001 attacks on the World Trade Center, design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283 cars, acquisition of 985 new buses, including 135 CNG buses, rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various stations, replacement of approximately 42 miles of mainline track and 212 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2000-2004 Capital Program are comprised of \$7.4 billion in bonds, \$7.4 billion in federal funds, \$4.6 billion from debt restructuring, and \$2.3 billion from other sources.

As part of the 2000-2004 Capital Program, the MTA, the TBTA and the Authority have refunded and defeased substantially all of their outstanding debt and consolidated most of their existing credits.

At December 31, 2015, \$10.4 billion has been committed to Authority projects from the 2000-2004 approved plan, of which approximately \$10.3 billion has been expended.

2005-2009 Capital Program — The MTA Capital Program for 2005-2009 was approved by the CPRB in July 2005 and amended in July 2006. The 2005-2009 Program, as approved, provided for \$20.1 billion in capital expenditures, of which the Authority's share was \$11.2 billion. In February 2007, the MTA Board further amended the Program to add \$1.2 billion of Federal East Side Access Full Funding Grant Agreement (FFGA) funds to the East Side Access project, which relates to the Capital Construction Company's capital program. In July 2008, the MTA Board further amended the Program to add an additional \$267 million of Federal East Side Access FFGA funds and \$764 million in Federal Second Avenue Subway FFGA funds relating to the Capital Construction Company's capital program. Also included in this amendment were the rollover of unused LaGuardia Airport Project funds from the 2000-2004 Capital Program and other miscellaneous funding adjustments. In 2009, the capital program received \$0.7 billion in federal stimulus funding.

The 2005-2009 Capital Program is designed to continue a program of capital expenditures that would support on-going maintenance and provide needed improvements to enhance services to its customers. Reallocation between programs, subsequent to the amendments and federal stimulus funding noted above, resulted in the overall plan totaling \$24.5 billion, of which the Authority's share is \$11.6 billion. The

Authority's portion of the capital program excludes \$7.7 billion of approved capital projects managed by the MTA Capital Construction Company on behalf of the Transit Authority and the Long Island Rail Road. Among the projects in the 2005-2009 Transit Capital Program are the following: normal replacement of 1,002 B Division Cars, fleet growth of 23 A Division Cars, the purchase of 1,236 new buses including 1,043 standard, 90 articulated and 103 express buses, the purchase of 1,387 new paratransit vehicles, rehabilitation of 36 stations, replacement of 23 escalators, replacement of 52 miles of mainline track and 143 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2005-2009 Capital Program are comprised of \$9.1 billion in federal funds, \$1.5 billion from the New York State voter approved State-Wide Transportation Bond Act, \$9.8 billion in bonds, and \$4.1 billion from other sources.

At December 31, 2015, \$11.4 billion has been committed to Authority projects from the 2005-2009 approved plan, of which approximately \$11.0 billion has been expended.

2010-2014 Capital Program — The 2010-2014 Capital Program was approved by the MTA Board in September 2009. The program totaling approximately \$25.6 billion was subsequently submitted to the NYS Capital Program Review Board (CPRB) for their review and approval. The submitted Program was vetoed without prejudice by the Review Board in December 2009. Subsequently, the resubmitted 2010-2014 Program, totaling \$26.3 billion was approved by the CPRB in June 2010, of which the Authority's share is \$12.8 billion. The approved CPRB program fully funded only the first two years of the plan, with a commitment to come back to CPRB with a funding proposal for the last three years. On December 21, 2011, the MTA Board approved an amendment to the 2010-2014 Program that funds the last three years of the program through a combination of self-help (efficiency improvements and real estate initiatives), participation by our funding providers and innovative and pragmatic financing arrangements. The Authority's share of the \$24.3 billion revised program was \$11.6 billion. On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Programs to add projects for the repair and restoration of MTA agency assets damaged as a result of Tropical Storm Sandy, which struck the region on October 29, 2012. The revised programs provide for an additional \$4.8 billion in Sandy recovery-related capital expenditures, of which the Authority's share is \$3.3 billion. On January 23, 2013, the amended program as submitted was deemed approved by the CPRB. 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, totaling \$5.8 billion in response to Tropical Storm Sandy. The Authority's share of the new initiative is \$5.1 billion. On August 27, 2013, the CPRB deemed approved those amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted. Reallocation between programs, subsequent to the amendments resulted in the overall plan totaling \$34.9 billion, of which the Authority's share is \$20.0 billion.

The combined funding sources for the 2010-2014 Capital Program are comprised of \$12.7 billion in MTA bonds, \$6.3 billion in federal funds, \$2.1 billion in Bridges and Tunnels dedicated funds, \$0.1 billion in MTA Bus Federal and City Match, \$0.8 billion in State Assistance, \$0.8 billion in City Capital Funds, and \$1.5 billion from other sources. The funding strategy for Tropical Storm Sandy repair and restoration assumes the receipt of \$9.4 billion in insurance and federal reimbursement proceeds (including interim borrowing by MTA to cover delays in the receipt of such proceeds), \$0.2 billion in Pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$1.0 billion in additional MTA and MTA Bridges and Tunnels bonds.

At December 31, 2015, \$10.5 billion has been committed to Authority projects from the 2010-2014 approved plan, of which approximately \$6.4 billion has been expended.

2015-2019 Capital Program — the 2015-2019 Capital Program totaling \$32.0 billion was approved by the MTA Board in September 2014. The program totaling approximately \$29.0 billion was subsequently submitted to the CPRB for their review and was vetoed without prejudice by the Review Board in October 2014. On October 28, 2015, the MTA Board approved a revised 2015-2019 capital program totaling \$26.1 billion. Submission of the revised capital program to the CPRB for review is still pending. The revised 2015-2019 MTA Bridges and Tunnels Capital Program totaling \$2.9 billion was approved by the MTA Board in October 2015 and was not subject to CPRB approval.

The combined funding sources for the 2015-2019 Capital Program are comprised of \$5.9 billion in MTA Bonds, \$2.9 billion in MTA Bridges and Tunnels dedicated funds, \$8.3 billion in funding from the State of New York, \$6.4 billion in Federal Funds, \$2.5 billion from City Capital Funds, \$1.8 billion in pay-as-you-go (PAYGO) capital, and \$1.2 billion from Other Sources.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA's operation.

In the 2015-2019 Capital Program, NYC Transit continues normal replacement of key assets like rolling stock and mainline track/switches while also emphasizing overdue investments in signals and other infrastructure. Stations continue to be an important focus of investment given the importance of the station environment to NYC Transit's customers and their communities. Core infrastructure investments include: modernization of six interlockings; the purchase of 950 railcars to replace railcars reaching the end of their useful lives; 1,391 new buses, including 1,041 standard, 300 articulated and 50 express buses; replacement of approximately 51 miles of mainline track and 127 mainline switches; communications improvements and improvements to shops, yards, and depots; ADA accessibility improvements; completion of the new fare payment system; elimination of station defects; substantial access and circulation improvements at the Grand Central Times Square stations.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority's February 2016 Financial Plan includes certain risks such as possible lower investment returns on pensions and chronic cost issues relating to Workers' Compensation, public liability claims and overtime. These risks need to be addressed in order to be able to balance future year budgets. To assist in achieving this, the ongoing identification and implementation of sustainable new savings programs and gap closing actions will be required.

The full funding of the 2015-2019 Capital Program is necessary in order to meet all important requirements.

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NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 62,213	\$ 55,145
MTA investment pool (Note 4)	520,960	287,149
Receivables:		
Billed and unbilled charges due from New York City	24,305	33,092
Accrued subsidies	135,757	101,123
Due from MTA and constituent Authorities (Note 10)	458,722	528,751
Other	95,499	90,962
Less allowance for doubtful accounts	<u>(9,792)</u>	<u>(10,377)</u>
Net receivables	704,491	743,551
Materials and supplies	291,732	255,356
Prepaid pension asset	-	33,782
Prepaid expenses and other current assets	<u>45,096</u>	<u>47,080</u>
Total current assets	<u>1,624,492</u>	<u>1,422,063</u>
NONCURRENT ASSETS:		
Due from MTA for the purchase of capital assets	743,171	500,033
Capital assets (Note 5):		
Construction work-in-progress	4,176,643	3,300,581
Other capital assets, net of accumulated depreciation	34,358,103	33,968,233
Leased property under capital lease, net of accumulated amortization (Note 5)	73,897	76,308
Leasehold improvements on property, net of accumulated depreciation (Note 5)	106,257	109,482
Restricted deposits and other escrow funds	<u>521</u>	<u>635</u>
Total assets	<u>41,083,084</u>	<u>39,377,335</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions (Note 7)	<u>997,056</u>	<u>-</u>
Total deferred outflows of resources	<u>997,056</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 42,080,140</u></u>	<u><u>\$ 39,377,335</u></u>

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 146,787	\$ 195,392
Accrued expenses:		
Salaries, wages, and payroll taxes	137,332	153,880
Vacation, sick pay, and other benefits	655,501	624,235
Retirement and death benefits	11,634	377,022
Estimated liability arising from injuries to persons (Note 15)	245,079	221,174
Pollution remediation projects (Note 16)	8,346	8,537
Other	102,130	116,761
Total accrued expenses	1,160,022	1,501,609
Due to MTA for repayment of debt, current portion (Note 9)	9,738	7,540
Unredeemed farecards	294,390	269,967
Unamortized subsidy revenue	36,887	6,886
Paratransit reimbursement advances	-	16,469
Total current liabilities	1,647,824	1,997,863
NONCURRENT LIABILITIES:		
Due to MTA for repayment of Certificates of Participation (Note 9)	22,801	34,738
Obligation under capital lease, long-term (Note 5)	165,963	163,609
Net pension liability (Note 7)	5,596,056	-
Postemployment benefits other than pensions (Note 8)	10,602,300	9,472,187
Estimated liability arising from injuries to persons (Note 15)	1,815,354	1,534,525
Pollution remediation projects (Note 16)	33,383	34,146
Restricted deposits and other escrow funds	521	635
Total liabilities	19,884,202	13,237,703
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions (Note 7)	892,923	-
Total deferred inflows of resources	892,923	-
NET POSITION:		
Net investment in capital assets	38,516,398	37,248,717
Unrestricted	(17,213,383)	(11,109,085)
Total net position	21,303,015	26,139,632
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 42,080,140	\$ 39,377,335

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING REVENUES:		
Rapid transit	\$ 3,313,600	\$ 3,171,793
Surface transit	964,784	949,898
Expired fare media	75,583	53,391
Paratransit fares	17,425	15,957
School, elderly, and paratransit reimbursement	275,081	262,155
Advertising and other	180,223	158,169
	<u>4,826,696</u>	<u>4,611,363</u>
Total operating revenues		
OPERATING EXPENSES:		
Salaries and wages	3,534,572	3,454,798
Health and welfare	741,052	666,761
Pensions	553,144	907,877
Other fringe benefits	511,676	437,038
Reimbursed overhead expenses	(240,903)	(226,548)
Postemployment benefits other than pensions	1,501,343	1,991,062
Electric power	286,555	312,554
Fuel	101,574	172,346
Insurance	72,444	68,879
Public liability claims	184,365	147,420
Paratransit service contracts	379,271	365,599
Maintenance and other operating expenses	196,382	185,523
Professional service contracts	93,673	124,475
Environmental remediation	12,876	12,478
Materials and supplies	289,716	302,074
Depreciation	1,692,141	1,519,813
Other expenses	85,978	76,130
	<u>9,995,859</u>	<u>10,518,279</u>
Total operating expenses		
Asset impairment and related expenses (Note 6)	<u>-</u>	<u>(161)</u>
OPERATING LOSS	<u>(5,169,163)</u>	<u>(5,906,755)</u>

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY

(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousands)

	2015	2014
NONOPERATING REVENUES:		
Tax-supported subsidies:		
New York State	\$ 2,351,883	\$ 2,641,294
New York City	974,987	799,568
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	318,435	265,570
Less amounts provided to Staten Island Rapid Transit Operating Authority	<u>(4,601)</u>	<u>(4,736)</u>
Total nonoperating revenues	3,958,048	4,019,040
Federal Transit Authority/Federal Emergency Management Agency reimbursement	450	11,683
Interest expense	(21,341)	(22,347)
Interest income and other nonoperating revenues	<u>1,484</u>	<u>1,316</u>
Total nonoperating income	<u>3,938,641</u>	<u>4,009,692</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,230,522)	(1,897,063)
CAPITAL CONTRIBUTIONS	<u>1,893,442</u>	<u>1,950,871</u>
CHANGE IN NET POSITION	662,920	53,808
NET POSITION:		
Beginning of year	26,139,632	26,085,824
Restatement of beginning net position (Note 2)	<u>(5,499,537)</u>	<u>-</u>
End of year	<u>\$21,303,015</u>	<u>\$26,139,632</u>

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passengers, tenants, advertisers, and others	\$ 4,869,289	\$ 4,659,671
Cash payments for payroll and related employee costs	(5,525,525)	(5,647,084)
Cash payments to suppliers for goods and services	(1,741,196)	(1,764,830)
Net cash used in operating activities	<u>(2,397,432)</u>	<u>(2,752,243)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	3,925,354	3,991,858
Net working capital loans from MTA	(100,000)	(100,000)
Recoveries from insurance related to Tropical Storm Irene	450	4,994
FTA/FEMA reimbursement	-	11,683
Net cash provided by noncapital financing activities	<u>3,825,804</u>	<u>3,908,535</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments	(9,738)	(10,233)
Interest paid	(10,058)	(7,540)
Payments on MTA Transportation bonds issued to fund capital assets	(1,135,630)	(1,089,714)
Subsidies designated for debt service payments	279,077	286,959
Capital project costs incurred for capital program	(996,198)	(950,307)
Cash transferred to capital program fund	(374,949)	(64,872)
Reimbursement of capital project costs from MTA	1,059,314	882,441
Net cash used in capital and related financing activities	<u>(1,188,182)</u>	<u>(953,266)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA investment pool	(233,811)	(194,995)
Interest on investments	689	576
Net cash used in investing activities	<u>(233,122)</u>	<u>(194,419)</u>
NET INCREASE IN CASH	7,068	8,607
CASH — Beginning of year	55,145	46,538
CASH — End of year	<u>\$ 62,213</u>	<u>\$ 55,145</u>

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (5,169,163)	\$ (5,906,755)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	1,692,141	1,519,813
Tropical Storm Sandy asset impairment	-	(5,333)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease in operating receivables	18,170	44,206
Decrease (increase) in prepaid expenses and other current assets	1,984	(18,372)
Decrease in deferred pension asset	33,782	1,778
Increase in materials and supplies	(36,376)	(37,696)
Increase in deferred outflows of resources	(997,056)	-
Increase in farecard liability	24,423	4,102
Increase (decrease) in accrued salaries, wages and payroll taxes	7,754	(250,494)
(Decrease) increase in accounts payable and other accrued liabilities	(63,193)	34,550
Increase in accrued vacation, sick pay and other benefits	31,266	15,704
(Decrease) increase in accrued retirement and death benefits	(365,388)	10,848
Increase in net pension liability	97,408	-
Increase in deferred inflows of resources	892,923	-
Increase in postemployment benefits other than pensions	1,130,113	1,638,389
Increase in estimated liability arising from injuries to persons	304,734	207,627
Decrease in liability for environmental pollution remediation	(954)	(10,610)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (2,397,432)</u>	<u>\$ (2,752,243)</u>
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES — Fair value of assets contributed	<u>\$ 1,516,135</u>	<u>\$ 1,325,451</u>

See notes to consolidated financial statements.

(Concluded)

NEW YORK CITY TRANSIT AUTHORITY

(Component Unit of the Metropolitan Transportation Authority)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2015 AND 2014

1. BASIS OF PRESENTATION

Reporting Entity — The accompanying consolidated financial statements include the accounts of the New York City Transit Authority (Transit Authority), and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority), which are public benefit corporations and component units of the Metropolitan Transportation Authority (MTA) created pursuant to the Public Authorities Law (the Act) of the State of New York (the State) to operate public subway and bus services within The City of New York (The City).

MaBSTOA is a subsidiary of the Transit Authority and, therefore, the financial results of MaBSTOA are combined with those of the Transit Authority in the consolidated financial statements. The MaBSTOA Pension Plan (the Plan) is not a component unit of the Transit Authority, in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, and therefore, the financial results of the Plan are not included in the Authority's consolidated financial statements.

The Authority has material transactions with affiliated agencies included in the MTA financial reporting group. Such agencies include the MTA, Triborough Bridge and Tunnel Authority (TBTA), Metro North Commuter Railroad (MNCR), Long Island Rail Road (LIRR), MTA Bus Company (MTA Bus) and Staten Island Rapid Transit Operating Authority (SIRTOA).

The Authority is a part of the financial reporting group of the MTA and is included in the combined financial statements of the MTA in accordance with GASB Statement No. 14, as amended by GASB Statement No. 61. The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the State Comptroller as a public benefit corporation.

In July 2003, the MTA Capital Construction Company was created by action of the MTA Board of Directors as a public benefit corporation subsidiary of the MTA under section 1266(s) of the Public Authorities Law. The mission of this new subsidiary company is to plan, design and construct current and future major MTA system expansion projects. Projects currently underway, include all activities associated with the Long Island Rail Road East Side access, the Number 7 Line Extension, the Lower Manhattan Fulton Transit Center, the new South Ferry station complex, system-wide capital Security Projects, and the Second Avenue Subway, which are consolidated under the management of the MTA Capital Construction Company.

In December of 2004, MTA Bus was created as a public benefit corporation subsidiary of the MTA specifically to operate certain City bus routes. These routes are currently operated by MTA Bus and not by the Authority. All material transactions between MTA Bus and the Authority have been properly recorded as of December 31, 2015.

Staten Island Rapid Transit Operating Authority — The Staten Island Rapid Transit Operating Authority (SIRTOA) is a component unit of the MTA and provides transportation service on Staten Island. SIRTOA is managed by the Authority on behalf of The City. The Authority has no responsibility for the operating deficit of SIRTOA. The Authority collects, on SIRTOA's behalf, its share of certain

operating assistance subsidies determined by formula, and transfers such subsidies to SIRTOA. The amount of subsidy funds to which SIRTOA is entitled is recorded as a reduction of the subsidy revenues of the Authority.

Operations — Operations are conducted pursuant to leases with The City which expired on November 1, 1989, except that the terms of the leases continue so long as any financing agreement between the Authority and the MTA and any MTA Transportation Revenue Bonds remain outstanding (see Note 9). The City has the option to terminate the leases at any time. In the event of termination, The City is required to assume the assets and liabilities of the Authority and must pay or make provision for the payment of any debt incurred pursuant to financing agreements of the Authority.

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that the Authority provides; such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, the Authority receives subsidies from:

- a. The State, in the form of annual subsidies of special State and regional tax revenues, operating assistance, and reimbursement of certain expenses;
- b. The City, in the form of operating assistance, tax revenues, and reimbursement of certain expenses; and
- c. An affiliated agency (TBTA), in the form of a portion of its operating surplus.

The New York State Public Authorities Law and the financing agreement between the Authority and the MTA provide that the Authority shall establish fares, tolls, and other fees for the use of its facilities as may be necessary to maintain its combined operations on a self-sustaining basis as defined in such law. It is the opinion of management that the Authority is in compliance with these requirements. The Authority is not liable for real estate taxes, franchise taxes, or sales taxes on substantially all of its purchases or other excise taxes on its properties.

Capital Financing — The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA's operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying consolidated financial statements have been 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*.

New Accounting Standards — In fiscal year 2015, the Authority adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. 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.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions this Statement identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. As a result of adopting this Statement, the Authority is reporting net pension liabilities, deferred outflows of resources and deferred inflows of resources for each of its qualified plans and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$5,499.5 million, representing the retroactive effect of adoption. The Authority did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. An aggregate net pension liability of \$5,596.1 million, an aggregate deferred outflows of resources of \$997.1 million, and an aggregate deferred inflows of resources of \$892.9 million, were reported at December 31, 2015. The Authority recognized aggregate pension expense of \$552.0 million for the year-end December 31, 2015. Refer to Note 7 for more information regarding the Authority's pensions.

In fiscal year 2015, The Authority adopted 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68. The Authority recognized deferred outflows of resources of \$555.6 million at December 31, 2015 for contributions made during the year. Refer to Note 7 for more information regarding the Authority's pensions.

The Authority 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 Authority 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 are effective for fiscal years beginning after June 15, 2016.

The Authority 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, and 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 Authority 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, and 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 Authority 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 Authority has not completed the process of evaluating the impact of GASB 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 Authority 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 Authority 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.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a

component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 82, *Pension Issues*. The objective of GASB Statement No. 82 is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding: (1) the presentation of payroll-related measures in required supplementary information; (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Net Position — The Authority follows the “business type” activity requirements of GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* which requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- Net investment in capital assets: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

- Restricted:

Nonexpendable — Net position subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended December 31, 2015 and 2014, the Authority did not have nonexpendable net position.

Expendable — Net position whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time. For the years ended December 31, 2015 and 2014, the Authority did not have expendable net position

- Unrestricted: Net position that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Subsidies — The Authority receives subsidies from various sources, including the State and The City, which are included in nonoperating revenues. In general, these subsidies are subject to annual appropriations by the governmental units and periodic approval of the continuation of the taxes supporting the subsidies.

The principal funding sources for the Authority are as follows:

Operating Assistance Appropriations and Grants — The Authority receives, subject to annual appropriations, State and City operating assistance funds. The funds received under the State transit operating assistance program are fully matched by contributions from The City. State and City operating assistance subsidies are recognized as non-operating revenue in the amount of the respective annual appropriation when such appropriation becomes effective.

Triborough Bridge and Tunnel Authority — The New York State Public Authorities law requires the TBTA to transfer its annual operating surplus, as defined, to the Authority and the MTA. The initial \$24 million of the operating surplus is provided to the Authority and the balance is divided equally between the Authority and the MTA. However, the amounts transferred to the Authority and the MTA are net of a provision for debt service on TBTA bonds issued to finance the acquisition of facilities under their respective portions of the Capital Program. For the years ended December 31, 2015 and 2014, \$255.9 million and \$242.7 million, respectively, were paid from the operating surplus of the TBTA to satisfy the Authority's portion of debt service requirements.

Mortgage Recording Taxes — Under New York State law, the MTA receives operating and capital assistance from the State Mortgage Recording Tax, which is collected by The City and the seven counties within the MTA transportation region, at the rate of three-tenths of 1% of the debt secured by certain real estate mortgages. Such legislation governs the use of the funds from this revenue source whereby the proceeds of this tax are first used by the MTA to meet the operating costs of the MTA headquarters, with the remaining funds allocated 55% to the Authority and 45% to the commuter railroads for their capital and operating needs. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. The portion of this subsidy attributable to the Authority is reported in "Tax-supported subsidies: New York State" in the accompanying consolidated statements of Revenues, Expenses, and Changes in Net Position. The Authority records the portion of its State Mortgage Recording Tax subsidy which funds principal and interest payments on long-term debt, net of investment earnings on unexpended proceeds, used to construct capital assets as capital contributions.

In addition, the State designated for the MTA's use an additional mortgage recording tax (the Additional Mortgage Recording Tax) of one-quarter of 1% of mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA transportation region. The funds from this additional tax are available, after satisfying debt service requirements, to meet the capital and operating needs of the Authority and the commuter railroads to be disbursed at MTA's discretion.

No funds from the Additional Mortgage Recording Tax were disbursed to the Authority in 2015 and 2014.

The Authority receives operating assistance directly from The City through The City Mortgage Recording Tax at the rate of five-eighths of 1% of the debt secured by certain real estate mortgages and through the Real Property Transfer Tax at the rate of 1% of certain properties' assessed value (collectively referred to as Urban Tax Subsidies). These Urban Tax Subsidies are reflected in Tax supported subsidies: New York City, in the accompanying consolidated statements of Revenues, Expenses, and Changes in Net Position. These funds are recognized as revenue, based upon the reported amount of taxes collected by The City from underlying transactions, within the Authority's fiscal year.

New York State Regional Mass Transit Taxes — The Authority receives, subject to annual appropriations, revenues from taxes enacted by the State legislature from various taxing sources.

In 1980, the State enacted a series of taxes, portions of which are deposited in the Metro Mass Transportation Operating Account (MMTOA), to fund the operating deficits of State mass transportation systems. MMTOA taxes currently include a business privilege tax imposed on petroleum business in the State, a one-quarter of 1% sales and use tax on certain personal property and services, a corporate franchise tax imposed on transportation and transmission companies, and a temporary franchise tax surcharge on certain corporations, banks, insurance, utility, and transportation companies attributable to business activity carried on in the State. MMTOA taxes are subject to annual appropriation, availability of sufficient tax collections, and determination of operating need by the State for the MTA. They are recognized as revenue in the amount of the annual appropriation when such appropriation becomes effective.

Under New York State law, subject to annual appropriation, the MTA receives operating and capital assistance through a portion of petroleum business tax receipts, certain motor fuel taxes, and certain motor vehicle fees, which are collected by the State. Such assistance is required by law to be allocated, after provision for debt service on any bonds secured by such taxes, 85% to the Authority and 15% to the commuter railroads for their operating and capital needs. MTA Dedicated Tax Fund Bonds (DTF Bonds) are secured by certain petroleum business tax receipts. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. A portion of the petroleum business tax receipts collected by the MTA is used to satisfy the debt service requirements for the DTF Bonds and is recorded as capital contributions.

Metropolitan Commuter Transportation Mobility Tax — In June 2009, Chapter 25 of the Laws of 2009 added Article 23, which established the Metropolitan Commuter Transportation Mobility Tax (MCTMT). This tax is administered by the NYS Tax Department, and the proceeds from this tax are distributed to the MTA. This tax is imposed on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD), which includes all counties in New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This tax requires certain employers that have payroll expenses within the MCTD to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The effective date of this tax was March 1, 2009 for employers other than public schools districts; September 1, 2009 for public schools districts, and January 1, 2009 for individuals.

Also in 2009, several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the MTA's Aid Trust Account. These amendments imposed a supplemental fee of one dollar for each six month period of validity of a learner's permit or a driver's license issued to a person residing in the MCTD, a supplemental fee of twenty-five dollars per year on the registration and renewals of registrants of motor vehicles who reside within the MCTD, imposed on taxicab owners a tax of fifty cents per ride on taxicab rides originating in New York City and terminating within the MCTD, and a supplemental tax of five percent of the cost of rentals of automobiles rented within the MCTD. The supplemental Aid Tax receipts are included in the Mobility Tax amounts for reporting purposes.

The composition of New York State tax-supported subsidies for 2015 and 2014 is as follows (in thousands)

	Accrued Revenue	
	2015	2014
Petroleum business tax*	\$ 238,733	\$ 268,057
Metro mass tax	1,035,757	1,035,757
Payroll Mobility tax	1,077,393	1,337,480
	<u>\$2,351,883</u>	<u>\$2,641,294</u>

* Net of \$279,077 and \$286,959 for debt service payments in 2015 and 2014, respectively.

Paratransit — Pursuant to an agreement between The City and the MTA, the Authority, effective July 1, 1993, assumed operating responsibility for all paratransit service required by the Americans with Disability Act of 1990. Services are provided by private vendors under contract with the Authority. The City reimburses the Authority for the lesser of 33% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6% of gross urban tax proceeds as described above, or an amount that is 20% greater than the amount paid by The City for the preceding calendar year. Fare revenues and The City reimbursement aggregated approximately \$208.5 million in 2015 and \$194.1 million in 2014. Total paratransit expenses, including paratransit service contracts, were \$461.6 million and \$455.0 million in 2015 and 2014, respectively.

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 Authority (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, fuel hedge transactions, etc.) are reported as non-operating expenses.

Reimbursement of Expenditures — Engineering and labor costs incurred by the Authority for capital projects are reimbursed under the capital program by the MTA to the extent that they relate to approved expenditures applicable to capital projects primarily initiated after April 1, 1982. They are reimbursed by The City to the extent they relate to amounts approved for prior projects. In 2015 and 2014, reimbursements were netted against gross operating expenses on the consolidated statements of Revenues, Expenses, and Changes in Net Position.

Fare and Service Reimbursement from the State and City — In 1995, The City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students. Beginning in 1996, the State and The City each began paying \$45 million per annum to the Authority toward the cost of the program. In 2009, the State reduced its \$45 million reimbursement to \$6.3 million. Beginning in 2010, the State increased its annual commitment to \$25.3 million while The City's annual commitment remained at \$45 million. These commitments have been met by both the State and The City for both

2014 and 2015. As of December 31, 2015, the Authority collected \$100.3 million from the State and The City, with \$30.0 million relating to The City prepayment for the year 2016.

Prior to April 1995, The City was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the New York City Police Department, The City no longer reimburses the Authority for the costs of policing the Transit System on an ongoing basis since policing of the Transit System is being carried out by the New York City Police Department at The City's expense. The Authority continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by The City. The Authority received approximately \$4.1 million and \$2.1 million in 2015 and 2014, respectively for the reimbursement of transit police costs.

MTA Investment Pool — The MTA, on behalf of the Authority, invests funds which are not immediately required for Authority's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

Due to/from MTA and Constituent Authorities — Due to/from MTA and constituent Authorities consists of reimbursements due from the MTA Capital Program for billed and unbilled charges relating to capital projects, farecards and intercompany operating receivables, payables, and inter-agency loan transactions.

Prepaid Expenses and Other Current Assets — The Authority prepaid \$20.6 million to the New York Health Insurance Plan (NYSHIP) and \$24.5 million in risk management related insurance coverage during 2015. The Authority prepaid \$16.9 million to the New York Health Insurance Plan (NYSHIP), \$26.5 million in risk management related insurance coverage, and \$3.2 million to the NYC Water Board during 2014.

Due from MTA for Purchase of Capital Assets — Due from MTA for purchase of capital assets consists of funds held by the MTA which are restricted for capital asset acquisitions by the Authority pursuant to the 2002 Transportation Revenue Bond Resolution. This capital program pool is comprised of non-bond proceed funds derived from safe harbor and sale/leaseback transactions, operating fund transfers, legal settlements, TBTA bond purchase rights and swap option agreements, and interest earnings on these pooled funds.

Capital Assets — Capital assets acquired prior to April 1982 were funded primarily by The City, with capital grants made available to the Authority. The City has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the Authority. Subsequent acquisitions, which are part of the capital program, are recorded at cost by the Authority. Funding sources for the acquisition of these capital assets include Federal, State, and City capital grants, grants from the Port Authority of New York and New Jersey, the proceeds from the issuance of Transportation Revenue Bonds, and various TBTA bonding and other sources. Capital assets are recorded at cost and are depreciated on a straight-line basis over 25 or 35 years for subway cars, 12 years for buses, and lives generally ranging from 10 years to 60 years for the other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

Contributed Capital — Capital assets contributed by the MTA and restricted funds due from the MTA for the purchase of capital assets are recorded as capital contributions on the consolidated statements of Revenues, Expenses, and Changes in Net Position. Contributed capital is recognized upon identification

of capital costs to be funded by the MTA. Capital contributions for the years ended December 31, 2015 and 2014, consist of the following (in thousands):

	<u>2015</u>	<u>2014</u>
Capital assets contributed by MTA from:		
Federal grants	\$ 1,223,012	\$ 1,094,563
Other than federal grants	1,471,641	1,301,812
Capital assets contributed by MTA for WTC disaster replacement	-	17
Petroleum business taxes received for principal and interest payments on debt	279,077	286,959
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(836,232)	(783,107)
(Decrease)/increase in funds due from MTA for purchase of capital assets	<u>(244,056)</u>	<u>50,627</u>
Total capital contributions	<u>\$ 1,893,442</u>	<u>\$ 1,950,871</u>

Passenger Revenue — Revenues from the sale of farecards are recognized as income as the farecards are used and are reported as operating income.

Materials and Supplies — Materials and supplies are recorded at weighted average cost, net of a reserve for obsolescence.

Employee Benefits — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* as amended by GASB Statement 50, which established 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 had adopted this standard for its pension plans through calendar year 2014. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost for the year ended December 31, 2014 is equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters.

Effective for the year-ended December 31, 2015, the Authority adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

The Authority recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the Authority's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the pension plans' measurement dates. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are

reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

In 2003, and as a result of collective bargaining, the Authority assumed responsibility for providing health benefits to its employees who are members of the TWU Local 100, as well as to retirees who were members of the TWU Local 100 and reach normal retirement age while working for the Authority. During 2005, the Authority also began providing health benefits for active and retired members of the ATU Local 1056 and Local 726. Previously, these benefits were being provided by the TWU and ATU Health Benefits Trusts (the Trusts) with the Authority required to make monthly contributions to the Trusts on behalf of the participants on a 'pay as you go' basis. The majority of the benefits provided under the plan are self-insured with administrative services provided by various health insurance companies.

The Authority has recorded a liability for claims incurred but not reported (IBNR). The liability represents those estimated future payments that are attributable, under the plan's provisions, to services rendered to participants prior to year end. The estimated liability of claims includes benefits expected to be paid to retired or terminated employees or their beneficiaries and present employees or their beneficiaries, as applicable. The estimated liability for claims incurred but not reported or paid is \$82.3 million and \$71.8 million as of December 31, 2015 and 2014, respectively.

In June 2004, the 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 Statement No. 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

Receivables — Receivables are recorded as amounts due to the Authority, reduced by an allowance for doubtful accounts, to report the receivables at their net realizable value.

Pollution Remediation Projects — Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 16). 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 Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Use of Management's Estimates — The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial

statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

Restatement of Beginning Net Position — The effect of the implementation of GASB Statements No. 68 and 71 is restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, deferred inflows of resources, and the removal of any net pension obligations (assets) along with any payables to the pension plans, as follows:

Net position as of December 31, 2014, as previously reported	\$ 26,139,632
Composition of Restatement:	
Net pension assets	(33,782)
Deferred outflows related to pensions	(20,075)
Net pension liabilities	(4,287,718)
Deferred inflows related to pension	(1,157,962)
Total Restatement	(5,499,537)
Net position as of December 31, 2014, as restated	<u>\$ 20,640,095</u>

3. CASH

Cash consists of the following at December 31 (in thousands):

	Book Balance	
	2015	2014
Insured and collateralized deposits*	\$ 24,158	\$ 16,991
Less escrow and other restricted deposits	(803)	(923)
Commercially insured funds on-hand and in-transit	<u>38,858</u>	<u>39,077</u>
	<u>\$ 62,213</u>	<u>\$ 55,145</u>

* Deposits are insured up to FDIC limits of \$250,000 at December 31, 2015.

Deposits in the Authority's bank accounts are collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds, pursuant to the New York State Public Authorities Law. The on-hand and in-transit funds consist primarily of passenger revenue funds collected, but not yet deposited.

4. MTA INVESTMENT POOL

The MTA, on behalf of the Authority, invests funds which are not immediately required for the Authority's operations, in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by the MTA's agent, in custody accounts, in the name of the MTA. The Authority records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. The Authority's earnings from short-term investments approximated \$0.8 million and \$0.6 million for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, the Authority had an investment pool balance of \$521.0 million and \$287.1 million, respectively.

5. CAPITAL ASSETS

Capital assets, at December 31, 2015 and 2014, consist of the following (in thousands):

	December 2014	Additions	Deletions	December 2015
Capital assets not being depreciated:				
Construction work-in-progress	\$ 3,300,581	\$ 2,952,437	\$ (2,076,375)	\$ 4,176,643
Total capital assets not being depreciated	<u>3,300,581</u>	<u>2,952,437</u>	<u>(2,076,375)</u>	<u>4,176,643</u>
Capital assets being depreciated:				
Subway cars	9,445,053	187,318	-	9,632,371
Buses	2,165,407	464,396	-	2,629,803
Track and structures	11,626,203	408,765	-	12,034,968
Depots and yards	4,101,316	123,373	-	4,224,689
Stations	15,274,253	639,534	-	15,913,787
Signals	5,463,688	133,848	-	5,597,536
Service vehicles	317,729	29,109	-	346,838
Building	169,912	-	-	169,912
Other	2,417,223	90,032	(2,338)	2,504,917
Total capital asset being depreciated	<u>50,980,784</u>	<u>2,076,375</u>	<u>(2,338)</u>	<u>53,054,821</u>
Less accumulated depreciation:				
Subway cars	(3,978,320)	(297,416)	-	(4,275,736)
Buses	(1,248,402)	(191,042)	-	(1,439,444)
Track and structures	(3,797,315)	(328,359)	-	(4,125,674)
Depots and yards	(1,688,646)	(122,218)	-	(1,810,864)
Stations	(3,642,377)	(468,488)	-	(4,110,865)
Signals	(1,357,459)	(179,666)	-	(1,537,125)
Service vehicles	(117,541)	(15,128)	-	(132,669)
Building	(78,440)	(3,398)	-	(81,838)
Other	(1,104,051)	(80,790)	2,338	(1,182,503)
Total accumulated depreciation	<u>(17,012,551)</u>	<u>(1,686,505)</u>	<u>2,338</u>	<u>(18,696,718)</u>
Total capital assets being depreciated - net	<u>33,968,233</u>	<u>389,870</u>	<u>-</u>	<u>34,358,103</u>
Capital assets - net	<u>\$ 37,268,814</u>	<u>\$ 3,342,307</u>	<u>\$ (2,076,375)</u>	<u>\$ 38,534,746</u>

	December 2013	Additions	Deletions	December 2014
Capital assets not being depreciated:				
Construction work-in-progress	\$ 4,030,872	\$ 2,662,183	\$ (3,392,474)	\$ 3,300,581
Total capital assets not being depreciated	<u>4,030,872</u>	<u>2,662,183</u>	<u>(3,392,474)</u>	<u>3,300,581</u>
Capital assets being depreciated:				
Subway cars	9,015,135	429,918	-	9,445,053
Buses	2,131,881	33,526	-	2,165,407
Track and structures	11,040,404	585,799	-	11,626,203
Depots and yards	4,000,999	100,317	-	4,101,316
Stations	13,497,098	1,777,155	-	15,274,253
Signals	5,166,628	297,060	-	5,463,688
Service vehicles	200,891	116,838	-	317,729
Building	169,912	-	-	169,912
Other	2,367,565	51,861	(2,203)	2,417,223
Total capital asset being depreciated	<u>47,590,513</u>	<u>3,392,474</u>	<u>(2,203)</u>	<u>50,980,784</u>
Less accumulated depreciation:				
Subway cars	(3,699,572)	(278,748)	-	(3,978,320)
Buses	(1,108,137)	(140,265)	-	(1,248,402)
Track and structures	(3,491,743)	(305,572)	-	(3,797,315)
Depots and yards	(1,580,495)	(108,151)	-	(1,688,646)
Stations	(3,220,589)	(421,788)	-	(3,642,377)
Signals	(1,191,527)	(165,932)	-	(1,357,459)
Service vehicles	(103,460)	(14,081)	-	(117,541)
Building	(75,042)	(3,398)	-	(78,440)
Other	(1,025,703)	(80,551)	2,203	(1,104,051)
Total accumulated depreciation	<u>(15,496,268)</u>	<u>(1,518,486)</u>	<u>2,203</u>	<u>(17,012,551)</u>
Total capital assets being depreciated - net	<u>32,094,245</u>	<u>1,873,988</u>	<u>-</u>	<u>33,968,233</u>
Capital assets - net	<u>\$ 36,125,117</u>	<u>\$ 4,536,171</u>	<u>\$ (3,392,474)</u>	<u>\$ 37,268,814</u>

Capitalized interest totaled \$8.8 million and \$8.1 million in 2015 and 2014, respectively.

In 1990, the Authority issued approximately \$202.8 million of Transit Facility Revenue Bonds, Series 1990 to fund the acquisition of an office building located at 130 Livingston Street in Brooklyn, New York. The bonds were subsequently defeased in May 2002 by the MTA Transportation Revenue bonds. The property is located on land owned by the New York City Economic Development Corporation (NYC EDC), as trustee for The City, with whom the Authority has entered into a 99-year ground lease. In 2011, the ground lease between the MTA and NYC EDC for Livingston Street was renegotiated with monthly lease payments increasing from approximately \$47,000 to \$111,000 per month. Rent expense, on a cash basis, under the lease was approximately \$1,330,000 in 2015 and 2014.

Lease Transaction — In July 1998, the MTA, the Authority and TBTA authorized and entered into a lease and related agreements whereby each agency, as a sublessee, rents office space at Two Broadway in lower Manhattan. The triple-net-lease has an initial stated term of approximately 50 years, with the right to extend the lease for two successive 15-year periods at a rental of at least 95% of fair market rent. Remaining payments under the lease approximate \$1.2 billion. Under the subleases, the lease is apportioned as follows: the Authority, 68.7%, MTA, 21%; and TBTA, 10.3%. However, the involved agencies have agreed to sub-sublease space from one another as necessary to satisfy actual occupancy needs. The agencies will be responsible for obligations under the lease based on such actual occupancy

percentages. Actual occupancy percentages at December 31, 2015, for the Authority, TBTA and MTA (including MTA Bus, MTA Capital Construction Company and MTA Business Service Center) were 57.6%, 7.6% and 34.8%, respectively. The Authority's sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to \$5.7 million and \$6.4 million in 2015 and 2014, respectively.

Assuming the occupancy percentage at December 31, 2015 will continue, the future minimum lease payments under the Authority's sublease are as follows (in thousands):

<u>Years Ending December 31</u>	<u>Operating</u>	<u>Capital</u>
2016	\$ 5,681	\$ 8,930
2017	5,681	8,930
2018	5,681	8,930
2019	5,681	10,323
2020	5,681	10,323
2021-2025	28,403	54,628
2026-2030	28,403	65,406
2031-2035	28,403	80,384
2036-2040	28,403	92,555
2041-2045	28,403	102,339
2046-2048	<u>14,200</u>	<u>54,241</u>
Total minimum lease payments	<u>\$ 184,620</u>	496,989
Less imputed interest		<u>(331,026)</u>
Present value of net minimum lease payments		<u>\$ 165,963</u>

The adjusted capital lease for the aforementioned building is being amortized over the remaining life of the lease. The cost of the building and related accumulated amortization at December 31, 2015 and 2014, is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Capital lease — building	\$ 114,489	\$ 114,489
Less accumulated amortization	<u>(40,592)</u>	<u>(38,181)</u>
Capital lease — building — net	<u>\$ 73,897</u>	<u>\$ 76,308</u>

In July 1999 and 2000, the MTA issued Certificates of Participation in the amount of \$328.2 million and \$121.2 million, respectively, to finance the renovation of the building and certain other tenant improvements (see Note 9).

The amount of such improvements apportioned to the Authority as of December 31, 2015 and 2014 are as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Base building improvements	\$ 134,394	\$ 134,394
Tenant improvements	130,792	130,792
Furniture and fixtures	11,434	11,434
Computers and equipment	10,781	10,781
Development fees	6,893	6,893
Capitalized interest	<u>13,702</u>	<u>13,702</u>
	307,996	307,996
Less accumulated depreciation	<u>(201,739)</u>	<u>(198,514)</u>
Total leasehold improvements	<u>\$ 106,257</u>	<u>\$ 109,482</u>

6. ASSET IMPAIRMENT AND RELATED EXPENSES

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 the Authority. The Authority expects to recoup most of the costs associated with the repair or replacement of assets damaged by the storm over the next several years from a combination of insurance and federal government assistance programs.

As of December 31, 2015, the impairment losses to the Authority's assets (based upon estimates of the extent of impairment of the historical or "book value" of affected assets) are estimated to be \$381.8 million inception to date. Other costs associated with the storm included repair and clean-up expenses, which are also included in "Asset impairment and related expenses". For the year ended December 31, 2015, no storm related repair and clean-up expenses were incurred; \$5.2 million were incurred for the year ended December 31, 2014. No funds were received in 2015 from the Federal Transit Administration (FTA) for storm related repair and clean-up costs. The Authority received \$7.0 million in 2014.

The Authority will recognize insurance proceeds for Tropical Storm Sandy-related losses in future periods when such proceeds are estimable and all related contingencies are removed.

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 FTA to assist affected public transportation facilities in connection with infrastructure repairs, debris removal, emergency protection measures, costs to restore service and costs related to implementing resiliency measures against future storms (hardening) at various facilities. 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 \$2.0 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 \$194.0 million 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 \$2.0 billion. MTA was allocated an additional \$1.0 billion of these monies, bringing MTA's total allocation from the first \$2.0 billion tranche of FTA Emergency Relief funds to \$1.194 billion. On May 23, 2013, the FTA allocated an additional \$3.7 billion to our region's 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 \$898.0 million set aside to help the MTA with local priority resiliency projects to help ensure transit assets are better able to withstand future disasters. On September 22, 2014, MTA was allocated \$1.599 billion through the FTA's Sandy Relief Competitive Resiliency Program, bringing the total allocation of emergency relief funding from the FTA to MTA in connection with Superstorm Sandy to \$5.39 billion. 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 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.

7. EMPLOYEE BENEFITS

Pensions --- The Authority participates in two defined benefit pension plans for their employees, the Manhattan and Bronx Surface Transit Operating Authority Pension Plan (MaBSTOA) and New York City Employees' Retirement System (NYCERS). A brief description of each of the pension plans follows:

Plan Descriptions

MaBSTOA — The MaBSTOA Plan is a single-employer governmental retirement plan, administered by MTA New York City Transit. MaBSTOA employees are specifically excluded from NYCERS. Effective January 1, 1999, in order to afford managerial and nonrepresented MaBSTOA employees the same pension rights as like title employees in the New York City Transit Authority, membership in the MaBSTOA Plan is optional. The Plan provides retirement as well as death, accident, and disability benefits.

The Board of Administration, established in 1963, determines eligibility of employees and beneficiaries for retirement and death benefits. Article 12.08 of the MaBSTOA plan assigns authority to the MaBSTOA Board to establish and amend benefit provisions. The Board is composed of five members: two representatives from the Transport Workers Union, Local 100 (TWU) and three employer representatives.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information regarding the employee benefit plan. The report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, 2 Broadway, 10th Floor, New York, New York, 10004 or at www.mta.info.

NYCERS — The NYCERS Plan is a cost-sharing, multiple-employer retirement system for employees of The City of New York (The City) and certain other governmental units.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the laws of 1920. NYCERS functions in accordance with the governing statutes contained in the New York State Retirement and Social Security Law (RSSL), and the New York City Administrative Code,

which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York City Employees' Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All persons holding permanent civil service positions in the competitive or labor class are required to become members of the system six months after their date of appointment, but may voluntarily elect to join the system prior to their mandated membership date. All other eligible employees have the option of joining the system upon appointment or anytime thereafter.

- Tier 1 All members who joined prior to July 1, 1973.
- Tier 2 All members who joined on or after July 1, 1973 and before July 27, 1976.
- Tier 3 Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012.
- Tier 4 All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership.
- Tier 6 Members who joined on or after April 1, 2012.

Benefits Provided

MaBSTOA — MaBSTOA provides retirement, disability, death, and accident benefits to plan members and beneficiaries. 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.

Tier 1 —

Eligibility and Benefit Calculation: Tier 1 members must be at least age 50 with the completion of 20 years of service to be eligible to collect a service retirement benefit. Generally, the benefit is 1.50% 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, up to a maximum of 50%, is multiplied by the member's compensation, which is the greater of earned salary during the year prior to retirement. Once the accumulated 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, which is the highest average earnings over five consecutive years.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 1 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by final compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 1 members is equal to 75% of final compensation reduced by 100% of any worker's compensation payments.

Ordinary Death Benefits — Tier 1 members requires the completion of six months of service but completion of twenty years of service is required to receive a lump sum equal to the present value of the retirement benefit.

Tier 2 —

Eligibility and Benefit Calculation: Tier 2 members must be at least age 55 with the completion of 25 years of service to be eligible to collect a service retirement benefit. Generally, the benefit equals 50% of final 3-year average compensation, defined as the highest average earnings over three consecutive years, plus 1% of final 5-year average compensation, defined as the highest average earnings over five consecutive years, per year of credited service in excess of 20 years. For early retirement, members must be at least age 50 with the completion of at least 20 years of service. The benefit is determined in the same manner as the service retirement but not greater than 2.0% of final 3-year average compensation per year of service.

Ordinary Disability Benefits — Generally, ordinary disability benefits, are provided to eligible Tier 2 members after ten years of service with the benefit equal to the greater of the service retirement percentages or 25% multiplied by the final 5- year average compensation.

Accidental Disability Benefits — The accidental disability benefit to eligible Tier 2 members is equal to 75% of the final 5-year average compensation reduced by any worker's compensation payments.

Ordinary Death Benefits — Tier 2 members require the completion of 90 days of service to receive a lump sum equal to 3 times salary, raised to the next multiple of \$1,000.

Tiers 3 and 4 —

Eligibility and Benefit Calculation: Tier 3 and 4 members in the Regular 62 and 5 Plan must be at least age 62 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of Final Average Compensation ("FAS") for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. FAS is defined as the highest average earnings over three consecutive years, of which earnings in a year cannot exceed 110% of the average of the two preceding years. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. For early retirement, members must be at least age 55 with the completion of at least 5 years of service. 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.

Tier 3 and 4 members in the Regular 55 and 25 Plan must be at least age 55 with the completion of at least 25 years of service, or be at least age 62 with the completion of at least 5 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 25 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Tier 4 members in the 57 & 5 Plan must be at least age 57 with the completion of at least 5 years of service to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service.

Ordinary and Accidental Disability Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan and 57 and 5 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the Regular 62 and 5 Plan, 55 and 25 Plan, 57 and 5 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of 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. Upon retirement, the post-retirement benefit is 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.

Tier 6 —

Eligibility and Benefit Calculation: Tier 6 members in the 55 and 25 Special Plan must be at least age 55 with the completion of at least 25 years, or at least age 63 with the completion of at least 10 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of FAS for the first 30 years of service plus 1.5% of FAS for years of service in excess of 30. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years.

Tier 6 members in the Basic 63 and 10 Plan must be at least age 63 with the completion of at least 10 years to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 20 years of service, is equal to 35% of FAS plus 2.0% of FAS for years of service in excess of 20. If the member completes less than 20 years of credited service, the benefit equals 1- 2/3% of FAS multiplied by years of service. FAS is defined as the highest average pensionable earnings over five consecutive years. For early retirement, members must be at least age 55 with the completion of at least 10 years of service. The benefit equals the service retirement benefit reduced by 6.5% for each year prior to age 63.

Ordinary and Accidental Disability Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, ordinary and accidental disability benefits, are provided after 10 years of service for ordinary and no service required for accidental. The benefit equals the greater of 1-2/3% of FAS per year of service and 1/3 of FAS.

Ordinary Death Benefits — For eligible members of the 55 and 25 Special Plan and the Basic 63 and 10 Plan, the pre-retirement ordinary death benefit is equal to a lump sum of annual salary times the lesser of completed years of 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. Upon retirement, the post-retirement benefit is 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.

NYCERS — NYCERS provides three main types of retirement benefits: Service Retirements, Ordinary Disability Retirements (non-job-related disabilities) and Accident Disability Retirements (job-related disabilities) to participants generally based on salary, length of service, and member Tiers.

The Service Retirement benefits provided to Tier 1 participants fall into four categories according to the level of benefits provided and the years of service required. Three of the four categories provide annual benefits of 50% to 55% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.2% to 1.7%) of final salary. The fourth category has no minimum service requirement and instead provides an annual benefit for each year of service equal to a specified percentage (currently 0.7% to 1.53%) of final salary.

Tier 2 participants have provisions similar to Tier 1, except that the eligibility for retirement and the salary base for benefits are different and there is a limitation on the maximum benefit.

Tier 3 participants were later mandated into Tier 4, but could retain their Tier 3 rights. The benefits for Tier 3 participants are reduced by one half of the primary Social Security benefit attributable to service, and provides for an automatic annual cost-of-living escalator in pension benefits of not more than 3.0%.

During March 2012, the Governor signed Chapter 18 of the Laws of 2012 that placed certain limitations on the Tier 3 and Tier 4 benefits available to participants who joined on and after April 1, 2012. In general, these changes, commonly referred to as Tier 6, increase the age requirement to 63 for most non-uniformed employees to retire and receive a full pension, require member contributions for all years of service for non-uniformed employees, institute progressive member contributions for non-uniformed employees, and lengthen the final average salary period from 3 to 5 years.

NYCERS provides automatic Cost-of-Living Adjustments (COLA), death benefits, accident, disability retirement benefits, and other supplemental pension benefits to certain retirees and beneficiaries. Members become fully vested as to benefits upon the completion of 5 years of service.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983 and 2012, significant amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Plan on or after the effective date of such amendments, creating membership tiers.

Membership

Membership in the MaBSTOA pension plan consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

Active Plan Members	7,739
Retirees and beneficiaries receiving benefits	5,168
Vested formerly active members not yet receiving benefits	<u>1,104</u>
Total	<u>14,011</u>

Contributions and Funding Policy

MaBSTOA — The contribution requirements of plan members are established, approved and may be amended only by the MaBSTOA Board, in accordance with the Articles of the MaBSTOA plan. The financial objective of the Plan is to fund, on an actuarial basis, the retirement and death benefits for eligible MaBSTOA employees and beneficiaries. The Plan's funding policy is for periodic employer contributions to provide for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. MaBSTOA contributions to the fund are made annually.

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).

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.

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.

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

Contributions as a percent of covered payroll are 31.0% and 33.7%, for the years ended December 31, 2015 and 2014, respectively. The Authority's contributions to the MaBSTOA plan amounted to \$214.9 million and \$226.4 million for the years ended December 31, 2015 and 2014, respectively, equal to the required contributions for each year.

NYCERS — NYCERS funding policy is to contribute statutorily-required contributions (Statutory Contributions), determined by the Actuary in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. The Statutory Contributions are Chief Actuary of the system, in accordance with State statutes and City laws, determines employer contributions annually. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS' assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from City service or until they retire.

The Authority is required to contribute at an actuarially determined rate. Contributions as percent of covered payroll are 21.6% and 25.0%, for the years ended December 31, 2015 and 2014, respectively.

The Authority's contributions to NYCERS for the years ended December 31, 2015 and 2014, were \$694.4 million and \$708.2 million, respectively, equal to the required contributions for each year.

Net Pension Liability

The Authority's net pension liabilities for each of the pension plans reported at December 31, 2015 were measured as of December 31, 2014 for the MaBSTOA plan and June 30, 2015 for NYCERS. The total pension liability for each of the pension plans was determined as of the actuarial valuation dates of January 1, 2014 and June 30, 2013 for the MaBSTOA plan and NYCERS, respectively, and updated to roll forward the total pension liability to the respective year-ends. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by NYCERS. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value

Actuarial Assumptions

The total pension liability in the January 1, 2014 and June 30, 2013 actuarial valuations for the MaBSTOA Plan and NYCERS, respectively, were determined using the following actuarial assumptions for each of the pension plans as follows:

	MaBSTOA	NYCERS
Investment Rate of Return	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses
Salary Increases	In general, merit and promotion increases, plus assumed General Wage increases of 3.5% per year 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 3.0% per year.
Inflation	2.50%	2.50%
Cost-of Living Adjustments	1.375% per annum	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 retirees
Mortality	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA. As a generational table, it reflects mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the Authority plans.	Mortality tables for service and disability pensioners were developed from an experience study of the plan. The mortality tables for beneficiaries were developed from an experience review.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	N/A
Post-retirement- 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.	N/A
Post-retirement Disabled Lives	75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females.	N/A

Expected Rate of Return on Investments

The long-term expected rate of return on investments of 7.0% and 7.0% for the MaBSTOA plan and NYCERS, respectively, was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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.

Management of the NYCERS pension fund has determined its long-term expected rate of return to be 7.0%. This is based upon expected real rates of return (RROR) ranging from 5.33% to 5.58% and a long-term Consumer Price inflation assumption of 2.5% offset by investment related expenses.

The target asset allocations and best estimates of arithmetic real rates of return for each major asset class included in the MaBSTOA plan and NYCERS were as of the measurement dates of December 31, 2014 and June 30, 2015, respectively, are summarized as follows:

Asset Class	MaBSTOA			NYCERS		
	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	20.50%	6.25%	1.28%	32.60%	6.60%	2.15%
International Public Market Equities	15.00%	6.05%	0.91%	10.00%	7.00%	0.70%
Emerging Public Market Equities	3.50%	8.90%	0.31%	6.90%	7.90%	0.55%
Private Market Equities	12.00%	9.15%	1.10%	7.00%	9.90%	0.69%
Fixed Income	31.00%	2.66%	0.82%	33.50%	2.70%	0.90%
Alternatives (Real Assets, Hedge Funds)	18.00%	3.34%	0.60%	10.00%	4.00%	0.40%
Portfolio Long Term Average Arithmetic RROR	100.00%		5.02%	100.00%		5.39%
Assumed Inflation - Mean			2.50%			
Assumed Inflation - Standard Deviation			2.00%			
Portfolio Arithmetic Mean Return as per Actuary			7.55%			
Portfolio Standard Deviation			12.25%			
Calculated RROR per Summarized Asset Class			7.52%			
Long Term Expected Rate of Return selected by MTA			7.00%			

Discount Rate

The discount rate used to measure the total pension liability was 7.0% and 7.0% for the MaBSTOA plan and NYCERS as of December 31, 2014 and June 30, 2015, respectively. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability – MaBSTOA

The Authority's net pension liability for the MaBSTOA plan at the measurement date of December 31, 2014 was as follows (in thousands):

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance as of December 31, 2013	\$ 3,212,528	\$ 2,093,895	\$ 1,118,633
Changes for fiscal year 2014:			
Service Cost	72,091	-	72,091
Interest on total pension liability	223,887	-	223,887
Effect of plan changes	-	-	-
Effect of economic /demographic (gains) or losses	(1,596)	-	(1,596)
Effect of assumption changes or inputs	-	-	-
Benefit payments and withdrawals	(175,446)	(175,446)	-
Administrative expense	-	(74)	74
Member contributions	-	15,460	(15,460)
Net investment income	-	105,084	(105,084)
Employer contributions	-	226,374	(226,374)
Balance as of December 31, 2014	<u>\$ 3,331,464</u>	<u>\$ 2,265,293</u>	<u>\$ 1,066,171</u>

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

The following presents the Authority's net pension liability calculated using the current discount rate of 7.0% for the MaBSTOA Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	<u>1% Decrease (6.0%)</u>	<u>Current Discount Rate (7.0%)</u>	<u>1% Increase (8.0%)</u>
		(in thousands)	
Net Pension Liability	\$ 1,448,685	\$ 1,066,171	\$ 740,824

The Authority's Proportion of Net Pension Liability – NYCERS

The following table presents the Authority's proportionate share of the net pension liability of NYCERS at the measurement date of June 30, 2015, and the proportion percentage of the net pension liability of NYCERS allocated to the Authority:

June 30, 2015

(in millions)

The Authority's proportion of the net pension liability	22.380%
The Authority's proportionate share of the net pension liability	\$ 4,529.90

The Authority's proportion of the net pension liability was based on the Authority's actual contributions made to NYCERS for the year-ended June 30, 2015 relative to the contributions of all employers in the plan.

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

The following table presents the Authority's proportionate share of the net pension liability calculated using the discount rate of 7.0% for NYCERS, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)		
The Authority's proportionate share of the net pension liability	\$ 6,264,740	\$ 4,529,885	\$ 2,918,361

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Authority recognized pension expense related to each pension plan as follows (in thousands):

Pension Plans	December 31, 2015
MaBSTOA	\$ 134,139
NYCERS	417,895
Total	<u>\$ 552,034</u>

At December 31, 2015, the Authority's reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in thousands):

	MaBSTOA		NYCERS		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,329	\$ -	\$ 45,423	\$ -	\$ 46,752
Net difference between projected and actual earnings on pension plan investments	34,849	-	469,929	846,171	504,778	846,171
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	(63,287)	-	(63,287)	-
Employer contributions to plan subsequent to the measurement date of net pension liability	214,882	-	340,683	-	555,565	-
Total	\$ 249,731	\$ 1,329	\$ 747,325	\$ 891,594	\$ 997,056	\$ 892,923

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs.

The following table presents the recognition periods used by each pension plans to amortize the annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions, beginning the year in which the deferred amount occurs.

Pension Plan	Recognition Period (in years)	
	Differences between expected and actual experience	Changes in proportion and differences between employer contributions and proportionate share of contributions
MaBSTOA	6.00	N/A
NYCERS	3.37	3.37

\$555.6 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows:

	<u>MaBSTOA</u>	<u>NYCERS</u>	<u>Total</u>
Year ending December 31:			
2016	\$ 8,446	\$ (240,179)	\$ (231,733)
2017	8,446	(240,179)	(231,733)
2018	8,446	(122,076)	(113,630)
2019	8,446	117,482	125,928
2020	(264)	-	(264)
Thereafter	-	-	-
Total	<u>\$ 33,520</u>	<u>\$ (484,952)</u>	<u>\$ (451,432)</u>

Deferred Compensation Plans — As permitted by Internal Revenue Code Section 457, the Authority has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on the Authority's consolidated statements of net position.

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying consolidated statements of net position. The Authority is not required to contribute to the plan.

8. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement establishes 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 Authority include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions. The different types of benefits provided vary by employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan (NYCERS and the MaBSTOA Plan). The Authority provides benefits to some members if terminated within 5 years of attaining retirement eligibility.

The Authority 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 Preferred Provider Organization (PPO) plan and several Health Maintenance Organization (HMO) plans. Represented and other New York City Transit employees who retired prior to

January 1, 1996 or January 1, 2001, do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

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

In 2003 and as a result of collective bargaining agreements, the Authority assumed responsibility for directly providing health care benefits to TWU retirees or their beneficiaries, rather than via the TWU Health & Welfare Trust Fund. In 2005, the Authority also began to administer health care benefits for ATU Local 1056 and Local 726 retirees or their beneficiaries as their respective health and welfare trust funds were dissolved.

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, 2015 and was performed with a valuation date of January 1, 2014. The total number of plan participants as of December 31, 2015 receiving retirement benefits was 30,967.

During 2012, MTA funded \$250 million into an OPEB Trust (Trust) allocated between Headquarters and New York City Transit. In addition, \$50 million was funded during 2013 allocated between Long Island Railroad and Metro-North Railroad. There have been no further contributions made to the Trust. 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 this 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 3.25% resulting in a discount rate under GASB 45 of 3.50%, which is slightly lower than the discount rate of 3.75% 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. The Authority's transfer to the Trust fund inception to date is \$162.5 million.

Annual OPEB Cost (AOC) and Net OPEB Obligation — The Authority's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, the Authority 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 Obligation. 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 Authority has chosen to use the Frozen Initial Liability cost method (the FIL 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, 2015, is 14 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 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.

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, 2014 which is 12 months prior to the beginning of the 2015 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2016.

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 3.75% to 3.50%.

Healthcare Reform — The valuation reflects the actuaries 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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

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

Valuation date	January 1, 2014
Actuarial cost method	Frozen Initial Liability
Discount rate	3.50%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	14 years
Period closed or open	Closed

* In general, all coverages are paid for by the Authority.

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 (PCCC) — 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.

Based on an initial 2006 report, as well as an updated 2014 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, it stated that the Empire Plan of NYSHIP is community-rated for all participating employers. The actual experience of the MTA will have little or no impact on the actual premium so 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 are non-NYSHIP as well as some Pre-NYSHIP Transit members. For these benefits, we developed per capita claims cost relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726 and ATU Local 1056 unions for 2014 and 2015. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were adjusted to an incurred from a paid claim basis utilizing aging reports specific to the Authority and MTA. An adjustment of (0.5)% for health benefits was applied. Finally, an administrative load was applied equal to 7.2% for Empire BCBS medical benefits, 3.5% for United Healthcare medical benefits and 4.6% for pharmacy benefits. The per capita costs assumptions reflect medical and pharmacy claims information, including the Employer Group Waiver Plan (EGWP) for providing pharmacy benefits to Medicare-eligible retirees, for 2014 and 2015.

The following charts detail the monthly 2014 PCCC's used in the valuation:

	<u>Empire Blue Cross / Blue Shield</u>	<u>United Healthcare</u>	<u>Pharmacy</u>	<u>Empire Blue Cross / Blue Shield</u>	<u>United Healthcare</u>	<u>Pharmacy</u>
<u>Age</u>	<u>Male Employees</u>			<u>Female Employees</u>		
<50	\$735.06	\$1,138.38	\$300.11	\$858.34	\$1,337.18	\$312.60
50–54	693.13	1,067.23	256.90	758.34	1,178.35	285.95
55–59	803.50	1,233.78	293.70	800.90	1,240.41	319.45
60–64	1,027.76	1,573.40	342.78	968.23	1,493.76	362.27
65–69	124.51	N/A	147.44	124.28	N/A	134.58
70–74	149.58	N/A	157.74	141.81	N/A	142.86
75–79	172.78	N/A	159.40	160.21	N/A	143.99
80–84	193.97	N/A	155.05	176.40	N/A	140.47
85+	215.42	N/A	143.39	191.54	N/A	127.87
	<u>Male Dependents</u>			<u>Female Dependents</u>		
<25	\$193.50	\$305.83	\$67.01	\$193.50	\$305.83	\$67.01
25–49	449.04	695.60	183.84	560.55	873.35	204.95
50–54	539.15	830.29	200.31	620.21	963.77	234.23
55–59	645.44	991.22	236.37	689.81	1,068.42	275.35
60–64	829.39	1,269.87	277.19	814.84	1,257.20	305.21
65–69	124.51	N/A	147.44	124.28	N/A	134.58
70–74	149.58	N/A	157.74	141.81	N/A	142.86
75–79	172.78	N/A	159.40	160.21	N/A	143.99
80–84	193.97	N/A	155.05	176.40	N/A	140.47
85+	215.42	N/A	143.39	191.54	N/A	127.87

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2014 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 4.5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

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 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 2014 valuation excludes any RDS payments expected to be received by the Authority.

Health Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and 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 (4.5%). The NYSHIP trend reflects actual increases in premiums through 2015. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. The non-NYSHIP trend is applied directly for represented employees of NYC Transit

and SIRTOA. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit and SIRTOA.

Health Cost Trend Rates

<u>Fiscal Year</u>	<u>NYSHIP</u>	<u>Transit and SIRTOA</u>	
		<u>< 65</u>	<u>>=65</u>
2014	0.0% *	7.5 %	9.5 %
2015	6.0	7.6	9.5
2016	6.0	6.7	8.1
2017	6.0	6.2	6.8
2018	5.3	5.4	5.4
2019	5.2	12.1	5.4
2024	5.2	6.1	5.4
2029	5.5	6.1	5.4
2034	6.4	6.1	5.5
2039	5.9	5.7	5.2
2044	5.7	5.5	5.1
2049	5.6	5.4	5.3
2054	5.5	5.3	5.3

* Trend not applicable as actual 2015 premiums were valued

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

OPEB Participation as of January 1, 2014

	<u>Active Members</u>
Number	47,447
Average Age	49.5
Average Service	14.4
	<u>Retirees</u>
Single Medical Coverage	12,400
Employee/Spouse Coverage	16,784
Employee/Child Coverage	916
No medical Coverage	867
Total Number	<u>30,967</u>
Average Age	71.9
Total Number with Dental	6,427
Total Number with Vision	25,858
Total No. with Supplement	25,442
Average Monthly Supplement Amount (Excluding Part B Premium)	\$33
Total No. with Life Insurance	5,616
Average Life Insurance Amount	\$2,076

Coverage Election Rates — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect coverage in the Empire PPO Plan. For groups that do not participate in NYSHIP, members are assumed to elect Empire BCBS or Aetna/United Healthcare.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement 60% of male and 35% female eligible members participating in non-NYSHIP programs administered by NYC Transit are assumed to cover a dependent. Actual 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 from the valuation date.

Demographic Assumptions:

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. No blue collar adjustments were used for management members of the Authority.

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 the Authority.

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, Vesteess (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Authority upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteess 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 vesteess based on age at valuation date.

<u>Age at Termination</u>	<u>Percent Electing</u>
< 40	- %
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 Authority's annual OPEB cost for the year, the amount contributed, and changes in the Authority's net OPEB obligation to the plan for the years ended December 31, 2015 and 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 thousands)	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 2,048,069	\$ 2,447,512
Interest on net OPEB obligation	331,601	293,734
Adjustment to annual required contribution	<u>(878,327)</u>	<u>(750,184)</u>
Annual OPEB cost/expense	1,501,343	1,991,062
Contributions made	<u>(371,230)</u>	<u>(352,673)</u>
Increase in net OPEB obligation	1,130,113	1,638,389
Net OPEB obligation — beginning of year	<u>9,472,187</u>	<u>7,833,798</u>
Net OPEB obligation — end of year	<u>\$ 10,602,300</u>	<u>\$ 9,472,187</u>

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the years ending December 31, 2015, 2014 and 2013 were as follows (in thousands):

<u>Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
12/31/2015	\$1,501,343	24.7 %	\$10,602,300
12/31/2014	1,991,062	17.7	9,472,187
12/31/2013	1,879,699	17.3	7,833,798

The Authority's funding progress information as of December 31, 2015 is as follows (in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (a)	<u>Actuarial Accrued Liability (AAL) *</u> (b)	<u>Unfunded (AAL) (UAAL)</u> (b-a)	<u>Funded Ratio</u> (a/b)	<u>Covered Payroll</u> (c)	<u>(UAAL) As a Percentage of Covered Payroll</u> ((b-a)/c)
1/1/14	\$ 162.3	\$ 14,013.9	\$ 13,851.6	1.2 %	\$ 3,182.5	435.2 %

* Based on Entry Age Normal

The required schedule of funding progress for the Authority Postemployment Benefit Plan following the notes to the financial statements, present 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.

9. DUE TO MTA FOR REPAYMENT OF DEBT

Transit Facilities Revenue Bonds — Prior to December 31, 2002, the Authority recognized as a liability in the accompanying consolidated statements of net position the portion of the bond proceeds pledged to the Authority by the MTA for the acquisition of capital assets to the extent of the Authority's expenditure of such bond proceeds. As a result of the MTA's bond restructuring during fiscal year 2002, except for the Authority's portion of the Certificates of Participation, the Authority no longer records a liability to the MTA for the portion of the bonds utilized to fund the Authority's Capital Program.

The Authority is required to deposit all of its pledged revenues with a trustee for the bondholders. Such funds are first applied to meet all obligations under the revenue bonds, and the remainder is returned to the Authority for its operating needs.

The MTA is responsible for all payments from these bond proceeds and for administering the debt service reserve funds, if any, and the unexpended bond funds and has recorded the liability for these bonds. Prior to the debt restructuring, the Authority had recorded a liability to the MTA to the extent of the Authority's expenditure of such bond proceeds. Debt service paid by the Authority is net of the amount provided from the MTA's investment of the unexpended bond funds.

Certificates of Participation — In June 1999 and 2000, the MTA issued approximately \$328.2 million and \$121.2 million, respectively, of its Series 1999A and Series 2000A Certificates of Participation, which were substantially defeased with the issuance of the Series 2004A variable rate Certificates of Participation totaling \$357.9 million in September 2004. The proceeds from these issuances were used to finance certain building and leasehold improvements to an office building at Two Broadway to be occupied by the Authority, the MTA or its subsidiaries, and the TBTA. In November 2011, the MTA issued Transportation Revenue Refunding Bonds, Series 2011C, which refunded existing fixed rate Transportation Revenue Bonds. Debt service monies derived from this refunding were used to retire \$237.0 million of the 2004A variable rate COPS and \$15.0 million of the Series 1999A and 2000A fixed rate COPS. The Authority's payable to the MTA for its aggregate portion of COPS debt was reduced by approximately \$168.8 million. The 1999A, 2000A, and 2004A series represent proportionate interests in the principal and interest components of base rent paid severally, but not jointly, by the Authority, the MTA, and the TBTA pursuant to a Leasehold Improvement Sublease Agreement dated as of June 1, 1999. The Authority, the MTA, and the TBTA are obligated to pay 68.7%, 21.0%, and 10.3%, respectively, of the base rent under the Leasehold Improvement Sublease. The Authority's payable to the MTA for its portion of the Certificates of Participation is \$32.5 million as of December 31, 2015. The Authority's share of future debt service payments to the MTA for the Certificates of Participation totals approximately \$103.9 million at December 31, 2015.

Interest paid on the Certificates of Participation amounted to \$7.7 million and \$8.1 million in 2015 and 2014, respectively.

10. RELATED PARTY TRANSACTIONS

The Authority receives support services from the MTA in the areas of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, most of which are charged back to the Authority through intercompany billings. The MTA also provides funding for the Authority's capital program via MTA debt issuance, federal capital grant pass-throughs, and proceeds from the sale of tax benefits on leasing transactions. The Authority recognizes funds contributed to Transit capital programs as contributed capital in the consolidated statements of revenues, expenses, and changes in net position. State and City tax –supported subsidies received by the Authority

from the MTA to support operations are recorded as nonoperating revenues. The MTA also provides short-term loans, as required, to supplement the Authority's working capital needs.

The Authority has intercompany transactions with MNCR, LIRR, MTA Bus, TBTA, and SIRTOA related to farecard settlements, service agreements, shared operating contracts, inter-agency loan transactions, and other operating receivables and payables.

The resulting receivables and payables from the above transactions are recorded in Due from MTA and constituent authorities included in the accompanying consolidated statements of net position.

Due from MTA and constituent authorities consist of the following at December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 5,387,641	\$ (5,049,703)	\$ 4,823,565	\$ (4,413,956)
Constituent authorities	<u>130,929</u>	<u>(10,145)</u>	<u>130,316</u>	<u>(11,174)</u>
Total MTA and constituent authorities	<u>\$ 5,518,570</u>	<u>\$ (5,059,848)</u>	<u>\$ 4,953,881</u>	<u>\$ (4,425,130)</u>

11. ADVERTISING AND OTHER INCOME

Advertising and other income for the years ended December 31, 2015 and 2014, consist of (in thousands):

	2015	2014
Advertising revenue	\$ 128,934	\$ 105,841
Metrocard green fee surcharge	23,313	24,578
Transit Adjudication Bureau collections	8,603	9,637
Station income	8,748	8,818
Rental income	6,432	4,555
Fare media transaction fees	4,571	4,491
All other	<u>(378)</u>	<u>249</u>
	<u>\$ 180,223</u>	<u>\$ 158,169</u>

12. OTHER EXPENSES

Other expenses for the years ended December 31, 2015 and 2014, consist of (in thousands):

	<u>2015</u>	<u>2014</u>
Credit and debit card fees for fare media sales	\$ 43,101	\$ 39,426
Fare media sales commissions	12,368	11,824
NYS Metro Commuter Transportation Mobility Tax expense	13,173	13,045
Print and office supplies	5,422	5,272
Allowance for uncollectible accounts	338	925
Business travel, meetings, and conventions	857	423
Dues and subscriptions	1,223	1,781
Other miscellaneous expenses	9,496	3,434
	<u>\$ 85,978</u>	<u>\$ 76,130</u>

13. MAINTENANCE AND OTHER OPERATING EXPENSES

Maintenance and other operating expenses for the years ended December 31, 2015 and 2014, consist of (in thousands):

	<u>2015</u>	<u>2014</u>
Operating maintenance and repair services	\$ 70,236	\$ 58,831
Facility maintenance and repairs	15,815	13,832
Real estate rentals (including 2 Broadway operating expenses)	20,374	22,056
Security services	14,768	12,656
Refuse and recycling	8,156	8,500
Telephone services	12,911	10,781
Tire and tube rentals	12,082	9,342
Janitorial and custodial services	6,295	5,315
Water and sewage	9,827	11,417
Specialized equipment	2,133	2,445
Bridge, tunnel and highway tolls	4,672	4,619
Uniforms	2,103	3,421
Ticket stock material	5,052	3,386
Safety equipment and supplies	9,693	10,399
Other miscellaneous expenses	2,265	8,523
	<u>\$ 196,382</u>	<u>\$ 185,523</u>

14. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. The hedging strategy consists of a fixed-rate lock on forward delivery of NYMEX No. 2 heating oil. This commodity remains highly correlated to the fuel type being used by MTA, ultra-low sulfur diesel, (ULSD). MTA executed twenty-four separate hedges during 2015. All MTA fuel hedges provide for 24 monthly settlements. The table below summarizes the twenty-four active ULSD hedges:

Counterparty	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	1/29/2014	2/26/2014	3/31/2014	4/30/2014	5/15/2014	6/25/2014
Effective Date	12/1/2014	2/1/2015	3/1/2015	4/1/2015	7/1/2014	6/1/2015
Termination Date	12/31/2015	1/31/2016	2/28/2016	3/31/2016	4/30/2016	5/31/2016
Price/Gal	\$2.77	\$2.84	\$2.81	\$2.82	\$2.86	\$2.93
Notional Qnty (Gal)	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
Trade Date	7/29/2014	8/27/2014	9/24/2014	10/29/2014	11/25/2014	12/23/2014
Effective Date	7/1/2015	8/1/2015	4/1/2015	10/1/2015	11/1/2015	12/1/2015
Termination Date	6/30/2016	7/31/2016	8/31/2016	9/30/2016	10/31/2016	11/30/2016
Price/Gal	\$2.86	\$2.82	\$2.74	\$2.55	\$2.40	\$2.03
Notional Qnty (Gal)	8,461,232	8,322,340	8,050,125	7,487,723	7,029,766	5,970,231
Counterparty	JPM - Ventures Energy Corp	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	1/29/2015	2/26/2015	3/25/2015	4/29/2015	5/28/2015	6/30/2015
Effective Date	1/1/2016	2/1/2016	3/1/2016	4/1/2016	5/1/2016	6/1/2016
Termination Date	12/31/2016	1/31/2017	2/28/2017	3/30/2017	4/30/2017	5/31/2017
Price/Gal	\$1.81	\$2.05	\$1.92	\$2.09	\$2.00	\$2.01
Notional Qnty (Gal)	5,253,199	6,017,839	5,629,297	5,957,391	5,831,540	5,882,999
Counterparty	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	J. Aron & Company	Bank of America Merrill Lynch	J. Aron & Company
Trade Date	7/30/2015	8/27/2015	9/28/2015	10/29/2015	11/24/2015	12/17/2015
Effective Date	7/1/2016	8/1/2016	9/1/2016	2/1/2016	11/1/2016	12/1/2016
Termination Date	6/30/2017	7/31/2017	8/31/2017	9/30/2017	10/31/2017	11/30/2017
Price/Gal	\$1.81	\$1.66	\$1.70	\$1.71	\$1.65	\$1.48
Notional Qnty (Gal)	5,298,402	4,847,240	5,130,241	5,631,317	4,863,189	4,266,180

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. At December 31, 2015, the total outstanding notional value of the ULSD contracts was 54.2 million gallons with a negative fair market value of \$43.1 million.

The Transit Authority recognized a fuel hedge gain of \$.04 million in 2015 and a fuel hedge loss of \$4.4 million in 2014.

15. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

The Authority is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limit was \$7 million per occurrence. Claims arising on or after November 1, 2006, but before November 1, 2009 were subject to an \$8 million limit. Effective November 1, 2009, the retention limit was increased to \$9 million per occurrence and effective November 1, 2012, the retention limit was increased to \$10 million. Effective October 31, 2015, the self-insured retention limit was increased to \$11 million. Lower limits applied for claims arising prior to November 1, 2001. The Authority is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying consolidated statements of revenues, expenses and change in net position.

The Authority establishes its liability for injuries to employees and to the general public on the basis of independent actuarial estimates of future liability.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2015 and 2014, is as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$1,755,699	\$1,548,072
Activity during the year:		
Current year claims and changes in estimates	556,833	439,151
Claims paid	<u>(252,099)</u>	<u>(231,524)</u>
Balance at end of year	2,060,433	1,755,699
Less current portion	<u>(245,079)</u>	<u>(221,174)</u>
Long-term liability	<u>\$1,815,354</u>	<u>\$1,534,525</u>

First Mutual Transportation Assurance Company — (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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million 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 million for MTA New York

City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, 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 million. 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 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2015, the balance of the assets in the ELF program was \$109.1 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). 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 million.

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 million per occurrence limit with a \$0.5 million 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 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2015, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies for \$11 million 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, 2015, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a \$25 million per occurrence self-insured retention (SIR), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$800 million 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 million 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 million per occurrence self-insured retention, MTA self-insures all risks (excluding Earthquake, Flood and Wind) above that retention for an additional \$220.1 million within the overall \$600 million property program, as follows: \$11.6 million (or 23.3%) of the \$50 million layer excess of the primary \$150 million layer, plus \$45.5 million (or 45.5%) of the \$100 million layer excess of \$250 million, plus \$87.5 million (or 58.3%) of \$150 million excess of \$350 million, plus \$35.5 million (or 71%) of the \$50 million layer excess of \$500 million, plus \$40.5 million (or 81%) of \$50 million layer excess of \$550 million.

FMTAC is 100% reinsured for the perils of Earthquake, Flood, and Wind for the \$600 million per occurrence and in the annual aggregate property program. Supplementing the \$600 million per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million 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 of the Authority and the 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 by Metrocat Re Ltd., is available for storm surge losses only after amounts available under the \$600 million 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 million in 2015 and \$120 million 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 \$161.3 million 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 million 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 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate during 2015 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$120 million TRIPRA trigger up to a maximum recovery of \$120 million 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 \$161.3 million in 2015 and \$172.0 million in 2016. These coverages expire at midnight on May 1, 2016.

Recovery under this policy is subject to retention of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. In the event that the MTA Group's retention in any one year exceed \$75 million, future losses in that policy year are subject to retention of \$7.5 million.

During 2015, FMTAC reimbursements to the Authority amounted to \$853,000. At December 31, 2015, the Authority has one outstanding claim requiring coverage by FMTAC for approximately \$3.0 million, which relates to a pedestrian struck by a vehicle in 2004. At December 31, 2015, FMTAC had \$1.3 billion of assets to insure current and future claims.

16. CONTINGENCIES

The Authority is involved in various litigation and claims involving personal liability claims and certain other matters. The ultimate outcome of these claims and suits cannot be predicted at this time. Nevertheless, management does not believe that the ultimate outcome of these matters will have a material effect on the consolidated financial position of the Authority.

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2015 and 2014, the Authority recognized \$12.9 million and \$12.5 million, respectively, in pollution remediation expenses. The expense provision was measured at its current value utilizing the prescribed expected cash flow method (see Note 2). Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

A summary of the activity in pollution remediation liability at December 31, 2015 and 2014, were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Balance at beginning of year	\$ 42,683	\$ 53,293
Activity during the year:		
Current year encumbrances	12,876	12,478
Current year expenditures	<u>(13,830)</u>	<u>(23,088)</u>
Balance at end of year	41,729	42,683
Less current portion	<u>(8,346)</u>	<u>(8,537)</u>
Long-term liability	<u>\$ 33,383</u>	<u>\$ 34,146</u>

The Authority's pollution remediation liability primarily consists of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, and soil remediation.

17. SUBSEQUENT EVENTS

On February 25, 2016, MTA issued \$782.5 million of Transportation Revenue Green and Refunding Green Bonds, Series 2016A. This issue was MTA's inaugural issuance of Climate Bonds Initiative certified green bonds. The proceeds from the transaction will be used to pay off the existing outstanding 2015A Bond Anticipation Notes, in the amount of \$500 million and to advance refund \$72.3 million of Transportation Revenue Bonds, Series 2006A and \$293.7 million of Transportation Revenue Bonds, Series 2008C. The Series 2016A bonds were issued as \$444.5 Transportation Revenue Green Bonds,

Series 2016A-1 and \$338 Transportation Revenue Refunding Green Bonds, Series 2016A-2. The Series 2016A-1 and Series 2016A-2 bonds were both issued as tax-exempt fixed-rate bonds with final maturities of November 15, 2056 and November 15, 2028, respectively.

On January 27, 2016, MTA executed a 2,935,682 gallon ultra-low sulfur diesel fuel hedge with Goldman, Sachs & Co./ J Aron at an all-in price of \$1.276/gallon. The hedge covers the period from January 2017 through December 2017.

On February 23, 2016, MTA executed a 2,935,686 gallon ultra-low sulfur diesel fuel hedge with J.P. Morgan Ventures Energy Corporation at an all-in price of \$1.310/gallon. The hedge covers the period from February 2017 through January 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

NEW YORK CITY TRANSIT AUTHORITY

(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE AUTHORITY'S NET PENSION LIABILITY AND RELATED RATIOS FOR THE MABSTOA PENSION PLAN AT DECEMBER 31:

(In millions)

	<u>2014</u>
Total pension liability:	
Service cost	\$ 72
Interest	224
Differences between expected and actual experience	(2)
Benefit payments and withdrawals	<u>(175)</u>
Net change in total pension liability	119
Total pension liability—beginning	<u>3,212</u>
Total pension liability—ending(a)	<u>3,331</u>
Fiduciary net position:	
Employer contributions	\$ 226
Member contributions	15
Net investment income	105
Benefit payments and withdrawals	(175)
Administrative expenses	<u>-</u>
Net change in plan fiduciary net position	171
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>\$ 1,066</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>68.0 %</u>
Covered-employee payroll	616
Employer's net pension liability as a percentage of covered-employee payroll	<u>173.0 %</u>

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

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY IN THE NYCERS PENSION PLAN AT JUNE 30:
(In millions)

	<u>2015</u>
The Authority's proportion of the net pension liability	22.380%
The Authority's proportionate share of the net pension liability	\$4,530
The Authority's actual covered-employee payroll	\$2,862
The Authority's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	158.301%
Plan fiduciary net position as a percentage of the total pension liability	73.125%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

NEW YORK CITY TRANSIT AUTHORITY

(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS FOR THE YEARS ENDED DECEMBER 31:

(In millions)

MaBSTOA:

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Contribution	\$214.9	\$226.4	\$234.5	\$228.9	\$186.5	\$200.6	\$204.3	\$201.9	\$179.2	\$159.6
Actual Employer Contribution	214.9	226.4	234.5	228.9	186.5	200.6	204.3	201.9	179.2	259.6
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	(100.0)
Covered Payroll	693.9	671.6	582.1	576.0	579.7	591.1	569.4	562.2	519.7	498.0
Contributions as a % of Covered Payroll	31.0%	33.7%	40.3%	39.7%	32.2%	33.9%	35.9%	35.9%	34.5%	52.1%

NYCERS:

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Actuarially Determined Contribution	\$694.4	\$708.2	\$702.9	\$695.8	\$630.1	\$549.1	\$523.9	\$479.2	\$388.3	\$276.9
Actual Employer Contribution	694.4	708.2	702.9	695.8	630.1	549.1	523.9	479.2	388.3	276.9
Contribution Deficiency (Excess)	-	-	-	-	-	-	-	-	-	-
Covered Payroll	3,215.1	2,834.4	2,811.1	2,797.7	2,771.9	2,751.5	2,652.8	2,514.1	2,419.2	2,348.3
Contributions as a % of Covered Payroll	21.6%	25.0%	25.0%	24.9%	22.7%	20.0%	19.7%	19.1%	16.0%	11.8%

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS:
(CONTINUED)

The following actuarial methods and assumptions were used in the January 1, 2014 funding valuation for the MaBSTOA pension plan as follows:

	<u>MaBSTOA</u>
Valuation Date	January 1, 2014
Measurement Date	December 31, 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 the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population.
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.
Actuarial assumptions:	
Discount Rate	7.0%
Investment rate of return	7.0%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA.
Inflation	2.5% per annum
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. For Tier 6 members, all overtime was assumed to be less than the overtime cap.
Cost-of-Living Adjustments	1.375% per annum
Rate 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.

⁽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.

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION
NOTES TO SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO ALL PENSION PLANS:
(CONCLUDED)

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the NYCERS Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2013 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2013 funding valuation.

NEW YORK CITY TRANSIT AUTHORITY
(Component Unit of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE NEW YORK CITY TRANSIT
POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)
(In millions)

<u>Year Ended</u>	<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (a)	<u>Actuarial Accrued Liability (AAL) *</u> (b)	<u>Unfunded (AAL) (UAAL)</u> (b-a)	<u>Funded Ratio</u> ((a/b))	<u>Covered Payroll</u> (c)	<u>(UAAL) As a Percentage of Covered Payroll</u> ((b-a)/c)
12/31/15	1/1/14	\$ 162.3	\$ 14,013.9	\$ 13,851.6	1.2 %	\$ 3,182.5	435.2 %
12/31/14	1/1/12	159.4	15,770.7	15,611.3	1.0	3,025.2	516.0
12/31/13	1/1/12	159.4	15,770.7	15,611.3	1.0	3,025.2	516.0

* Based on Entry Age Normal

First Mutual Transportation Assurance Company

(Component of the Metropolitan Transportation
Authority)

Financial Statements as of and for the Years
Ended December 31, 2015 and 2014, and
Independent Auditors' Report

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FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority:

Report on the Financial Statements

We have audited the accompanying statements of net position of the First Mutual Transportation Assurance Company (the "Company"), a component of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Company's 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 the 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 Company'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 purposes of expressing an opinion on the effectiveness of the Company'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 net position of the Company as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

April XX, 2016

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

(Component of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2015 AND 2014 (In thousands)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction—The following is a narrative overview and analysis of the financial activities of the First Mutual Transportation Assurance Company (the “Company” or “FMTAC”) for the years ended December 31, 2015 and 2014. This discussion and analysis is intended to serve as an introduction to the Company’s financial statements which have the following components: (1) Management’s Discussion and Analysis (“MD&A”), (2) Financial Statements and (3) Notes to the Financial Statements.

Management’s Discussion and Analysis—This MD&A provides an assessment of how the Company’s position has improved or deteriorated and identifies the factors that, in management’s view, significantly affected the Company’s overall financial position. It may contain opinions, assumptions or conclusions by the Company’s management that should not be considered a replacement for, and must be read in conjunction with, the financial statements.

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

The Statements of Revenues, Expenses and Changes in Net Position show how the Company’s net position changed during each year and accounts for all of the revenues and expenses, measures the success of the Company’s operations from an accounting perspective over the past year, and can be used to determine how the Company has funded its costs.

The Statements of Cash Flows provide information about the Company’s cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

The Notes to the Financial Statements—The notes to the financial statements provide additional information that is essential for a full understanding of the information provided in the financial statements.

2. FINANCIAL REPORTING ENTITY

On December 5, 1997, the Metropolitan Transportation Authority (“MTA”) began its operation of its newly incorporated captive insurance company, FMTAC. FMTAC was created by the MTA to engage in the business of acting as a pure captive insurance company under Section 7005, Article 70 of the Insurance Law and Section 1266 Subdivision 5 of the Public Authorities Law of the State of New York. FMTAC’s mission is to continue, develop, and improve the insurance and risk management needs as required by the MTA. The MTA is a component unit of the State of New York.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Company's financial position for the years ended December 31, 2015 and 2014. Additionally, examinations of major economic factors that have contributed to these changes are 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 Company's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
ASSETS					
CURRENT ASSETS	\$ 436,957	\$ 333,784	\$ 310,145	\$ 103,173	\$ 23,639
NONCURRENT ASSETS	<u>835,053</u>	<u>994,131</u>	<u>1,022,861</u>	<u>(159,078)</u>	<u>(28,730)</u>
TOTAL ASSETS	<u>\$ 1,272,010</u>	<u>\$ 1,327,915</u>	<u>\$ 1,333,006</u>	<u>\$ (55,905)</u>	<u>\$ (5,091)</u>

Significant Changes in Assets

December 31, 2015 versus December 31, 2014

Total assets have decreased by \$55,905 or 4.2 percent, from December 31, 2014 to December 31, 2015. The fluctuation in the total assets of FMTAC was the effect of lower premium receivable balance from affiliates and reduction of reinsurance recoverable losses for Tropical Storm Sandy. In 2015, FMTAC received a portion of its Tropical Storm Sandy property claim settlement from its reinsurance carriers.

December 31, 2014 versus December 31, 2013

Total assets have decreased by \$5,091 or 0.4 percent, from December 31, 2013 to December 31, 2014. The fluctuation in the total assets of FMTAC was the net effect of premium received from affiliates and reduction of reinsurance recoverable losses for Hurricane Irene. In 2014, FMTAC received its Hurricane Irene property claim settlement from its reinsurance carriers.

(In thousands)	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
LIABILITIES AND NET POSITION					
CURRENT LIABILITIES	\$ 359,701	\$ 255,738	\$ 255,169	\$ 103,963	\$ 569
NONCURRENT LIABILITIES	770,140	905,649	942,804	(135,509)	(37,155)
RESTRICTED NET POSITION	<u>142,169</u>	<u>166,528</u>	<u>135,033</u>	<u>(24,359)</u>	<u>31,495</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,272,010</u>	<u>\$ 1,327,915</u>	<u>\$ 1,333,006</u>	<u>\$ (55,905)</u>	<u>\$ (5,091)</u>

Significant Changes in Liabilities

December 31, 2015 versus December 31, 2014

Total liabilities from December 31, 2014 to December 31, 2015 have decreased by \$31,546 or 2.7 percent. The decrease in liabilities is due a reduction of ceded premium payable and the net effect of a reduction in reinsurance recoverable reserves for Tropical Storm Sandy receipts offset by increase in losses payable primarily due to the Tropical Storm Sandy payment due to the MTA.

December 31, 2014 versus December 31, 2013

Total liabilities from December 31, 2013 to December 31, 2014 have decreased by \$36,586 or 3 percent. The decrease in liabilities is due to a reduction in unpaid losses for the Hurricane Irene property claim. In 2014, FMTAC settled the Hurricane Irene property claim.

Significant Changes in Net Position

December 31, 2015 versus December 31, 2014

In 2015, the restricted net position decrease of \$24,359 is comprised of operating revenues of \$80,092 and non-operating income of \$3,508, less operating expenses of \$107,959.

December 31, 2014 versus December 31, 2013

In 2014, the restricted net position increase of \$31,495 is comprised of operating revenues of \$100,149 and non-operating income of \$16,443, less operating expenses of \$85,097.

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	2015	2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
OPERATING REVENUES	\$ 80,092	\$ 100,149	\$ 74,761	\$ (20,057)	\$ 25,388
OPERATING EXPENSES	<u>107,959</u>	<u>85,097</u>	<u>118,455</u>	<u>22,862</u>	<u>(33,358)</u>
OPERATING INCOME / (LOSS)	(27,867)	15,052	(43,694)	(42,919)	58,746
NON-OPERATING INCOME / (LOSS)	<u>3,508</u>	<u>16,443</u>	<u>2,845</u>	<u>(12,935)</u>	<u>13,598</u>
CHANGE IN NET POSITION	(24,359)	31,495	(40,849)	(55,854)	72,344
RESTRICTED NET POSITION— Beginning of year	<u>166,528</u>	<u>135,033</u>	<u>175,882</u>	<u>31,495</u>	<u>(40,849)</u>
RESTRICTED NET POSITION— End of year	<u>\$ 142,169</u>	<u>\$ 166,528</u>	<u>\$ 135,033</u>	<u>\$ (24,359)</u>	<u>\$ 31,495</u>

Operating Revenues—The decrease of \$20,057 or 20 percent, over the 2014 operating revenues is due to decreased earned premium from the Owner Controlled Insurance Programs (“OCIP”) Liberty program compared to prior years.

The increase of \$25,388 or 34.0 percent, over the 2013 operating revenues is due to increased earned premium from the OCIP Liberty program and Excess Loss Policy compared to prior years.

Operating Expenses—Operating expenses between 2014 and 2015 increased by 26.9 percent, or \$22,862. This increase is attributable to an increase in the estimated OCIP program reserve.

Operating expenses between 2013 and 2014 decreased by 28.2 percent, or \$33,358. This decrease is attributable to the prior year increase in estimated reserves for Excess Loss coverage due to the 2014 Metro-North Derailment.

Non-operating Income—Non-operating income between 2014 and 2015 decreased by 78.7 percent, or \$12,935. This is a result of a decrease in income from net unrealized gains on investments held by FMTAC.

Non-operating income between 2013 and 2014 increased by 478.0 percent, or \$13,598. This is a result of an increase in income from net unrealized gains on investments held by FMTAC.

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

Results of Operations—Operating as a pure captive insurance company domiciled in the State of New York requires that all business plans and changes to said plans be reviewed and approved by the New York Insurance Department. As of December 31, 2015, all programs administered by FMTAC have been reviewed and approved.

As of December 31, 2015 and 2014, FMTAC received its annual loss reserve certification. The actuary determined that reserves recorded by FMTAC were adequate and no adjustments were deemed necessary.

U.S. Insurance Market—The industry's financial performance in 2015 showed an underwriting profit for the third consecutive year, although less profitable than 2014. Higher losses in the personal lines and reinsurance segments, in addition to lower loss reserve releases, resulted in the combined ratio rising from 98% in 2014 to 99.2%. Net income growth has slowed as lower yields on investment portfolio continue to hamper net investment growth. Unrealized capital losses kept surplus growth below 1% for the year.

5. **CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

Metro-North Railroad Derailment—On December 1, 2013, seven cars and the locomotive of a southbound Metro-North Railroad train derailed north of the Spuyten Duyvil station in the Bronx on the Hudson Line, resulting in four fatalities and more than 60 reported injuries. At this time, MTA Metro-North Railroad cannot predict the full extent of the claims associated with this accident. FMTAC writes an all-agency excess liability policy for \$50,000 per occurrence in excess of the MTA Metro-North Railroad's self-insured retention of \$10,000 per occurrence. Metro-North has advised FMTAC that it has reserved these claims at the per occurrence limit of \$10,000. In 2015, FMTAC paid \$10,000 in losses relating to this claim. At December 31, 2015, FMTAC has a reserve of \$30,000 in these financial statements.

Terrorism Risk Insurance Act—Effective November 26, 2002, the Terrorism Risk Insurance Act (“TRIA”) was signed in to law. Effective December 22, 2006, TRIA was extended through December 31, 2007. On December 31, 2007, the U.S. Treasury Department issued Interim Guidance Concerning the Terrorism Risk Insurance Program Reauthorization Act of 2007 (“TRIPRA”) which has been extended through December 31, 2014. On January 12, 2015, TRIA was extended through December 31, 2020. For additional information, please refer to the property section under Note 5.

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FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	\$ 322,085	\$ 184,786
Investments (Note 4)	56,401	47,288
Funds held by reinsurer (Note 5)	20,549	24,525
Premiums receivable due from affiliates (Note 7)	35,707	74,847
Interest income receivable (Note 4)	2,190	2,314
Other assets	25	24
Total current assets	436,957	333,784
NONCURRENT ASSETS:		
Investments (Note 4)	357,116	350,277
Reinsurance recoverable	473,924	641,721
Incentive reward receivable	4,013	2,133
Total noncurrent assets	835,053	994,131
TOTAL ASSETS	<u>\$ 1,272,010</u>	<u>\$ 1,327,915</u>
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Unearned premiums	\$ 124,541	\$ 126,754
Ceded premium payable	5,194	23,919
Reinsurance recoverable reserves—current portion (Note 6)	1,638	1,638
Loss and loss adjustment expenses (Note 6)	84,229	98,837
Losses payable	141,718	189
Due to affiliates	1,317	3,524
Accrued expenses	1,064	877
Total current liabilities	359,701	255,738
NONCURRENT LIABILITIES:		
Loss and loss adjustment expenses (Note 6)	285,779	247,809
Reinsurance recoverable reserves (Note 6)	470,648	640,083
Owner Controlled Insurance Programs liability (Note 5)	13,713	17,757
Total noncurrent liabilities	770,140	905,649
Total liabilities	1,129,841	1,161,387
RESTRICTED NET POSITION	142,169	166,528
TOTAL LIABILITIES AND NET POSITION	<u>\$ 1,272,010</u>	<u>\$ 1,327,915</u>

See notes to financial statements.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousands)

	2015	2014
OPERATING REVENUES:		
Gross premiums written	\$ 126,636	\$ 174,767
Premiums ceded	(48,757)	(71,666)
Change in unearned premiums	<u>2,213</u>	<u>(2,952)</u>
Total operating revenues	<u>80,092</u>	<u>100,149</u>
OPERATING EXPENSES:		
Loss and loss adjustment	96,507	72,067
Underwriting	4,332	4,233
General and administrative	<u>7,120</u>	<u>8,797</u>
Total operating expenses	<u>107,959</u>	<u>85,097</u>
OPERATING (LOSS)/INCOME	<u>(27,867)</u>	<u>15,052</u>
NON-OPERATING INCOME:		
Net investment income	11,113	12,994
Net unrealized (loss) gain on investments	<u>(7,605)</u>	<u>3,449</u>
Total non-operating income	<u>3,508</u>	<u>16,443</u>
CHANGE IN NET POSITION	(24,359)	31,495
RESTRICTED NET POSITION—Beginning of year	<u>166,528</u>	<u>135,033</u>
RESTRICTED NET POSITION—End of year	<u>\$ 142,169</u>	<u>\$ 166,528</u>

See notes to financial statements.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Premiums and other receipts	\$ 98,294	\$ 105,645
Other operating expenses	<u>51,323</u>	<u>(91,340)</u>
Net cash provided by operating activities	<u>149,617</u>	<u>14,305</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments	(332,792)	(250,392)
Sales and maturities of investments	309,236	249,552
Earnings on investments	<u>11,238</u>	<u>13,183</u>
Net cash (used in) provided by investing activities	<u>(12,318)</u>	<u>12,343</u>
NET INCREASE IN CASH	137,299	26,648
CASH AND CASH EQUIVALENTS—Beginning of year	<u>184,786</u>	<u>158,138</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 322,085</u>	<u>\$ 184,786</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) / income	\$ (27,869)	\$ 15,052
Adjustments to reconcile to net cash used in operating activities:		
Net decrease in accounts payable, accrued expenses and other liabilities	(31,545)	(36,586)
Net increase in receivables	<u>209,031</u>	<u>35,839</u>
Net cash provided by operating activities	<u><u>\$ 149,617</u></u>	<u><u>\$ 14,305</u></u>

See notes to financial statements.

FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY

(Component of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2015 AND 2014

(In thousands)

1. BASIS OF PRESENTATION

Reporting Entity—First Mutual Transportation Assurance Company (the “Company”), a component of the Metropolitan Transportation Authority (“MTA”), was incorporated under the laws of the State of New York (the “State”) as a pure captive insurance company on December 5, 1997, and commenced operations on that date. The Company was established to maximize the flexibility and effectiveness of the MTA’s insurance program and is governed by a Board of Directors consisting of members of the MTA. The Company’s financial position and results of operations are included in the MTA’s Comprehensive Annual Financial Report. The MTA is a component unit of the State and is included in the State of New York’s Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

The New York captive insurance statute requires a \$250 minimum unimpaired paid-in-capital and surplus be maintained by a pure captive insurance company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

FMTAC 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. FMTAC has determined that GASB Statement No. 70 had no impact on its financial position, results of operations, and cash flows.

FMTAC has not completed the process of evaluating the impact of GASB Statement No. 72, *Fair Value Measurement and Application*. The objective of GASB Statement No. 72 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.

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 amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Cash and Cash Equivalents—includes highly liquid investments. Cash is stated at cost, which approximates fair value.

Investments—Investments are recorded on the statement of net position at fair value, which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (as either net investment income or unrealized gain (loss) on investments) on the statement of revenues, expenses and changes in net position.

Net Position—Net position is restricted for payment of insurance claims.

Operating Revenues

Premiums—Earned premiums are determined over the term of their related policies, which approximates one year, or for certain, OCIP, as a percent of completed construction costs. Accordingly, an unearned premium liability is established for the portion of premiums written applicable to the unexpired period of policies in force or uncompleted construction projects. The Company does not directly pay premium taxes in accordance with its relationship with New York State.

Operating Expenses

Loss and Loss Adjustment Expenses—Loss and loss adjustment expenses are established for amounts estimated to settle incurred losses on individual cases and estimates for losses incurred but not reported.

Loss and loss adjustment expenses are based on loss estimates for individual claims and actuarial estimates and, therefore, the ultimate liabilities may vary from such estimates. Any adjustments to these estimates, which could be significant, will be reflected in income in the period in which the estimates are changed or payments are made.

Non-Operating Revenues and Expenses—Investment income and unrealized gain (loss) on investments account for FMTAC's non-operating revenues and expenses.

Income Taxes—The Company is not subject to income taxes arising on profits since it is a component of the MTA. The MTA and its subsidiaries are exempt from income taxes.

3. CASH AND CASH EQUIVALENTS

At December 31, 2015 and 2014, cash and cash equivalents consisted of (in thousands):

	2015		2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 175	\$ 250
Loss escrows	4,608	4,608	4,608	4,608
Funds for security trust	112,044	112,044	103,635	103,635
Funds held with reinsurer	2,375	2,375	2,375	2,375
Uninsured deposits	<u>202,808</u>	<u>206,101</u>	<u>73,993</u>	<u>73,993</u>
	<u>\$ 322,085</u>	<u>\$ 325,378</u>	<u>\$ 184,786</u>	<u>\$ 184,861</u>

The Company is required to set aside funds in escrow accounts that are used to settle claims on behalf of the Company. The account balances of the loss escrow are \$4,608 and \$4,608 for the years ended December 31, 2015 and 2014, respectively.

All other funds are invested by the Company as described in Note 4.

4. INVESTMENTS

The market value and cost basis of investments consist of the following at December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Market	Cost	Market	Cost
Restricted for claim payments	\$ 301,036	\$ 296,256	\$ 286,107	\$ 274,493
Security trust funds	86,543	86,056	85,579	84,293
Restricted funds for letter of credit	<u>25,939</u>	<u>25,879</u>	<u>25,879</u>	<u>25,847</u>
	<u>\$ 413,518</u>	<u>\$ 408,191</u>	<u>\$ 397,565</u>	<u>\$ 384,633</u>

All investments are registered and held by the Company or its agent in the Company's name.

The Company makes funds available to claims processors to allow for adequate funding for submitted claims. The funds, in the above table, are invested primarily in fixed income investments such as U.S. Government Bonds. All investments outlined above are restricted per the Statement of Net Position and are to be used to pay claims or pay administration expenses of the Company or as collateral for letter of credit obligations.

All funds of the Company not held as cash and cash equivalents are invested by the Company in accordance with the Company's investment guidelines. Investments may be further limited by individual security trust agreements. The Company's investment policies comply with the New York State Comptroller's guidelines for such policies. Those policies permit investments in fixed income securities that are investment grade or higher and the policy also allows for the investment in equities.

Investments maturing and expected to be utilized within the year of December 31 have been classified as current assets in the financial statements.

All investments are recorded on the statements of net position at fair value and all investment income, including changes in the fair value of investments, is reported as revenue/(expense) on the Statements of Revenues, Expenses and Changes in Net Position. Fair values have been determined using quoted market values at December 31, 2015 and 2014.

The fair value of the above investments consists of \$301,036 and \$286,107 in 2015 and 2014 in investments restricted for claim payments, respectively; \$86,543 and \$85,579 in 2015 and 2014 in security trust funds, respectively; and \$25,939 and \$25,879 for letter of credit obligations in 2015 and 2014, respectively. The yield to maturity rate on the above investments was 3.71% for the year ended December 31, 2015, and 3.75% for the year ended December 31, 2014. The change in net unrealized gain (loss) on investments for the years ended December 31, 2015 and 2014, was a \$7,605 (loss) and a \$3,449 gain, respectively.

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.

(In thousands) Investment Type	2015	
	Fair Value	Duration
Treasury ⁽¹⁾	\$ 113,499	4.43
Agency ⁽²⁾	45,627	3.26
Asset backed securities	26,412	0.99
Commercial mortgage backed securities	45,802	1.87
Foreign bonds	10,834	0.01
Corporate bonds	<u>154,367</u>	2.96
Total	396,541	3.71
Equities ⁽³⁾	19,166	
Less accrued interest	<u>(2,189)</u>	
Total investments	<u><u>\$ 413,518</u></u>	

Including but not limited to:

⁽¹⁾ U.S. Treasury Notes

⁽²⁾ Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation

⁽³⁾ Exchange Traded Funds

**(In thousands)
Investment Type**

2014

Fair Value Duration

Treasury ⁽¹⁾	\$ 70,912	4.62
Agency ⁽²⁾	40,273	4.20
Asset backed securities	24,974	0.99
Commercial mortgage backed securities	61,993	1.64
Foreign bonds	20,562	0.00
Corporate bonds	<u>161,561</u>	2.46

Total	380,275	3.75
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Equities ⁽³⁾	19,604
Less accrued interest	<u>(2,314)</u>

Total investments	<u>\$ 397,565</u>
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Including but not limited to:

- (1) U.S. Treasury Notes
- (2) Fannie Mae, Freddie Mac, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation
- (3) Exchange Traded Funds

Credit Risk—At December 31, 2015, the following credit quality rating has been assigned by a nationally recognized rating organization (in thousands):

Quality Rating	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 111,940	28.2 %
AA	27,339	6.9
A	91,553	23.1
BBB	50,907	12.8
BB	311	0.1
Not rated	<u>1,638</u>	<u>0.4</u>
Credit risk debt securities	283,688	71.5
U.S. Government bonds	<u>112,865</u>	<u>28.5</u>
Total fixed income securities	396,553	<u>100.0 %</u>
Equities	19,154	
Less accrued interest	<u>(2,189)</u>	
Total investments	<u>\$ 413,518</u>	

Credit Risk—At December 31, 2014, the following credit quality rating has been assigned by a nationally recognized rating organization (in thousands):

Quality Rating	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 119,864	31.5 %
AA	34,000	8.9
A	100,340	26.4
BBB	54,641	14.4
Not rated	<u>218</u>	<u>0.1</u>
Credit risk debt securities	309,063	81.3
U.S. Government bonds	<u>71,212</u>	<u>18.7</u>
Total fixed income securities	380,275	<u>100.0 %</u>
Equities	19,604	
Less accrued interest	<u>(2,314)</u>	
Total investments	<u>\$ 397,565</u>	

5. INSURANCE PROGRAMS

Property and Terrorism Coverage Program - 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 \$25,000 per occurrence self-insured retention, subject to an annual \$75,000 aggregate as well as certain exceptions summarized below. The total program is \$800,000 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 \$7,500 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.

FMTAC is 100% reinsured for the perils of Earthquake, Flood, and Wind for the \$600,000 per occurrence and in the annual aggregate property program. Supplementing the \$600,000 per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200,000 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 Ltd. reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided by Metrocat Re Ltd., is available for storm surge losses only after amounts available under the \$600,000 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, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2015 (originally introduced in 2002). Under the 2015 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. The remaining 15% of MTA Group losses arising from an act of terrorism would be covered under the additional terrorism policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed \$100,000 (“trigger”) for 2015. The United States government’s reinsurance of FMTAC was extended for six years.

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 in 2015—up to a maximum recovery of \$161,250 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15% “certified” acts of terrorism insurance in 2015 or (3) 100% of any “certified” terrorism loss which exceeds \$5,000 and less than the \$100 TRIPRA trigger—up to a maximum recovery of \$100,000 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2016. Recovery under this policy is subject to a retention of \$25,000 per occurrence and \$75,000 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 \$75,000 future losses in that policy year are subject to a retention of \$7,500.

Excess Loss Fund (“ELF”)—On October 31, 2003, the Company assumed the existing ELF program on both a retrospective and prospective basis. 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. The coverage limit will remain \$50,000 per occurrence or the proceeds of the program whichever is less. On a prospective basis, effective October 31, 2003, the Company issued insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention with a limit of \$50,000 per occurrence with \$50,000 annual aggregate. The balance of the ELF, \$77,000 was transferred to and invested by the Company in order to secure any claims assumed from the ELF, as well as to capitalize the prospective programs and insure current and future claims. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. Effective October 31, 2015, FMTAC also provides an All-Agency Excess Liability Policy to the MTA and its subsidiaries and affiliates with the limits: i) \$25,000 (25%) of \$100,000 excess \$100,000 and ii) \$200,000 excess \$200,000. The limits are fully reinsured in the domestic, London, European and Bermuda marketplaces. The limits also exclude claims arising from acts of terrorism.

Stations and Force Liability—Effective December 15, 2015, the Company renewed its direct insurance for the first \$11,000 per occurrence losses for Long Island Rail Road Company and Metro-North Commuter Railroad Company with no aggregate stop loss protection.

All Agency Protective Liability—The Company issued a policy to cover MTA’s All Agency Protective Liability Program (“AAPL”), which is designed to protect the MTA and its agencies against the potential liability arising from independent contractors working on capital and noncapital projects. Effective June 1, 2015, the net retention to the Company is \$2,000. Effective June 1, 2014, the Company also issued a policy for \$8,000 excess of \$2,000 per occurrence with an \$16,000 annual aggregate. Effective October 31, 2015, the policy limits were changed to \$9,000 excess of \$2,000 with an \$18,000 annual aggregate.

Paratransit—On March 1, 2015, the MTA renewed its one-year auto liability policy with Travelers (Discover Re). Effective March 1, 2015, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability on the NYCT Paratransit operations. The Company is responsible for the first \$1,000 per occurrence of every claim, excluding Allocated Loss Adjusted Expenses (“ALAE”), covered by the MTA/Travelers policy. Under a separate reinsurance agreement with Travelers, effective March 1, 2015, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

Non-Revenue—Effective March 1, 2015, the Company renewed, with the MTA, a deductible reimbursement policy for the auto liability of MTA’s non-revenue fleet. The Company is responsible for the first \$500 per occurrence of every claim, excluding Allocated Loss Adjusted Expenses (“ALAE”). Under a separate reinsurance agreement with Travelers, effective March 1, 2015, the Company assumed 100% of the Allocated Loss Adjusted Expenses.

Owner-Controlled Insurance Programs—The MTA purchases Owner Controlled Insurance Programs under which coverage is provided on a group basis for certain agency projects. The Company provides the collateral required by the OCIP insurers to cover deductible amounts. The Company records in the OCIP liability account the amount of principal paid by the MTA to the program. The interest earned is not recognized in the statements of operations. Rather, the amounts are recorded as Incentive Award Payable as the Company may have to make payments to contractors with favorable loss experience.

OCIP liability consists of the following at December 31, 2015 and 2014 (in thousands):

	2015	2014
NYCT structures lines	\$ 532	\$ 532
LIRR/MNCR 2000–2004 Capital Improvement Program	(2,093)	(2,092)
NYCT 2000–2004 line structures/shops, yards and depots Capital Improvements Program	1,127	1,111
NYCT 2000–2004 stations and escalators/elevators Capital Improvements Program	(683)	(683)
LIRR/MNR 2005–2009 Capital Improvement Program	186	(317)
CCC Second Ave. Subway	<u>14,644</u>	<u>19,206</u>
OCIP liability	<u>\$ 13,713</u>	<u>\$ 17,757</u>

OCIPs Covering 2000–2004 Capital Program—The Company entered into three agreements with AIG covering portions of the 2000–2004 MTA Capital Program effective October 1, 2000: (1) LIRR/MNCR 2000–2004 capital improvement program; (2) NYCT 2000–2004 lines structures/shops, yards and depots capital improvement program; and (3) NYCT 2000–2004 stations and escalators/elevators capital improvement program. The combined collateral requirements are \$86,094, which consist of \$10,385 for the LIRR/MNCR OCIP, \$52,709 for the NYCT 2000–2004 lines structures/shops, yards and depots capital improvement program and \$23,000 for the NYCT 2000–2004 stations and escalators/elevators capital improvement program. The collateral posted by the Company to secure its reimbursement of the insurer’s payments is invested by the insurer with interest returning to the Company at a guaranteed annual rate of return. The Company earned \$4 and \$4 during the years ended December 31, 2015 and 2014, respectively. The interest earned will be used to make the Contractor Safety Incentive program payments to contractors with favorable loss experience. Any monies not used to pay losses or utilized for the Contractor Safety Incentive Program will be returned to the agencies at the end of the OCIPs. As part of the initial agreement and as amended in 2005, the Company was required to make additional contributions of \$2,368 to the LIRR/MNR capital

improvement program. In 2015 and 2014, respectively, the Company had a net recovery of \$15 and made claims payments totaling \$327.

OCIP-LIRR/MNCR 2005-2009 Capital Improvement Projects—Effective June 1, 2006, the Company entered into a new OCIP insurance program for LIRR/MNCR for capital projects in the 2005–2009 MTA Capital Program. The Company collected \$2,192 in funding beginning in 2006 and, as of December 31, 2015, additional funding totaling \$10,691. The Company made claim payments totaling \$2,010 and \$2,205 during 2015 and 2014, respectively. Like the other programs, the interest income generated from the funds being held will be used to pay Contractor Safety Incentive program payments. The Company has earned \$0 and \$0 in interest income during the years ended December 31, 2015 and 2014, respectively.

Second Avenue Subway Project—Effective January 31, 2007, the Company entered into an OCIP program for the \$2,500,000 Second Avenue Subway Project. This is a multi-year agreement with AIG covering Workers’ Compensation and General Liability for the Third Party contractors, MTA and all its subsidiaries up to \$500,000. This OCIP, like the others, requires the Company to post collateral for all losses related to workers’ injuries. In 2015 and 2014, \$15,847 and \$20,345 has been set aside to cover this exposure. During 2015 and 2014, the Company earned \$63 and \$80 in interest with \$4,562 and \$4,599 in loss payments on this OCIP. All interest generated will be used to pay for additional loss control services and a contractor incentive program.

The activity of all funds held by the OCIP reinsurer consists of the following for 2015 and 2014 (in thousands):

	2015	2014
Funds held by OCIP insurers—beginning of year	\$ 24,525	\$ 28,283
Interest income	68	84
Claims payments	(6,557)	(7,131)
Additional contributions/(returned)—net	<u>2,513</u>	<u>3,289</u>
Funds held by OCIP reinsurer	<u>\$ 20,549</u>	<u>\$ 24,525</u>

East Side Access Project (“ESA”)—Effective April 1, 1999, the Company entered into an OCIP program for the East Side Access Project. It was a multi-year agreement with Liberty Mutual, the insurer, to insure third party contractors and the MTA and all its subsidiaries up to \$300,000 for Workers’ Compensation and General Liability. The insurer required the Company to hold the collateral and loss funding for the first \$500 per occurrence.

NYCT 2005–2009 Capital Improvements Projects—Effective August 1, 2006, the Company entered into a multi-year agreement with Liberty Mutual whereby the Company will hold the collateral and loss funding for the first \$500 per occurrence resulting from Workers’ Compensation and General Liability losses during the NYCTA’s 2005–2009 Capital Improvement Projects.

MTA 2012–2014 Combined Capital Construction Program—Effective October 1, 2012, the Company entered into a multi-year agreement with ACE American Insurance Company whereby the Company will hold the collateral and loss funding for the first \$750 per occurrence resulting from Workers’ Compensation and the first \$1,500 from General Liability losses during the MTA 2012–2014 Combined Capital Construction Program.

Builder's Risk—Effective October 1, 2001, the Company renegotiated the terms and conditions of the reinsurance coverage it purchased from Zurich for the Builder's Risk Insurance Program ("BR") provided to cover the following 2000–2004 capital program OCIPs:

1. Long Island Rail Road/Metro-North Commuter Railroad Capital Improvement Program;
2. NYCT's Lines Structures/Shops, Yards & Depots Capital Improvement Program, and
3. NYCT's Stations & Elevators Capital Improvement Program

The Company's policy and reinsurance agreements provide the capital projects listed above with limits of \$50,000 in the aggregate. In consideration of \$950 in net retained premium, the Company issues a deductible reimbursement policy with limits of \$75 excess of \$25 contractor deductible.

Similar to the above BR program, effective July 31, 2006, the Company entered into a new BR program for the following 2005–2009 capital program OCIPs:

1. Long Island Rail Road/Metro-North Commuter Railroad Capital Improvement Program and
2. NYCT's 2005–2009 Capital Improvement Program

The Company's policy and reinsurance agreements from Zurich provide the capital projects listed above with limits of \$50,000 in the aggregate. In consideration of \$7,500 in net retained premium, the Company issues a deductible reimbursement policy with limits of \$475 excess of \$25 contractor deductible.

In 2005, the Company received approval to expand its Builder's Risk Insurance Program to directly insure the MTA and its agencies for property claims while various capital improvement projects are under construction. The policy will cover selected capital improvement projects and was bound June 1, 2005, with limits of \$300,000 per occurrence subject to the \$100,000 self-insured retention. In consideration of a ceded premium of \$12,750, the Company purchased reinsurance for the East Side Access Project from Zurich limiting its exposure to the \$100,000 per occurrence self-insured retention. In 2007, this limit was bought down to \$50,000 for an additional premium of \$5,053. In 2014, this coverage was extended to May 31, 2021, for an additional ceded premium of \$18,106. The Company also purchased reinsurance for the Second Avenue Subway Project. In consideration of ceded premium of \$13,362, reinsurance covering losses up to \$500,000 excess of \$50,000 was purchased from Zurich. The reinsurance purchased by the Company will include an aggregate stop loss provision, whereby the Company will limit its total liability to \$125,000 in the aggregate.

Similar to the above BR programs, effective November 1, 2012, the Company entered into a new BR program for various MTA 2012–2014 combined capital program OCIPs. The Company issues a BR policy, to the MTA, with limits of \$50,000 per occurrence with a \$25 contractor deductible. The Company also purchased reinsurance from ACE with limits of \$50,000 per occurrence with at \$250 deductible.

6. LOSS AND LOSS ADJUSTMENT EXPENSES AND REINSURANCE

The following schedule presents changes in the loss and loss adjustment expense liabilities during 2015 and 2014 (in thousands):

	2015	2014
Loss and loss adjustment expenses—beginning of year	\$ 988,367	\$ 1,025,381
Loss reinsurance recoverable on unpaid losses and loss expenses	<u>(640,083)</u>	<u>(669,326)</u>
Net balance—beginning of year	348,284	356,055
Loss and loss adjustment expenses	96,507	72,067
Payments attributable to insured events of the current year	<u>(73,145)</u>	<u>(79,838)</u>
Net balance—end of year	371,646	348,284
Plus reinsurance recoverable on unpaid losses and loss expenses	<u>470,648</u>	<u>640,083</u>
Loss and loss adjustment expenses—end of year	842,294	988,367
Less current portion	<u>85,867</u>	<u>100,475</u>
Long-term liability	<u>\$ 756,427</u>	<u>\$ 887,892</u>

7. RELATED PARTY TRANSACTIONS

The Company provides insurance coverage for the MTA and its component units. The premium revenue from related parties during the period and receivable for the years ended December 31, 2015 and 2014, was as follows (in thousands):

	2015		2014	
	Receivable	Earned	Receivable	Earned
LIRR	\$ 10,100	\$ 10,951	\$ 10,753	\$ 11,032
MNCR	6,479	7,113	6,271	8,243
MTA	<u>19,128</u>	<u>62,028</u>	<u>57,823</u>	<u>80,874</u>
	<u>\$ 35,707</u>	<u>\$ 80,092</u>	<u>\$ 74,847</u>	<u>\$ 100,149</u>

For the years ended December 31, 2015 and 2014, respectively, the MTA charged \$6,500 and \$8,241, respectively, to FMTAC for risk management services provided to the Company of which \$1,317 and \$3,524 remain as a liability at December 31, 2015 and 2014, respectively.

8. TROPICAL STORM SANDY

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.

The Disaster Relief Appropriations Act (“Sandy Relief Act”) passed in late January 2013, appropriated a total of \$10,900,000 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”).

FMTAC directly insures property damage claims of the physical transportation assets operated by MTA and its related groups in excess of a self-insured retention limit (“SIR”) of \$25,000 per occurrence, subject to annual \$75,000 aggregate, as well as certain exceptions summarized below. The total program limit is \$1,075,000 per occurrence covering property of the related entities collectively, including various sub limits and with the exceptions of the limits summarized below. FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage.

In addition to the noted \$25,000 per occurrence self-insured retention, MTA self-insured above that retention for an additional \$25,880 within the overall \$1,075,000 per occurrence property program, as follows: \$1,590 (or 1.06%) of the primary \$150,000 layer, plus \$7,500 (or 3%) of the primary \$250,000—layer, plus \$8,000 (or 4%) of the \$200,000 in excess of \$150,000 layer plus \$5,640 (or 2.82%) of the \$200,000 in excess of \$250,000 layer and \$3,150 (or 0.7%) of the \$450,000 in excess of \$350,000 layer.

The property insurance policy provided replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provided extra expense and business interruption coverage.

As FMTAC was 100% reinsured for its property exposure, FMTAC’s ultimate liability for this property claim is limited to its liability ceded and accepted by reinsurers. At December 31, 2015 and 2014, FMTAC has a reserve of \$464,035 and \$630,215, respectively, along with a corresponding reinsurance recoverable in these financial statements. FMTAC paid and recovered \$166,180 and \$0 of paid losses relating to this claim in 2015 and 2014 respectively.

9. METRO-NORTH RAILROAD DERAILMENT

On December 1, 2013, seven cars and the locomotive of a southbound Metro-North Railroad train derailed north of the Spuyten Duyvil station in the Bronx on the Hudson Line, resulting in four fatalities and more than 60 reported injuries. At this time, MTA Metro-North Railroad cannot predict the full extent of the claims associated with this accident. FMTAC writes an all-agency excess liability policy for \$50,000 per occurrence in excess of the MTA Metro-North Railroad’s self-insured retention of \$10,000 per occurrence. Metro-North has advised FMTAC that it has reserved these claims at the per occurrence limit of \$10,000. In 2015, FMTAC paid \$10,000 in losses relating to this claim. At December 31, 2015, FMTAC has a reserve of \$30,000 in these financial statements.

* * * * *

MTA Long Island Rail Road

(Component of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Required Supplementary Information, and
Independent Auditors' Report

DRAFT

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying statements of net position of the MTA Long Island Rail Road, a component of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the MTA Long Island Rail Road's 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 the 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 MTA Long Island Rail Road'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 purposes of expressing an opinion on the effectiveness of the MTA Long Island Rail Road'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 net position of the MTA Long Island Rail Road as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, MTA Long Island Rail Road is a component of the MTA. The MTA is a component unit of the State of New York. MTA Long Island Rail Road requires significant subsidies from and has material transactions with MTA. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2015, MTA Long Island Rail Road adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. 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 15, the Schedule of Changes in the MTA Long Island Rail Road Net Pension Liability and Related Ratios for The Long Island Rail Road Company Plan for Additional Pensions Plan on page 57, the Schedule of the MTA Long Island Rail Road’s Proportionate Share of Net Pension Liability in the MTA Defined Benefit Pension Plan on page 58, the Schedule of MTA Long Island Rail Road’s Contributions for All Pension Plans on page 59, and the Schedule of Funding Progress-Postemployment Benefit Plan on page 62, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

April XX, 2016

MTA LONG ISLAND RAIL ROAD

(Component of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

(DOLLARS IN THOUSANDS)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction

The following is a narrative overview and analysis of the financial activities of MTA Long Island Rail Road, a component of the Metropolitan Transportation Authority ("MTA"), for the years ended December 31, 2015 and 2014. This discussion and analysis is intended to serve as an introduction to MTA Long Island Rail Road's financial statements, which have the following components: (1) Management's Discussion and Analysis ("MD&A"), (2) Financial Statements, (3) Notes to Financial Statements, and (4) Required Supplemental Information.

Management's Discussion and Analysis

The following is a narrative overview and analysis of the financial activities of MTA Long Island Rail Road for the years ended December 31, 2015 and 2014. This MD&A is intended to serve as an introduction to MTA Long Island Rail Road's ("LIRR" or "the Company") financial statements. It provides an assessment of how MTA Long Island Rail Road's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected MTA Long Island Rail Road's overall financial position. It may contain opinions, assumptions or conclusions by MTA Long Island Rail Road's management that should not be considered a replacement for, and must be read in conjunction with the financial statements.

The Financial Statements

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

The Statements of Revenues, Expenses and Changes in Net Position show how MTA Long Island Rail Road's net position changed during each year and accounts for all of the current and prior year's revenues and expenses, measure the success of MTA Long Island Rail Road's operations over the twelve months and can be used to determine how MTA Long Island Rail Road has funded its costs.

The Statements of Cash Flows provide information about MTA Long Island Rail Road's cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing.

The Notes to the Financial Statements

The Notes provide information that is essential to understanding the financial statements, such as MTA Long Island Rail Road's accounting methods and policies. The notes also have the details of cash, capital assets, retirement benefits, lease transactions, future commitments and contingencies and any other events or developing situations that could materially affect MTA Long Island Rail Road's financial position.

Required Supplemental Information

The Required Supplemental Information provides information concerning the MTA Long Island Rail Road's progress in funding its obligation to provide pension and other postemployment benefits to its employees. It also includes the Schedule of Changes in the MTA Long Island Rail Road Net Pension Liability and Related Ratios for The Long Island Rail Road Company Plan for Additional Pensions, the Schedule of the MTA Long Island Rail Road's Proportionate Share of Net Pension Liability in the MTA Defined Benefit Pension Plan and the Schedule of MTA Long Island Rail Road's Contributions for All Pension Plans as required by GASB Statement No. 68.

2. FINANCIAL REPORTING ENTITY

In 1966, the MTA acquired the capital assets of MTA Long Island Rail Road from the former Pennsylvania Railroad Company. In February 1980, MTA Long Island Rail Road became a component of the MTA, pursuant to New York State Public Authorities Law, 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 Long Island Rail Road is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in MTA Long Island Rail Road's financial position for the years ended December 31, 2015 and 2014. Additionally, an examination of major economic factors that have contributed to these 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 in conformity with MTA Long Island Rail Road's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America. All dollar amounts are in thousands.

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

	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Capital assets-net	\$5,543,274	\$5,475,064	\$5,418,260	\$ 68,210	\$ 56,804
Other assets	303,127	664,627	360,339	(361,500)	304,288
Deferred outflows of Resources	<u>218,268</u>	<u>-</u>	<u>-</u>	<u>218,268</u>	<u>-</u>
Total assets and Deferred Outflows of Resources	<u>\$6,064,669</u>	<u>\$6,139,691</u>	<u>\$5,778,599</u>	<u>\$ (75,022)</u>	<u>\$ 361,092</u>

Significant Changes in Assets and Deferred Outflows of Resources—

In 2015, capital assets increased by \$68.2 million or 1% compared to December 2014. The major components of the increase are related to capital assets placed into beneficial service, changes to construction work-in-progress and changes in accumulated depreciation.

Significant additions to capital assets resulted from the following:

- Improvements to MTA Long Island Rail Road's infrastructure road-assets continued under the 2015 Track Program that provided replacement of various track elements and branches at a cost of \$61 million. Continued work on replacement of Signal Power Lines along the Right of Way, replacement and upgrade of Third Rail at various locations, replacement of Negative Reactors and Generators, Security Fencing and Drainage Control for a cost of \$74.9 million.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and Standpipe, new elevators at Merrick and Woodside stations, Massapequa Station Platform rehabilitation, Wyandanch Garage, and substations at Kew Gardens and Hillside resulted in an additional \$100.4 million in buildings and structures.
- Purchase of operating vehicles, construction of substations, outfitting of security areas. and shop reconfiguration and reliability at a cost of \$72 million.

Significant changes to construction work-in-progress continued in the following areas:

- Signal and communication construction work-in-progress increased by \$22.1 million due to the emphasis on Positive Train Control, the signal replacement program and Centralized Traffic Control.
- Passenger cars incurred an additional cost of \$22.5 million due to continued procurement of new M-9 cars for the East Side Access service, as well as the eventual replacement of the aging M-3 fleet.
- Passenger Station rehabilitation completion resulted in a decrease cost of \$19.9 million.
- Line Structures work –in –progress increased by \$108.8 million due to continued work on ERT Rehabilitation, substation replacements, bridge programs and Atlantic Branch Half Ties as well as the 2nd Track Farmingdale to Ronkonkoma design.

- OFC Projects, Program Administration, and Shops and Yards, and the completion of Inter-Agency Security Projects resulted in a decrease of \$70.5 million.

These increases are partially offset by increases in accumulated depreciation and amortization of \$303 million.

Other assets decreased in 2015 by \$361,500, primarily due to the prepayment in 2014 of \$295 million for the LIRR Additional Pension Plan and \$28 million for the MTA Defined Benefit plan.

Deferred outflows of resources increased by \$218.2 million or 100% as a result of the implementation of GASB Statement No. 68. See Note of the audited financial statements for further information.

In 2014, capital assets increased by \$56.8 million or 1% compared to December 2013. The major components of the increase are related to capital assets placed into beneficial service, changes to construction work-in-progress and changes in accumulated depreciation.

Significant additions to capital assets resulted from the following:

- Improvements to MTA Long Island Rail Road's infrastructure road-assets continued under the 2014 Track Program that provided replacement of various track elements and branches at a cost of \$39.3 million, continued work on replacement of Signal Power Lines along the Right of Way, replacement and upgrade of Third Rail at various locations, as well as replacement of Concrete Ties continued for a cost of \$54.1 million.
- Continued improvements made to the East River Tunnel Fire and Life Safety project for 1st Avenue, Long Island City and Standpipe, new elevators at Queens Village and bridge rehabilitations, Woodhaven Bridge Rehabilitation, Sutphin Boulevard Bridge Protection and the construction of the Wheel Spur Intermodal Facility and Freight Yard resulted in an additional \$68.9 million in buildings and structures.
- Purchase of construction and track equipment, operating vehicles, construction of substations, and shop reconfiguration and reliability at a cost of \$7.9 million.

Significant changes to construction work-in-progress continued in the following areas:

- Signal and communication construction work-in-progress increased by \$34.5 million due to the emphasis on Positive Train Control, the signal replacement program and Centralized Traffic Control.
- Passenger cars incurred an additional cost of \$25.8 million due to continued procurement of new M-9 cars for the East Side Access service, as well as the eventual replacement of the aging M-3 fleet.
- Passenger Station rehabilitations continued for Penn Station and East Side Access at a cost of \$25.8 million.
- Line Structures work -in -progress increased by \$84.4 million due to continued work on ERT Rehabilitation, substation replacements and 2nd Track Farmingdale to Ronkonkoma design.
- Inter-Agency Security Projects, OFC Projects, Program Administration, and Shops and Yards continued efforts increased by \$28.9 million.

These increases are partially offset by increases in accumulated depreciation and amortization of \$312.7 million.

Total Liabilities, Distinguishing Between Current and Non-Current Liabilities

	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Current liabilities	\$ 238,465	\$ 256,227	\$ 239,953	\$ (17,762)	\$ 16,274
Noncurrent liabilities	<u>1,997,029</u>	<u>715,706</u>	<u>632,168</u>	<u>1,281,323</u>	<u>83,538</u>
Total liabilities	<u>\$ 2,235,494</u>	<u>\$ 971,933</u>	<u>\$ 872,121</u>	<u>\$ 1,263,561</u>	<u>\$ 99,812</u>

Significant Changes in Liabilities —

In 2015, total liabilities increased by \$1.3 billion or 130.3% compared to 2014.

- Noncurrent liabilities increased by \$1.3 billion primarily due to the recognition of the GASB Statement No. 68 Net Pension liability of \$1.2 billion and an increase in Post-Employment Benefits Other than Pensions ("OPEB") of \$85 million as a result of the latest actuarial estimates.

In 2014, total liabilities increased by \$99.8 million or 11.4% compared to 2013.

- Noncurrent liabilities increased by \$83.5 million primarily due to the increase in Post-Employment Benefits Other than Pensions ("OPEB") as a result of the latest actuarial estimates and a decrease in payments made compared to the previous year.
- Current liabilities increased \$16.3 million primarily due to payroll and related fringe benefits for retroactive wages for MTA Long Island Rail Road represented employees that have not settled their contracts as of December 31, 2014.

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

	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Net investment in capital assets	\$ 5,543,274	\$ 5,475,064	\$ 5,418,260	\$ 68,210	\$ 56,804
Unrestricted	<u>(1,714,099)</u>	<u>(307,306)</u>	<u>(511,782)</u>	<u>(1,406,793)</u>	<u>204,476</u>
Total net position	<u>\$ 3,829,175</u>	<u>\$ 5,167,758</u>	<u>\$ 4,906,478</u>	<u>\$ (1,338,583)</u>	<u>\$ 261,280</u>

Net Position represents the residual interest in MTA Long Island Rail Road assets after liabilities are deducted and consist of the net investment in capital assets and unrestricted deficit. Net investment in capital assets include capital assets, net of accumulated depreciation and amortization.

December 31, 2015 versus 2014

Total net position decreased by \$1.3 billion in 2015. The decrease was comprised of the restatement of the beginning net position by \$1.3 billion due to the adoption of GASB Statement No. 68 and operating and capital contributions from the MTA of \$997 million offset by an operating loss of \$990 million.

December 31, 2014 versus 2013

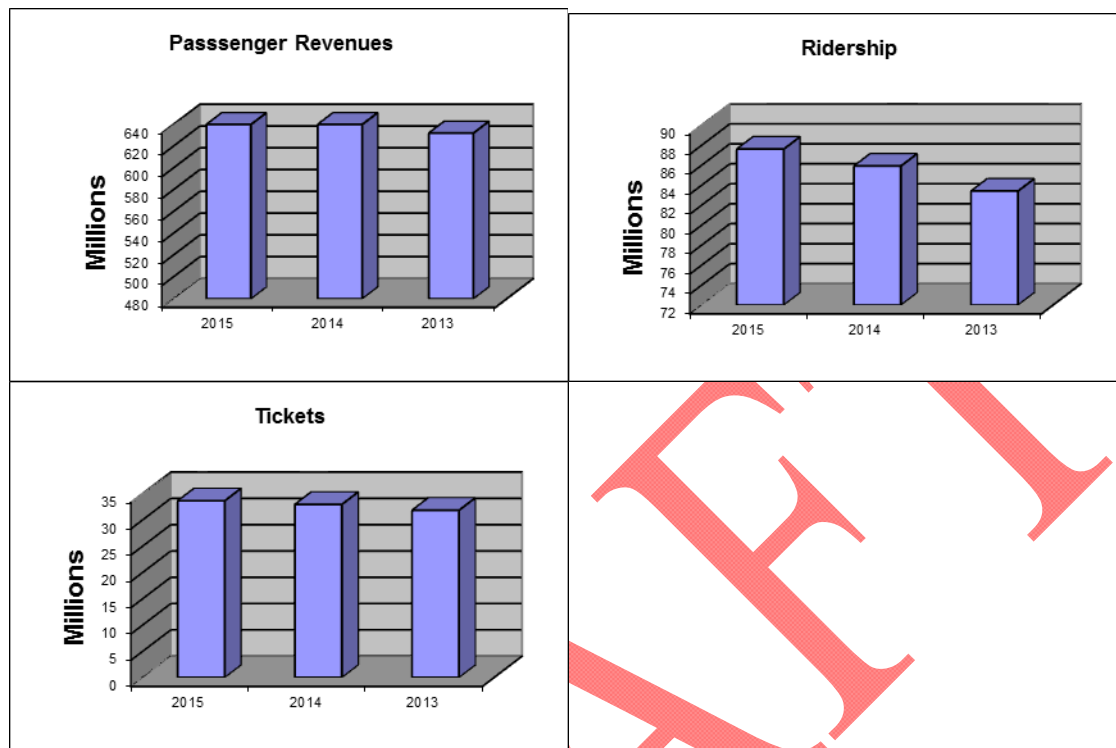
Total net position increased by \$261 million in 2014. The increase was comprised of operating and capital contributions from the MTA of \$1.4 billion offset by an operating loss of \$1.2 billion.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	December 31,		
	2015	2014	2013
Operating revenues	\$ 749,519	\$ 706,402	\$ 675,196
Operating expenses	<u>(1,736,552)</u>	<u>(1,857,762)</u>	<u>(1,670,859)</u>
Operating loss	<u>(987,033)</u>	<u>(1,151,360)</u>	<u>(995,663)</u>
Nonoperating revenues:			
Operating subsidies from MTA	573,440	1,047,411	705,040
Capital contributions	422,405	361,576	280,138
FTA/FEMA reimbursement	<u>1,226</u>	<u>3,653</u>	<u>17,517</u>
Total nonoperating revenues	<u>997,071</u>	<u>1,412,640</u>	<u>1,002,695</u>
Change in net position	10,038	261,280	7,032
Net position—beginning of year	5,167,758	4,906,478	4,899,446
Current year restatement of beginning net position	<u>(1,348,621)</u>		
Net position—end of year	<u>\$ 3,829,175</u>	<u>\$ 5,167,758</u>	<u>\$ 4,906,478</u>

Revenues and Expenses by Major Source

Operating Revenues



In 2015, The MTA Long Island Rail Road ridership experienced strong growth finishing the year with 87.6 million passengers, which was 2.1% above the 2014 ridership. This marks the fourth highest ridership in 60 years, since the post war record of 91.8 million set in 1949 and the highest ridership since the modern record set in 2008 of 87.4 million. A steadily improving economy and service enhancements contributed to the increase. While commuter travel remained strong, non-commutation ridership grew faster as the LIRR took a number of steps that helped boost weekend and leisure travel ridership, including an enhanced service plan to meet the continuing demand created by the Barclays Center in Brooklyn, located adjacent to the LIRR's Atlantic Terminal. Further, the LIRR experienced strong ridership growth in discretionary travel supported by increased service. Additional service to and from Atlantic Terminal supported ridership growth as customers from Long Island attended NY Islanders hockey games at the Barclays Center. Extra service was provided at Mets/Willets Point Station to meet the ridership demand of NY Mets fans during the post-season games.

Operating Expenses by Major Function

	2015	2014	2013	Increase/(Decrease)	
				2015–2014	2014–2013
Salaries and wages	\$ 603,532	\$ 673,176	\$ 522,010	\$ (69,644)	\$151,166
Health and welfare	83,473	92,372	92,601	(8,899)	(229)
Pension	104,723	177,707	178,457	(72,984)	(750)
Other fringe benefits	79,502	89,699	88,990	(10,197)	709
Other post employment benefits (OPEB)	141,937	131,213	126,782	10,724	4,431
Traction and propulsion power	80,967	90,186	86,498	(9,219)	3,688
Fuel for trains	14,150	22,304	24,055	(8,154)	(1,751)
Insurance	21,948	23,378	20,038	(1,430)	3,340
Claims	6,531	6,459	5,569	72	890
Maintenance and other operating contracts	76,633	79,382	68,578	(2,749)	10,804
Environmental remediation	1,953	5,878	(13,524)	(3,925)	19,402
Professional service contracts	62,514	26,008	28,274	36,506	(2,266)
Materials and supplies	119,661	105,335	96,339	14,326	8,996
Depreciation and amortization	325,025	324,840	332,978	185	(8,138)
Other expenses	14,003	9,825	13,214	4,178	(3,389)
Total operating expenses	<u>\$ 1,736,552</u>	<u>\$ 1,857,762</u>	<u>\$ 1,670,859</u>	<u>\$ (121,210)</u>	<u>\$186,903</u>

Significant Changes to Operating Expenses in 2015 —

Total 2015 operating expenses decreased by \$121.2 million or 7% over 2014 as follows:

- Salaries and Wages decreased by \$69.6 million or 10.3%. The decrease in salaries and wages was primarily due to retroactive wage payments in 2014, 14.9% increase for represented employees and 6% increase for management employees.
- Pension costs decreased by \$73 million or 69.7% primarily as a result of the latest actuarial valuation report and the implementation of GASB Statement No. 68.
- Other Post-Employment Benefits (“OPEB”) increased by \$10.7 million or 8.2% based on the latest actuarial estimates.
- Traction and Propulsion decreased by \$9.2 million or 10.2% primarily due to lower market prices and less consumption.
- Fuel for Trains decreased by \$8.2 million or 36.5% primarily due to a lower average market price.
- Professional Service Contracts increased by \$36.5 million or 140.4% primarily due to the write-off of the East River Tunnel security assets that were destroyed by Hurricane Sandy.
- Materials and Supplies increased by \$14.3 million or 13.6% primarily due to an increase in advance material purchases and higher program and production plan material and supplies purchased.

Significant Changes to Operating Expenses in 2014 —

Total 2014 operating expenses increased by \$186.9 million or 11.2% over 2013 as follows:

- Salaries and Wages increased by \$151.2 million or 29.0%. The increase in salaries and wages was primarily due to retroactive wage increases of 14.9% for represented employees and 6% increase for management employees.
- Other Post-Employment Benefits (“OPEB”) increased by \$4.4 million or 3.5% based on the latest actuarial estimates.
- Maintenance and Other Operating Contracts increased by \$10.8 million or 15.8% primarily due to higher HVAC maintenance and bussing services.
- Environmental remediation costs increased \$19.4 million or 143.5% primarily due to Jamaica Capacity and Hicksville Station Improvement projects.
- Materials and Supplies increased by \$9.0 million or 9.3% primarily due to an increase in advance material purchases.
- Depreciation and Amortization decreased \$8.1 million or 2.4% primarily due to assets consisting of signal equipment, corporate time and attendance system, and the corporate asset management system, reaching full depreciable status.
- Other Expenses decreased by \$3.4 million or 25.6%, primarily due to prior period accrual reversal for Superstorm Sandy and lower mobility tax payments.
- Fuel for Trains decreased \$1.8 million or 7.3% primarily due to lower rates and consumption.

Significant Changes to Nonoperating Revenues in 2015

In 2015, operating subsidies from the MTA decreased by \$474 million or 45.25%. Operating subsidies are provided by MTA to MTA Long Island Rail Road as part of an MTA approved financial plan.

Decreases in operating subsidies primarily relate to:

- Pension costs decreased by \$348.7 million, primarily due to the \$295 million cash infusion by the MTA into the LIRR Additional Plan in 2014 and \$28 million prepayment in 2014.
- Passenger Revenues increased by \$37.2 million primarily as a result of the March 22, 2015 fare increase as well as an increase in ridership.
- Capital and Other Reimbursements increased by \$108.8 million primarily due to retroactive wage reimbursements in 2015 and the timing of activity and reimbursement for capital and other reimbursements.

These decreases in operating subsidies are partially offset by the following:

- Materials and Supplies increased by \$12.1 million due to advance material purchases and higher production plan purchases.

In 2015, nonoperating capital project subsidies from MTA increased by \$60.8 million or 16.8%. Nonoperating capital projects subsidies are provided as part of the MTA approved five-year Capital Program which supports three key imperatives: completion of the restoration of the system which began in 1982; preservation of the investments are made through timely replacement of assets; and expansion of the MTA transportation network to better serve the economy of the New York City region. The amount of these subsidies is based on scheduled project activity occurring during the current five-year capital program lifecycle.

Significant Changes to Nonoperating Revenues in 2014

In 2014, operating subsidies from the MTA increased by \$342.4 million or 48.6%. Operating subsidies are provided by MTA to MTA Long Island Rail Road as part of an MTA approved financial plan.

Increases in operating subsidies primarily relate to:

- Pension costs increased by \$302.1 million, primarily due to a \$295 million cash infusion by the MTA into the LIRR Additional Plan and \$7.1 million in accelerated payments.
- Payroll, overtime and health benefits increased \$128.8 million primarily due to retroactive wage payments.
- Other operating revenues decreased \$22.9 million primarily due to lower LIPA payments as a result of settlement made in 2013 for prior years back to 2009.

These increases in operating subsidies are partially offset by the following:

- Passenger Revenues increased by \$28.4 million primarily due to increase in ridership and a full year impact due to a fare increase effective March 1, 2013.
- Capital and Other Reimbursements increased by \$60.1 primarily due to the timing of activity and reimbursement for capital and other reimbursements.

In 2014, nonoperating capital project subsidies from MTA increased by \$81.4 million or 29.1%. Nonoperating capital projects subsidies are provided as part of the MTA approved five-year Capital Program which supports three key imperatives: completion of the restoration of the system which began in 1982; preservation of the investments are made through timely replacement of assets; and expansion of the MTA transportation network to better serve the economy of the New York City region. The amount of these subsidies is based on scheduled project activity occurring during the current five-year capital program lifecycle.

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

Economic Conditions — Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being.

The MTA Long Island Rail Road's operations are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA Long Island Rail Road must identify economic trends and continually implement strategies to adapt to changing economic conditions. The MTA Long Island Rail Road requires significant subsidies from and has material transactions with the MTA.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2015 than in 2014 by 95.3 thousand jobs (2.3%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-one 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 0.7% in the fourth quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The slowdown in RGDP in the third quarter primarily reflected a deceleration in personal consumption expenditures and downturns in nonresidential fixed investment, in exports, and in state and local government spending that were partly offset by a smaller decrease in private inventory investment, a deceleration in imports, and acceleration in federal government spending. The annualized RGDP growth for the fourth quarter was under the annualized rate of 2.0% in the third quarter; nevertheless, the national economy has now seen expansion in twenty-four of the last twenty-five quarters.

The New York City metropolitan area's price inflation, as represented by the Consumer Price Index for All Urban Consumers ("CPI-U"), was slightly higher than the national average in the fourth quarter of 2015 with the metropolitan area index increasing 0.6% while the national index increased 0.5%. A 17.6% fall in the regional price of energy products, along with a 14.9% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.9%; nationally, inflation exclusive of energy prices increased 1.7%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 35.2% from an average price of \$2.082 to an average of \$1.350 per gallon between the fourth quarters of 2014 and 2015.

In December 2015, the Federal Open Market Committee ("FOMC") announced it would raise its target for the Federal Funds rate to the range of 0.25% to 0.50%, its first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises first deepened. In announcing its decision, the FOMC cited recent evidence that economic activity has been expanding at a moderate rate. Household spending and business fixed investment have been increasing, and the housing sector has further improved. While net exports have been soft, ranges of labor market indicators have shown further improvement, confirming that underutilization of labor resources has diminished since the early part of 2015, and inflation continues to run below the FOMC's long-term objective of 2 percent. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. Given its judgement that there has been considerable improvement in labor market conditions and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective, and further recognizing the time necessary for policy actions to affect future economic outcomes, the FOMC raised the Federal Funds target rate. The FOMC expects

that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that in the near-term rates will remain below levels that are expected to prevail in the longer run. Additionally, the FOMC is maintaining its policy of reinvesting 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.

Results of Operations — In 2015, MTA Long Island Rail Road's On-Time Performance ("OTP") decreased to 91.6% down from 2014's 92.0%. In 2015, the decline in OTP was attributable to significant weather events. While the number of storms was similar to 2014, they resulted in 462 additional late trains. Other common factors affecting OTP in 2015 included incidents caused by freight operations, extreme cold weather conditions, customer loading, trespassers, and motor vehicles.

The railroad attained a record mean distance between failures (MDBF) - the distance a train travels before experiencing a mechanical problem - of 208,383 miles. This exceeded the 2015 goal of 176,000 miles by 18.4% and represents, a 1.0% increase from 2014. Contributing factors included the performance of the M-7 fleet and aggressive car and locomotive maintenance programs.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — The MTA Long Island Rail Road completed two bridge replacement projects in 2015. The 115-year old Colonial Road steel bridge was removed in June 2015 and the installation of the new arch structure supporting Colonial Road Bridge was completed in September. Roadway construction activities will continue through 2016. The project work includes replacement of the current 115-year old bridge, extension of the existing Great Neck Pocket Track and improved drainage. The existing Ellison Avenue Bridge was demolished in May 2015 and the new roadway bridge installed in October. Bridge approaches and adjoining roadwork will continue through mid-2016.

In August 2015, construction was completed on the new five-level parking facility at the Wyandanch train station.

In addition, the Massapequa Station 12-car center island platform. The canopy, platform waiting room and stairs were replaced in June 2015.

The 2015 Annual Track Program continued LIRR's cyclical replacement of track assets, including replacement of 12,087 mechanized ties on the Mainline and Long Beach branches; 15,910 concrete ties on the Montauk and Port Jefferson branches; 18 grade crossings on the Mainline, Montauk, Central and Port Jefferson branches; 80 surfacing miles system-wide; 937 field-welds system wide; and 89 surfacing interlocking switches on the Mainline/Montauk/Central and Port Jefferson branches.

To help guide future investments in infrastructure elements, each of the MTA agencies is investing in Enterprise Asset Management ("EAM") systems, which includes substantial investments in both business and technology improvements. In 2015, the LIRR completed an EAM Gap Assessment. From the results of the Gap Assessment, an EAM implementation roadmap was developed that defined specific projects required progressing EAM to maturity across LIRR. Currently, the LIRR is collaborating with MTA to put in place contracts, both management consultant and technology oriented services, to implement the EAM Improvement Programs which will address necessary FTA compliance requirements, organizational change, business process improvements, and technology implementations, including EAM information systems. Advancing EAM development will result in a planning framework that links asset condition and maintenance activities to life cycle planning in order to improve asset performance, optimize maintenance resources, and strengthen long-term planning.

5. OTHER

Customer Service — The LIRR continued its efforts to improve the customer experience by strategically deploying crews from the Structures Division of the Engineering Department to focus on upgrades to stations. The projects are selected after review by senior staff and target major repairs and improvements that benefit the customer. In 2015, these efforts led to the station component upgrades listed below:

- LIRR opened a refurbished Belmont Park Station in time for American Pharoah's Triple Crown Bid. The project helped move trains and customers faster. Infrastructure improvements included new 10-car high-level platforms, new staircases, and improved lighting. The project included new directional way-finding signs and a new public address system to replace the bullhorn announcements. A new ramp was built to provide platform access for mobility impaired-customers.
- Renovations completed at the Smithtown Station building as part of the LIRR's state-of-good-repair program to modernize station facilities throughout the system.
- Restroom renovations at the following stations: Great Neck, Smithtown Central Islip, Deer Park and Ronkonkoma.
- Overpass rehabilitation work at Syosset and Mineola stations.
- Staircase, walkway handrail and canopy rehabilitation or replacement at Great Neck, Locust Manor, Hunterspoint Avenue, and Manhasset stations.

6. CURRENT KNOWN FACTS, DECISIONS OR CONDITIONS

On January 22, 2015, the MTA Board approved fare increases for the Long Island Rail Road, which became effective on March 22, 2015. Most MTA Long Island Rail Road rail tickets increased an average of 4 percent, depending on ticket type and distance traveled.

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MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(Dollars in thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 5,311	\$ 5,450
Fare cards	14,741	14,691
Invested funds at MTA	6,689	6,401
Receivables:		
Passenger	10,369	10,462
Due from MTA and affiliated agencies (Note 11)	84,695	92,486
Due from NYSDOT	1,730	2,519
Rents	2,641	3,138
Other	26,053	19,817
Less allowance for doubtful accounts	(1,879)	(3,096)
Receivables—net	123,609	125,326
Materials and supplies, net of allowance of \$40,660 and \$40,075 in 2015 and 2014, respectively	119,690	117,886
Advance to defined benefit pension trust		365,462
Prepaid expenses and other current assets	32,216	29,411
Total current assets	302,256	664,627
NONCURRENT ASSETS:		
Capital assets—net (Notes 5 and 6)		
Land and construction work-in-process	792,487	729,592
Other Capital assets, net of depreciation	4,750,787	4,745,472
Other assets	871	-
Total noncurrent assets	5,544,145	5,475,064
Total assets	5,846,401	6,139,691
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows for pension (Note 7)	218,268	-
Total deferred outflows of resources	218,268	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	6,064,669	6,139,691

See notes to financial statements.

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(Dollars in thousands)

	2015	2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 62,069	\$ 65,926
Due to MTA and affiliated agencies (Note 11)	38,270	39,147
Accrued expenses and other liabilities:		
Salary, wages and payroll taxes	26,166	44,239
Vacation and sick pay benefits	65,137	63,220
Current portion—retirement and death benefits	2,951	5,455
Current portion—estimated liability arising from injuries to persons (Note 9)	23,008	17,636
Environmental remediation (Note 13)	<u>5,500</u>	<u>5,500</u>
Total accrued expenses	122,762	136,050
Unearned revenues	<u>15,364</u>	<u>15,104</u>
Total current liabilities	<u>238,465</u>	<u>256,227</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 9)	61,731	
Net pension liability	1,181,078	50,838
Postemployment benefits other than pensions (Note 8)	637,528	552,277
Environmental remediation (Note 13)	31,402	30,719
Other long-term liabilities (Note 14)	<u>85,290</u>	<u>81,872</u>
Total noncurrent liabilities	<u>1,997,029</u>	<u>715,706</u>
Total liabilities	<u>2,235,494</u>	<u>971,933</u>
NET POSITION (Note 10):		
Net investment in capital assets	5,543,274	5,475,064
Unrestricted deficit	<u>(1,714,099)</u>	<u>(307,306)</u>
Total net position	<u>3,829,175</u>	<u>5,167,758</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 6,064,669</u>	<u>\$ 6,139,691</u>

See notes to financial statements.

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in thousands)

	2015	2014
OPERATING REVENUES:		
Passenger	\$ 695,447	\$ 658,822
Rents and utilities	23,713	24,936
Advertising	15,617	12,732
Food and beverage	2,677	2,361
Other	12,065	7,551
Total operating revenues	749,519	706,402
OPERATING EXPENSES:		
Salaries and wages	603,532	673,176
Retirement and other employee benefits	267,698	359,778
Post Employment Benefits other than pensions	141,937	131,213
Traction and propulsion power	80,967	90,186
Electricity non-traction	11,074	11,540
Fuel for trains	14,150	22,304
Fuel Other	3,519	5,462
Insurance	21,948	23,378
Claims	6,531	6,459
Maintenance and other operating contracts	62,040	62,380
Environmental remediation	1,953	5,878
Professional service contracts	62,514	26,008
Material and supplies	119,661	105,335
Depreciation and amortization	325,025	324,840
Other	13,918	9,825
Total operating expenses	1,736,467	1,857,762
NET (RECOVERABLES)/EXPENSES RELATED TO ASSET IMPAIRMENT	85	-
OPERATING LOSS	(987,033)	(1,151,360)
NONOPERATING REVENUES:		
Operating subsidies from MTA	573,440	1,047,411
Capital contributions	422,405	361,576
FTA/FEMA Reimbursement	1,226	3,653
Total nonoperating revenues	997,071	1,412,640
CHANGE IN NET POSITION	10,038	261,280
CUMULATIVE EFFECT OF IMPLEMENTING GASB 68 (Note 2)	(1,348,621)	-
NET POSITION—Beginning of year	5,167,758	4,906,478
NET POSITION—End of year	\$ 3,829,175	\$ 5,167,758

See notes to financial statements.

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(Dollars in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 695,644	\$ 659,952
Rents, advertising, and other receipts	54,545	46,402
Payroll and related fringe	(912,112)	(1,061,417)
Other operating expenses	<u>(453,784)</u>	<u>(660,236)</u>
Net cash used in operating activities	<u>(615,707)</u>	<u>(1,015,299)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating subsidies from MTA	573,440	1,047,411
FTA/FEMA reimbursement	<u>1,226</u>	<u>3,653</u>
Cash provided by noncapital financing activities	<u>574,666</u>	<u>1,051,064</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from MTA	222,200	149,950
Capital expenditures incurred for capital program	<u>(181,298)</u>	<u>(185,714)</u>
Net cash used in capital financing activities	<u>40,902</u>	<u>(35,764)</u>
NET (DECREASE) INCREASE IN CASH	(139)	1
CASH—Beginning of year	<u>5,450</u>	<u>5,449</u>
CASH—End of year	<u>\$ 5,311</u>	<u>\$ 5,450</u>
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	\$ (987,033)	\$ (1,151,360)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	325,025	324,840
Net increase in accounts payable, accrued expenses, other liabilities, unearned revenues	82,483	99,812
Net (increase) decrease in receivables	(10,303)	37,026
Net increase in materials and supplies, prepaid expenses and other current assets, other assets	<u>(25,879)</u>	<u>(325,617)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (615,707)</u>	<u>\$ (1,015,299)</u>
NONCASH CAPITAL FINANCING ACTIVITIES: In 2015 and 2014, MTA contributed capital assets of \$211,937 and \$195,930, respectively, to MTA Long Island Rail Road.		

See notes to financial statements.

MTA LONG ISLAND RAIL ROAD

(Component of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Dollars in thousands)

1. BASIS OF PRESENTATION

Reporting Entity — In 1966, the Metropolitan Transportation Authority (“MTA”) acquired the capital assets of MTA Long Island Rail Road from the former Pennsylvania Railroad Company. In February 1980, MTA Long Island Rail Road became a component of the MTA pursuant to New York State Public Authorities Law. MTA Long Island Rail Road is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

MTA Long Island Rail Road performs a public service of providing essential passenger transportation between New York City and Long Island. Substantial deficits result from providing these services and MTA Long Island Rail Road expects that such deficits will continue in the foreseeable future. Funding for MTA Long Island Rail Road’s operations and capital needs is provided by MTA, which obtains the required funds from state and federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to MTA Long Island Rail Road on a discretionary basis. The continuance of MTA Long Island Rail Road’s operations has been, and will continue to be, dependent upon the receipt of adequate funds to subsidize operating deficits.

MTA Long Island Rail Road is not liable for real estate or personal property taxes on its properties or sales taxes on substantially all of its purchases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The MTA Long Island Rail Road applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

New Accounting Standards —

In 2015, the MTA Long Island Rail Road adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. 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.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions this Statement also identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

As a result of adopting this Statement, the MTA Long Island Rail Road is reporting net pension liabilities, deferred outflows of resources and deferred inflows of resources for each of its qualified plans and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$1.35 billion, representing the retroactive effect of adoption. The MTA Long Island Rail Road did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. An aggregate net pension liability of \$1.18 billion and an aggregate deferred outflow of resources of \$218 million were reported at December 31, 2015. The MTA Long Island Rail Road recognized aggregate pension expense of \$104.7 million for the year-end December 31, 2015. The beginning 2014 net position was not restated as it was not practical.

In 2015, the MTA Long Island Rail Road adopted 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 is beginning net pension liability. The requirements of this Statement eliminated 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68 in the amount of \$218,268 as Deferred Outflows of resources related to pensions. Refer to Note 7 for more information regarding the MTA Long Island Rail Road's pensions.

The MTA Long Island Rail Road 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 Long Island Rail Road 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 Long Island Rail Road 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 Long Island Rail Road 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*. 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 Long Island Rail Road 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 Long Island Rail Road 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 Long Island Rail Road 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 Long Island Rail Road 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.

The MTA Long Island Rail Road has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units— An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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 amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates and assumptions.

MTA Investment Pool — The MTA, on behalf of the MTA Long Island Rail Road, invests funds, which are not immediately required for the MTA Long Island Rail Road'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. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

Materials and Supplies — Materials and supplies, except for rebuilt items, are valued at the lower of average cost or market, net of obsolescence reserve. Rebuilt items are recorded at 50% of their average purchase price.

Fare Cards – MTA Long Island Rail Road sells joint prevalued MetroCard ("fare cards") on consignment on behalf of an affiliated agency. Such fare cards are recorded at cost and reimbursed to the affiliated agency upon sale.

Capital Assets — Capital assets and improvements include all land, construction work-in-progress, buildings and structures, equipment, infrastructure — road and leasehold improvements of MTA Long Island Rail Road having a minimum useful life of 3 years and a cost of more than twenty five thousand. Capital assets also include the Pennsylvania Station Leasehold further discussed in Note 6 to these financial statements.

Capital assets are stated at historical cost. Accumulated depreciation and amortization are reported as reductions of capital assets. Depreciation is computed using the straight-line method based upon estimated useful lives; 7 to 50 years for buildings and structures; 25 to 35 years for passenger cars, locomotives and work train equipment; 3 to 20 years for other equipment; and 6 to 43 years for infrastructure — road. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset, whichever is less. The Pennsylvania Station Leasehold is amortized over 30 years.

MTA Long Island Rail Road reviews long-lived assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable and records the appropriate loss when assets are disposed of or are determined to be impaired.

Pollution Remediation Projects — Effective January 1, 2008, pollution remediation costs have been charged 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 its current value using the expected cash flow method have been recognized for certain pollution remediation obligations that 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: an imminent threat to public health due to pollution exists; the MTA Long Island Rail Road is in violation of a pollution prevention-related permit or license; the MTA Long Island Rail Road is named by a regulator as a responsible or potentially responsible party to participate in remediation; the MTA Long Island Rail Road is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities; or the MTA Long Island Rail Road voluntarily commences or legally obligates itself to commence remediation efforts.

Operating Revenues — Passenger revenues are recognized as income as they are used. Tickets are assumed to be used in the month of purchase with the exception of advance purchases of monthly and weekly tickets. Unearned revenues are recognized for the estimated amount of unused tickets. Revenues from rents are recognized as earned. Revenues from sundry, such as food and beverages, are recorded when the items are sold.

Nonoperating Revenues — Nonoperating subsidies are provided to MTA Long Island Rail Road by MTA as part of an MTA approved financial plan. Nonoperating capital projects subsidies are provided as part of the MTA approved five-year Capital Program based on scheduled project activity occurring during the current five-year capital program lifecycle.

Nonexchange Transactions with MTA — In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, funds contributed by MTA for the MTA Long Island Rail Road's capital project expenditures are reported as nonoperating revenue when such expenditures are accrued. MTA contributions for capital projects are included as nonoperating capital projects subsidy in the accompanying statements of revenues, expenses and changes in net position.

The cost of certain services provided by MTA for the benefit of the MTA Long Island Rail Road is accrued as incurred. MTA does not charge the MTA Long Island Rail Road (or other related groups) for the cost of Police services relating to the other lines.

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 Long Island Rail Road are reported as operating expenses. All other expenses are reported as non-operating expenses.

Compensated Absences — MTA Long Island Rail Road has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that MTA Long Island Rail Road will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Liability Insurance — First Mutual Transportation Assurance Company (“FMTAC”), an insurance captive component of the 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015, the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, 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 million. 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 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2015, the balance of the assets in this program was \$109.1 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). 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 million.

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 million per occurrence limit with a \$0.5 million 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 December 15, 2015, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$11 million 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 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million 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 million 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 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$220 million within the overall \$600 million property program, as follows: \$11.64 million (or 23.28%) of the \$50 million layer excess of the primary \$150 million layer, plus \$45.5 million (or 45.5%) of the \$100 million layer excess of \$250 million, plus \$87.5 million (or 58.33%) of \$150 million excess of \$350 million plus \$35.5 million (or 71%) of the \$50 million layer excess of \$500 million, plus \$40.5 million (or 81%) of \$50 million layer excess of \$550 million.

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

Supplementing the \$600 million 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 million 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 million in 2015 and \$120 million 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 million 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 million 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 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate during 2015 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$120 million TRIPRA trigger up to a maximum recovery of \$120 million 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 million in 2015 and \$172.0 million in 2016. These coverages expire at midnight on May 1, 2016.

Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million 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 million future losses in that policy year are subject to a retention of \$7.5 million.

Self-Insurance and Risk Retention — The MTA Long Island Rail Road is self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non employees and off-duty employees arising from occurrences at NYS stations ("Station Liability"), and employees and non-employees, arising from reimbursable project work ("Force Account"). The MTA Long Island Rail Road accrues the estimated total cost for the self-insured liability arising out of these claims. For incidents occurring on or before October 31, 2012, claims arising from Station Liability and Force Account are fully insured up to \$9 million per occurrence. That amount was increased to \$10 million per occurrence for incidents occurring on or after November 1, 2012 and increased to \$11 million for incidents occurring on or after October 31, 2015.

Deferred Compensation Plan — The MTA and its affiliated agencies' employees are participants in a deferred compensation plan established in 1985 in accordance with Internal Revenue Code Section 457. MTA Long Island Rail Road established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Accordingly, at December 31, 2015 and 2014, plan assets and liabilities are not reflected in the accompanying Statements of Net Position.

Retirement Benefits — MTA Long Island Rail Road'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.

Pension Plans — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which established standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. MTA Long Island Rail Road has adopted this standard for its

pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions ("ARC") to the pension plan, calculated in accordance with certain parameters.

GASB has issued Statements No. 67 and 68, which replaced GASB Statements No. 25 and 27. The effective date of GASB Statement No. 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 ended December 31, 2015.

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 Statement No. 67 and 68 and is no longer relevant for the Plan financial reporting purposes for 2014.

Effective for the year-ended December 31, 2015, MTA Long Island Rail Road adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

MTA Long Island Rail Road recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or MTA Long Island Rail Road's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of MTA Long Island Rail Road's yearend. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of these standards is a restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, deferred inflows of resources, and the removal of any net pension obligations (assets) along with any payables to the pension plans, as follows:

Net position as of December 31, 2014, as previously reported	<u>\$ 5,167,758</u>
Composition of restatement:	
Net pension assets	(385,811)
Deferred outflows related to pensions	218,268
Net pension liabilities	<u>(1,181,078)</u>
Total restatement	<u>(1,348,621)</u>
Net position as of December 31, 2014, as restated	<u>\$ 3,819,137</u>

Other Postemployment Benefits — In June 2004, the 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 Statement 45. MTA Long Island Rail Road has adopted these standards for its Postemployment Benefits Other Than Pensions.

3. CASH

The Bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited.

The Bank balances in 2015 and 2014 that were not insured were maintained in major financial institutions considered by management to be secure. As of December 31, 2015 and 2014, cash consists of:

	2015		2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC) or collateralized deposits	\$ 2,964	\$ 2,609	\$ 2,865	\$ 2,753
Uninsured and noncollateralized fund on-hand and in-transit	<u>2,347</u>	<u> </u>	<u>2,585</u>	<u> </u>
Total cash	<u>\$ 5,311</u>	<u>\$ 2,609</u>	<u>\$ 5,450</u>	<u>\$ 2,753</u>

Cash carrying amounts also include deposits in transit and cash on hand offset by any outstanding checks.

MTA Long Island Rail Road or its agent in MTA Long Island Rail Road’s name holds all collateralized deposits. These accounts contain revenue pledged by MTA Long Island Rail Road as collateral for certain MTA Transportation Revenue Bonds, as further described in Note 4 below.

The MTA, on behalf of the Authority, invests funds, which are not immediately required for MTA Long Island Rail Road’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. As such, there were no investments subject to credit or interest rate risk.

4. TRANSPORTATION REVENUE BONDS

MTA Long Island Rail Road's capital programs are partially funded from the proceeds of bonds, including the MTA's Transportation Revenue Bonds. The Transportation Revenue Bonds are special obligations of MTA, payable from, and secured by a pledge of:

- the gross operating revenues of MTA Long Island Rail Road, Metro-North Commuter Railroad, and the New York City Transit Authority and its component, Manhattan and Bronx Surface Transit Operating Authority until monthly deposits of principal and interest are satisfied under the Transportation Revenue Bond Resolution,
- Triborough Bridge and Tunnel Authority's operating surplus,
- general operating subsidies from the State and local governments,
- special tax-supported operating subsidies, and
- station maintenance and service reimbursements.

5. CAPITAL ASSETS, NET

The summary of capital assets activity as of December 31, 2015 and 2014, are as follows:

	As of December 31, 2013	Additions	Deletions	As of December 31, 2014	Additions	Deletions	As of December 31, 2015
Capital assets, not being depreciated:							
Land	\$ 48,165	\$ -	\$ -	\$ 48,165	\$ -	\$ 53	\$ 48,112
Construction work-in-progress	<u>482,079</u>	<u>384,281</u>	<u>184,933</u>	<u>681,427</u>	<u>618,756</u>	<u>555,808</u>	<u>744,375</u>
Total capital assets, not being depreciated	<u>530,244</u>	<u>384,281</u>	<u>184,933</u>	<u>729,592</u>	<u>618,756</u>	<u>555,861</u>	<u>792,487</u>
Capital assets, being depreciated:							
Leasehold improvements	8,502			8,502			8,502
Pennsylvania Station leasehold	44,600			44,600			44,600
Buildings and structure	3,089,555	68,857		3,158,412	107,538	7,132	3,258,818
Equipment:							
Passenger cars and locos	2,626,435	1,389	456	2,627,369		31	2,627,338
Equipment and other	532,452	8,662	1,732	539,382	75,071	3,109	611,344
Infrastructure—road	<u>2,790,800</u>	<u>103,387</u>	<u>9,911</u>	<u>2,884,276</u>	<u>152,061</u>	<u>16,089</u>	<u>3,020,248</u>
Total capital assets, being depreciated	<u>9,092,344</u>	<u>182,295</u>	<u>12,099</u>	<u>9,262,541</u>	<u>334,670</u>	<u>26,361</u>	<u>9,570,850</u>
Less accumulated depreciation/amortization:							
Leasehold improvements	8,138	186		8,324	178		8,502
Pennsylvania Station leasehold	38,272	1,500		39,772	1,500		41,272
Buildings and structure	939,253	77,935		1,017,188	81,379	2,888	1,095,679
Equipment:							
Passenger cars and locos	1,187,353	96,226	456	1,283,123	96,436	31	1,379,528
Equipment and other	373,289	18,859	1,732	390,416	21,084	3,104	408,396
Infrastructure—road	<u>1,658,023</u>	<u>130,134</u>	<u>9,911</u>	<u>1,778,246</u>	<u>124,448</u>	<u>16,008</u>	<u>1,886,686</u>
Total accumulated depreciation/amortization	<u>4,204,328</u>	<u>324,840</u>	<u>12,099</u>	<u>4,517,069</u>	<u>325,025</u>	<u>22,031</u>	<u>4,820,063</u>
Total capital assets, being depreciated/amortized—net	<u>4,888,016</u>	<u>(142,545)</u>	<u>-</u>	<u>4,745,472</u>	<u>9,645</u>	<u>4,330</u>	<u>4,750,787</u>
Capital assets—net	<u>\$5,418,260</u>	<u>\$ 241,737</u>	<u>\$184,933</u>	<u>\$5,475,064</u>	<u>\$628,401</u>	<u>\$560,191</u>	<u>\$5,543,274</u>

Interest capitalized related to debt recorded by MTA and used to finance MTA Long Island Rail Road's construction work-in-progress as of December 31, 2015 and 2014, is \$1,651 and \$1,655, respectively.

On April 24, 2015, Governor Cuomo announced that the Federal Railroad Administration had approved a U.S. Federal Railroad Administration loan of \$967,100 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 the loan was closed in May 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%. As of December 31, 2015, the loan had not yet been drawn down.

6. LEASE TRANSACTIONS

Pennsylvania Station Leasehold — In 1988, MTA Long Island Rail Road and MTA entered into a 99-year lease agreement with Amtrak for the Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms. The \$44,600 paid to Amtrak by MTA under this agreement is reflected as a leasehold asset and a capital contribution from MTA, which is being amortized over 30 years. The financial statements for Amtrak may be obtained by assessing the website www.amtrak.org.

7. EMPLOYEE BENEFITS

MTA Long Island Rail Road sponsors and participates in two defined benefit pension plans for their employees, the Long Island Railroad Company Plan for Additional Pensions (the “Additional Plan”) and the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”). A brief description of each of the pension plans follows:

Plan Descriptions

1. The Long Island Rail Road Additional Plan —

The Long Island Rail Road Company Plan for Additional Pensions is a single-employer defined benefit pension plan that provides retirement, disability and survivor benefits to members and beneficiaries. The Plan is administered by the Board of Managers of Pensions. The LIRR Additional 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 LIRR Additional Plan is a closed plan and members include LIRR employees hired prior to January 1, 1988.

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 financial statements may be obtained at www.mta.info or by writing to, Long Island Rail Road, Controller, 93-02 Sutphin Boulevard – mail code 1421, Jamaica, New York 11435.

2. MTA Defined Benefit Plan —

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 nonrepresented employees hired after December 31, 1987, MTA Metro-North Railroad nonrepresented 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 nonrepresented 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 Defined Benefit Plan is administered by the Board of Managers of Pensions which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. The MTA Plan may be amended by action of the MTA Board.

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

Benefits Provided

1. The Long Island Rail Road Additional Plan —

Pension Benefits — 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.

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.

The LIRR Additional Plan also provide death and disability benefits. Participants who become disabled after accumulating ten years of credited service and who meet the requirements 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 five thousand dollars is payable upon death on behalf of a nonvested participant or vested participant whose pension rights were waived.

2. MTA Defined Benefit Plan

Pension Benefits — Retirement benefits are paid from the Plan to covered 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.

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 & 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 credited service for covered MTA Long Island Rail Road management and represented employees. The disability retirement allowance for covered and MTA Long Island Rail Road management is calculated based on the participant's credited service and final average salary ("FAS") but not less than 1/3 of FAS. 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.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Membership

Membership in the pension plan consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

	LIRR Additional Pension Plan
Active Plan Members	282
Retirees and beneficiaries receiving benefits	5,985
Vested formerly active members not yet receiving benefits	<u>53</u>
Total	<u><u>6,320</u></u>

Contributions and Funding Policy

1. Long Island Rail Road Company Plan for Additional Pensions Plan

Employer contributions are actuarially determined on an annual basis and are recognized when due. The Additional Plan is a defined benefit plan administered by the Board of Pension Managers and 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).

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.

Contributions as a percent of covered payroll are 1389.22% for the year-ended December 31, 2014.

The payroll for all employees was \$29,334 in 2014.

The contributions for the years ended December 31, 2015, 2014, and 2013 were \$82,382, \$407,513 and \$199,336, respectively. These costs represent the required actual contributions for the years stated. .

2. MTA Defined Benefit Plan

MTA Long Island Rail Road's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan.

Effective January 1, 1994, covered MTA Long Island Rail Road nonrepresented 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 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.

Covered 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 Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. 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.

The contributions for the years ended December 31, 2015, 2014, and 2013 were \$96,500, \$95,171 and \$81,787, respectively. These costs represent the required actual contributions for the years stated.

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 Company's financial reporting purposes for 2014. As a result, the advance to the defined benefit pension trust prior to 2014 offset the net pension liability.

Net Pension Liability

MTA Long Island Rail Road's net pension liabilities for each of the pension plans reported at December 31, 2015 were measured as of those fiscal year-ends. The total pension liability as of December 31, 2014 for each of the pension plans was determined by an actuarial valuation as of the 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.

Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuations was determined using the following actuarial assumptions for each of the pension plans as follows:

	Additional Plan	MTA Defined Benefit Plan
Investment Rate of Return	7.00% per annum, net of investment expenses	7.00% per annum, net of investment expenses
Salary Increases	3.00%	Varies by years of employment, and employee group;
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.5%; 3.0% for Railroad Retirement Wage Base.
Cost-of Living Adjustments	Not applicable	55% of inflation assumption or 1.375%, if applicable.
Mortality:	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. As generational tables, they reflect mortality improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the MTA plans.	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.
Post-retirement—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.	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.
Post-retirement Disabled Lives	Not applicable	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.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was 7.00% for the Additional Plan and 7.00% for the MTA Defined Benefit Plan and. 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 target allocation and best estimates of arithmetic real rates of return for each major asset class included in each of the pension funds are as follows:

Asset Class	Additional Plan		MTA Defined Benefit Plan	
	Target Allocation	Long-Term Expected RROR by Asset Class	Target Allocation	Long-Term Expected RROR by Asset Class
U.S. Public Market Equities	20.50 %	6.25 %	20.50 %	6.25 %
International Public Market Equities	15.00	6.05	15.00	6.05
Emerging Public Market Equities	3.50	8.90	3.50	8.90
Private Market Equities	12.00	9.15	12.00	9.15
Fixed Income	31.00	2.66	31.00	2.66
Alternatives (Real Assets, Hedge Funds)	18.00	3.34	18.00	3.34
Portfolio Long Term Average Arithmetic RROR	<u>100.00 %</u>		<u>100.00 %</u>	
Assumed Inflation—Mean		2.50		2.50
Assumed Inflation—Standard Deviation		2.00		2.00
Portfolio Arithmetic Mean Return		7.55		7.55
Portfolio Standard Deviation		12.25		12.25
Long Term Expected Rate of Return selected by MTA		7.00		7.00

Discount Rate

As of December 31, 2014, the discount rate used to measure the total pension liability of the Additional Plan and the MTA Defined Benefit Plan was 7.0% and 7.0%, respectively.

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.

Changes in Net Pension Liability – Additional Plan

Changes in the MTA Long Island Rail Road's net pension liability for the Additional Plan for the year ended December 31, 2015, based on the December 31, 2014 measurement date, are as follows (\$ in thousands):

	Additional Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2013	\$ 1,645,284	\$ 510,753	\$ 1,134,531
Changes for fiscal year 2014:			
Service cost	3,813		3,813
Interest on total pension liability	110,036		110,036
Effect of plan changes			-
Effect of economic/demographic (gains) or losses			-
Effect of assumption changes or inputs			-
Benefit payments and withdrawals	(156,974)	(156,974)	-
Administrative expense		(975)	975
Member contributions		1,304	(1,304)
Net investment income		21,231	(21,231)
Employer contributions		407,513	(407,513)
Balance as of December 31, 2014	<u>\$ 1,602,159</u>	<u>\$ 782,852</u>	<u>\$ 819,307</u>

The following presents the MTA Long Island Rail Road's net pension liability calculated using the current discount rate of 7.00% for the Additional Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate (in thousands):

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Net pension liability	<u>\$ 951,790</u>	<u>\$ 819,307</u>	<u>\$ 704,647</u>

MTA Long Island Rail Road's Proportion of Net Pension Liability – MTA Defined Benefit Plan

The following table presents MTA Long Island Rail Road's proportionate share of the net pension liability of the MTA Defined Benefit Plan at the measurement date December 31, 2014,, and the proportion percentage of the net pension liability of the MTA Defined Benefit Plan allocated to MTA Long Island Rail Road:

MTA Long Island Railroad's proportion of the net pension liability	34.970 %
MTA Long Island Railroad's proportionate share of the net pension liability	\$361,771

MTA Long Island Rail Road's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the fiscal year.

The following table presents MTA Long Island Rail Road's proportionate share of the net pension liability calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate (in thousands):

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
MTA Long Island Railroad's proportionate share of the net pension liability	<u>\$ 543,761</u>	<u>\$ 361,771</u>	<u>\$ 208,514</u>

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, MTA Long Island Rail Road recognized pension expense related to each pension plans as follows (in thousands):

Pension Plans

Additional Plan	\$ 82,382
MTA Defined Benefit Plan	<u>96,500</u>
Total	<u>\$ 178,882</u>

At December 31, 2015, MTA Long Island Rail Road reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in thousands):

	Additional Plan		MTA Defined Benfit Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -	\$ 706	\$ -	\$ 706	\$ -
Changes in assumptions					-	-
Net difference between projected and actual earnings on pension plan investments	14,806	-	27,288	-	42,094	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	6,968	-	6,968	-
Employer contribution to plan subsequent to the measurement date of net pension liability	<u>100,000</u>	<u>-</u>	<u>68,500</u>	<u>-</u>	<u>168,500</u>	<u>-</u>
Total	<u>114,806</u>	<u>\$ -</u>	<u>103,462</u>	<u>\$ -</u>	<u>218,268</u>	<u>\$ -</u>

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over the weighted average remaining service life of all members, beginning the year in which the deferred amount occurs.

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows (in thousands):

Year Ending December 31	Additional Plan	MTA Defined Benefit Plan	Total
2016	\$ 3,702	\$ 7,967	\$ 11,669
2017	3,702	7,967	11,669
2018	3,702	7,967	11,669
2019		1,146	1,146
2020		1,146	1,146
Thereafter		802	802
Total	<u>\$ 11,106</u>	<u>\$ 26,995</u>	<u>\$ 38,101</u>

Defined Contribution Plan — Effective January 1, 2004, represented employees who were participants in the Money Purchase Plan became participants in the MTA DB Plan and have the same terms and conditions as those applicable to management employees of MTA Long Island Rail Road in the MTA DB Plan upon approval of each union's Collective Bargaining Agreement by the MTA Board. MTA Long Island Rail Road ceased contributing to the Money Purchase Plan in 2004 and the employee ceased to contribute upon approval of their union's Collective Bargaining Agreement by the MTA Board. All past Company contributions and earnings attributable to such contributions have been transferred to the MTA DB Plan to fund the pension liability for past service under the Money Purchase Plan. As of December 31, 2006, the Board of the MTA approved the Collective Bargaining Agreements for all represented employees with the last union agreement having been approved in April 2006. There are no longer active participants in the Money Purchase Plan.

The Money Purchase Plan was terminated at December 31, 2009, which has resulted in no expenses to the operations of the Long Island Rail Road, after 2009.

8. OTHER POSTEMPLOYMENT BENEFITS

The MTA Long Island Rail Road has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes 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.

The MTA Long Island Rail Road elected not to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL") in the year ended December 31, 2015, and record the net annual OPEB obligation. The MTA Long Island Rail Road also elected not to fund the UAAL more rapidly than on a pay-a-you-go basis. The UAAL relating to post-employment benefits decreased from \$1,272 at the end of 2014 to \$1,250 at the end of 2015. The end of the year liability equals the amount as of the beginning of the year plus interest at 3.50% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

Plan Description — The MTA Long Island Rail Road is a participating employer in the New York State Health Insurance Program ("NYSHIP"), which is administered by the State of New York as a multiple employer agent defined benefit plan. The benefits provided by the MTA Long Island Rail Road include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement. MTA executive management at headquarters establishes and may at their discretion make amendments to the plan.

GASB Statement No. 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, 2015, and was performed with a valuation date of January 1, 2014. The total number of plan participants as of January 1, 2012, receiving retirement benefits was 5.8 thousand.

Since the MTA Long Island Rail Road is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding postemployment retirement benefits. 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.

Management employees and those represented employees receiving management benefits who are participants in LIRR Defined Benefit Plans are eligible to receive the Benefits upon completion of 20 years of service, at age 45, or completion of ten years of service, at age 65. Management employees leaving prior to age 50 with 20 years of service are not entitled to life insurance. All other represented employees who are participants in LIRR Defined Benefit Plans are eligible to receive the Benefits upon completion of 20 years of service, at age 50. Employees who are participants in the MTA Defined Benefit Pension Plan and who were hired on or prior to January 30, 2008, are eligible to receive the benefits upon completion of 30 years of service at age 55 or ten years of service at age 60. Employees are also eligible for retiree benefits with 10 years of service and between the ages of 55 and 59 when collecting a reduced pension. Management employees are also eligible, even if they forego collection of their pension, if they are age 55 or more with 10 years of service and are within five years of collecting a full pension. Management employees retiring prior to age 60 with 10 years of service are entitled to life insurance. Employees who are participants in the MTA Defined Benefit Pension Plan and who were hired after January 30, 2008, are eligible to receive the benefits upon completion of 30 years of service at age 55 or ten years of service at age 62. Employees are also eligible for retiree benefits with 10 years of service and between the ages of 55 and 61 when collecting a reduced pension. Management employees are also eligible, even if they forego collection of their pension, if they are age 57 or more with 10 years of service and are within five years of collecting a full pension. Management employees retiring prior to age 62 with 10 years of service are entitled to life insurance. In all instances, employees must be in credited service under the respective plans at the appropriate age to be eligible for the Benefits. Beginning January 1, 1995, the Long Island Rail Road contributed 100% of the cost to provide health care benefits to represented employees who retire after that date until age 65 and Medicare eligible.

In addition, an active employee who is vested in LIRR Defined Benefit Plans and who is not yet eligible to collect a service age pension, and has at least 10 years of service, but who is immediately eligible for a Social Security or Railroad Retirement Act annuity is also eligible for the Benefits. However, under LIRR Defined Benefit Plans, the employee must sever their relationship with MTA Long Island Rail Road and would not be eligible for life insurance. Under the MTA Defined Pension Plan in order to receive this benefit, the employee must apply and be approved by the Plan for a disability retirement.

Coverages are as follows:

- a. MTA Long Island Rail Road provides retired management employees with life insurance and health care benefits. MTA Long Island Rail Road contributes 100% of the Plan's cost. As of December 31, 2015 and 2014, there were 986 and 973 participants, respectively, in the life insurance plan, and 1,127 and 1,164 participants, respectively, in the medical plan. For retired management employees hired or promoted after December 31, 1996, the life insurance coverage is \$5,000. For retired management employees, in management prior to January 1, 1997 with no break in management status, the coverage is twice their final salary to age 65, then 10% decrease in coverage each year until age 69 when the coverage will be equal to their final salary. Additionally, MTA Long Island Rail Road provides retired management employees with dental and vision benefits who retired after December 1, 1996. As of December 31, 2015 and 2014, there were an average of 862 and 830 participants, respectively, in the dental and vision plans. The cost of providing these benefits was \$19,651 and \$18,548 in 2015 and 2014, respectively.
- b. MTA Long Island Rail Road provides represented employees who retired after December 31, 1994, with life insurance and health care benefits in accordance with collective bargaining agreements. MTA Long Island Rail Road contributes 100% of the Plan's cost until age 65. As of December 31, 2015 and 2014, there was an average of 4,464 and 5,850, respectively, in the life insurance plan, and 2,043 and 2,219 participants, respectively, in the medical plan. The cost of providing these benefits was \$30,189 and \$32,992 in 2015 and 2014, respectively.
- c. MTA Long Island Rail Road provides represented employees who retired on or after January 1, 1995, and upon reaching age 65 (represented employees of the BLE union retiring after March 28, 2000, are not included) with a fixed monthly contribution towards certain medical coverage as follows:

Period Retired	Single	Family
January 1, 1995 to present	<u>\$ 100.00</u>	<u>\$ 200.00</u>

Additionally, spouse/dependents of retiree who are not yet age 65, are entitled to the cost of HIP at either family or single cost, whichever is applicable, until spouse/dependents reach Medicare eligible age, or otherwise lose eligibility.

- d. MTA Long Island Rail Road provides represented employees who retired before December 31, 1994, with a fixed monthly contribution towards certain medical coverage as well as employees with NYSHIP who are Medicare eligible with payment of their Medicare as stated below (in whole \$ amounts):

	Single	Family
July 1, 1974 to December 31, 1982 (Train & Engine Retirees)	\$ 17.05	\$ 38.60
July 1, 1974 to December 31, 1981 (All other Retirees)	17.05	38.60
January 1, 1983 to December 31, 1990 (Train & Engine Retirees)	40.72	113.89
January 1, 1982 to December 31, 1990 (All other Retirees)	40.72	113.89
January 1, 1991 to December 31, 1994 (All Retirees)	100.00	200.00
Medicare Part B	96.40	

As of December 31, 2015 and 2014, there was an average of 1,933 and 1,832 participants, respectively, receiving monthly contributions. The cost of providing this benefit was \$5,371 and \$5,123 in 2015 and 2014, respectively.

The MTA Long Island Rail Road is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. During the fiscal years ended December 31, 2015 and 2014, the MTA Long Island Rail Road paid \$56,685 and \$56,655, respectively. MTA executive management at headquarters has the authority to establish or amend contributions to the plan.

Annual OPEB Cost and Net OPEB Obligation — The MTA Long Island Rail Road's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation (the "Net OPEB Obligation"), included on the 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 frozen actuarial accrued liability.

For determining the ARC, the MTA Long Island Rail Road 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 Statement No. 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2015 is 14 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.

Actuarial Methods and Assumptions — The Frozen Initial Liability ("FIL") Cost Method is used for determining the Normal Cost. The Entry Age Normal ("EAN") Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined

as of January 1, 2006 to be used in the financials for the 2007 year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

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 2014, which is less than 24 months prior to the beginning of the 2015 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, the discount rate for this valuation has been lowered from 3.75% to 3.50%.

Healthcare Reform — The valuation reflects the actuary understanding of the impact in future health costs due to the passage of the Patient Protection and Affordable Care Act (P.L.111-148) signed on March 23, 2010, as amended by the Health Care and Education Reconciliation Act (H.R.4872) signed on March 30, 2010.

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

Valuation date	January 1, 2014
Actuarial cost method	Frozen Initial Liability
Discount rate	3.50%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	14 years
Period closed or open	Closed

* In general, all coverages are paid for by the MTA.

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 — For members of NYSHIP, unadjusted premiums were used.

Medicare Part B Premiums — Medicare Part B premiums reimbursements were assumed to have an annual trend of 4.5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

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 2014 valuation excludes any RDS payments expected to be received.

Health Care Cost Trend — For those retirees participating in NYSHIP, the trend assumption used for 2015 and 2014 were 6% and 0.0%, respectively, reflecting actual increases in premiums through 2015.

The trend assumption utilized in this valuation has changed from the assumption used in the previous valuation due to the incorporation of the excise tax in the trend assumption.

Health Care Cost Trend Rates

Fiscal Year	NYSHIP
2014	- %
2015	6.0
2016	6.0
2017	6.0
2018	5.3
2019	5.2
2029	5.5
2034	6.4
2039	5.9
2044	5.7
2049	5.6
2054	5.5

Participation — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan.

Dependent Coverage — Spouses are assumed 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 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 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.

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

Turnover and retirement rates — All demographic assumptions were based on assumptions utilized in the 2014 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan

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 MTA Long Island Rail Road 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, which were only provided by Headquarters and Long Island Rail Road.

Age at Termination	Percent Electing
< 40	- %
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 Long Island Rail Road's annual OPEB cost for the year, the amount actually paid, and changes in the MTA Long Island Rail Road's net OPEB obligation to the plan for the years ended December 31, 2015 and 2014 (in thousands). 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.

	2015	2014
Annual required contribution ("ARC")	\$ 161,946	\$ 152,952
Interest on net OPEB obligation	19,329	17,914
Adjustment to ARC	<u>(39,339)</u>	<u>(39,653)</u>
Annual OPEB cost	141,936	131,213
Payments made	<u>(56,685)</u>	<u>(56,655)</u>
Increase in net OPEB obligation	85,251	74,558
Net OPEB obligation—beginning of year	<u>552,277</u>	<u>477,719</u>
Net OPEB obligation—end of year	<u>\$ 637,528</u>	<u>\$ 552,277</u>

The MTA Long Island Rail Road's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the years ended December 31, 2015, 2014, and 2013, were as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
December 31, 2015	\$ 141,936	39.90 %	\$ 637,528
December 31, 2014	131,213	43.20	552,277
December 31, 2013	126,782	64.70	477,719

The MTA Long Island Rail Road's funded status is as follows:

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}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
December 31, 2015	January 1, 2014	<u>\$ 24,996</u>	<u>\$ 1,339,202</u>	<u>\$ 1,314,207</u>	<u>1.87%</u>	<u>\$ 523,553</u>	<u>251.0 %</u>

The required schedule of funding progress 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.

9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property as of December 31, 2015 and 2014, is presented below:

	2015	2014
Balance—beginning of year	\$ 68,474	\$ 64,659
Activity during the year:		
Current year claims and changes in estimates	24,382	15,351
Claims paid	<u>(8,117)</u>	<u>(11,536)</u>
Balance—end of year	84,739	68,474
Less current portion	<u>(23,008)</u>	<u>(17,636)</u>
Long-term liability	<u>\$ 61,731</u>	<u>\$ 50,838</u>

10. NET POSITION

Net Position as of December 31, 2015 and 2014 consists of:

	2015	2014
Net investment in capital assets	\$ 5,543,274	\$ 5,475,064
Original investments	65,000	65,000
Cumulative capital contributions from MTA	4,738,846	4,738,846
Cumulative subsidies from MTA	15,586,883	14,659,248
Accumulated deficit	(22,104,828)	(19,770,400)
Unrestricted net deficit	(1,714,099)	(307,306)
Total net position	\$ 3,829,175	\$ 5,167,758

Net Position represents the residual interest in MTA Long Island Rail Road assets after liabilities are deducted and consist of the net investment in capital assets and unrestricted deficit. Net investment in capital assets include capital assets, net of accumulated depreciation and amortization.

11. RELATED PARTY TRANSACTIONS

MTA Long Island Rail Road and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back. MTA Long Island Rail Road's subsidies from MTA for use in operations are recorded as credits to operations when received. Funds for MTA Long Island Rail Road's capital project expenditures are also provided by MTA. Funds contributed by MTA for MTA Long Island Rail Road's capital project expenditures are classified as nonoperating.

MTA Long Island Rail Road also sells joint prevalued fare cards on consignment on behalf of an affiliated agency. These amounts are reflected in the accompanying Statements of Net Position. The dollar volume of such related party transactions for the years ended December 31, 2015 and 2014, is shown in the following table:

	2015	2014
Payments to MTA and affiliated agencies	\$ 138,491	\$ 147,790
Payments from MTA and affiliated agencies	307,986	204,068

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying Statements of Net Position.

Due from/to MTA and affiliated agencies as of December 31, 2015 and 2014, consists of:

	2015		2014	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 83,130	\$ (10,566)	\$ 90,163	\$ (11,878)
Affiliated agencies	<u>1,565</u>	<u>(27,704)</u>	<u>2,323</u>	<u>(27,269)</u>
Total MTA and affiliated agencies	<u>\$ 84,695</u>	<u>\$ (38,270)</u>	<u>\$ 92,486</u>	<u>\$ (39,147)</u>

On July 29, 1988, MTA, New York City Transit Authority ("NYCTA") and TBTA entered into a lease and related agreements whereby each agency, as sublessees, will rent an office building at 2 Broadway in lower Manhattan for an initial lease term of approximately 50 years. Through separate triple-net sublease agreements, the lease was appointed 21% to MTA, on behalf of MTA Long Island Rail Road and Metro-North Railroad ("MNR"), 68.7% to NYCTA, and 10.3% to TBTA. The lease term expires on July 29, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. Total annual rent payments over the initial lease term are \$1.6 billion. Base building and tenant improvements at 2 Broadway are being financed through the issuance by MTA of 2 Broadway Certificates of Participation. MTA Long Island Rail Road and MNR are obligated to pay 21% of the ground lease payments and payments relating to the 2 Broadway Certificates of Participation. Pursuant to an agreement by and among MTA, MTA Long Island Rail Road, MNR, NYCTA and TBTA, NYCTA and TBTA have agreed to reimburse the MTA Long Island Rail Road and MNR for the space occupied by NYCTA and TBTA. NYCTA and TBTA are expected to occupy substantially all of the space at 2 Broadway and to reimburse the MTA Long Island Rail Road and MNR in full.

12. OPERATING LEASES

MTA Long Island Rail Road leases equipment and office facilities under agreements accounted for as operating leases. Certain leases contain renewal options and escalation clauses based on the Consumer Price Index. Future minimum rental payments for all noncancelable-operating leases as of December 31, 2015, are as follows:

Years Ending December 31	
2016	\$ 2,455
2017	2,256
2018	2,146
2019	2,056
2020	16
2021–2023	<u>10</u>
	<u>\$ 8,939</u>

Total rent expense for the years ended December 31, 2015 and 2014, amounted to \$7,752 and \$6,016, respectively, and is recorded in administrative expenses.

On July 29, 1998, MTA, New York City Transit Authority ("NYCTA") and TBTA entered into a lease and related agreements whereby each agency, as sublessees, will rent an office building at 2 Broadway in lower Manhattan for an initial lease term of approximately 50 years. Through separate triple-net sublease agreements, the lease was appointed 21% to MTA, on behalf of MTA Long Island Rail Road and Metro-North Railroad ("MNR"), 68.7% to NYCTA, and 10.3% to TBTA. The lease term expires on

July 29, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. Total annual rent payments over the initial lease term are \$1.6 billion. Base building and tenant improvements at 2 Broadway are being financed through the issuance by MTA of 2 Broadway Certificates of Participation. MTA Long Island Rail Road and MNR are obligated to pay 21% of the ground lease payments and payments relating to the 2 Broadway Certificates of Participation. Pursuant to an agreement by and among MTA, MTA Long Island Rail Road, MNR, NYCTA and TBTA, NYCTA and TBTA have agreed to reimburse the MTA Long Island Rail Road and MNR for the space occupied by NYCTA and TBTA. NYCTA and TBTA are expected to occupy substantially all of the space at 2 Broadway and to reimburse the MTA Long Island Rail Road and MNR in full.

13. ENVIRONMENTAL REMEDIATION

MTA Long Island Rail Road has implemented 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 Long Island Rail Road is in violation of a pollution prevention-related permit or license.
- MTA Long Island Rail Road is named by a regulator as a responsible or potentially responsible party to participate in remediation.
- MTA Long Island Rail Road is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA Long Island Rail Road voluntarily commences or legally obligates itself to commence remediation efforts.

MTA Long Island Rail Road does not anticipate any changes in the near future that would have a material impact on the recorded obligations due to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations. In addition, MTA Long Island Rail Road does not expect any recoveries of cost that would have a material effect on the recorded obligations.

In accordance with GASB Statement No. 49, pollution remediation expenses were recorded on the Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2015 and 2014, respectively. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of December 31, the pollution remediation liability totaled \$36,902 for 2015 and \$36,219 for 2014, primarily consisting of future remediation activities associated with lead and asbestos abatement.

14. OTHER LONG-TERM LIABILITIES

MTA Long Island Rail Road has recorded \$83.4 million in 2015 and \$79.7 million in 2014, for the estimated long-term sick leave payout for employees. All represented employees who have worked for MTA Long Island Rail Road for 10 years and have more than half of their sick days accrued are eligible. Additionally, effective January 1, 2004, if this requirement is not met, represented employees can receive a non-pensionable lump sum severance payment representing 50% of the value of all accrued but unused sick days provided they have more than half of their sick days since January 1, 2004 accrued. Management employees who have worked for MTA Long Island Rail Road for 10 years or more are paid half of their sick days with a maximum payout of 120 days.

15. COMMITMENTS AND CONTINGENCIES

Management has reviewed with counsel all other actions and proceedings pending against or involving MTA Long Island Rail Road, 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 have a significant impact on MTA Long Island Rail Road's financial position, cash flows or results of operations.

16. SUBSEQUENT EVENT

As of April 11, 2016, there were no materially significant subsequent events.

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REQUIRED SUPPLEMENTAL INFORMATION (UNAUDITED)

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

SCHEDULE I

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**Schedule of Changes in the MTA Long Island Rail Road's Net Pension Liability and
Related Ratios for the LIRR Company Plan for Additional Pensions Plan
at December 31, 2014
(In thousands, except %)**

	Additional Plan	
Total pension liability:		
Service cost	\$ 3,813	
Interest	110,036	
Benefit payments and withdrawals	<u>(156,974)</u>	
Net change in total pension liability	(43,125)	
Total pension liability—beginning	<u>1,645,284</u>	
Total pension liability—ending(a)	<u>1,602,159</u>	
Fiduciary net position:		
Employer contributions	407,513	
Member contributions	1,304	
Net investment income	21,231	
Benefit payments and withdrawals	(156,974)	
Administrative expenses	<u>(975)</u>	
Net change in plan fiduciary net position	272,099	
Plan fiduciary net position—beginning	<u>510,753</u>	
Plan fiduciary net position—ending(b)	<u>782,852</u>	
Employer's net pension liability—ending(a)-(b)	<u>\$ 819,307</u>	
Plan fiduciary net position as a percentage of the total pension liability	<u>48.86</u>	%
Covered-employee payroll	<u>29,334</u>	
Employer's net pension liability as a percentage of covered-employee payroll	<u>2,793.05</u>	%

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

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

SCHEDULE II

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**Schedule of the MTA Long Island Rail Road's Proportionate Share of
Net Pension Liability in the MTA Defined Benefit Pension Plan
at December 31, 2014:**
(In thousands, except %)

	MTA Defined Benefit Pension Plan
MTA Long Island Railroad's proportion of the net pension liability	<u>34.970 %</u>
MTA Long Island Railroad's proportionate share of the net pension liability	<u>\$ 361,771</u>
MTA Long Island Railroad's actual covered-employee payroll	<u>\$ 615,666</u>
MTA Long Island Railroad's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	<u>58.761 %</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>74.770 %</u>

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

SCHEDULE III

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of MTA Long Island Rail Road's Contributions for all Pension Plans for the Years ended December 31,

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Additional Plan										
Actuarially determined contribution	\$82,381,698	\$ 112,512,532	\$ 119,325,133	\$ 116,010,607	\$ 108,980,069	\$ 107,248,558	\$ 108,677,428	\$ 100,336,534	\$ 100,906,634	\$ 108,516,565
Actual employer contribution	<u>82,381,698</u>	<u>407,512,532</u>	<u>199,336,010</u>	<u>116,010,607</u>	<u>108,284,670</u>	<u>107,248,558</u>	<u>108,677,433</u>	<u>100,336,534</u>	<u>100,906,634</u>	<u>243,216,351</u>
Contribution deficiency (excess)	\$ -	<u>\$(295,000,000)</u>	<u>\$ (80,010,877)</u>	\$ -	<u>\$ 695,399</u>	\$ -	<u>\$ (5)</u>	\$ -	\$ -	<u>\$(134,699,786)</u>
covered payroll		<u>\$ 29,333,793</u>	<u>\$ 33,043,127</u>	<u>\$ 40,033,255</u>	<u>\$ 51,159,016</u>	<u>\$ 65,197,908</u>	<u>\$ 72,717,694</u>	<u>\$ 80,927,263</u>	<u>\$ 93,997,840</u>	<u>\$ 117,336,414</u>
Contributions as a % of Covered payroll	<u>- .00 %</u>	<u>1,389.23 %</u>	<u>603.26 %</u>	<u>289.79 %</u>	<u>211.66 %</u>	<u>164.50 %</u>	<u>149.45 %</u>	<u>123.98 %</u>	<u>107.35 %</u>	<u>202.28 %</u>
MTA Defined Benefit Pension Plan										
Actuarially determined contribution	\$96,500,000	\$ 94,951,686	\$ 81,787,253	\$ 71,301,640	\$ 56,287,892	\$ 54,485,564	\$ 52,723,879	\$ 39,256,685	\$ 36,510,528	\$ 113,114,401
Actual employer contribution	<u>96,500,000</u>	<u>123,849,954</u>	<u>81,787,253</u>	<u>71,301,640</u>	<u>56,287,892</u>	<u>54,485,564</u>	<u>52,723,879</u>	<u>39,256,685</u>	<u>36,510,528</u>	<u>24,816,569</u>
Contribution deficiency (excess)	\$ -	<u>\$ (28,898,268)</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	<u>\$ 88,297,832</u>
Covered payroll	\$ -	<u>\$ 615,666,430</u>	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of covered payroll	<u>- %</u>	<u>20.12 %</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>

*For both the Additional Plan and the MTA Defined Benefit Plan, the excess for 2014 reflects a prepaid contribution towards the 2015 Actuarially Determined Contribution.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Notes to Schedule of MTA Long Island Rail Road's Contributions for all Pension Plans:

The following actuarial methods and assumptions were used in the January 1, 2014 funding valuation for the Single-Employer pension plan as follows:

	Additional Plan
Valuation dates	January 1, 2014
Measurement date	December 31, 2014
Actuarial cost method	Entry Age Normal Cost
Amortization method	Period specified in current valuation report (closed 19 year period beginning January 1, 2014) with level dollar payments
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.
Actuarial assumptions:	
Discount rate	7.00%
Investment rate of return	7.00%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA
Inflation/Railroad Retirement Wage Base	2.50%; 3.50%
Salary increases	3.00%
Cost-of-living adjustments	N/A

Notes to Schedule of MTA Long Island Rail Road's Contributions Pension Plan:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2014 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2014 funding valuation.

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MTA LONG ISLAND RAIL ROAD
(Component of the Metropolitan Transportation Authority)

SCHEDULE IV

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Funding Progress – Postemployment Benefit Plan

Years Ended	Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded Actuarial Accrued Liability (UAAL) (C=B-A)	Funded Ratio (A/C)	Covered Payroll (D)	Ratio of UAAL To Covered Payroll (C/D)
December 31, 2015	January 1, 2014	\$ 24,996	\$ 1,339,202	\$ 1,314,207	1.87 %	\$ 523,553	251.0 %
December 31, 2014	January 1, 2012		1,271,859	1,271,859		456,626	278.5
December 31, 2013	January 1, 2012		1,271,859	1,271,859		456,626	278.5

Actuarial valuations are completed every other year.

Metro-North Commuter Railroad Company

(Component of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Required Supplementary Information, and
Independent Auditors' Report

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METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying statements of net position of the Metro-North Commuter Railroad Company (the "MTA Metro-North Railroad"), a component of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the MTA Metro-North Railroad's 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 the 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 MTA Metro-North Railroad'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 purposes of expressing an opinion on the effectiveness of the MTA Metro-North Railroad'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 net position of the MTA Metro-North Railroad as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, MTA Metro-North Railroad is a component of the MTA. The MTA is a component unit of the State of New York. MTA Metro-North Railroad requires significant subsidies from and has material transactions with MTA. MTA Metro-North also relies on subsidies from the Connecticut Department of Transportation (“CDOT”) to support the Connecticut operations of the New Haven Line. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2015, MTA Metro-North Railroad adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. 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 15, the Schedule of Changes in the MTA Metro-North Railroad Net Pension Liability and Related Ratios for the Metro-North Commuter Railroad Company Cash Balance Plan on page 59, the Schedule of the MTA Metro-North Railroad’s Proportionate Share of Net Pension Liability in the MTA Defined Benefit Pension Plan on page 60, the Schedule of MTA Metro-North Railroad’s Contributions for All Pension Plans on page 61, and the Schedule of Funding Progress-Postemployment Benefit Plan on page 62, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

April XX, 2016

METRO-NORTH COMMUTER RAILROAD COMPANY

(Component of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts in thousands – except as noted)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction

The following is a narrative overview and analysis of the financial activities of the Metro-North Commuter Railroad Company (the "MTA Metro-North Railroad" or the "Company"), a component of the Metropolitan Transportation Authority ("MTA"), for the years ended December 31, 2015 and 2014. It is intended to serve as an introduction to the MTA Metro-North Railroad's financial statements, which have the following components: (1) Management's Discussion and Analysis (MD&A), (2) Financial Statements, (3) Notes to the Financial Statements and (4) Required Supplementary Information.

Management's Discussion and Analysis

The management discussion and analysis provides an assessment of how the MTA Metro-North Railroad's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Company's overall financial position. It may contain opinions, assumptions or conclusions by the Company's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements.

The Financial Statements

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

The Statements of Revenues, Expenses and Changes in Net Position show how MTA Metro-North Railroad's net position changed during each year and accounts for all of the current and prior year's revenues and expenses, measure the success of the Company's operations over the twelve months and can be used to determine how the Company has funded its costs.

The Statements of Cash Flows provide information about the MTA Metro-North Railroad's cash receipts, cash payments and net changes in cash resulting from operations, noncapital financing and capital related financing activities.

The Notes to the Financial Statements

The notes provide information that is essential to understanding the financial statements, such as the MTA Metro-North Railroad's basis of presentation and significant accounting policies.

The notes also have the details of cash, capital assets, employee benefits, lease transactions and future commitments and contingencies of the MTA Metro-North Railroad, including any other events or developing situations that could materially affect the MTA Metro-North Railroad's financial position.

Required Supplementary Information

The Required Supplementary Information provides information concerning MTA Metro-North Railroad's progress in funding its obligation to provide pension and other postemployment benefits to its employees. It also includes the Schedule of Changes in the MTA Metro-North Railroad's Net Pension Liability and Related Ratios for the Metro-North Cash Balance Plan, the Schedule of the MTA Metro-North Railroad's Proportionate Share of Net Pension Liability in the MTA Defined Benefit Pension Plan, and the Schedule of MTA Metro-North Railroad's Contributions for All Pension Plans as required by GASB Statement No. 68.

2. FINANCIAL REPORTING ENTITY

The MTA Metro-North Railroad is a component of the MTA, established in September 1982 pursuant to the New York State Public Authorities Law and is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

The MTA Metro-North Railroad plays a vital role in the transportation network for the region. Commuter service is provided every day of the year, although frequency of service varies by route, day of week and time of day. Passenger transportation is provided between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State, and New Haven and Fairfield counties in Connecticut. The Company has direct operating responsibility for the entire New Haven commuter railroad line under a Service Agreement among MTA, MTA Metro-North Railroad and the Connecticut Department of Transportation ("CDOT"). Under the terms of the Service Agreement, CDOT pays 65% of the net operating deficit of the New Haven main line operating deficit.

The MTA Metro-North Railroad also has a service agreement with New Jersey Transit ("NJT"). The agreement allows NJT to provide passenger service on the Port Jervis and Pascack Valley Lines in the State of New York (referred to as "West of Hudson"). The MTA Metro-North Railroad compensates NJT for that service, for their operating deficit, capital needs and under certain prescribed circumstances for fare hold down amounts.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the MTA Metro-North Railroad's financial position for the years ended December 31, 2015 and 2014. Additionally, an examination 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, summaries of the financial statements and the various exhibits presented are in conformity with the MTA Metro-North Railroad's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All amounts are in thousands.

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

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

Other Assets include, but are not limited to: cash, receivables due from MTA and affiliates, other receivables, farecards (MetroCard subway tickets) on consignment, materials and supplies net of the reserve for obsolescence, and prepaid expenses.

Deferred outflows of resources reflect: changes in pension valuation.

	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Capital assets—net	\$4,503,181	\$4,440,691	\$4,388,372	\$ 62,490	\$52,319
Other assets	285,017	271,772	233,340	13,245	38,432
Deferred Outflows of resources	103,951	-	-	103,951	-
Total assets and deferred outflows of resources	<u>\$4,892,149</u>	<u>\$4,712,463</u>	<u>\$4,621,712</u>	<u>\$179,686</u>	<u>\$90,751</u>

Significant changes in Assets and Deferred Outflows of resources include:

December 31, 2015 versus 2014

- Net capital assets increased from December 31, 2014 to December 31, 2015 by \$62,490 or 1.4%. Major additions to capital assets in 2015 included \$86,531 of signal improvements, \$56,130 of Harmon shop improvements, \$43,866 for turnout and switch replacements, \$35,670 for substation improvements, \$32,638 for Positive Train Control, \$23,217 station improvements and \$16,181 for M-8 passenger cars, offset by depreciation and amortization of \$231,218.
- Other assets increased in 2015 by \$13,245 or 4.9%. Increases of \$22,911 were primarily due to timing of billing and reimbursements of capital projects from MTA. Other increases include materials and supplies of \$20,203 primarily due to spare parts for M-8 cars and fare cards of \$10,063 for MetroCards subway tickets on consignment. Amtrak receivable increased by \$3,449 primarily because of the accrual for Section 212 of Passenger Rail Investment and Improvement Act ("PRIIA") of 2008). These increases were offset by a 2014 advance to the Defined Benefit Pension Plan of \$28,000 and a decrease of amount due to CDOT of \$17,444 for 2014 accrued retroactive wage adjustment paid in 2015.
- Deferred outflows of resources increased by \$103,951 or 100% as a result of the implementation of GASB Statement No. 68. See Note 2 of the audited financial statements for further information.

December 31, 2014 versus 2013

- Net capital assets increased from December 31, 2013 to December 31, 2014 by \$52,319 or 1.2%. Major additions to capital assets in 2014 included \$71,124 of signal improvements, \$51,043 for substation improvements, \$49,199 for turnout and switch replacements, \$29,692 of M-8 passenger cars, \$22,507 for Positive Train Control, \$20,591 of Harmon shop improvements and \$16,994 for parking improvements, offset by depreciation and amortization of \$232,100.
- Other assets increased in 2014 by \$38,432 or 16.5%. Increases in receivables from CDOT of \$17,444 and from MTA of \$14,156 are primarily related to retroactive wage adjustments covering

periods from 2011-2014. Other receivables include a refund of real estate taxes on the Graybar lease of \$7,257 for the years 2008-2013. Prepaid expenses include \$28,000 in advance payments of Defined Benefit Pension Plan, an increase of \$14,338 over previous year's advance. In addition, there was a prepayment of medical insurance of \$8,397. These increases were partially offset by the utilization of unrestricted Other Post Employment Benefits ("OPEB") deposits to fund payments of the retroactive wage adjustments in the amount of \$25,333.

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

Current liabilities include: accrued payroll and related fringe benefits, the short-term portion of claims liabilities, amounts due to MTA and affiliates and accounts payable accrued in the normal course of business.

Non-current liabilities include: net pension liability, claims for injuries to persons, postemployment benefits and a capital lease obligation for Grand Central Terminal.

Deferred inflows of resources reflect the difference between actual and projected pension plan investment earnings.

	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Current liabilities	\$ 296,074	\$340,024	\$253,578	\$ (43,950)	\$ 86,446
Noncurrent liabilities	896,896	484,566	436,022	412,330	48,544
Deferred inflows of resources	8	-	-	8	-
Total liabilities and deferred inflows of resources	<u>\$1,192,978</u>	<u>\$824,590</u>	<u>\$689,600</u>	<u>\$368,388</u>	<u>\$134,990</u>

Significant changes in liabilities include:

December 31, 2015 versus 2014

- Current liabilities decreased in 2015 by \$43,950 or 12.9%. The decrease is primarily in salaries, wages and payroll taxes of \$100,756 as 2014 included accruals for the retroactive wage adjustments covering 2011-2014 that were paid in 2015. This decrease is partially offset by a \$19,871 increase in the inventory deposit liability to CDOT for the increased M-8 spare part inventory. Other increases include due to affiliated agencies for \$9,161 for MetroCards, claims liability for \$9,398 due to reclassification from non-current to current as more settlements are expected to be made in the current period related to previous years' major incidents, accounts payable for \$9,250 primarily due to timing of payments and vacation and sick pay benefits for \$6,763 because of higher wages.
- Non-current liabilities increased in 2015 by \$412,330 or 85.1% primarily due to the recognition of a net pension liability of \$365,093 as required by GASB Statement No. 68 (see Note 2). Liabilities also increased due to changes in the actuarial valuation of OPEB of \$55,553 offset by a change in claims liabilities from non-current to current of \$9,398.

December 31, 2014 versus 2013

- Current liabilities increased in 2014 by \$86,446 or 34.1%. The majority of the increase is in payroll and related fringe benefits of \$96,538 primarily due to retroactive wage adjustments for both

management and agreement employees covering the years 2011-2014. This is partially offset by a decrease in the liability to CDOT of \$11,237 due to the retroactive wage adjustment accruals.

- Non-current liabilities increased in 2014 by \$48,544 or 11.1% due to changes in the actuarial valuation of OPEB of \$58,373, offset by a decrease in claims liabilities of \$11,722. The Company recorded significant liabilities in 2013 due to several major incidents.

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

	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Net investment in capital assets	\$ 4,488,743	\$ 4,426,006	\$ 4,373,456	\$ 62,737	\$ 52,550
Unrestricted	<u>(789,572)</u>	<u>(538,133)</u>	<u>(441,344)</u>	<u>(251,439)</u>	<u>(96,789)</u>
Total net position	<u>\$ 3,699,171</u>	<u>\$ 3,887,873</u>	<u>\$ 3,932,112</u>	<u>\$ (188,702)</u>	<u>\$ (44,239)</u>

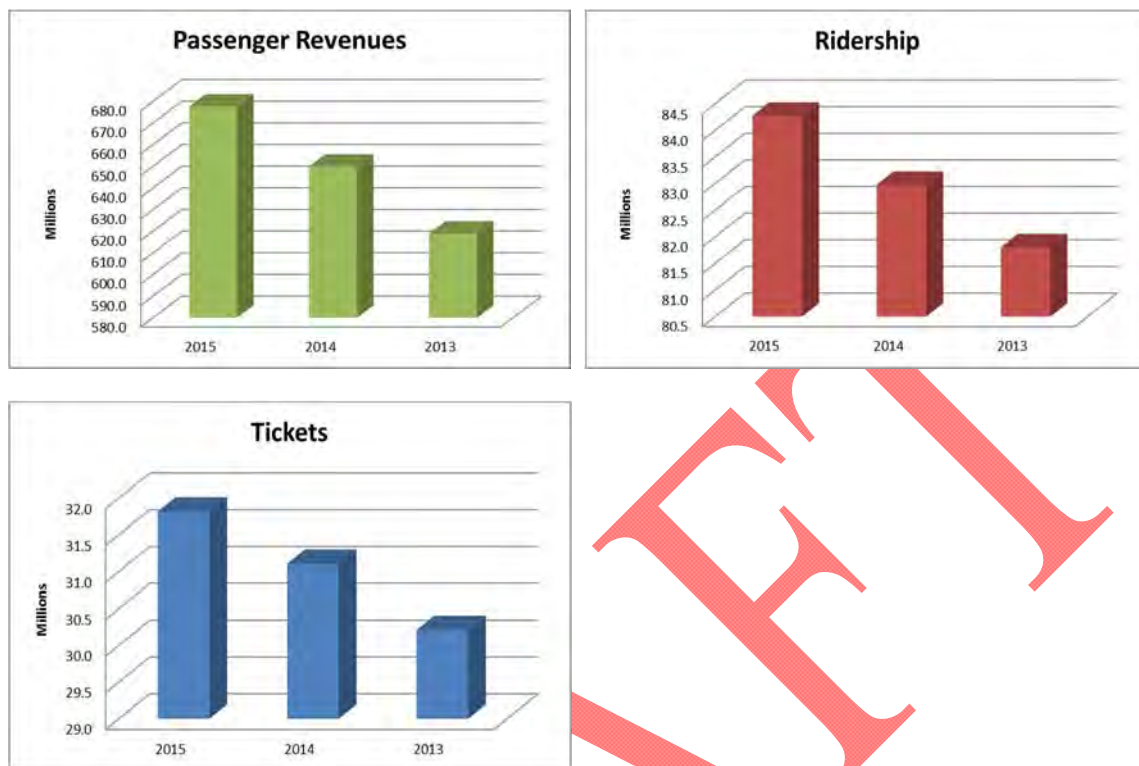
In 2015, the total net position decrease of \$188,702 is mainly attributable to the implementation of GASB Statement No. 68. Offsetting the net position decrease were the fare increases and increased ridership revenues of \$27,706. Additionally, 2014 included the impact of retroactive wage adjustment accruals covering the years 2011-2014.

In 2014, the total net position decrease of \$44,239 is mainly attributable to \$160,119 of retroactive wage adjustments and related fringe benefit covering 2011-2014.

Condensed Statements of Revenues, Expenses, and Changes in Net Position (In thousands)

	Years Ended December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Operating revenues	\$ 739,417	\$ 706,466	\$ 669,157	\$ 32,951	\$ 37,309
Operating expenses	(1,467,282)	(1,528,504)	(1,398,690)	61,222	(129,814)
Asset impairment & related expenses	<u>(2,942)</u>	<u>-</u>	<u>(7,479)</u>	<u>(2,942)</u>	<u>7,479</u>
Operating loss	<u>(730,807)</u>	<u>(822,038)</u>	<u>(737,012)</u>	<u>91,231</u>	<u>(85,026)</u>
Total nonoperating revenues	<u>818,604</u>	<u>777,799</u>	<u>691,688</u>	<u>40,805</u>	<u>86,111</u>
Change in net position	87,797	(44,239)	(45,324)	132,036	1,085
Net position—beginning of year	3,887,873	3,932,112	3,977,436	(44,239)	(45,324)
Cumulative effect of implementing GASB 68	<u>(276,499)</u>	<u>-</u>	<u>-</u>	<u>(276,499)</u>	<u>-</u>
Net position—end of year	<u>\$ 3,699,171</u>	<u>\$ 3,887,873</u>	<u>\$ 3,932,112</u>	<u>\$ (188,702)</u>	<u>\$ (44,239)</u>

Operating Revenues by Major Source



Passenger fares accounted for 91.6% and 92.0% of operating revenues in 2015 and 2014, respectively. The remaining revenue represents collection of rental income from stores in and around passenger stations, and revenue generated from advertising and the sale of food and beverages on platforms.

MTA Metro-North (East of Hudson) passenger revenue increased in 2015 by \$27,796 or 4.3%, and ridership increased by 1.297 million or 1.6%. The revenue increase is primarily a reflection of a 1.0% Connecticut fare increase implemented on January 1, 2015 and a 4.0% New York fare increase implemented on March 22, 2015.

MTA Metro-North (East of Hudson) passenger revenue increased in 2014 by \$30,874 or 5.0%, and ridership increased by 1.170 million or 1.4%. The revenue increase is primarily a reflection of a 5.04% Connecticut fare increase implemented on January 1, 2014.

Expenses by Category

December 31, 2015 versus 2014

Salaries and wages decreased by \$46,126 or 7.6% in 2015 over 2014. This decrease is primarily due to retroactive wage adjustments covering the years 2011-2014 accrued in 2014 and transferring of IT employees to MTA's payroll effective January 1, 2015.

Retirement and Other Employee Benefits decreased by \$15,404 or 6.2% in 2015 over 2014. Pension expenses decreased by \$17,109 primarily due to a \$15,349 credit because of the implementation of

GASB Statement No. 68, other fringe benefits decreased by \$4,528 as 2014 contained the accruals for retroactive wage adjustments, and overhead costs recovery relating to capital projects increased by \$3,749. These decreases were offset by a \$10,043 increase in employee claims attributable to a company environment more focused on safety and reporting of incidents aided by the implementation of the Confidential Close Call Reporting System, known as C3RS.

Electric Power costs decreased by \$3,628 or 4.5% in 2015 over 2014. This decrease primarily reflects lower rates per kilowatt hours in 2015 from the New York Power Authority.

Fuel costs decreased by \$9,772 or 35.4% as compared to 2014. This decrease primarily reflects lower rates. Average 2014 fuel costs were \$3.11 per gallon versus \$1.98 per gallon in 2015.

Insurance costs increased by \$1,080 or 6.2% in 2015 over 2014. This increase primarily reflects higher excess liability premium due to several major incidents occurring in prior years at the Company and within the railroad industry in general.

Claims costs decreased by \$782 or 12.8% as compared to 2014 due to decrease in New Jersey Transit claims for the West of Hudson line.

Maintenance and Other Operating Contracts decreased \$4,430 or 4.3%. Decreases in MTA Police costs of \$3,046 are primarily due to retroactive wage increases and related fringe recorded in 2014. Decreases of \$2,361 for maintenance as only one Genesis locomotive was overhauled in 2015 as compared to two in 2014. Lower expenditures for infrastructure repair amounted to \$1,525 as the harsh 2015 winter precluded work from commencing until late spring. Bus service costs decreased by \$1,179 as 2014 contained significant expenses related to Danbury branch alternate service. Cost of rent decreased by \$1,306 due to the Graybar relocation. In addition, water, steam and gas decreased by \$1,804 primarily due to savings as a result of installation of electrical steam chillers in Grand Central Terminal as part of the company's energy efficiency project. A real estate tax refund of \$7,295 recorded in 2014 offset these decreases.

Professional service contracts increased by \$6,769 or 28.0%. This increase is due to an allocation from MTA for IT services of \$11,435 for the New Haven Line, offset by the IT vendor costs recorded in 2014 of \$7,091. In addition, engineering services increased by \$3,001 primarily due to the Annual GCT Undergrade inspection that commenced in October 2014.

Environmental Remediation increased by \$2,793 in 2015 or 171.1%. This increase is primarily related to the recognition of non-hazardous environmental abatement and disposal costs associated with demolition and excavation activities required as part of the Harmon Shop improvements capital program project.

Materials and supplies increased by \$11,745 or 16.7% primarily due to year-end inventory valuation adjustments of higher inventory levels and higher expenses for rolling stock parts and supplies related to the component change-out shops, support shop work and on-going repairs.

Other business expenses decreased by \$2,875 or 11.9%. Amtrak recovery increased \$4,081 primarily due to PRIIA accrual of \$2,706. The increase in recoveries was partially offset by a write-off of a project for removing obsolete facilities (fifteen transmission towers, substations and towers) of \$1,010 and an increase of \$749 credit card fees.

Depreciation expense amounted to \$231,218 in 2015, a decrease of \$882 or less than 1%.

December 31, 2014 versus 2013

Salaries and wages increased by \$130,440 or 27.2% in 2014 over 2013. This increase is primarily due to retroactive wage adjustments covering the years 2011-2014.

Retirement and Other Employee Benefits increased by \$6,120 or 2.5% in 2014 over 2013. The increase in fringe benefit expenses of \$29,679 largely relating to the retroactive wage adjustments was offset by lower employee claims expenses of \$11,436 and an increase in the overhead costs recovery relating to capital projects of \$12,122.

Electric Power costs increased by \$6,999 or 9.4% in 2014 over 2013. This increase reflects price rate and increased usage, as well as a new sub-station along the New Haven line.

Fuel costs decreased by \$1,995 or 6.7% in 2014 over 2013. This decrease primarily reflects lower rates.

Insurance costs increased by \$2,917 or 20.3% in 2014 over 2013. The increase was due to higher premiums related to the MTA Catastrophic Bond program.

Claims costs decreased by \$33,199 or 84.4% as 2013 contained significant provisions for the New Haven Line and Spuyten Duyvil derailments.

Maintenance and Other Operating Contracts increased \$8,090 or 8.6%. This increase is primarily related to \$6,661 for the new lease at Graybar, \$2,587 for locomotive overhauls, \$2,877 for non-revenue vehicle repairs and \$2,278 of MTA Police costs offset by a real estate tax refund of \$7,295.

Environmental Remediation decreased by \$295 in 2014 or 15.3%. Several lead and asbestos abatement projects including GCT, Fordham Station and Harlem/Hudson Lines Power Improvements amounted to \$1,527 for the year compared to the one significant environmental contract for \$1,910 in 2013 for the Harlem River Lift Bridge lead and asbestos abatement project.

Professional service contracts increased by \$905 or 3.9%. Engineering services increased by \$554 primarily due to track and engineering services to address safety initiatives, support and maintenance of bridge inspection and management system, and inspection manual for bridges and structures. In addition, training services increased by \$336, and market research and ridership analysis by \$297, offset by a reduction in IT vendor costs.

Materials and supplies increased by \$5,353 or 8.2% primarily due to increased usage of truck and suspension materials for Maintenance of Equipment ("M of E") of \$3,733 related to the M-7 10-year Rebuild program, repairs of revenue equipment related to the December 2013 Spuyten Duyvil incident of \$608, and \$468 of system equipment repair for Maintenance of Way ("M of W").

Other business expenses decreased by \$1,361 or 5.3%. The decrease was due to an accrual of \$2,104 in 2013 for damaged cars from the Spuyten Duyvil derailment and an increase of \$445 credit card fees.

Depreciation expense amounted to \$232,100 in 2014, an increase of \$2,055 or less than 1%. Included in the increase was \$4,204 of accelerated depreciation due to the disposal of M-6 cars prior to the end of their estimated useful life.

Nonoperating Revenues by Major Source

MTA Contributions for Capital Projects — MTA capital contributions increased in 2015 by \$9,140 or 3.5%. The increase in 2015 is primarily due to the \$34,454 for Harmon Shop improvements, \$7,546 for substation improvements, offset by \$39,083 decreased spending for M-8 cars as the contract is nearing completion.

MTA Operating Subsidies — MTA operating subsidies increased in 2015 over 2014 by \$47,835 or 12.2%, primarily due to a \$99,843 increase in total labor related disbursements attributable to retroactive wage payouts and its impact to fringe benefits, and gross wage increases. This was offset by fare revenue collection increase of \$26,649 due to fare and ridership increases, and increase of \$18,544 in capital reimbursements and other revenues. Operating subsidies are recorded when paid and vary according to the cash needs of the MTA Metro-North Railroad.

CDOT Subsidies Relating to the New Haven Line — Amounts due from CDOT for operating subsidies decreased in 2015 by \$10,796 or 9.2%. This decrease is attributable to a \$12,304 reduction of labor and fringe primarily related to the 2014 accrual of retroactive wage adjustments and related taxes and pension covering 2011 to 2014. Additionally, a 1% Connecticut fare increase that went into effect in January 2015 resulted in an increase in fare revenue of \$6,672. These amounts were offset by an increase of \$8,180 in other expenses. The amount CDOT is required to contribute is derived from an agreed upon formula based on the New Haven Line deficit.

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

Economic Conditions

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being.

The MTA Metro-North Railroad's operations are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA Metro-North Railroad must identify economic trends and continually implement strategies to adapt to changing economic conditions.

The MTA Metro-North Railroad requires significant subsidies from and has material transactions with the MTA. In addition, MTA Metro-North also relies on subsidies from the Connecticut Department of Transportation ("CDOT") to support the Connecticut operations of the New Haven Line.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2015 than in 2014 by 95.3 thousand jobs (2.3%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-one 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 0.7% in the fourth quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The slowdown in RGDP in the third quarter primarily reflected a deceleration in personal consumption expenditures

and downturns in nonresidential fixed investment, in exports, and in state and local government spending that were partly offset by a smaller decrease in private inventory investment, a deceleration in imports, and an acceleration in federal government spending. The annualized RGDP growth for the fourth quarter was under the annualized rate of 2.0% in the third quarter; nevertheless, the national economy has now seen expansion in twenty-four of the last twenty-five quarters.

The New York City metropolitan area's price inflation, as represented by the Consumer Price Index for All Urban Consumers ("CPI-U"), was slightly higher than the national average in the fourth quarter of 2015 with the metropolitan area index increasing 0.6% while the national index increased 0.5%. A 17.6% fall in the regional price of energy products, along with a 14.9% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.9%; nationally, inflation exclusive of energy prices increased 1.7%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 35.2% from an average price of \$2.082 to an average of \$1.350 per gallon between the fourth quarters of 2014 and 2015.

In December 2015, the Federal Open Market Committee ("FOMC") announced it would raise its target for the Federal Funds rate to the range of 0.25% to 0.50%, its first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises first deepened. In announcing its decision, the FOMC cited recent evidence that economic activity has been expanding at a moderate rate. Household spending and business fixed investment has been increasing, and the housing sector has further improved. While net exports have been soft, a range of labor market indicators has shown further improvement, confirming that underutilization of labor resources has diminished since the early part of 2015, and inflation continues to run below the FOMC's long-term objective of 2 percent. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. Given its judgement that there has been considerable improvement in labor market conditions and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective, and further recognizing the time necessary for policy actions to affect future economic outcomes, the FOMC raised the Federal Funds target rate. The FOMC expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that in the near-term rates will remain below levels that are expected to prevail in the longer run. Additionally, the FOMC is maintaining its policy of reinvesting 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.

Results of Operations

Metro-North's system-wide on-time performance for 2015 totaled 93.5 percent, up from 91.5 percent in 2014 and above the railroad's goal of 93 percent.

The Harlem Line performed at 94.3 percent, the Hudson Line at 94.2 percent and the New Haven Line at 92.6 percent.

The railroad attained a record mean distance between failure (MDBF) - the distance a train travels before experiencing a mechanical problem - of 199,838 miles. This improves upon 2014's MDBF by more than 50,000 miles and beats the railroad's goal of 185,000 miles. Contributing factors included the performance of the new M-8 fleet on the New Haven Line and aggressive car and locomotive maintenance programs. This also resulted in consistent compliance rate - the percentage of cars in service every day providing seats for the railroad's customers - of 99.6%.

There were numerous challenges to the railroad's service delivery that were overcome throughout 2015: extreme weather in the first quarter of the year (including the coldest February on record); aggressive track inspections and maintenance requiring temporary speed restrictions; a grade crossing accident in Valhalla, NY on the Harlem Line in February that adversely affected service for several days; the replacement of a major interlocking in the Bronx - CP 6 - on the Hudson Line for seven weekends in the fall which mandated single tracking and significant schedule modifications; ongoing catenary replacement on the east end of the New Haven Line; and the New NY Bridge girder bridge launch which restricted late night Hudson operations to hourly service on three Fridays in the fall to accommodate construction.

West-of-Hudson on-time performance totaled 94.8 percent, a slight decrease from 95.4 percent the previous year, due largely to the extreme winter weather in February of 2015.

Total rail ridership was at an all-time record high in 2015 at 86.1 million, 1.6 percent higher than the previous year and representing 1.38 million additional rides. All ridership categories showed growth contributing to this record-setting year.

East of Hudson ridership increased 1.6 percent, representing 1.3 million additional rides.

Individual lines also set records for ridership. The largest increase occurred on the New Haven Line, which jumped to 40.3 million rides--a 1.8 percent increase over 2014. The Harlem line experienced 1.4 percent increase for a total ridership of 27.5 million. Finally, the Hudson line had a 1.2 percent increase for a total of 16.4 million.

West-of-Hudson rail ridership increased 4.9 percent, representing 80,000 additional rides.

Additionally, connecting services ridership increased by roughly 3.8 percent overall to 556,000 rides, representing .02 million (20,000) additional rides. This brings the overall system ridership to 86.6 million for an increase of 1.6% over 2014, representing 1.4 million additional rides on the system.

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — The MTA Metro-North Railroad's portion of the MTA's Capital Program for 2005-2009 totals \$1.487 billion. The commitments made during 2015 totaled \$10.8 million. The MTA Metro-North Railroad's portion of the MTA's Capital Program for 2010-2016 totals \$1.558 billion, of which \$114.5 million has been allocated to 2015.

The 2010-2014 capital program includes continued investment in the modernization of the fleet, including \$245.5 million for New Haven Line M-8 cars, investment in Harmon Shop improvements of \$315.6 million, and station improvements on all three lines.

In the past, the capital program has brought the infrastructure, including tracks, passenger stations and communications to a state of good repair and opened new or refurbished maintenance shops. The achievements of the investments made during prior capital programs yielded dramatic improvements in trip times, reliability, on-time performance, passenger comfort, safety and convenience. See Capital Assets Note 5 for further details.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

In October 2011, the MTA Board approved the proposal for an increase in New Haven Line fares for travel to or from stations located in Connecticut. The approval provided for a cumulative increase of approximately 16.2%, phased in as of January 1, 2012 (5.3%), January 1, 2013 (5.04%), and January 1, 2014 (5.04%). An additional 4% New Haven Line fare increase is approved to be phased in as of January 1, 2015 (1%), January 1, 2016 (1%), January 1, 2017 (1%), and January 1, 2018 (1%).

On January 22, 2015, the MTA Board approved the proposal for a fare increase for travel to or from stations located in New York State. The approval provides for an increase of 4%, which began March 22, 2015.

Passenger Rail Investment and Improvement Act

Pursuant to a 1991 trackage rights agreement with Amtrak, Metro-North is reimbursed for incremental operating costs associated with Amtrak's use of the New Haven Line, which is shared with CDOT at 65%. Under Section 212 of the Passenger Rail Investment and Improvement Act ("PRIIA") of 2008, the Northeast Corridor Infrastructure and Operations Advisory Commission (the "Commission") was established to develop and implement a cost-sharing arrangement (the "cost allocation policy") for the Northeast Corridor ("NEC") infrastructure used for commuter and intercity rail services. The cost allocation policy creates a standardized formula to ensure each intercity and commuter service is assigned the costs associated with its sole-benefit use of the NEC and a proportional share of costs resulting from joint-benefit use.

On September 17, 2015, Commission members voted on a resolution to adopt the cost allocation policy effective October 1, 2015. The annual increase of Amtrak expense recovery (shared with CDOT at 65%) is approximately \$11 million.

Implementation, under this policy, is subject to updating the terms of the trackage rights and other service agreements. As of April xx, 2016, negotiations are ongoing among MTA Metro-North, CDOT and Amtrak to update these agreements.

Governance Changes

Joseph J. Giulietti, formerly the Executive Director of the South Florida Regional Transportation Authority and a MTA Metro-North Railroad veteran, was named the new president of MTA Metro-North Railroad as of February 10, 2014.

James B. Henly, who had served as MTA General Counsel for the previous seven years, assumed new responsibilities as Vice President & General Counsel of MTA Metro-North Railroad in mid-February, 2014. On July 6, 2015, James B. Henly was named interim General Counsel for New York City Transit and Susan Sarch was named Acting General Counsel of MTA Metro-North. On February 25, 2016, James B. Henly was named permanent General Counsel at New York City Transit. Richard Gans, a 17-year employee of MTA Metro-North, who left four years ago to become General Counsel at MTA Long Island Rail Road returned to MTA Metro-North to serve as General Counsel as of March 14, 2016.

Catherine Rinaldi, who served as MTA Chief of Staff for the past three years, joined MTA Metro-North Railroad as Executive Vice President effective on January 12, 2015.

Justin R. Vonashek has been appointed the new Vice President of System Safety in December 2015. The position will oversee all efforts to ensure the safety of its customers and employees as MTA Metro-North Railroad continues to improve work practices and invest in new technology and equipment. The position will report directly to the company President, and work closely with the MTA Chief Safety Office and MTA Senior Advisor, Corporate Safety Initiatives.

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METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(Amounts in thousands)

	2015	2014
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 15,237	\$ 14,281
Fare cards	21,106	11,043
Invested funds at MTA (Note 2)	7,843	5,018
Receivables:		
Passenger	5,048	4,949
Due from MTA and affiliated agencies (Note 11)	61,414	38,503
Due from CDOT	-	17,444
Due from NYSDOT	1,395	2,481
Due from Amtrak	6,024	2,575
Rents	2,759	3,974
Other	10,413	10,614
Less allowance for doubtful accounts	(844)	(718)
Total receivables—net	86,209	79,822
Materials and supplies—net of reserve for obsolescence of \$37,215 and \$36,596 in 2015 and 2014, respectively (Note 2)	108,377	88,174
Prepaid expenses	29,697	28,848
Advance to Defined Benefit Pension Trust	-	28,000
Total current assets	268,469	255,186
NONCURRENT ASSETS:		
Capital assets—net (Notes 2 and 5)		
Land and construction work-in-progress	802,304	714,998
Other capital assets net of depreciation	3,700,877	3,725,693
Invested funds at MTA (Note 2)	11,755	11,739
Other	4,793	4,847
Total noncurrent assets	4,519,729	4,457,277
TOTAL ASSETS	4,788,198	4,712,463
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows for Pension	103,951	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	103,951	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$4,892,149	\$4,712,463

See notes to financial statements.

(Continued)

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(Amounts in thousands)

	2015	2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 66,164	\$ 56,914
Due to MTA and affiliated agencies (Note 11)	52,043	42,882
Due to CDOT	19,871	-
Accrued expenses:	-	-
Salaries, wages and payroll taxes	23,152	123,908
Vacation and sick pay benefits	77,282	70,519
Current portion - retirement and death benefits	148	175
Current portion of estimated liability arising from injuries to persons (Note 9)	25,476	16,078
Other	16,331	16,145
Total accrued expenses	142,389	226,825
Current portion - obligations under capital lease (Note 9)	130	121
Current portion - environmental remediation (Note 10)	2,003	59
Unearned passenger revenue	13,474	13,223
Total current liabilities	296,074	340,024
NONCURRENT LIABILITIES:		
Estimated liability for other postemployment benefits (Note 7)	453,434	397,881
Net pension liability (Note 6)	365,093	-
Estimated liability arising from injuries to persons (Note 9)	41,769	51,169
Capital lease obligation (Note 8)	14,308	14,564
Environmental remediation (Note 10)	3,351	3,168
Due to MTA and affiliated agencies (Note 11)	4,951	7,427
Other long-term liabilities	13,990	10,357
Total noncurrent liabilities	896,896	484,566
Total liabilities	1,192,970	824,590
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows from Pensions	8	-
TOTAL DEFERRED INFLOWS OF RESOURCES	8	-
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	1,192,978	824,590
NET POSITION:		
Net Investment in Capital Assets	4,488,743	4,426,006
Unrestricted	(789,572)	(538,133)
Total net position	3,699,171	3,887,873
TOTAL LIABILITIES AND NET POSITION	\$ 4,892,149	\$ 4,712,463

See notes to financial statements.

(Concluded)

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014
(Amounts in thousands)

	2015	2014
OPERATING REVENUES:		
Passenger	\$ 677,556	\$ 649,850
Rents and utilities	35,442	33,594
Advertising	15,545	15,324
Food and beverage	6,367	6,244
Other	4,507	1,454
Total operating revenues	<u>739,417</u>	<u>706,466</u>
OPERATING EXPENSES:		
Salaries and wages	564,102	610,228
Retirement and other employee benefits	233,024	248,428
Postemployment benefits other than pensions	82,765	82,475
Electric Power	77,787	81,415
Fuel	17,870	27,642
Insurance	18,383	17,303
Claims	5,347	6,129
Maintenance and other operating contracts	97,843	102,273
Professional service contracts	30,983	24,214
Environmental Remediation	4,425	1,632
Materials and supplies	82,179	70,434
Depreciation and amortization	231,218	232,100
Other	21,356	24,231
Total operating expenses	<u>1,467,282</u>	<u>1,528,504</u>
NET RECOVERABLES/EXPENSES RELATED TO ASSET IMPAIRMENT (NOTE 13)	2,942	-
OPERATING LOSS	(730,807)	(822,038)
NONOPERATING REVENUES (Notes 2 and 13):		
Capital contributions from MTA	272,304	263,164
Operating subsidies from MTA	439,987	392,152
CDOT subsidies relating to NHL operations	106,862	117,658
Other Non-operating expenses	(139)	(637)
FTA-FEMA Reimbursement	(410)	5,462
Total nonoperating revenues	<u>818,604</u>	<u>777,799</u>
CHANGE IN NET POSITION	87,797	(44,239)
CUMULATIVE EFFECT OF IMPLEMENTING GASB 68 (NOTE 2)	(276,499)	-
NET POSITION—Beginning of year	<u>3,887,873</u>	<u>3,932,112</u>
NET POSITION—End of year	<u>\$ 3,699,171</u>	<u>\$ 3,887,873</u>

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(Amounts in thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 677,598	\$ 648,360
Rents, sundry, and other receipts	62,308	54,877
Payroll and related fringes	(985,478)	(800,139)
Other operating expenses	<u>(269,299)</u>	<u>(360,742)</u>
Net cash used in operating activities	<u>(514,871)</u>	<u>(457,644)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Operating subsidies from MTA	437,546	389,711
Operating subsidies from CDOT	121,695	92,814
Other Non-operating revenue and expenses	900	456
FTA/FEMA Reimbursement	<u>(410)</u>	<u>5,463</u>
Cash provided by noncapital financing activities	<u>559,731</u>	<u>488,444</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital contributions from MTA	78,501	68,133
Capital expenditures	<u>(122,405)</u>	<u>(103,399)</u>
Net cash used in capital related financing activities	<u>(43,904)</u>	<u>(35,266)</u>
NET INCREASE/(DECREASE) IN CASH	956	(4,466)
CASH—Beginning of year	<u>14,281</u>	<u>18,747</u>
CASH—End of year	<u>15,237</u>	<u>14,281</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	(730,807)	(822,038)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation, amortization, and retirements	231,218	232,100
Net increase in payables, accrued expenses, and other liabilities	(6,897)	140,445
Net decrease in farecards and receivables	(15,336)	286
Net (increase)/decrease in materials and prepaid expenses	<u>6,951</u>	<u>(8,437)</u>
NET CASH USED IN OPERATING ACTIVITIES	(514,871)	(457,644)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES—		
In 2015 and 2014, MTA contributed capital assets of \$174,504 and \$184,774 respectively, to the Company.		

See notes to financial statements.

METRO-NORTH COMMUTER Railroad Company

(Component of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Amounts in thousands – except as noted)

1. BASIS OF PRESENTATION

Reporting Entity — The Metro-North Commuter Railroad Company (the “MTA Metro-North Railroad”) is a component of the Metropolitan Transportation Authority (MTA), established in September 1982 pursuant to the New York State Public Authorities Law and is a part of the related financial reporting group of the MTA. The MTA is a component unit of the State of New York.

The MTA Metro-North Railroad performs a public service by providing essential commuter passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland Counties in New York State, and New Haven and Fairfield Counties in Connecticut. The Company has direct operating responsibility for the entire New Haven commuter railroad line under a service agreement among MTA, MTA Metro-North Railroad and the Connecticut Department of Transportation (“CDOT”). It also has direct operating responsibility for the Harlem/Hudson Lines in New York State. In addition, pursuant to a service agreement between the MTA Metro-North Railroad and New Jersey Transit Rail Operations, Inc. (“New Jersey Transit”) the Company funds certain net operating costs of the Port Jervis and Pascack Valley Lines operated by New Jersey Transit.

Substantial deficits result from providing these services and the MTA Metro-North Railroad expects that such deficits will continue in the foreseeable future. Funding for the MTA Metro-North Railroad’s operations and capital needs is provided by MTA and CDOT. MTA obtains the required funds from state and federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to the MTA Metro-North Railroad on a discretionary basis. The continuance of the MTA Metro-North Railroad’s operations has been, and will continue to be, dependent upon the receipt of adequate funds from the MTA, as well as subsidies provided by CDOT.

The MTA Metro-North Railroad is not liable for real estate or personal property taxes on its properties, or sales taxes on substantially all of its purchases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Metro-North Railroad applies Governmental Accounting Standards Board (“GASB”) Codification of Governmental Accounting and Financial Reporting Standards (“GASB Codification”) Section P80, *Proprietary Accounting and Financial Reporting*.

New Accounting Standards —

In 2015, the MTA Metro-North Railroad adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. 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.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions. This Statement also identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. As a result of adopting this Statement, the MTA Metro-North Railroad is reporting net pension liabilities, deferred outflows of resources and deferred inflows of resources for each of its qualified plans and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$276.5 million, representing the retroactive effect of adoption. The MTA Metro-North Railroad did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. An aggregate net pension liability of \$365.1 million, an aggregate deferred outflow of resources of \$104.0 million, and an aggregate deferred inflows of resources of \$.008 million, were reported at December 31, 2015. The MTA Metro-North Railroad recognized aggregate pension expense of \$73.869 million for the year-end December 31, 2015. The beginning 2014 net position was not restated as it was not practical.

In 2015, the MTA Metro-North Railroad adopted 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68 in the amount of \$103,951 as Deferred Outflows of resources related to pensions. Refer to Note 6 for more information regarding the MTA Metro-North Railroad's pensions.

The MTA Metro-North Railroad 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 Metro-North Railroad 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 Metro-North Railroad 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 Metro-North Railroad 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 Metro-North Railroad 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 Metro-North Railroad 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 Metro-North Railroad 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 Metro-North Railroad 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.

The MTA Metro-North Railroad has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

The MTA Metro-North Railroad has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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 amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Invested Funds at MTA — The MTA, on behalf of the MTA Metro-North Railroad, invests funds which are not immediately required for the MTA Metro-North Railroad's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S.

Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

The MTA Metro-North Railroad records its position in the MTA Investment Pool based upon a net asset value derived on assets invested in the Pool and all realized income and losses earned. Unrealized appreciation, which is not significant to the MTA Metro-North Railroad, is retained on the MTA's books and not included in the MTA Metro-North Railroad's financial statement.

Materials and Supplies — Materials and supplies, except for repaired and repairable items, are recorded at average cost. Reserve for obsolete and excess materials was \$37,215 and \$36,596 in 2015 and 2014, respectively. Repaired items, such as engines and motors, are valued at 50% of their average purchase price.

Fare Cards – MTA Metro-North Railroad sells joint prevalued MetroCard ("fare cards") on consignment on behalf of an affiliated agency. Such fare cards are recorded at cost and reimbursed to the affiliated agency upon sale.

Capital Assets — Capital assets and improvements include all land, buildings, leasehold improvements, and equipment of the MTA Metro-North Railroad having a useful life of greater than two years and having a cost of at least \$25.

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 capital assets. Depreciation is computed using the straight-line method based upon estimated useful lives, 25 to 30 years for road and structures, 50 years for rail and buildings, and 3 to 20 years for other equipment. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the assets, whichever is less.

Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment loss on assets to be sold, if any, is based on the estimated proceeds to be received, less estimated costs to sell.

Expenditures for maintenance and repairs that do not extend the useful life of the asset are charged to operations as incurred. Funding for substantially all capital projects of the MTA Metro-North Railroad is provided by MTA. Asset acquisitions funded by MTA on capital projects are transferred to the MTA Metro-North Railroad monthly.

Pollution Remediation Projects — Effective January 1, 2008, 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 10). 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 Metro-North Railroad is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the MTA Metro-North Railroad is named by a regulator as a responsible or potentially responsible party to

participate in remediation; the MTA Metro-North Railroad voluntarily commences or legally obligates itself to commence remediation efforts; or the MTA Metro-North Railroad 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 revenues from the sale of tickets are recognized as income as they are sold; unearned revenue is recorded for tickets sold in advance of the period for which the ticket is valid. Revenues from rents are recorded when earned. Revenues from food and beverage are recorded when the items are sold.

Nonoperating Revenues — The MTA Metro-North Railroad receives both Capital Contributions and Operating Subsidies from the MTA, and subsidies relating to New Haven Line operations from the Connecticut Department of Transportation.

Nonexchange Transactions with MTA — In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, funds contributed by MTA for the MTA Metro-North Railroad's capital project expenditures are reported as nonoperating revenue when such expenditures are accrued. MTA contributions for capital projects are included as nonoperating capital projects subsidy in the accompanying statements of revenues, expenses and changes in net position.

The cost of certain services provided by MTA for the benefit of the MTA Metro-North Railroad are accrued as incurred, including the cost of Police services relating to the New Haven Line. MTA does not charge the MTA Metro-North Railroad (or other related groups) for the cost of Police services relating to the other lines.

Amount Recoverable from CDOT — The portion of the deficit from operations relating to the New Haven line recoverable from CDOT is recorded as nonoperating revenue based on billings reflecting the monthly deficit. The CDOT Service Agreement (the "Service Agreement"), dated June 21, 1985, governs the operations of the New Haven Line. The Service Agreement provides for automatic five-year renewals. The present renewal term commenced January 1, 2015 and expires December 31, 2019.

Under the terms of the Service Agreement, CDOT pays 100% of the net operating deficit of the branch lines (New Canaan, Danbury and Waterbury) and 65% of the New Haven main line operating deficit. The New Haven Line's share of the net operating deficit of Grand Central Terminal (GCT) is funded by a fixed fee for the use of GCT, calculated using several years as a base, with annual increases for inflation and the actual cost of operating GCT North End Access beginning in 1999. The Service Agreement also provides that CDOT shall pay 100% of the cost of nonmovable 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 MTA. Capital assets completely funded by CDOT are not reflected in the MTA Metro-North Railroad's 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 2013, 2014 and 2015 billing are still open.

Compensated Absences — The MTA Metro-North Railroad has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that the MTA Metro-North Railroad will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Accruals for vacation benefits were \$51.5 million and \$44.5 million at December 31, 2015 and 2014, respectively. Accruals for sick leave benefits were \$25.8 million and \$26.0 million at December 31, 2015 and 2014, respectively.

Liability Insurance — FMTAC, an insurance captive component 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 limit for MTA Metro-North Railroad was \$8 million. For claims arising from incidents that occurred on or after November 1, 2009, but before November 1, 2012, the self-insured retention limit for MTA Metro-North Railroad was \$9 million. For claims arising from incidents that occurred on or after November 1, 2012, but before October 31, 2015, the self-insured retention limit for MTA Metro-North Railroad was \$10 million. Effective October 31, 2015, the self-insured retention limit for ELF was increased to \$11 million for MTA Metro-North Railroad. 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 million. 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 MTA Group entities above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2015, the balance of the assets in this program was \$109.1 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). 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 million.

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 million per occurrence limit with a \$0.5 million per occurrence deductible for MTA Metro-North Railroad. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On December 15, 2015, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies for \$11 million per occurrence loss for MTA Metro-North Railroad.

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 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million 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 million 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 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$220.1 million within the overall \$600 million property program, as follows: \$11.64 million (or 23.28%) of the \$50 million layer excess of the primary \$150 million layer, plus \$45.5 million (or 45.5%) of the \$100 million layer

excess of \$250 million, plus \$87.5 million (or 58.33%) of \$150 million excess of \$350 million plus \$35.5 million (or 71%) of the \$50 million layer excess of \$500 million, plus \$40.5 million (or 81%) of \$50 million layer excess of \$550 million.

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

Supplementing the \$600 million per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million 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 of MTA, 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 million 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 million in 2015 and \$120 million 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 million 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 million 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 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate during 2015 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$120 million TRIPRA trigger up to a maximum recovery of \$120 million for any occurrence and in the annual aggregate during 2016.

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

Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million 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 million, future losses in that policy year are subject to a retention of \$7.5 million.

Self-Insurance and Risk Retention — The MTA Metro-North Railroad is self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non-employees and off-duty employees arising from occurrences at NYS stations (“Station Liability”), and employees and non-employees, arising from reimbursable project work (“Force Account”). The MTA Metro-North Railroad accrues the estimated total cost for the self-insured liability arising out of these claims. For incidents occurring on or before October 31, 2012, claims arising from Station Liability and Force Account are fully insured up to \$9 million per occurrence. That amount was increased to \$10 million per occurrence for incidents occurring on or after November 1, 2012 and was further increased to \$11 million per occurrence on October 31, 2015.

Deferred Compensation Plan — The MTA and its affiliated agencies’ employees are participants in a deferred compensation plan in accordance with Internal Revenue Code Section 457. The MTA Metro-North Railroad established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Accordingly, at December 31, 2015 and 2014, plan assets and liabilities are not reflected in the accompanying statements of net position.

Retirement Benefits — The MTA Metro-North Railroad’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).

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. MTA Metro-North Railroad 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 for the year ended December 31, 2014 is equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans*. The effective date of GASB Statement No. 67 is for the year ended December 31, 2014.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The effective date of GASB Statement No. 68 (which applies to financial reporting by contributing employers) is for the year ended December 31, 2015.

In November 23, 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The provisions of this Statement are required to be applied simultaneously with the provision of GASB Statement No. 68.

Effective for the year-ended December 31, 2015, MTA Metro-North Railroad adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pension*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

MTA Metro-North Railroad recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or MTA Metro-North Railroad’s proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of MTA Metro-North Railroad’s year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period

incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of these standards is a restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, deferred inflows of resources, and the removal of any net pension obligations (assets) along with any payables to the pension plans, as follows:

Net position as of December 31, 2014, as previously reported	\$ 3,887,783
Composition of Restatement:	
Deferred outflows related to pensions	(9,916)
Net pension liabilities	(266,583)
Deferred inflows related to pensions	<u>-</u>
Total Restatement:	<u>(276,499)</u>
Net position as of December 31, 2014, as restated	<u>\$ 3,611,284</u>

Postemployment Benefits Other Than Pensions — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (“OPEB”). This Statement established 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 established accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement were implemented simultaneously with the requirements of Statement 45. MTA Metro-North Railroad adopted these standards for its Postemployment Benefits Other Than Pensions.

3. CASH

The bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. The bank balances in 2015 and 2014 that were not insured were maintained in major financial institutions.

At December 31, 2015 and 2014, cash consisted of (in thousands):

	2015		2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits (FDIC)	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	3,023	2,603	4,337	4,337
Uninsured deposits—noncollateralized	2,934	3,125	3,077	2,972
Uninsured amounts held by ticket agents and deposits in transit	<u>9,030</u>	<u>-</u>	<u>6,617</u>	<u>-</u>
	<u><u>\$ 15,237</u></u>	<u><u>\$ 5,978</u></u>	<u><u>\$ 14,281</u></u>	<u><u>\$ 7,559</u></u>

Certain of these cash accounts are held in the name of a trustee; the book values of these accounts at December 31, 2015 and 2014 were \$11,333 and \$10,595, respectively. These accounts include revenue pledged by the MTA Metro-North Railroad as collateral for the MTA Transportation Revenue Bonds, as discussed more fully in Note 4.

The MTA, on behalf of the MTA Metro-North Railroad, invests funds that are not immediately required for the MTA Metro-North Railroad's operations in securities permitted by the MTA's All-Agency Investment Guidelines in accordance with the 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 Company has no financial instruments with significant individual or group concentration of credit risk.

4. TRANSPORTATION REVENUE BONDS

The MTA Metro-North Railroad's capital programs are partially funded from the proceeds of bonds, including the MTA's Transportation Revenue Bonds. The Transportation Revenue Bonds are special obligations of MTA, payable from, and secured by a pledge of:

- the gross operating revenues of the MTA Metro-North Railroad, MTA Long Island Rail Road and the New York City Transit Authority ("MTA New York City Transit") and its component, the Manhattan and Bronx Surface Transit Operating Authority, until monthly deposits of principal and interest are satisfied under the Transportation Revenue Bond Resolution,
- Triborough Bridge and Tunnel Authority's operating surplus,
- general operating subsidies from the State and local governments,
- special tax-supported operating subsidies, and
- station maintenance and service reimbursements.

5. CAPITAL ASSETS, NET

The following is a summary of capital assets activity as of December 31, 2015 and 2014 (in thousands):

	2013	Additions	Deletions	2014	Additions	Deletions	2015
Capital assets, not being depreciated:							
Land	\$ 68,445	\$ 7,840	\$ -	\$ 76,285	\$ 8,618	\$ -	\$ 84,903
Construction work-in-progress	505,522	281,743	148,557	638,708	299,960	221,272	717,396
Assets awaiting disposition	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>5</u>
Total capital assets, not being depreciated	<u>573,972</u>	<u>289,583</u>	<u>148,557</u>	<u>714,998</u>	<u>308,578</u>	<u>221,272</u>	<u>802,304</u>
Capital assets, being depreciated:							
Roads	1,718,408	3,489	-	1,721,897	44,282	-	1,766,179
Buildings and structures	3,094,927	76,957	-	3,171,884	105,493	627	3,276,750
Buildings and structures under capital leases	-	-	-	-	-	-	-
West of Hudson improvements	28,372	-	-	28,372	-	-	28,372
Passenger cars	-	-	-	-	-	-	-
Locomotives	218,548	13,039	-	231,587	7,512	-	239,099
Other	1,536,744	41,723	37,677	1,540,790	25,471	62,330	1,503,931
	160,470	126	-	160,596	3,405	-	164,001
	274,324	8,151	1,914	280,561	25,291	3,539	302,313
Total capital assets, being depreciated	<u>7,031,793</u>	<u>143,485</u>	<u>39,591</u>	<u>7,135,687</u>	<u>211,454</u>	<u>66,496</u>	<u>7,280,645</u>
Less accumulated depreciation:							
Roads	935,721	47,671	-	983,392	47,247	-	1,030,639
Buildings and structures	1,228,726	98,948	-	1,327,674	101,386	627	1,428,433
Buildings and structures under capital leases	-	-	-	-	-	-	-
West of Hudson improvements	1,973	101	-	2,074	101	-	2,175
Passenger cars	-	-	-	-	-	-	-
Locomotives	53,810	7,000	-	60,810	6,524	-	67,334
Other	701,294	55,823	37,585	719,532	53,379	57,421	715,490
	91,147	6,196	-	97,343	6,251	-	103,594
	204,722	16,361	1,914	219,169	16,330	3,396	232,103
Total accumulated depreciation	<u>3,217,393</u>	<u>232,100</u>	<u>39,499</u>	<u>3,409,994</u>	<u>231,218</u>	<u>61,444</u>	<u>3,579,768</u>
Total capital assets, being depreciated—net	<u>3,814,400</u>	<u>(88,615)</u>	<u>92</u>	<u>3,725,693</u>	<u>(19,764)</u>	<u>5,052</u>	<u>3,700,877</u>
Capital assets—net	<u>\$4,388,372</u>	<u>\$200,968</u>	<u>\$148,649</u>	<u>\$4,440,691</u>	<u>\$288,814</u>	<u>\$226,324</u>	<u>\$4,503,181</u>

Interest costs of \$1,140 and \$1,254 related to debt reflected on the books of MTA and used to finance the MTA Metro-North Railroad's construction in progress were capitalized as part of properties and equipment in 2015 and 2014, respectively.

All trackage in New York State is leased by MTA (see Note 8) except for the land and related improvements constituting the New Haven Line between the Connecticut border at Port Chester, New York and Woodlawn Junction, which is owned by the MTA Metro-North Railroad.

On April 24, 2015, Governor Cuomo announced that the Federal Railroad Administration had approved a U.S. Federal Railroad Administration loan of \$967.1 million 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 the loan was closed in May 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%. As of December 31, 2015, the loan had not yet been drawn down.

6. EMPLOYEE BENEFITS

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 began offering 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 \$18,000 or \$24,000 for those over age 50 for the year 2015.

Matching Contributions - MNR employees represented by certain unions 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%

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 accepts rollovers from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b), and rollover IRAs.

Forfeitures – Nonvested contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. For the years ended December 31, 2015 and 2014, no forfeitures reduced the Plan's expense.

Status - As of December 31, 2015 and 2014, 32.8% and 30.8% of the eligible employees were enrolled in the 457 Plan and 70.7% and 69.4% of the eligible employees were enrolled in the 401(k) Plan, respectively. There are 2,322 and 2,112 active participants in the 457 Plan and 4,928 and 4,724 active participants in the 401(k) Plan, with \$605 thousand and \$567 thousand in total net position in 2015 and 2014, respectively. The average account balance in the 457 Plan is \$44,694 and \$45,511 and in the 401(k) Plan is \$77,146 and \$77,555 in 2015 and 2014, respectively.

(In thousands)	2015		2014	
	457	401K	457	401K
Contributions:				
Employee contributions, net of loans	\$ 17,320	\$ 35,421	\$ 12,040	\$ 28,147
Participant rollovers	239	3,469	606	2,580
Employer contributions	-	3,897	-	2,916
Total contributions	<u>\$ 17,559</u>	<u>\$ 42,787</u>	<u>\$ 12,646</u>	<u>\$ 33,643</u>

The Trustee for the MTA Deferred Compensation Program 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' portfolios and the Investment Managers' performance.

Pensions — MTA Metro-North Railroad sponsors and participates in two defined benefit pension plans for their employees, the Metro-North Commuter Railroad Company Cash Balance Plan (the "MNR Cash Balance Plan") and the Metropolitan Transportation Authority Defined Benefit Plan (the "MTA Defined Benefit Plan"). A brief description of each of the pension plans follows:

Plan Descriptions

1. MNR Cash Balance Plan

The MNR Cash Balance Plan is a single employer, defined benefit pension plan administered by MTA Metro-North Railroad. The Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these management employees 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.

The MTA Board of Trustees appoints a Board of Managers of Pensions consisting of five individuals who may, but need not, be officers or employees of the company. The Board of Managers control and manage the operation and administration of the Plan.

Further information about the MNR Cash Balance Plan is more fully described in the separately issued financial statements that can be obtained by writing to MTA Metro-North Railroad Controller, 420 Lexington Avenue, New York, New York, 10170-3739. These statements are also available at www.mta.info.

2. MTA Defined Benefit Plan

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 nonrepresented 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 and certain MTA Metro-North Railroad represented employees. MTA Staten Island Railway represented and nonrepresented 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 Defined Benefit Plan is administered by the Board of Managers of Pensions, which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. 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. This report is also available at www.mta.info.

Benefits Provided

1. MNR Cash Balance Plan

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. The accrued benefit is a participant’s Initial Account Balance increased each month by the benefit escalator. The benefit escalator is defined as the Pension Benefit Guaranty Corporation (“PBGC”) immediate annuity rate in effect for December of the year preceding the year for which the determination is being made) divided by 180. The accrued benefit is paid as an Escalating Annuity. Vested participants are entitled to receive pension benefits commencing at age sixty-five. Participants of the MNR Cash Balance Plan 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.

Participants of the Plan are eligible for early retirement benefits upon termination of employment, the attainment of age 62, or age 60 and completion of 15 years of service, or age 55 and the completion of 30 years of service. The early retirement benefits paid is the normal retirement pension deferred to age 65 or an immediate pension equal to the life annuity actuarial equivalent of a participant’s Escalating

Annuity at normal retirement date indexed by the Initial Benefit Escalator from early retirement date to normal retirement date and reduced by 5/9 of 1% for each month retirement precedes age 65 up to 60 months and 5/18 of 1% for each month after 60 months.

For members with cash balances who are currently members of the Metropolitan Transportation Authority Defined Benefit Pension Plan, an additional benefit is provided equal to the amount needed to bring their total benefits (i.e., Railroad Retirement Tier I and II benefits, Conrail Plan benefits, Cash Balance Plan benefits, and MTA Defined Benefit Pension Plan benefits) up to a minimum of 65% of their 3-year final average pay under the MTA Defined Benefit Plan. In no event will the Additional Benefit exceed 2% of 3-year final average pay multiplied by the Conrail Management Service prior to July 1, 1983. This benefit is payable as a life annuity and is reduced for commencement prior to age 65 in the same manner as the regular cash balance benefit. This additional benefit is payable only in the form of a life annuity or 100% or 50% contingent annuity.

Death Benefits — Benefits are paid to vested participants' beneficiaries in the event of a participant's death. The amount of benefits payable is the participant's account balance at the date of his or her death. Pre-retirement death benefits paid for a participant's death after 55 is equal to the amount the spouse would have received had the participant elected retirement under the normal form of payment on the day preceding his death. Pre-retirement death benefits paid for a participant's death before 55 is equal to the amount the spouse would have received had the participant survived to age 55 and retired under the normal form of payment on that date. The benefit is based on service to the participant's date of death and is payable beginning on the date the participant would have attained age 55.

In lieu of the above benefit, the surviving spouse can elect to receive the participant's account balance in a single lump sum payment immediately. If the participant was not married, the participant's beneficiary is entitled to receive the participant's Account Balance as of the participant's date of death in a single lump sum payment.

2. MTA Defined Benefit Plan

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Metro-North Railroad 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.

Participants of the Plan hired on or after January 30, 2008, for Agreement and Non-Agreement personnel, respectively, are eligible for normal retirement upon reaching age 62, with five or more years of credited service. Benefits are also available on a reduced basis at age 55 with 10 years of credited service, and on an unreduced basis with 30 or more years of credited service at age 55. Vesting takes place after 5 years of credited service. Participants of the Plan hired before January 30, 2008, for

Agreement and Non-Agreement personnel, respectively, are eligible for normal retirement upon reaching age 60, with five or more years of credited service.

Benefits are also available on a reduced basis at age 55 with 10 years of credited service, and on an unreduced basis with 30 or more year as of credited service at age 55. In addition to retirement benefits, the Plan provides benefits payable upon death and disability. If Railroad Retirement Tier II employee contributions are less than the pre-tax cost of employee contributions required under the New York State Tier IV retirement system, and the employee has less than ten years credited service, an employee contribution may be required.

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 credited service for covered MTA Metro-North Railroad management and represented employees.

The disability retirement allowance for covered MTA Metro-North Railroad management is calculated based on the participant's credited service and final average salary ("FAS") but not less than $\frac{1}{3}$ of FAS. 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 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. This death benefit is payable in a lump sum distribution. Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Metro-North Railroad employee 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.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Membership

Membership of the Plan consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

	MNR Cash Balance Plan
Active Plan Members	15
Retirees and beneficiaries receiving benefits	26
Vested formerly active members not yet receiving benefits	<u>19</u>
Total	<u>60</u>

Contributions and Funding Policy

1. MNR Cash Balance Plan

Funding for the Plan is provided by MTA Metro-North Railroad, 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 the MTA Metro-North Railroad 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.

MTA Metro-North Railroad's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately \$2,977 to the trust fund in 1989. As participants retire, the Trustee has made distributions from the plan. MTA Metro-North Railroad 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.

Contributions as a percent of covered payroll are 0.68% for the year-ended December 31, 2014.

The payroll for all employees was \$2,080 in 2014.

The contributions for the year ended December 31, 2014 were \$14. These costs represent the required actual contributions.

2. MTA Defined Benefit Plan

MTA Metro-North Railroad's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan.

Effective January 1, 1994, covered MTA Metro-North Railroad 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 contributing to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 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.

Covered MTA Metro-North Railroad represented employees who first became eligible to be Plan participants prior to January 30, 2008 contribute 3% of salary. 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.

The contributions for the years ended December 31, 2015, 2014, and 2013 were \$98,500, \$95,821 and \$81,035, respectively. These costs represent the required actual contributions for the years stated.

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’s financial reporting purposes for 2014. As a result, the advance to the defined benefit pension trust prior to 2014 offset the net pension liability.

Net Pension Liability

MTA Metro-North Railroad’s net pension liabilities for each of the pension plans reported at December 31, 2014 were measured as of those fiscal year-ends. The total pension liability for each of the pension plans was determined by an actuarial valuation as of the valuation date of January 1, 2014, calculated based on the discount rate and actuarial assumptions below and was then projected forward to the measurement date.

Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuations was determined using the following actuarial assumptions for each of the pension plans as follows:

	<u>MNR Cash Balance Plan</u>	<u>MTA Defined Benefit Plan</u>
Investment Rate of Return	4.5% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.
Salary Increases	Not applicable	Varies by years of employment, and employee group.
Inflation	2.50%	2.5%; 3.0% for Railroad Retirement Wage Base.
Cost-of Living Adjustments	Not applicable	55% of inflation assumption
Mortality:	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA. As generational tables, they reflect mortality	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans

	improvements both before and after the measurement date. Mortality assumption is based on a 2012 experience study for all the MTA plans.	Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.	RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustments.
Post-retirement- 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.	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.
Post-retirement Disabled Lives	Not applicable	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.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was 4.50% for the MNR Cash Balance Plan and 7.00% for the MTA Defined Benefit Plan. 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 target allocation and best estimates of arithmetic real rates of return for each major asset class included in each of the pension funds are as follows:

Asset Class	MNR Cash Balance Plan		MTA Defined Benefit Plan	
	Target Allocation	Long-Term Expected RROR by Asset Class	Target Allocation	Long-Term Expected RROR by Asset Class
U.S. Public Market Equities	0.00 %	0.00 %	20.50 %	6.25 %
International Public Market Equities	0.00 %	0.00 %	15.00 %	6.05 %
Emerging Public Market Equities	0.00 %	0.00 %	3.50 %	8.90 %
Private Market Equities	0.00 %	0.00 %	12.00 %	9.15 %
Fixed Income	100.00 %	2.19 %	31.00 %	2.66 %
Alternatives (Real Assets, Hedge Funds)	0.00 %	0.00 %	18.00 %	3.34 %
Portfolio Long Term Average Arithmetic RROR	100.00 %		100.00 %	
Assumed Inflation—Mean		2.50 %		2.50 %
Assumed Inflation—Standard Deviation		2.00 %		2.00 %
Portfolio Arithmetic Mean Return		4.69 %		7.55 %
Portfolio Standard Deviation		6.45 %		12.25 %
Long Term Expected Rate of Return selected by MTA		4.50 %		7.00 %

Discount Rate

As of December 31, 2014, the discount rate used to measure the total pension liability of the MNR Cash Balance and the MTA Defined Benefit Plan was 4.5% and 7.0%, respectively.

The projection of cash flows used to determine the discount rate assumed that plan contributions would 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.

Changes in Net Pension Liability – MNR Cash Balance Plan

Changes in the Metro-North Railroad's net pension liability for the Metro-North Cash Balance Plan for the year ended December 31, 2015, based on the December 31, 2014 measurement date, are as follows (\$ in thousands):

(\$ in thousands)	Metro-North Cash Balance Plan		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance as of December 31, 2013	\$ 766	\$ 748	\$ 18
Changes for fiscal year 2014:			
Service Cost	-	-	-
Interest on total pension liability	32	-	32
Effect of plan changes	-	-	-
Effect of economic /demographic (gains) or losses	-	-	-
Effect of assumption changes or inputs	-	-	-
Benefit payments	(88)	(88)	-
Administrative expense	-	(3)	3
Member contributions	-	-	-
Net investment income	-	41	(41)
Employer contributions	-	-	-
Balance as of December 31, 2014	<u>\$ 710</u>	<u>\$ 698</u>	<u>\$ 12</u>

The following presents MTA Metro-North Railroad's net pension liability calculated using the current discount rate of 4.50% for the Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.5%) or 1-percentage point higher (5.5%) than the current rate:

	1% Decrease 3.5%	Current Discount Rate 4.5%	1% Increase 5.5%
	(in whole dollars)		
Net Pension Liability	\$ 48,625	\$ 11,625	\$ (20,375)

MTA Metro-North Railroad's Proportion of Net Pension Liability – MTA Defined Benefit Plan

The following table presents MTA Metro-North Railroad's proportionate share of the net pension liability of the MTA Defined Benefit Plan at December 31, 2015:

MTA Metro-North Railroad's proportion of the net pension liability		35.29 %	
MTA Metro-North Railroad's proportionate share of the net pension liability		\$365,081	

MTA Metro-North Railroad's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the fiscal year.

The following table presents MTA Metro-North Railroad's proportionate share of the net pension liability calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	MTA Defined Benefit Plan		
	Current		
	1% Decrease	Discount Rate	1% Increase
	6.0%	7.0%	8.0%
(in thousands)			
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 548,737	\$ 365,081	\$ 210,422

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, MTA Metro-North Railroad recognized pension expense related to each pension plans as follows:

Pension Plans	December 31, 2015
	(in thousands)
MNR Cash Balance Plan	\$ 13
MTA Defined Benefit Plan	<u>71,030</u>
Total	<u>\$ 71,043</u>

At December 31, 2015, MTA Metro-North Railroad reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	MNR Cash Balance Plan		MTA Defined Benefit Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)					
Differences between expected and actual experience	\$ -	\$ -	\$ 713	\$ -	\$ 713	\$ -
Changes in assumptions	-	-	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	(8)	27,536	-	27,536	(8)
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	5,187	-	5,187	-
Employer contribution to plan subsequent to the measurement date of net pension liability	14	-	70,500	-	70,514	-
Total	\$14	\$ (8)	\$103,936	\$ -	\$103,950	\$ (8)

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over the weighted average remaining service life of all members, beginning the year in which the deferred amount occurs.

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows:

Year ending December 31:	MNR Cash Balance Plan	MTA Defined Benefit Pension Plan	Total
	(in thousands)		
2016	\$ 12	\$ 78,265	\$ 78,277
2017	(2)	7,765	7,763
2018	(2)	7,765	7,763
2019	(2)	7,765	7,763
2020	-	2,377	2,377
Thereafter	-	-	-
Total	\$ 6	\$ 103,936	\$ 103,942

7. OTHER POSTEMPLOYMENT BENEFITS

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"), which establishes new accounting standards for recording OPEB. The requirement applies to any state or local government employer that provides OPEB.

Plan Description — The MTA Metro-North Railroad is a participating employer in the New York State Health Insurance Program ("NYSHIP") that is administered by the State of New York as a multiple

employer agent defined benefit plan. The benefits provided by the MTA Metro-North Railroad include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement. The MTA Metro-North Railroad establishes and may, at their discretion, make amendments to the plan.

Since the MTA Metro-North Railroad is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding postemployment retirement benefits. 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.

Agreement employees with 30 years of service, who retire at age 60 while working for the MTA Metro-North Railroad, are covered in accordance with collective bargaining agreements until the individual reaches the age of 65. The MTA Metro-North Railroad contributes 100% of the Plan's cost. Currently, there are approximately 930 participants in the health care plan and 144 participants in the life insurance plan. The MTA Metro-North Railroad also provides an optional Medicare supplement to Agreement employees after age 65 that is paid in full by the employee. Currently, there are 13 participants in the optional Medicare Plan.

The MTA Metro-North Railroad also provides retired management employees with health care and life insurance benefits. The MTA Metro-North Railroad contributes 100% of the Plan's cost. Currently, there are approximately 587 participants in the health care plan and 610 participants in the life insurance plan.

The cost of providing these benefits was approximately \$27,212 and \$24,103 in 2015 and 2014, respectively.

MTA Metro-North Railroad is not required by law or contractual agreement to provide funding for postemployment retirement benefits other than the pay-as-you-go amount necessary to provide current benefits to retirees and eligible beneficiaries/dependents. During the years ended December 31, 2015, 2014 and 2013, MTA Metro-North Railroad paid \$27,521, \$23,780 and \$20,966, respectively. The MTA Metro-North Railroad has the authority to establish or amend contributions to the plan.

An actuarially determined valuation of these benefits was performed by a consultant. GASB 45 requires the valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2015, and was performed with a valuation date of January 1, 2014.

Annual OPEB Cost and Net OPEB Obligation — The MTA Metro-North Railroad's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer ("ARC"), an amount that was actuarially determined by using the Frozen Initial Liability ("FIL") cost method with the initial unfunded accrued liability amortized over a 22 year period. The remaining amortization period at December 31, 2015, is 14 years. This method is one of the actuarial cost methods in accordance with the parameters of GASB 45.

The MTA Metro-North Railroad's annual OPEB cost represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the statement of net position. The annual OPEB cost is equal to the ARC less adjustments if a net OPEB obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

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 FIL, 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 following table shows the elements of MTA Metro-North Railroad net OPEB cost for the years ended December 31, 2015 and 2014, and changes in the net OPEB. Calculations reflect a long-term perspective (in thousands).

	2015	2014
Annual Required Contribution (ARC)	\$ 97,589	\$ 99,762
Interest on the net OPEB obligation	13,926	12,732
Adjustment to ARC	<u>(28,749)</u>	<u>(30,341)</u>
Annual OPEB cost	82,766	82,153
Payments made	<u>(27,212)</u>	<u>(23,780)</u>
Increase in net OPEB obligation	55,554	58,373
Net OPEB obligation—beginning of year	<u>397,881</u>	<u>339,508</u>
Net OPEB obligation—end of year	<u>\$ 453,435</u>	<u>\$ 397,881</u>

MTA Metro-North Railroad’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the years ended December 31, 2015, 2014, and 2013, were as follows (in thousands):

Years Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Paid	Net OPEB Obligation
December 31, 2015	\$ 82,766	32.88 %	\$ 453,434
December 31, 2014	82,153	28.95	397,881
December 31, 2013	78,629	58.50	339,508

Year Ended	Valuation Date	Actuarial Value of Assets (A) (in millions)	Actuarial Accrued Liability (B) (in millions)	Unfunded Actuarial Accrued Liability (UAAL) (C=B-A) (in millions)	Funded Ratio (A/C)	Covered Payroll (D) (in millions)	Ratio of UAAL to Covered Payroll (C/D)
December 31, 2015	January 1, 2014	\$ 25.0	\$ 713.5	\$ 688.5	3.5%	\$ 459.8	149.7 %

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 required schedule of funding progress 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.

Actuarial Methods and Assumptions — The FIL Cost Method was used for determining the Annual Required Contribution. The EAN Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the initial valuation date. 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.

Inflation rate used was 2.5% per annum compounded annually.

Represented employees' salaries were assumed to increase by years of service as follows:

Years	Percentage
0	3.25 %
1	10.50
2	10.00
3	9.75
4	9.25
5	14.75
6+	3.25

Managers' salaries were assumed to increase by years of service as follows:

Years	Percentage
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Increases in postretirement benefits were calculated using a trend of 0.0% beginning in 2014 increasing to 6% for 2015, then ultimately declining to a rate of 5.5% in 2054. The trend assumption was applied to all benefits.

Investment returns were calculated using a discount rate of 3.50%, compounded annually, based upon a projection of the MTA Investment Pool.

Valuation Date: January 1, 2014

Actuarial Cost Method: Frozen Initial Liability Cost method

Discount Rate: 3.50%

Per Capita Claim Costs: For members of NYSHIP, premium rates as provided by the Agencies for 2014 and 2015 were used as the starting per capita claims cost.

Health Care Cost Trend Rates —

Fiscal Year	Trend	Fiscal Year	Trend
2014	0.0 %	2029	5.5 %
2015	6.0	2034	6.4
2016	6.0	2039	5.9
2017	6.0	2044	5.7
2018	5.3	2049	5.6
2019	5.2	2054	5.5
2024	5.2		

MTA Metro-North Railroad contributions to the MTA Investment Pool for OPEB were \$4,458 and in 2014. No contributions were made in 2015. The balance, which totals \$11,755 with interest at December 31, 2015, represents a receivable from the MTA and does not reduce the MTA Metro-North Railroad's net OPEB obligation at December 31, 2015 of \$453,434.

Demographic Assumptions:

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 the rates from 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.

The cost of providing health care to retirees not including the accrual for prior service costs totaled approximately \$27,212, \$24,103 and \$21,692 for the years ended December 31, 2015, 2014, and 2013, respectively.

8. LEASES

Through 2006, MTA leased the properties associated with Harlem/Hudson Lines from American Premier Underwriters, Inc., formerly the Penn Central Corporation. MTA subleases these properties to the MTA Metro-North Railroad.

On April 8, 1994, MTA entered into an Amended and Restated Agreement of Lease with American Premier Underwriters, Inc. for the Harlem/Hudson Line properties including Grand Central Terminal. This agreement 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 agreement grants MTA an option to purchase the leased property after the twenty-fifth anniversary of the restructured lease. The restructured lease is comprised of both operating (for the lease of land) and capital (for the lease of buildings and track structures) elements. Deferred expenses of \$5,146 have been recorded relating to the lease and will be amortized over the life of the lease. In 2006, American Premier Underwriters, Inc. sold their rights to the leased property to Midtown Trackage Ventures, LLC.

On August 29, 2013, MTA Metro-North Railroad entered into a Fourth Lease Modification, Extension and Expansion Space Agreement with SLG Graybar Mesne Lease, LLC for space at 420 Lexington Ave, New York, NY 10170 also known as the Graybar Building (“Graybar”). This agreement extends the lease term originally expiring in 2016, for an additional term of approximately 20 years. In addition, the agreement grants the Company expanded square footage.

Total operating rent expense approximated \$23,654 and \$24,724 in 2015 and 2014, which includes office space leased from MTA amounting to \$2,537 and \$7,796 in 2015 and 2014.

At December 31, 2015, the future minimum lease payments under all noncancellable leases, including the Harlem/Hudson lease and office space leased from MTA and Graybar are as follows (in thousands):

Operating	Harlem/Hudson Lease	Other	Total
2016	\$ 578	\$ 10,395	\$ 10,973
2017	1,157	16,673	17,830
2018	1,157	16,503	17,660
2019	1,157	16,509	17,666
2020	1,157	17,599	18,756
2021-2025	5,784	88,046	93,830
2026-2030	5,784	84,176	89,960
2031-2035	5,784	63,711	69,495
2036-2040	5,784	-	5,784
2041-2045	5,784	-	5,784
Thereafter	<u>264,897</u>	<u>-</u>	<u>264,897</u>
	<u>\$ 299,023</u>	<u>\$ 313,612</u>	<u>\$ 612,635</u>

Capital	Harlem/Hudson Lease
2016	\$ 606
2017	1,212
2018	1,212
2019	1,212
2020	887
2021-2025	4,434
2026-2030	4,434
2031-2035	4,434
2036-2040	4,434
2041-2045	4,434
Thereafter	<u>203,062</u>
	230,361
Amount representing interest	<u>(215,923)</u>
Present value of capital lease obligations	14,438
Less current portion	<u>(130)</u>
Long-term liability	<u>\$ 14,308</u>

All operating and capital payments subsequent to 2045 pertain to the lease for the Harlem/Hudson line properties that, if extended according to the terms of the lease, will expire in 2274.

Liabilities relating to equipment under capital leases have been assumed by MTA.

9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability arising from claims related to injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2015 and 2014, is presented below (in thousands):

	2015	2014
Balance—beginning of year	\$ 67,247	\$ 78,614
Activity during the year:		
Current year claims and changes in estimates	18,269	5,246
Claims paid—settlements only	<u>(18,271)</u>	<u>(16,613)</u>
Balance—end of year	67,245	67,247
Less current portion	<u>(25,476)</u>	<u>(16,078)</u>
Long-term liability	<u>\$ 41,769</u>	<u>\$ 51,169</u>

10. ESTIMATED LIABILITY FOR POLLUTION REMEDIATION OBLIGATIONS

MTA Metro-North Railroad has implemented 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 Metro-North Railroad is in violation of a pollution prevention-related permit or license
- MTA Metro-North Railroad is named by a regulator as a responsible or potentially responsible party to participate in remediation
- MTA Metro-North Railroad is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA Metro-North Railroad voluntarily commences or legally obligates itself to commence remediation efforts

MTA Metro-North Railroad does not anticipate any changes in the near future that would have a material impact on the recorded obligations due to changes resulting from price increases or reductions,

technology, or changes in applicable laws or regulations. In addition, MTA Metro-North Railroad does not expect any recoveries of cost that would have a material effect on the recorded obligations.

In accordance with GASB Statement No. 49, pollution remediation expense provisions totaling \$4.4 million and \$1.6 million were recorded on the Statement of Revenues, Expenses and Changes in Net Position for the years ended December 31, 2015 and 2014, respectively. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of December 31, pollution remediation liabilities of \$2 million (short-term) and \$6.2 million (long-term) for 2015 and \$0.06 million (short-term) and \$6 million (long-term) for 2014 were recorded. These consist primarily of future remediation activities associated with lead and asbestos abatement.

11. RELATED PARTY TRANSACTIONS

The MTA Metro-North Railroad and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back. The MTA Metro-North Railroad's subsidies from MTA for use in operations are recorded as credits to operations when received. Funds for the MTA Metro-North Railroad's capital project expenditures are also provided by MTA. The MTA Metro-North Railroad recognizes funds contributed by MTA for the MTA Metro-North Railroad's capital project expenditures as nonoperating revenue.

The MTA Metro-North Railroad also sells joint prevalued fare cards on consignment on behalf of an affiliated agency. These amounts are reflected in the accompanying statements of net position. The following table shows the dollar volume of such related party transactions (in thousands):

	2015	2014
Payments to MTA and affiliated agencies	\$ 186,297	\$ 181,661
Payments from MTA and affiliated agencies	91,983	81,129

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying statements of net position.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 60,973	\$ (34,873)	\$ 36,731	\$ (37,914)
Affiliated agencies	<u>441</u>	<u>(22,121)</u>	<u>1,772</u>	<u>(12,395)</u>
Total MTA and affiliated agencies	<u>\$ 61,414</u>	<u>\$ (56,994)</u>	<u>\$ 38,503</u>	<u>\$ (50,309)</u>

In addition, MTA Metro-North Railroad had investments in the MTA Investment Pool of \$19,598 and \$16,757 at December 31, 2015 and 2014, respectively.

On July 29, 1998, the MTA, the MTA New York City Transit and Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") entered into a lease and related agreements whereby each agency, as sub lessees, will rent an office building at Two Broadway in lower Manhattan, for an initial lease term through June 30, 2048, renewable for two additional 15-year terms. Through separate

triple-net sublease agreements, the lease was appointed 21% to MTA, on behalf of the MTA Long Island Railroad and the MTA Metro-North Railroad, 68.7% to the MTA New York City Transit, and 10.3% to the MTA Bridges and Tunnels. Total annual rental payments over the initial lease term are \$1.6 billion. Base building and tenant improvements at Two Broadway were financed through the issuance by MTA of Two Broadway Certificates of Participation. The MTA Long Island Railroad and the MTA Metro-North Railroad are obligated to pay 21% of the ground lease payments and payments relating to the Two Broadway Certificates of Participation. Pursuant to an agreement by and among the MTA, the MTA Long Island Railroad, the MTA Metro-North Railroad, the MTA New York City Transit and the MTA Bridges and Tunnels; the MTA New York City Transit and the MTA Bridges and Tunnels have agreed to reimburse the MTA Long Island Rail Road and the MTA Metro-North Railroad for the space occupied by the MTA New York City Transit and the MTA Bridges and Tunnels. The MTA, the MTA New York City Transit and the MTA Bridges and Tunnels are expected to occupy substantially all of the space at Two Broadway and to reimburse the MTA Long Island Rail Road and the MTA Metro-North Railroad in full.

12. COMMITMENTS AND CONTINGENCIES

From time to time, the MTA Metro-North Railroad becomes aware of the existence of pollutants and/or hazardous waste at MTA Metro-North Railroad facilities. When estimates can be made of the cost to remediate pollutants and/or hazardous waste at MTA Metro-North Railroad facilities, amounts are recorded in the financial statements.

Management has reviewed with counsel all actions and proceedings against or involving the MTA Metro-North Railroad, including personal injury claims. While 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 such actions will not be material to the financial position, results of operations or cash flows of the MTA Metro-North Railroad.

During 2014, the National Transportation Safety Board ("NTSB") and Federal Railroad Administration ("FRA") issued reports examining safety and related issues regarding MTA Metro-North Railroad in light of the December 1, 2013 derailment north of Spuyten Duyvil station in the Bronx, as well as three other serious accidents involving MTA Metro-North Railroad in 2013. MTA Metro-North Railroad President Giulietti responded to these reports, committing the railroad to making the safety improvements identified in the NTSB and FRA reports, as well as those that emerged from the MTA Blue Ribbon Panel appointed by the MTA to address railroad safety issues. Significant steps MTA Metro-North Railroad is progressing or has already implemented to enhance the safety of its rail operations, including actions to implement NTSB, Federal Railroad Administration, MTA Blue Ribbon Panel and Transportation Technology Center, Inc. recommendations, include, among others: established a comprehensive Office of System Safety focused on ensuring current and future safe operating practices; improving track infrastructure by, among other things, employing advanced track inspection technology, increasing maintenance of way staffing, and expanding opportunities for access to track for performance of track maintenance; progressing efforts to mitigate risks associated with employee fatigue; procuring outward- and inward-facing video and audio recorders on trains; implementing a MTA Metro-North Railroad-designed Enhanced Employee Protection System to provide redundant signal protection to workers in the field; implemented confidential close call reporting system; expanding staffing of the railroad's Training Department and implementing new training courses in safety; expanded staffing and improved training for MTA Metro-North Railroad's rail traffic controllers; and design and installation of modifications to the MTA Metro-North Railroad signal system to allow automatic speed control in ten critical areas of track and installation of permanent speed signs. Substantial resources have been allocated within MTA Metro-North Railroad's operating budget,

and important investments have been incorporated within its proposed capital program, to address implementation of appropriate safety improvements.

13. ASSET IMPAIRMENT AND RELATED EXPENSES

In 2015 and 2014, MTA Metro-North Railroad received insurance proceeds of \$509 and \$5,462 for Hurricane Irene, respectively.

Additionally, MTA Metro-North has allocated \$312,829 in its amended 2010-2014 Capital Program for capital restoration/repair projects to restore the railroad to pre-storm conditions, including shoreline restoration and tree-cutting, and power, communications and signal infrastructure improvements along over 30 miles of the Hudson Line. These improvements include raising the elevation of critical equipment as feasible. Metro-North has also received \$37,500 in federal funding to harden Metro-North's Hudson Line against future storm surge flooding events of the type experienced during Superstorm Sandy. The funds will be used to design and build elevated steel equipment platforms along the 30 miles of the Hudson Line, as well as perimeter protection, waterproofing, hardening of substations and train yard buildings, and installation of video and electronic monitoring of Metro-North facilities and infrastructure. The award will be matched by \$12,500 in MTA funds. Moving forward with the 2015-2019 Capital Program, Metro-North has updated design guidelines to incorporate resiliency as feasible for core program investments to better prepare for future climatic events.

On February 3, 2015, a MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. The driver of the automobile and five passengers on the train were killed and a number of passengers and the train engineer were injured. As a result of this incident, two M-7 cars were destroyed. An impairment loss of \$2,900 has been recorded in 2015. The National Transportation Safety Board (NTSB) is conducting an investigation into the contributing causes of the accident and has issued a Preliminary Report. There is no indication from the NTSB's Preliminary Report that MTA Metro-North Railroad was at fault in connection with this incident. At the present time, there is insufficient information to permit reasonable estimation of the total losses that may be associated with defense of claims against the Company arising from the February 3, 2015 grade crossing incident. As described in Footnote 2 above, Metro-North has insurance for liability claims under the MTA all-agency excess liability policy issued by First Mutual Transportation Assurance Company (FMTAC), which insurance would provide coverage to the Company were losses to be incurred by the Company in resolving claims from the February 3, 2015 grade crossing in an amount exceeding the Company's \$10 million self-insured retention.

14. SUBSEQUENT EVENTS

As of April XX, 2016, there were no materially significant subsequent events.

* * * * *

**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

SCHEDULE I

**SCHEDULE OF CHANGES IN THE MTA METRO-NORTH RAILROAD'S NET PENSION
LIABILITY AND RELATED RATIOS FOR THE METRO-NORTH CASH BALANCE PLAN
AT DECEMBER 31, 2014
(In thousands, except %)**

	Metro-North Cash Balance Plan
TOTAL PENSION LIABILITY:	
Service cost	\$ -
Interest	32
Differences between expected and actual experience	-
Benefit payments and withdrawals	<u>(88)</u>
Net change in total pension liability	(56)
TOTAL PENSION LIABILITY—Beginning	<u>766</u>
TOTAL PENSION LIABILITY—Ending(a)	<u>710</u>
FIDUCIARY NET POSITION:	
Employer contributions	-
Member contributions	-
Net investment income	41
Benefit payments and withdrawals	(88)
Administrative expenses	<u>(3)</u>
Net change in plan fiduciary net position	(50)
PLAN FIDUCIARY NET POSITION—Beginning	<u>748</u>
PLAN FIDUCIARY NET POSITION—Ending(b)	<u>698</u>
EMPLOYER'S NET PENSION LIABILITY—Ending(a)-(b)	<u>\$ 12</u>
PLAN FIDUCIARY NET POSITION AS A PERCENTAGE OF THE TOTAL PENSION LIABILITY	<u>98.36 %</u>
COVERED-EMPLOYEE PAYROLL	2,080
EMPLOYER'S NET PENSION LIABILITY AS A PERCENTAGE OF COVERED-EMPLOYEE PAYROLL	<u>0.56 %</u>

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

SCHEDULE II

**SCHEDULE OF THE MTA METRO-NORTH'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY IN THE MTA DEFINED BENEFIT PENSION PLAN
AT DECEMBER 31, 2014
(In thousands, except %)**

	MTA Defined Benefit Pension Plan
MTA Metro-North Railroad's proportion of the net pension liability	35.29 %
MTA Metro-North Railroad's proportionate share of the net pension liability	\$ 365,081
MTA Metro-North Railroad's actual covered-employee payroll	\$ 471,918
MTA Metro-North Railroad's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	77.36 %
Plan fiduciary net position as a percentage of the total pension liability	74.77 %

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

SCHEDULE III

**SCHEDULE OF MTA METRO-NORTH RAILROAD'S CONTRIBUTIONS FOR ALL PENSION PLANS
FOR THE YEARS ENDED DECEMBER 31,**

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
MNR Cash Balance Plan										
Actuarially determined contribution	\$ -	\$ 4,977	\$ -	\$ -	\$ -	\$ 1,837	\$ 330	\$ 13,683	\$ 9,666	\$ 13,010
Actual employer contribution	-	14,124	-	-	-	11,875	330	13,683	9,666	13,010
Contribution deficiency (excess)	\$ -	\$ (9,147)	\$ -	\$ -	\$ -	\$ (10,038)	\$ -	\$ -	\$ -	\$ -
Covered payroll	-	2,080,077				4,496,148	5,936,288	6,798,416	6,842,884	7,925,225
Contributions as a % of covered payroll	N/A	0.86 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MTA Defined Benefit Pension Plan										
Actuarially determined contribution	\$ 70,500,320	\$ 122,862,733	\$ 82,200,320	\$ 71,365,359	\$ 54,493,061	\$ 50,478,359	\$ 47,564,042	\$ 32,855,786	\$ 42,402,644	\$ 24,598,125
Actual employer contribution	70,500,320	67,820,560	82,200,320	71,365,359	54,493,061	50,478,359	47,564,042	32,855,786	42,402,644	115,114,911
Contribution deficiency (excess)	\$ -	\$ 55,042,173	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (90,516,786)
Covered payroll		471,918,822								
Contributions as a % of covered payroll	N/A	14.37 %	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

*For the MTA Defined Benefit Pension Plan, the excess for 2014 reflects a prepaid contribution towards the 2015 Actuarially Determined Contribution.

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

**NOTES TO SCHEDULE OF MTA METRO-NORTH RAILROAD'S CONTRIBUTIONS
FOR ALL PENSION PLANS**

The following actuarial methods and assumptions were used in the January 1, 2014 funding valuation for the Single-Employer pension plan as follows:

MNR Cash Balance Plan	
Valuation Dates	January 1, 2014
Measurement Date	December 31, 2014
Actuarial cost method	Unit Cost
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	Actuarial value equals market value
Actuarial assumptions:	
Discount rate	4.50%
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
Inflation	2.50%
Salary increases	N/A
Cost-of-Living Adjustments	N/A

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2014 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2014 funding valuation.

METRO-NORTH COMMUTER RAILROAD COMPANY
(Component of the Metropolitan Transportation Authority)

SCHEDULE IV

REQUIRED SUPPLEMENTARY INFORMATION — (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN
(Dollars in millions)

Years Ended	Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded Actuarial Accrued Liability (UAAL) (C=B-A)	Funded Ratio (A/C)	Covered Payroll (D)	Ratio of UAAL to Covered Payroll (C/D)
December 31, 2015	January 1, 2014	\$ 25.0	\$ 713.5	\$ 688.5	3.5 %	\$ 459.8	149.7 %
December 31, 2014	January 1, 2012	-	700.9	700.9	-	407.3	172.1
December 31, 2013	January 1, 2012	-	700.9	700.9	-	407.3	172.1

Actuarial valuations are completed every other year.

MTA Bus Company

(Component of the Metropolitan Transportation Authority)

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Required Supplementary Information, and
Independent Auditors' Report

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MTA BUS COMPANY
(Component of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying Statements of Net Position of the MTA Bus Company ("MTA Bus"), a Component of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise MTA Bus's 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 the 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 MTA Bus'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 purposes of expressing an opinion on the effectiveness of MTA Bus'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 net position of MTA Bus as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2 to the financial statements, in 2015, MTA Bus adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

As discussed in the Note 1 to the financial statements, MTA Bus is a component of MTA. The MTA is a component unit of the State of New York. MTA Bus requires significant subsidies from and has material transactions with the MTA and The City of New York. 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 14 and the Schedule of MTA Bus’s Proportionate Share of Net Pension Liability in Cost-Sharing Multiple-Employer Pension Plan on page 59; Schedule of MTA Bus’s Contributions for all Pension Plans on page 60; and Schedule of Funding Progress-Postemployment Benefit Plan on page 61 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

April XX, 2016

MTA BUS COMPANY

(Component of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2015 AND 2014

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction — The following is a narrative overview and analysis of the financial activities of MTA Bus Company (MTA Bus or the Company)— component of Metropolitan Transportation Authority for the years ended December 31, 2015 and 2014. It is intended to serve as an introduction to MTA Bus's financial statements, which have the following components: (1) Management's Discussion and Analysis ("MD&A"), (2) Financial Statements and (3) Notes to Financial Statements and (4) Required Supplementary Information.

Management's Discussion and Analysis — The MD&A provides an assessment of how MTA Bus's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected MTA Bus's overall financial position. It may contain opinions, assumptions or conclusions by MTA Bus's management that should not be considered a replacement for, and must be read in conjunction with the financial statements described below.

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

The Statements of Revenues, Expenses and Changes in Net Assets, show how MTA Bus's net position changed during the year. It accounts for all of the current year's revenues and expenses, measures the financial results of MTA Bus's operations over the past year and can be used to determine how MTA Bus has funded its costs.

The Statements of Cash Flows, provide information about MTA Bus's cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities.

Notes to Financial Statements — The Notes provide information that is essential to understanding the basic financial statements, such as MTA Bus's accounting methods and policies, details of cash and investments, capital assets, employee benefits, lease transactions and future commitments and contingencies of MTA Bus. Any other events or developing situations that could materially affect MTA Bus's financial position, results of operations and cash flows.

Required Supplementary Information (Unaudited): The Required Supplementary Information provides information concerning MTA Bus's progress in funding its obligation to provide Other Postemployment benefits to its employees.

2. FINANCIAL REPORTING ENTITY

MTA Bus is a public benefit corporation established pursuant to the New York State Public Authorities Law, to operate local and express bus service within The City of New York ("The City"). MTA Bus is a part of the financial reporting group of the Metropolitan Transportation Authority, which is a component unit of the State of New York and 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 Bus began operations on January 3, 2005 when Liberty Lines Express (Yonkers), the first of the seven private lines franchised by The City, was taken over by MTA Bus. Queens Surface (College Point), New York Bus Service (Eastchester), and Command Bus (Spring Creek) were merged into MTA Bus on February 27, July 1, and December 5, 2005, respectively. The transition of the remaining privately operated depots was completed when Green Bus Lines (JFK and Far Rockaway), Jamaica Bus Lines (Baisley Park), and Triboro Coach Corporation (LaGuardia) were merged into MTA Bus on January 9, January 30, and February 20, 2006, respectively.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the changes in MTA Bus's financial position for the years ended December 31, 2015, 2014 and 2013. The changes from year to year are due to, among other things, the continuing purchase of new buses. It should be noted that for purposes of MD&A, summaries of the financial statements and tables presented conform to MTA Bus's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

Total Assets, Distinguishing Between Capital and Other Assets

	2015	2014	2013	Increase (Decrease)	
				2015-2014	2014-2013
	(In thousands)				
Gross Capital Assets	\$ 746,290	\$ 700,611	\$ 670,396	\$ 45,679	\$ 30,215
Accumulated Depreciation	(394,906)	(345,312)	(296,783)	(49,594)	(48,529)
Net Capital Assets	351,384	355,299	373,613	(3,915)	(18,314)
Other Assets	117,662	168,955	186,613	(51,293)	(17,658)
Total Assets	\$ 469,046	\$ 524,254	\$ 560,226	\$ (55,208)	\$ (35,972)

Significant Changes in Assets Includes:

December 31, 2015 versus 2014

MTA Bus's Gross Capital Assets amounted to \$746.3 million and \$700.6 million as of December 31, 2015 and 2014, respectively. Of the December 31, 2015 total, buses accounted for 77.6%, facilities and yards, data processing equipment and other were 3.6%, service vehicles were 0.4%, assets under construction consisting of buses and facility up grades were 13.2%, and capital non bus were 5.2%.

Net Capital Assets decreased from December 31, 2014 by \$3.9 million or 1.1%. The net decrease is due to additions to fixed assets of \$46.1 million less depreciation of \$50.0 million. The additions included \$23.3 million for buses placed in service, \$22.7 million additions to assets under construction for the Baisley Park, Far Rockaway, Eastchester, JFK and LaGuardia depot renovations and upgrades, and \$0.1 million for acquisition of service vehicles.

Other Assets decreased by \$51.3 million or 30.4% compared with the prior year. This decrease is due to a decrease in subsidy receivable from New York City of \$47.0 million, a decrease in due from affiliates of \$6.3 million. The decreases were offset by increases in cash and other receivables of \$0.2 million, increase in materials and supplies of \$0.8 million, and an increase in prepaid expenses of \$1.0 million.

December 31, 2014 versus 2013

MTA Bus's Gross Capital Assets amounted to \$700.6 million and \$670.4 million as of December 31, 2014 and 2013, respectively. Of the December 31, 2014 total, buses accounted for 79.4%, facilities and yards, and data processing equipment and other were 3.8%, service vehicles were 0.4%, assets under construction consisting of buses and facility up grades were 13.6%, and capital non bus were 2.8%.

Net Capital Assets decreased from December 31, 2013 by \$18.3 million or 4.9%. The net decrease is due to additions to fixed assets of \$30.2 million over depreciation of \$48.5 million. The additions included \$27.9 million additions to under construction (other) for the La Guardia, Baisley Park, JFK, and Eastchester depot renovations, \$1.2 million for facilities and yards, \$0.9 million for data processing equipment and other, and \$0.2 million for acquisition of service vehicles.

Other Assets decreased by \$17.7 million or 9.5% compared with the prior year. This decrease is due to a decrease in subsidy receivable from New York City of \$17.0 million, a decrease in other receivables of \$1.6 million and a decrease in prepaid expenses of \$0.3 million. The decreases were offset by increases in cash of \$0.2 million, and an increase in materials and supplies of \$1.0 million.

Total Liabilities, Distinguishing Between Noncurrent Liabilities and Current Liabilities

	2015	2014	2013	Increase (Decrease)	
				2015-2014	2014-2013
	(In thousands)				
Current Liability	\$ 232,415	\$ 251,493	\$ 284,777	\$ (19,078)	\$ (33,284)
Noncurrent Liability	1,031,017	785,104	671,096	245,913	114,008
Total Liabilities	<u>\$ 1,263,432</u>	<u>\$ 1,036,597</u>	<u>\$ 955,873</u>	<u>\$ 226,835</u>	<u>\$ 80,724</u>

Significant Changes in Liabilities Includes:

December 31, 2015 versus 2014

At the end of 2015, MTA Bus's liabilities consisted primarily of postemployment benefits, 51.8%, amounts due to New York City Transit Authority ("NYCTA") and the MTA for intercompany transactions, including the intercompany capital loans and MTA investment pool borrowings, 9.7%, injuries to persons (workers comp and public liability), 16.2%, and accrued retirement 16.6%.

Total Liabilities increased from December 31, 2014 to December 31, 2015 by \$226.8 million or 21.9%. Current Liabilities decreased \$19.1 million or 7.6%, while Noncurrent Liabilities increased by \$245.9 million or 31.3%.

The decrease in Current Liabilities was due primarily to decreases in accounts payable (\$5.6 million) and due to MTA and affiliated agencies (\$41.9 million). These decreases were offset by increases in accrued expenses of \$28.4 million.

The increase in Noncurrent Liabilities was due to an increase in post-employment benefits other than pensions, \$60.9 million, an increase in liabilities from injuries to persons, \$25.0 million, and an increase in

accrued retirement \$170.8 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans (\$10.5 million), and a decrease in remediation projects (\$0.3 million).

December 31, 2014 versus 2013

At the end of 2014, MTA Bus's liabilities consisted primarily of postemployment benefits, 57.3%, amounts due to New York City Transit Authority ("NYCTA") and the MTA for intercompany transactions, including the intercompany capital loans and MTA investment pool borrowings, 16.9%, and injuries to persons (workers comp and public liability), 16.9%.

Total Liabilities increased from December 31, 2013 to December 31, 2014 by \$80.7 million or 8.4%. Current Liabilities decreased \$33.3 million or 11.7%, while Noncurrent Liabilities increased by \$114.0 million or 17.0%.

The decrease in Current Liabilities was due primarily to decreases in accrued expenses (\$16.2 million) and due to MTA and affiliated agencies (\$22.3 million). These decreases were offset by increases in accounts payable of \$5.2 million.

The increase in Noncurrent Liabilities was due to an increase in post-employment benefits other than pensions, \$105.0 million, and an increase in liabilities from injuries to persons, \$19.3 million. These increases were offset by a decrease in NYCTA/MTA intercompany capital loans (\$10.0 million), and a decrease of \$0.3 million for remediation projects.

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

	2015	2014	2013	Increase (Decrease)	
				2015-2014	2014-2013
	(In thousands)				
Capital Assets , net of accumulated depreciation	\$ 351,384	\$ 355,299	\$ 373,613	\$ (3,915)	\$ (18,314)
Less: Intercompany capital loans	(33,601)	(44,136)	(54,202)	10,535	10,066
Net Investment in Capital Assets	317,783	311,163	319,411	6,620	(8,248)
Unrestricted (deficit)	(1,060,833)	(823,506)	(715,058)	(237,327)	(108,448)
Total Net Position	\$ (743,050)	\$ (512,343)	\$ (395,647)	\$ (230,707)	\$ (116,696)

Net position represents the residual interest in MTA Bus's assets after liabilities are deducted and consist of two components: net investment in capital assets, and unrestricted. Net investment in capital assets, include capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. All other net position are unrestricted.

Significant Changes in Net Position includes:

December 31, 2015 versus 2014

Total net position was (\$743.0) million at the end of 2015, a net decrease of \$230.7 million from the end of 2014. The net decrease was comprised of capital contributions from the MTA of \$16.3 million, net non-operating income of \$426.2 million, offset by operating losses (\$539.9) million, and restatement of beginning of net position (\$133.3) million.

December 31, 2014 versus 2013

Total net position was (\$512.3) million at the end of 2014, a net decrease of \$116.7 million from the end of 2013. The net decrease was comprised of capital used of (\$1.4 million), net non-operating income of \$477.9 million, offset by operating losses of \$593.2 million.

Condensed Statements of Revenues, Expenses and Changes in Net Position

	Year Ended December 31,		
	2015	2014	2013
	(In thousands)		
Operating revenues	\$ 233,443	\$ 223,684	\$ 219,259
Operating expenses	(773,336)	(816,938)	(731,364)
Operating loss	(539,893)	(593,254)	(512,105)
Nonoperating revenues (expenses)			
Operating subsidies from NYC	391,834	444,082	338,063
Other Non-operating revenue/expenses	34,294	33,775	33,256
FTA/FEMA Reimbursement - Sandy Relief	112	60	6,159
Total nonoperating revenues (expenses)	426,240	477,917	377,478
Loss before capital contributions	(113,653)	(115,337)	(134,627)
Capital (used) contributed	16,301	(1,359)	9,999
Changes in net position	(97,352)	(116,696)	(124,628)
Net position, Beginning of year	(512,343)	(395,647)	(271,019)
RESTATEMENT OF BEGINNING NET POSITION (Note 2)	(133,355)	-	-
Net position, End of year	\$ (743,050)	\$ (512,343)	\$ (395,647)

Revenues from Fares/Ridership:

December 31, 2015 versus 2014

Bus revenues from fares totaled \$210.3 million in 2015 versus \$203.6 million in 2014. Total ridership was 125.4 million in 2015 versus 125.6 million in 2014, a decrease in passenger ridership of 0.2 million, or 0.2%.

December 31, 2014 versus 2013

Bus revenues from fares totaled \$203.6 million in 2014 versus \$199.2 million in 2013. Total ridership was 125.6 million in 2014 versus 125.0 million in 2013, an increase in passenger ridership of 0.6 million, or 0.5%.

Operating Expenses, by Major Function

				Increase (Decrease)	
	2015	2014	2013	2015-2014	2014-2013
	(In thousands)				
Salaries and wages	\$ 331,208	\$ 313,630	\$ 289,585	\$ 17,578	\$ 24,045
Retirement and other employee benefits	154,745	168,677	134,405	(13,932)	34,272
Post employment benefits other than pensions	79,076	124,689	118,689	(45,613)	6,000
Fuel	22,088	35,099	35,989	(13,011)	(890)
Electric power	1,696	1,503	1,555	193	(52)
Insurance	3,448	3,353	2,562	95	791
Public liability claims	34,952	32,222	19,108	2,730	13,114
Materials and supplies	46,459	43,097	38,036	3,362	5,061
Professional services	21,113	20,481	18,534	632	1,947
Pollution remediation services	203	610	1,742	(407)	(1,132)
Maintenance and other operating expenses	24,379	21,190	18,756	3,189	2,434
Depreciation	50,014	48,530	48,887	1,484	(357)
Other business expenses	3,955	3,857	3,516	98	341
Total operating expenses	\$ 773,336	\$ 816,938	\$ 731,364	\$ (43,602)	\$ 85,574

December 31, 2015 versus 2014

Total operating expenses decreased by \$43.6 million or 5.3% versus the prior year, as follows:

- Salaries and wages exceeded 2014 by \$17.6 million or 5.6%, largely due to increased salaries resulting from contract settlements and prior period RWA adjustments.
- Retirement and other employee benefits decreased by \$13.9 million mainly due to pension expense adjustments based on current actuarial valuations.
- Post employment benefits other than pensions decreased by \$45.6 million based upon current actuarial valuations.
- Fuel costs decreased by \$13.0 million or 37.1%, due to lower fuel costs.
- Insurance expense is comprised of excess liability, property and other insurance coverage paid under the MTA All-Agency insurance programs totaling \$3.4 million.
- Public liability and no fault claims increased by \$2.7 million based upon current actuarial valuations.
- Professional service contracts increased by \$0.6 million related to payments made for auditing, consulting, environmental and legal services. MTA Bus relies extensively on professional services provided by other MTA agencies, particularly NYC Transit and the Business Service Center.
- Other expenses consist of Automated Fare Collection ("AFC") revenue collection fees paid to New York City Transit Authority (\$2 million) or .0175 cents per AFC ridership transaction, office supplies and other miscellaneous charges.

December 31, 2014 versus 2013

Total operating expenses increased by \$85.6 million or 11.7% versus the prior year, as follows:

- Salaries and wages exceeded 2013 by \$24.0 million or 8.3%, largely due to increased salaries resulting from contract settlements.
- Retirement and other employee benefits increased by \$34.3 million mainly due to higher health care costs and current actuarial valuations of worker's compensation expense.
- Post employment benefits other than pensions increased by \$6.0 million based upon current actuarial valuations.
- Insurance expense is comprised of excess liability, property and other insurance coverage paid under the MTA All-Agency insurance programs totaling \$3.4 million.
- Public liability and no fault claims increased by \$13.1 million based upon current actuarial valuations.
- Professional service contracts increased related to payments made for auditing, consulting, environmental and legal services. MTA Bus relies extensively on professional services provided by other MTA agencies, particularly NYC Transit and the Business Service Center.
- Other expenses consist of Automated Fare Collection ("AFC") revenue collection fees paid to New York City Transit Authority (\$2 million) or .0175 cents per AFC ridership transaction, office supplies and other miscellaneous charges.

Non-operating Revenues and Expenses

As defined by the letter of agreement between The City of New York ("The City") and MTA, The City is to provide operating assistance subsidies to MTA Bus. These subsidies amounted to \$391.8 million and \$444.1 million in 2015 and 2014, respectively. Projected subsidy amounts for calendar year 2016 are expected to be in the range between \$400 to \$420 million depending on operating losses and timing of retroactive contract settlements.

In 2015, pursuant to MTA Board approval, MTA Bus received \$24.9 million in discretionary Mortgage Recording Tax - 2 ("MRT-2") monies as a subsidy from the MTA. The funds were used to pay principal and interest totaling \$12.6 million on debt related to the NYCTA/MTA capital pool loan and \$29.8 million to pay commercial paper debt.

Capital contributions of \$16.3 million in 2015 and represents capital program funding from several sources including bonds, Federal, State and City funding.

Change in Net Position

The change in net position represents net operating losses and the capital contribution. The net position decreased by \$230.7 million in 2015, which is comprised of capital contributions from the MTA of \$16.3 million, net non-operating income of \$426.2 million, offset by operating losses (\$539.9) million, and restatement of beginning of net position (\$133.3) million.

Budget Highlights

Financial:

Total revenue from fares in 2015 was \$210.3 million. Passenger revenue was up \$6.7 million over 2014 levels, as the result of higher fares, which went into effect in March 2015.

Operations:

The focus on improving service, introducing new buses and performing scheduled maintenance on the bus fleet, as well as aggressive shop programs to improve the existing fleet yielded continued notable improvements in the reliability of the bus fleet. In addition, a significant level of facility work continued during 2015 to upgrade conditions and comply with environmental regulations. Additional work needs to be done to improve facility conditions in 2016 and beyond.

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

Overall Financial Position and Results of Operations

MTA Bus is responsible for both the local and express bus operations of the seven companies, consolidating their operations, maintaining current buses, purchasing new buses to replace the aging fleet currently in service, and adjusting schedules and route paths to better match travel demand. MTA Bus operates 47 local bus routes in the Bronx, Brooklyn, and Queens; and 35 express bus routes between Manhattan and the Bronx, Brooklyn, or Queens. It has a fleet of 1,288 buses, which makes MTA Bus the 10th largest bus company, based upon its bus fleet, in the United States and Canada, serving nearly 400,000 riders daily.

Between 2005 and 2015, MTA Bus purchased 497 new high capacity, high customer amenity express buses and 389 new environmentally friendly hybrid electric local buses, and 213 new Compressed Natural Gas (“CNG”) buses, and 45 new standard buses.

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 fourth quarter of 2015 declined relative to 2014, with ridership down by 2.1 million trips (0.1%); this decline was driven by a decline in bus ridership, with a 16.4 million decline in bus ridership at MTA New York City Transit and a 0.2 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 11.6 million crossings (4.0%) through the fourth 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 fourth quarter was higher in 2015 than in 2014 by 95.3 thousand jobs (2.3%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-one 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 0.7% in the fourth quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The slowdown in RGDP in the third quarter primarily reflected a deceleration in personal consumption expenditures and downturns in nonresidential fixed investment, in exports, and in state and local government spending that were partly offset by a smaller decrease in private inventory investment, a deceleration in imports, and an acceleration in federal government spending. The annualized RGDP growth for the fourth quarter was under the annualized rate of 2.0% in the third quarter; nevertheless, the national economy has now seen expansion in twenty-four of the last twenty-five quarters.

The New York City metropolitan area’s price inflation, as represented by the Consumer Price Index for All Urban Consumers (“CPI-U”), was slightly higher than the national average in the fourth quarter of 2015 with the metropolitan area index increasing 0.6% while the national index increased 0.5%. A 17.6% fall in the regional price of energy products, along with a 14.9% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.9%; nationally, inflation exclusive of energy prices increased 1.7%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 35.2% from an average price of \$2.082 to an average of \$1.350 per gallon between the fourth quarters of 2014 and 2015.

In December 2015, the Federal Open Market Committee (“FOMC”) announced it would raise its target for the Federal Funds rate to the range of 0.25% to 0.50%, its first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises first deepened. In announcing its decision, the FOMC cited recent evidence that economic activity has been expanding at a moderate rate. Household spending and business fixed investment have been increasing, and the housing sector has further improved. While net exports have been soft, a range of labor market indicators have shown further improvement, confirming that underutilization of labor resources has diminished since the early part of 2015, and inflation continues to run below the FOMC’s long-term objective of 2 percent. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. Given its judgement that there has been considerable improvement in labor market conditions and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective, and further recognizing the time necessary for policy actions to affect future economic outcomes, the FOMC raised the Federal Funds target rate. The FOMC expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that in the near-term rates will remain below levels that are expected to prevail in the longer run. Additionally, the FOMC is maintaining its policy of reinvesting 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; while continuing through the third

quarter of 2015, receipts during the fourth quarter of 2015 took a slip dip. Mortgage Recording Tax collections through the fourth quarter of 2015 were higher than through the fourth quarter of 2014 by \$73.2 million (20.4%); however, the fourth quarter of 2015 was \$2.7 million (2.3%) less than the third 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 fourth quarter remain \$27.5 million (43.3%) worse than the monthly average in 2006, just prior to the steep decline in Mortgage Recording Tax revenues. 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 fourth quarter of 2015 were higher by \$134.5 million (16.7%). Quarterly receipts of Urban Taxes in the fourth quarter of 2015 totaled \$211.1 million, and the monthly average was \$4.8 million (6.5%) greater than the monthly average in 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations - Bus revenues from fares totaled \$210.3 million in 2015 versus \$203.6 million in 2014. Total ridership was 125.4 million in 2015 versus 125.6 million in 2014, a decrease in passenger ridership of 0.2 million, or 0.2%. The decrease could be attributable to the fare increase which took effect in March 2015. Both calendar year 2015 and 2014 ended with a cash and investment deficit of \$47.5 and \$85.8 million, respectively. This was attributable to the timing of New York City subsidy payments, which cover shortfalls in working capital. The MTA expects that, over time, Federal and State economic stimulus measures and the rebuilding of downtown infrastructure will further improve the New York City economy.

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program — As last approved by the CPRB, MTA Bus's portion of the MTA's 2000-2004, 2005-2009, and 2010-2014 Capital Programs total \$501.6 million, \$152.0 million, and \$297 million respectively.

On December 19, 2012, the MTA Board approved an amendment to the 2010-2014 Capital Program to add projects for the repair and restoration of MTA agency assets damaged as a result of Superstorm Sandy, which struck the region on October 29, 2012. The revised program provides for an additional \$25 million to the Bus Company in Sandy recovery-related capital expenditures. On January 23, 2013, the amended program as submitted was deemed approved by the CPRB. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Program to include specific revisions to planned projects and to include new resilience/mitigation initiatives in response to Superstorm Sandy. The further revised program provides for an additional \$46 million to the Bus Company in resilience/mitigation-related capital expenditures. On August 27, 2013, the amended program as submitted CPRB was deemed approved by the CPRB.

As of December 31, 2015, \$501.0 million has been committed under the 2000-2004 Program, of which \$492.5 million has been expended. During 2015, 45 new buses were placed in service.

Among the projects included in the 2005 - 2009 MTA Bus Company Capital Program are initiatives to bring bus maintenance facilities up to a state of good repair and to replace heavy duty, non-revenue vehicles. As of December 31, 2015, \$146.1 million has been committed under the 2005-2009 Program, of which \$113.7 million has been expended.

The MTA Board approved 2010 – 2014 MTA Bus Company Capital Program, as last amended in 2013, includes projects to replace the aging bus fleet, replace outdated depot equipment, improve depot facilities, and repair Superstorm Sandy damaged MTA Bus facilities. As of December 31, 2015, \$202.5 million has been committed under the 2010-2014 Program, of which \$111.5 million has been expended.

In September 2014, the MTA Board approved the 2015-2019 Capital Program, of which the Bus Company's portion totaled \$436.7 million. The 2015-2019 Capital Program was vetoed without prejudice by the CPRB. On October 28, 2015, the MTA Board approved a revised 2015-2019 Capital Program, of which the Bus

Company's revised portion totals \$376.0 million. Submission of the revised 2015-2019 Capital Program, as approved by the MTA Board in October 2015, to the CPRB for review is still pending.

6. CAPITAL FINANCING

The MTA 2000-2004 Capital Program includes \$501.6 million in capital projects for MTA Bus, a substantial portion of which is designed for the bus fleet replacement. The MTA 2005-2009 Capital Program includes \$152.0 million in capital projects for MTA Bus, which includes improvements to bus maintenance and storage facilities. The CPRB approved 2010-2014 Capital Program includes \$297.0 million in capital projects for MTA Bus, which includes bus fleet replacement and depot improvements, plus an additional \$70.5 million for Superstorm Sandy repairs. The 2015-2019 Capital Program, pending CPRB approval, includes \$376 million for MTA Bus, which includes bus fleet replacement and depot improvements.

The MTA Bus capital projects included in the MTA 2000-2004 Capital Program, the MTA 2005-2009 Capital Program, the MTA 2010-2014 Capital Program, and the 2015-2019 Capital Program are funded from a combination of Federal grants, city funds, MTA Bond proceeds, and other sources. The combined funding sources for the 2000-2004 MTA Bus Company Capital Program include \$49.0 million in City funds, \$331.0 million in MTA Bond proceeds, and \$121.6 million from other sources. The combined funding sources for the 2005-2009 MTA Bus Company Capital Program include \$107.7 million in Federal funds, \$41.4 million in City funds, and \$2.9 million from other sources. The combined funding sources for the 2010-2014 MTA Bus Company Capital Program, as last amended by the CPRB in August 2013, include \$203.6 million in Federal funds, \$50.9 million in City funds and \$42.5 million in MTA Bond proceeds. The MTA Bus Company will also receive \$63.8 million in insurance and/or federal reimbursement proceeds for Superstorm Sandy repair, supplemented, to the extent necessary, by external borrowing of up to \$6.7 million in additional MTA bonds. The combined funding sources for the 2015-2019 MTA Bus Company Capital Program, as last approved by the MTA Board, includes \$128 million in Federal funds, \$32 million in City funds, and \$216 million in MTA Bond proceeds.

7. CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

MTA Bus as a distinct Company, ranks within the top 10 largest bus companies in North America based upon ridership. In conjunction with NYCT Department of Buses (DOB), it provides seamless local and express bus service throughout the New York City boroughs of Queens, Brooklyn, Bronx and Manhattan. As part of an overall "Metropolitan Transportation Authority" objective, MTA Bus jointly and individually seeks efficiencies, participates in "best practice" programs, and partakes in consolidated services that delivers monetary and administrative benefits. This is exemplified by its participation in the centralized administrative services provided by the all Agency Business Service Center ("BSC") with ongoing reassessments to identify other, or expanded opportunities. Labor contracts for the ATU 1179 and ATU 1181 have been renegotiated through May and June 2012 respectively; TSO 106 through June 2013 and TWU 100 through January 2017. Excluding TWU 100, all associated retro wages were paid during the 2014/2015 period. Updated actuarial assessments caused increases in the liability provisions for Workers Compensation and Claims but lowered the amounts for Pension and OPEB. There was a scheduled fare increases in 2015 that contributed to a 3.3% increase in farebox revenue over 2014, though ridership was relatively flat. MTA Bus manages the subsidy receipts and required breakeven amounts from New York City, used to cover the expenses of daily bus operations. MTA Bus is part of the MTA capital program and remains dependent on the Agency's ability to secure funding from Federal, State and NY City government, as well as the municipal bond market.

Labor Update

Although updated, the labor contracts with the ATU1179, ATU 1181 and TSO 106 have expired. There are no currently scheduled deliberations. A recent agreement was reach with the TWU 100 union that is in effect

through January 15, 2017. Retroactive payments for the active TWU 100 population were made in March 2016 while payments for the inactive group is scheduled for the end of April 2016.

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MTA BUS COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 607,742	\$ 583,848
Receivables:		
Due from affiliates - operating (Note 13)	58,435,924	64,680,421
Subsidy due from New York City	40,223,685	87,255,917
Other Subsidy	3,038,602	2,968,395
Other	132,232	4,387
Total receivables - net	101,830,443	154,909,120
Materials and supplies inventory	13,435,374	12,662,360
Prepaid expenses and other current assets	1,787,963	799,326
Total current assets	117,661,522	168,954,654
NON-CURRENT ASSETS		
Capital assets — net (Note 5)	351,384,118	355,299,291
TOTAL ASSETS	469,045,640	524,253,945
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows for pensions (Note 6)	59,144,343	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	59,144,343	-
TOTAL ASSET AND DEFERRED OUTFLOWS OF RESOURCES	\$ 528,189,983	\$ 524,253,945
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 4,479,534	\$ 10,107,399
Accrued expenses:		
Salaries, wages and payroll taxes	44,295,805	20,447,652
Vacation and sick pay benefits	39,146,071	37,906,173
Retirement and death benefits	-	328,494
Current portion - Estimated liability from injuries to persons (Note 10)	38,000,000	33,000,000
Current portion - Pollution remediation projects (Note 12)	8,392,775	8,927,943
Other	8,836,635	9,580,514
Total accrued expenses	138,671,286	110,190,776
Due to MTA and other affiliated agencies (Note 13)	89,264,285	131,194,920
Total current liabilities	232,415,105	251,493,095
NONCURRENT LIABILITIES:		
Post employment benefits other than pensions (Note 7)	654,714,760	593,764,000
Estimated liability arising from injuries to persons (Note 10)	166,716,000	141,675,000
Net pension liability (Note 6)	170,798,925	-
Capital loans (Note 9)	33,601,196	44,136,506
Pollution remediation projects (Note 12)	5,185,650	5,528,509
Total noncurrent liabilities	1,031,016,531	785,104,015
Total liabilities	1,263,431,636	1,036,597,110
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows for pensions (Note 6)	7,808,257	-
TOTAL DEFERRED INFLOWS OF RESOURCES:	7,808,257	-
NET POSITION:		
Invested in capital assets — net of related debt	317,782,922	311,162,785
Unrestricted (deficit)	(1,060,832,832)	(823,505,950)
Total net position	(743,049,910)	(512,343,165)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 528,189,983	\$ 524,253,945

See notes to financial statements.

MTA BUS COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUES:		
Fare revenue	\$ 210,333,373	\$ 203,590,762
Rents, freight, and other revenue	23,109,113	20,093,280
Total operating revenue	233,442,486	223,684,042
OPERATING EXPENSES:		
Salaries and wages	331,208,237	313,629,975
Retirement and other employee benefits	154,745,134	168,677,299
Post employment benefits other than pensions	79,075,704	124,689,465
Fuel	22,088,117	35,099,282
Electric power	1,695,691	1,503,318
Insurance	3,448,495	3,353,222
Public liability claims	34,951,502	32,221,813
Materials and supplies	46,458,721	43,096,912
Professional services	21,112,654	20,480,745
Pollution remediation services	202,991	609,839
Maintenance and other operating expenses	24,378,723	21,190,272
Depreciation	50,014,486	48,529,759
Other business expenses	3,955,200	3,856,398
Total operating expenses	773,335,655	816,938,299
OPERATING LOSS	(539,893,169)	(593,254,257)
NON-OPERATING REVENUES (EXPENSES):		
NYC Operating subsidies	391,834,167	444,081,923
Other Non-operating revenue/expenses	34,293,930	33,775,408
FTA/FEMA Reimbursement - Sandy Relief	111,545	59,840
Total net non-operating revenues	426,239,642	477,917,171
LOSS BEFORE CAPITAL CONTRIBUTIONS	(113,653,527)	(115,337,086)
CAPITAL CONTRIBUTED (USED)	16,301,430	(1,358,856)
CHANGES IN NET POSITION	(97,352,097)	(116,695,942)
NET POSITION — Beginning of year	(512,343,165)	(395,647,223)
RESTATEMENT OF BEGINNING NET POSITION (Note 2)	(133,354,648)	-
NET POSITION — End of year	\$ (743,049,910)	\$ (512,343,165)

See notes to financial statements.

MTA BUS COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passenger, tenants, advertisers, and others	\$ 233,135,753	\$ 225,468,251
Cash payments for payroll and related employee costs	(494,199,204)	(525,124,003)
Cash payments to suppliers for goods and services	(133,545,989)	(128,830,227)
Net cash used in operating activities	(394,609,440)	(428,485,979)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received from NYC — operations	438,866,399	461,056,936
FTA/FEMA Reimbursements - Sandy Relief	111,545	59,840
Receipt of mortgage recording tax revenue and NYCTA reimbursement	36,415,156	36,415,423
Net cash provided by noncapital financing activities	475,393,100	497,532,199
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Interest paid	(2,179,089)	(2,666,250)
Capital contributed	16,301,430	(1,358,856)
Capital project costs incurred for capital program	(46,099,312)	(30,216,026)
Decrease in intercompany capital pool loan	(10,535,310)	(10,065,262)
Net cash used in capital and related financing activities	(42,512,281)	(44,306,394)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in invested funds at MTA	(38,305,348)	(24,530,207)
Earnings on investments	57,863	26,235
Net cash used by investing activities	(38,247,485)	(24,503,972)
NET INCREASE IN CASH	23,894	235,854
CASH — Beginning of year	583,848	347,994
CASH — End of year	\$ 607,742	\$ 583,848

See notes to financial statements.

MTA BUS COMPANY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
RECONCILIATION OF OPERATING LOSS TO NET CASH FLOWS USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (539,893,169)	\$ (593,254,257)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	50,014,485	48,529,759
Changes in operating assets and liabilities:		
Decrease in receivables	6,046,445	1,417,475
(Increase) in material and supplies, and prepaid expenses	(1,761,651)	(702,852)
Increase in payables, accrued expenses & other liabilities	90,984,450	115,523,896
NET CASH USED IN OPERATING ACTIVITIES	\$ (394,609,440)	\$ (428,485,979)
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA Contributed capital assets	\$ 618,285,202	\$ 575,658,512
Capital assets related liabilities	\$ 33,601,196	\$ 44,136,506

See notes to financial statements.

(Concluded)

MTA BUS COMPANY

(Component of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

1. BASIS OF PRESENTATION

Reporting Entity — The accompanying financial statement presents the accounts of MTA Bus Company (“MTA Bus”), which is a public benefit corporation created pursuant to the Public Authorities Law (the “Act”) of the State of New York (the “State”) to operate public bus service within The City of New York (the “City”). MTA Bus, which is a Component of the Metropolitan Transportation Authority (MTA), was created to take over the operations of seven private bus lines that operated under franchises from The City of New York. The transition to MTA Bus occurred in stages, commencing on January 3, 2005, when MTA Bus began service in the areas formerly served by Liberty Lines Express, Inc. On February 27, 2005, MTA Bus started operating the routes of the Queens Surface Corporation, and on July 1, 2005, MTA Bus took over the operations of New York Bus Service, followed by Command Bus Company on December 5, 2005. The transition was completed in early 2006 when MTA Bus took over the operations of Green Bus Lines, Jamaica Bus Lines, and Triboro Coach Corporation on January 9, January 30, and February 20, 2006, respectively.

MTA Bus has material transactions with affiliated agencies included in the MTA financial reporting group. Such agencies include the MTA, the New York City Transit Authority (“NYCTA”), Metro North Commuter Railroad (“MNR”) and the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”). All material transactions between MTA Bus and affiliated agencies have been recorded as of December 31, 2015 and 2014.

MTA Bus is part of the financial reporting group of the MTA and is included in the consolidated financial statements of the MTA in accordance with GASB Statement No. 14. The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the State Comptroller as a public benefit corporation.

Operations — Operations are conducted per the letter agreement dated December 8, 2004, between The City and the MTA, which includes provisions for the lease of City bus assets including real property and related facilities, buses and related materials and supplies, and any other assets acquired by The City and made available to MTA Bus for the operations of the former private bus lines.

The City has the option to terminate the letter agreement at any time upon one year’s written notice to the MTA. In the event of termination, The City is required to assume the assets and liabilities, including OPEB and pension liabilities, of MTA Bus and must pay or make provisions for the payment of any outstanding debt incurred by the MTA on behalf of MTA Bus. Any liabilities incurred by the franchised bus companies prior to the date of acquisition are liabilities of The City of New York.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Standards —

In fiscal year 2015, MTA Bus adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. 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.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions this Statement identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. As a result of adopting this Statement, MTA Bus is reporting net pension liabilities, deferred outflows of resources and deferred inflows of resources for each of its qualified plans and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the

implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$133.3 million, representing the retroactive effect of adoption. MTA Bus did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. An aggregate net pension liability of \$170.8 million, an aggregate deferred outflow of resources of \$59.1 million, and an aggregate deferred inflows of resources of \$7.8 million, were reported at December 31, 2015. MTA Bus recognized aggregate pension expense of \$31.8 million for the year-end December 31, 2015. Refer to Note 6 for more information regarding the MTA Bus's pensions.

In fiscal year 2015, MTA Bus adopted 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68. Refer to Note 6 for more information regarding the MTA's pensions.

MTA Bus 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.

MTA Bus 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.

MTA Bus 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.

MTA Bus 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.

MTA Bus 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.

MTA Bus 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.

MTA Bus 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.

MTA Bus 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.

MTA Bus has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

MTA Bus has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the

agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Due from NYCTA for Settlements — Fare revenue information for MTA Bus is collected by the NYCTA Metrocards automated fare collection (“AFC”) system. NYCTA wires funds to MTA Bus on the first business day of the week for transactions occurring during the prior week. MTA Bus has a receivable from NYCTA, which represents fares collected on behalf of MTA Bus up to the end of the reporting period, but not received by MTA Bus until the next period.

Capital Assets — The City owns or leases the real property, including buildings and improvements, used as bus depots and yards. Accordingly, these assets are not recorded on the books of MTA Bus. However, MTA Bus does record certain other capital assets, which are primarily buses and related equipment (see Note 5). Capital assets have minimum useful life of 3 years and a cost of more than \$25,000.

Capital assets are recorded at cost and are depreciated on a straight-line basis over 12 years for buses, with lives generally ranging from 5 to 15 years for other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

Long lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment loss on assets to be sold, if any, is based on the estimated proceeds to be received, less estimated cost to sell.

Expenditures for maintenance and repairs which do not extend the useful life of assets are charged to operations as incurred.

Contributed Capital — Capital assets contributed by the MTA are recorded as capital contributions on the statement of revenues, expenses and changes in net position. Contributed capital is recognized upon identification of capital costs to be funded by the MTA. Capital contributed and used for the years ended December 31, 2015 and 2014, amounted to \$16.3 million and (\$1.4 million), respectively.

Passenger Revenue — Revenues from the sale of farecards are recognized as income as the farecards are used and are reported as operating income.

Materials and Supplies — Materials and supplies are recorded at weighted average cost, net of a reserve for obsolete/excess inventory.

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 MTA Bus are reported as operating expenses. All other expenses are reported as non-operating expenses.

MTA Investment Pool — The MTA, on behalf of MTA Bus, invests funds which are not immediately required for MTA Bus’s operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and

U.S. Treasury zero-coupon bonds. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

MTA Bus records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. Unrealized appreciation, which is not significant to MTA Bus, is retained on the MTA's books and not included in MTA Bus's financial statement.

Investments maturing and expected to be liquidated within a year have been classified as current assets in the financial statements of MTA Bus. Investments are recorded on the Statements of Net Position at fair value which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as investment income.

Receivables — Receivables are recorded as amounts due to MTA Bus, reduced by an allowance for doubtful accounts, if applicable, to report the receivables as net realizable value.

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 amounts of the assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

City Operating Subsidy — Pursuant to the letter agreement between The City and the MTA, The City has agreed to pay MTA Bus the difference between the actual costs of operation of the formerly franchised private bus lines and all revenues and other reimbursement subsidies. For calendar years 2015 and 2014, MTA Bus received cash payments of \$438.9 million and \$461.1 million, respectively, in operating assistance from The City. The 2014 amount includes a 2015 prepayment of \$18.5 million. At year end December 31, 2015, MTA Bus recorded a subsidy receivable due from The City of approximately \$40.2 million pursuant to the agreement between MTA Bus and The City's Office of Management and Budget.

Advances from New York City — Environmental Remediation and Public Liability Reserves — In accordance with the supplemental agreements between The City and the MTA, on behalf of MTA Bus, The City agreed to fund a Public Liability Insurance Reserve fund (\$14.2 million) and an Environmental Remediation Reserve Fund (\$6.3 million). The public liability amount was determined pursuant to an actuarial reserve analysis performed by Milliman, Inc. as of December 31, 2007. With the assistance of the Transit Authority (CPM Environmental Engineering) and independent consultants working on behalf of the New York City Department of Design and Construction, six Bus Company depots were designated for environmental soil and groundwater remediation work totaling \$6.3 million. The City funded these reserves in June 2007, with an aggregate payment of \$20,493,000 to MTA Bus. This amount was used to fund the initial \$6.3 million project; as well as, future projects. In July 2011, The City of New York funded the Environmental Remediation Reserve Fund with an additional \$11.1 million. During 2015, MTA Bus reduced the Environmental Remediation Reserve Fund by \$0.5 million, based on actual cash expenditures leaving a balance of \$8.4 million as of December 31, 2015. The Public Liability Reserve Fund has been depleted as of June 2013. Refer to Note 12 for more information.

Mortgage Recording Tax-2 — In 2007, the MTA Board approved the allocation of Mortgage Recording Tax (“MRT-2”) receipts to MTA Bus. These funds are to be administered by the MTA Treasurer and used solely for funding the 2005-2009 Capital Program debt service requirements and repayment of the \$113.8 million intercompany capital pool loan. Amounts budgeted from MRT-2 funds for such purposes were \$24.9 million for 2015. The \$24.9 million received in 2015 was used to repay \$12.6 million (\$10.5 million in principal and \$2.1 million in interest) of the intercompany capital pool loan, and debt service on transportation Revenue Bonds and Interest on Commercial paper payments of \$29.8 million.

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 MTA 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 for the year ended December 31, 2014 is equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The effective date of GASB Statement No. 68 (which applies to financial reporting by contributing employers) is the year ended December 31, 2015.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. The provisions of this Statement are required to be applied simultaneously with the provision of GASB Statement No. 68.

Effective for the year-ended December 31, 2015, the MTA adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plans.

MTA Bus recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA’s proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the MTA’s fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of these standards is a restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, deferred inflows of resources, and the removal of any net pension obligations (assets) along with any payables to the pension plans, as follows:

Net position as of December 31, 2014, as previously reported	\$ (512,343)
Composition of Restatement:	
Net pension assets	(13,892)
Deferred outflows related to pensions	59,144
Net pension liabilities	(170,799)
Deferred inflows related to pensions	<u>(7,808)</u>
Total Restatement:	<u>(133,355)</u>
Net position as of December 31, 2014, as restated	\$ <u>(645,698)</u>

Postemployment Benefits Other than Pensions — In June 2004, the 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 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 Statement 45. MTA Bus has adopted these standards for its Postemployment Benefits Other Than Pensions.

NYCT Reimbursement — In accordance with the MTA's 2008 Adopted Budget Staff Summary, the NYCT will reimburse MTA Bus approximately \$11.5 million per year for debt service, which reflects the fact that the Federal grants and matching City moneys originally intended for use by the City franchise buses taken over by MTA Bus could not be used by MTA Bus, so they were assigned to NYCTA for use in its capital projects.

Risk Management — Prior to January 1, 2006, Liberty Lines Express, Queens Surface, New York Bus Service and Command Bus were covered for the cost of injury liability and property damage under the NYC DOT insurance pool program. This insurance program covered the administration and payment of claims without the need for self-insurance coverage on the part of the former private lines.

Subsequent to January 1, 2006, the former private bus lines are now self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees, under the MTA's various insurance programs. Claims arising between January 1, 2006, and October 31, 2006, are subject to a \$7 million per occurrence limit; claims arising between October 31, 2006, and October 31, 2009, are subject to an \$8 million per occurrence limit; and claims arising after October 31, 2009, are subject to a \$9 million per occurrence limit. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying statements of revenues, expenses and change in net position.

Liability Insurance — FMTAC, an insurance captive Component 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015, the self-insured retention limits for ELF were increased to the following: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, 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 million. 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 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2015, the balance of the assets in this program was \$109.1 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). 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 million.

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 and its subsidiaries and affiliates with the exception of MTA New York City Transit, MTA Bus and MTA Bridges and Tunnels. The policy provides \$10 million per occurrence limit with a \$0.5 million per occurrence deductible. 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 million per occurrence limit with a \$1 million per occurrence deductible.

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 million per occurrence self-insured retention (“SIR”),

subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million 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 million 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 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$220.1 million within the overall \$600 million property program, as follows: \$11.64 million (or 23.28%) of the \$50 million layer excess of the primary \$150 million layer, plus \$45.5 million (or 45.5%) of the \$100 million layer excess of \$250 million, plus \$87.5 million (or 58.33%) of \$150 million excess of \$350 million, plus \$35.5 million (or 71%) of the \$50 million layer excess of \$500 million, plus \$40.5 million (or 81%) of \$50 million layer excess of \$550 million.

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

Supplementing the \$600 million per occurrence coverage noted above, FMTAC's property insurance program has been expanded to include a further layer of \$200 million 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 million 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 million in 2015 and \$120 million 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 million 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 million 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 million and less than the \$100 million

TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate during 2015 or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$120 million TRIPRA trigger up to a maximum recovery of \$120 million 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 million in 2015 and \$172.0 million in 2016. These coverages expire at midnight on May 1, 2016.

Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million 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 million future losses in that policy year are subject to a retention of \$7.5 million.

Injuries to Employees — MTA Bus’s predecessor’s workers’ compensation program was insured through American International Group (AIG). This policy was continued through January 2, 2006. When New York Bus and Command Bus became members of MTA Bus, their workers’ compensation exposures were rolled into the AIG program. At the time of its merger with MTA Bus, coverage for Queens Surface was underwritten by Zurich American Insurance Company, which was also retained through January 2, 2006.

Effective January 3, 2006, and on a prospective basis, the MTA, on behalf of MTA Bus, established a master workers’ compensation program with AIG. This insurance coverage provides both claims management and risk financing up to the statutory limits set by the State of New York, including acts of terrorism. When the other private bus lines (Green Bus, Jamaica Buses, and Triboro Coach) were merged into MTA Bus in the first quarter of 2006, they were rolled into the AIG program.

As risk of loss from worker’s compensation claims was borne by AIG, MTA Bus did not record a liability reserve in the financial statements at December 31, 2008. Premium payments for worker’s compensation coverage amounted to approximately \$12.0 million and \$13.8 million for the calendar years 2008 and 2007, respectively.

Effective January 2, 2009, MTA Bus, established a self-insured workers’ compensation program and has recorded a \$102.0 million liability reserve in the financial statements at December 31, 2015. During calendar year 2015, \$13.0 million was paid to beneficiaries.

Pollution Remediation Projects — Effective January 1, 2008, pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 12). 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. Previously, these obligations may not have been required to be recognized or 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: MTA Bus is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; MTA Bus is named by a regulator as a responsible or potentially responsible party to participate in remediation; MTA Bus voluntarily commences or legally obligates itself to commence remediation efforts; or MTA Bus is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

3. CASH

The Bank balances are insured up to \$250,000 in the aggregate by the Federal Deposit Insurance Corporation ("FDIC") for each bank in which funds are deposited.

The Bank balances in 2015 and 2014 that were not insured were maintained in major financial institutions. Management periodically reassess the credit worthiness of such financial institutions.

Cash at December 31, 2015 and 2014, consists of the following:

	2015		2014	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Insured (FDIC) and collateralized deposits	\$ 462,913	\$ 616,181	\$ 579,398	\$ 716,140
Commercially insured funds on-hand and in transit	<u>144,829</u>	<u>527,529</u>	<u>4,450</u>	<u>334,861</u>
Total cash	<u>\$ 607,742</u>	<u>\$ 1,143,710</u>	<u>\$ 583,848</u>	<u>\$ 1,051,001</u>

The on-hand and in-transit funds consist primarily of passenger revenue funds collected but not yet deposited and petty cash.

4. MTA INVESTMENT POOL

The MTA, on behalf of MTA Bus, invests funds which are not immediately required in MTA Bus's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by MTA's agent, in custody accounts, in the name of the MTA. MTA Bus's earnings from short term investments were \$57,863 and \$26,235 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, MTA Bus had intercompany investment pool loans of \$47.5 million and \$85.8 million, respectively, reported in the Statements of Net Position, which were attributable to the timing of subsidy payments from The City for working capital expenditures.

5. CAPITAL ASSETS

Capital assets as of December 31, 2015 and 2014, consist of the following:

	December 2014	Additions	Transfers & Disposals	December 2015
Buses	\$ 556,040,229	\$ 23,320,508	\$ -	\$ 579,360,737
Service Vehicles	2,812,149	63,868	(421,221)	2,454,796
Furniture, fixtures and equipment	8,259,742	-	-	8,259,742
Facilities & Yards	18,542,780	-	-	18,542,780
Capital Non Bus	19,618,283	-	19,306,182	38,924,465
Assets under construction	<u>95,338,467</u>	<u>22,714,937</u>	<u>(19,306,182)</u>	<u>98,747,222</u>
	700,611,650	46,099,313	(421,221)	746,289,742
Less - accumulated depreciation	<u>(345,312,359)</u>	<u>(50,014,486)</u>	<u>421,221</u>	<u>(394,905,624)</u>
Capital assets - net	<u>\$ 355,299,291</u>	<u>\$ (3,915,173)</u>	<u>\$ -</u>	<u>\$ 351,384,118</u>
	December 2013	Additions	Transfers & Disposals	December 2014
Buses	\$ 556,040,229	\$ -	\$ -	\$ 556,040,229
Service Vehicles	2,637,540	174,609	-	2,812,149
Furniture, fixtures and equipment	7,303,923	955,819	-	8,259,742
Facilities & Yards	17,340,050	1,202,730	-	18,542,780
Capital Non Bus	6,176,256	-	13,442,027	19,618,283
Assets under construction	<u>80,897,626</u>	<u>27,882,868</u>	<u>(13,442,027)</u>	<u>95,338,467</u>
	670,395,624	30,216,026	-	700,611,650
Less - accumulated depreciation	<u>(296,782,600)</u>	<u>(48,529,759)</u>	<u>-</u>	<u>(345,312,359)</u>
Capital assets - net	<u>\$ 373,613,024</u>	<u>\$ (18,313,733)</u>	<u>\$ -</u>	<u>\$ 355,299,291</u>

6. EMPLOYEE BENEFITS FOOTNOTE DISCLOSURE:

Pensions — MTA Bus participates in a defined benefit pension plan for their employees, the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”). A brief description of the pension plan follows:

Plan Description

MTA Defined Benefit Plan —

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 nonrepresented 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 nonrepresented 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 Defined Benefit Plan is administered by the Board of Managers of Pensions which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. 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. Pension plan financials can also be found at www.mta.info.

Benefits Provided

MTA Defined Benefit Plan

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 nonrepresented 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.

Contributions and Funding Policy

MTA Defined Benefit Plan

MTA Bus's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan.

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.

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 \$45.0 and \$45.5 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.

Contributions as a percent of covered payroll are 13.3%, 14.4% and 15.7%, for the years-ended December 31, 2015, 2014, and 2013, respectively.

The payroll for all employees was \$331,208,237 in 2015.

The contributions for the years ended December 31, 2015, 2014, and 2013 were \$43.852 million, \$44.828 million and \$45.437 million respectively. These costs represent the required actual contributions for the years stated.

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.

Net Pension Liability

MTA Bus’s net pension liabilities for the pension plans reported at December 31, 2015 were measured as of the fiscal year-end. The total pension liability as of December 31, 2014 for the pension plan was determined by an actuarial valuation as of the 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.

Actuarial Assumptions

The total pension liabilities in each pension plan’s actuarial valuation dates were determined using the following actuarial assumptions for each pension plan, applied to all periods included in the measurement date:

MTA Defined Benefit Plan

Investment Rate of Return	7.00% per annum, net of investment expenses.
Salary Increases	Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees.
Inflation	2.5%; 3.0% for Railroad Retirement Wage Base.
Cost-of Living Adjustments	55% of inflation assumption or 1.375%, if applicable.
Mortality:	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.
Post-retirement 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.
Post-retirement 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.

Expected Rate of Return on Investments

The long-term expected rate of return on pension plan investments was 7.00% for the MTA Defined Benefit Plan and. 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 the Actuary's investment consulting practice as of December 31, 2013.

The target allocation and best estimates of arithmetic real rates of return for each major asset class included in each of the pension funds are as follows:

<u>Asset Class</u>	<u>MTA Defined Benefit Plan</u>	
	<u>Target Allocation</u>	<u>Long-Term Expected RROR by Asset Class</u>
U.S. Public Market Equities	20.50%	6.25%
International Public Market Equities	15.00%	6.05%
Emerging Public Market Equities	3.50%	8.90%
Private Market Equities	12.00%	9.15%
Fixed Income	31.00%	2.66%
Alternatives (Real Assets, Hedge Funds)	<u>18.00%</u>	3.34%
Portfolio Long Term Average Arithmetic RROR	<u>100.00%</u>	
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%

Discount Rate

As of December 31, 2014, the discount rate used to measure the total pension liability of the MTA Defined Benefit Plan 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.

MTA Bus's Proportion of Net Pension Liability – MTA Defined Benefit Plan

The following table presents MTA Bus's proportionate share of the net pension liability of the MTA Defined Benefit Plan at December 31, 2015, and the proportion percentage of the net pension liability of the MTA Defined Benefit Plan allocated to MTA Bus:

December 31, 2015
(in thousands, except for %)

MTA Bus's proportion of the net pension liability	16.510%
MTA Bus's proportionate share of the net pension liability	\$ 170.80

MTA Bus's proportion of the respective Plan's net pension liability was based on actual required contributions of the participating employer for the fiscal year.

The following table presents MTA Bus's proportionate share of the net pension liability calculated using the discount rate of 7.00% for the MTA Defined Benefit Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)		
MTA Bus's proportionate share of the net pension liability	\$ 146.40	\$ 170.80	\$ 195.20

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, MTA Bus recognized pension expense of \$31.7 million related to the pension plan.

At December 31, 2015, MTA Bus reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in thousands)	
Differences between expected and actual experience	\$ 334	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	12,882	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	(7,808)
Employer contribution to plan subsequent to the measurement date of net pension liability	45,928	-
Total	<u>\$ 59,144</u>	<u>\$ (7,808)</u>

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over the weighted average remaining service life of all members, beginning the year in which the deferred amount occurs.

The amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows:

Year ending December 31:

2016	\$ 2,104,945
2017	2,104,945
2018	2,104,945
2019	(1,115,626)
Thereafter	(1,896,564)
Total	<u>\$ 3,302,645</u>

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.

The Deferred Compensation Program is administered and may be amended by the Deferred Compensation Committee.

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 began offering 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 \$18,000 or \$24,000 for those over age 50 for the year ending December 31, 2015.

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 MTA 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. The contributions for the years ended December 31, 2015, 2014, and 2013 were \$0.071 million, \$0.128 million and \$0.112 million respectively. 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.

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.

Forfeitures – Nonvested contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan's administrative expenses. For the year-ended December 31, 2014 and 2013, forfeitures reduced the Plan's expense by \$114 thousand and \$4 thousand, respectively.

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, with \$4.8 billion and \$4.3 billion dollars in total net position in 2014 and 2013, respectively. 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.

(In thousands)	2014		2013	
	457	401K	457	401K
Contributions:				
Employee contributions, net of loans	\$ 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	<u>\$ 202,375</u>	<u>\$ 261,753</u>	<u>\$ 141,077</u>	<u>\$ 182,497</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.

7. OTHER POST EMPLOYMENT 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 establishes 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.

The MTA elected not to record the entire amount of the Unfunded Actuarial Accrued Liability (“UAAL”) in the year ended December 31, 2015, and record the net annual OPEB obligation. The MTA also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.0% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

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.

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 Bus retirees do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

GASB Statement No. 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, 2015, and was performed with a valuation date of January 1, 2014.

Since the MTA is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding post-employment benefits. 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.

Annual OPEB Cost and Net OPEB Obligation — The MTA’s annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. The cumulative difference between the

annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation (the “Net OPEB Obligation”), included on the Statements of Net Position. The annual OPEB cost is equal to the annual required contribution (“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 frozen actuarial accrued liability.

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 Statement No. 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2015, is 14 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.

Actuarial Methods and Assumptions — The Frozen Initial Liability (“FIL”) Cost Method is used for determining the Normal Cost. The Entry Age Normal (“EAN”) Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined as of January 1, 2006 (2007 for MTA Bus Company), to be used in the financials for the 2007 fiscal year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

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 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, 2014, which is 12 months prior to the beginning of the 2015 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, the discount rate for this valuation has been lowered from 3.75% to 3.5%.

Healthcare Reform — The valuation reflects the actuary's understanding of the impact in future health costs due to the passage of the Patient Protection and Affordable Care Act (P.L. 111-148) signed on March 23, 2010, as amended by the Health Care and Education Reconciliation Act (H.R. 4872) signed on March 30, 2010. Specifically, the following assumptions have been modified:

- Reflected the potential excise tax beginning in 2020 separately for NYSHIP plans and self-insured union plans of MTA Bus Company. The excise tax equals 40% of the amount of the premium in excess of the threshold.
- Increased the dependent assumption for female members from 55% to 60% to reflect the fact that dependent children are covered until age 26.
- Increased the assumed coverage period to 7 years for all non-NYSHIP members with a dependent child.

The impact of these changes had a significant impact on the liabilities developed in this valuation. However, the actual impact on future health costs due to this legislation will depend on a number of factors, including future regulations that are not yet known. An assessment of the potential range and cost effect of such differences is beyond the scope of the 2014 valuation.

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2015, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2014
Actuarial cost method	Frozen Initial liability
Discount rate	3.50%
Price inflation	2.5% per annum, compounded annually
Amortization method	Frozen Initial liability
Amortization period	14 years
Period closed or open	Closed

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.

MTA Bus provides certain health care and life insurance benefits for retired employees. MTA Bus recognizes the cost of providing these benefits by expensing the claim payments made to carriers on behalf of the Transit Workers Union Local 100 ("TWU") and the Amalgamated Transit Union ("ATU"), Local 1179 and Local 1181 retirees or beneficiaries, and the annual insurance premiums for retiree benefits, which aggregated \$18.1 million for the year ended December 31, 2015, and \$19.6 million for the year ended December 31, 2014. At December 31, 2015 and 2014, there were 1,686 and 1,584 retired union employees, respectively, from the former private bus lines.

When New York Bus was merged into MTA Bus its self-insured health and welfare plan was terminated and NYCTA assumed direct responsibility for providing health care benefits to its retirees or beneficiaries. During the first quarter of 2006, when the last of the privates were merged into MTA Bus, NYCTA commenced providing health care benefits for the remainder of all TWU retirees or their beneficiaries. Per the collective bargaining agreements between MTA Bus and ATU Locals 1179 and 1181, their health and welfare trusts were dissolved effective August 2006, again with the NYCTA assuming the responsibility for benefits administration.

Per Capita Claim Costs — For members of NYSHIP and certain members who retired prior to NYSHIP availability, unadjusted premiums were used. The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented MTA Bus members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits, a per capita claims cost assumptions that vary by age, gender and benefit type was developed. The per capita costs assumptions reflect the change in medical carriers effective January 1, 2011, and are based on preliminary medical claims information. An assumption was made to "complete" the claims. Details on the per capita claim cost assumption as shown below:

Per Capita Claim Cost Rates —

Age Male Employees	EBCBS Medical	Pharmacy	Age Female Employees	EBCBS Medical	Pharmacy
<50	\$ 735.06	\$ 300.11	<50	\$ 858.34	\$ 312.60
50-54	693.13	256.90	50-54	758.34	285.95
55-59	803.50	293.70	55-59	800.90	319.45
60-64	1,027.76	342.78	60-64	968.23	362.27
65-69	124.51	147.44	65-69	124.28	134.58
70-74	149.58	157.44	70-74	141.81	142.86
75-79	172.78	159.40	75-79	160.21	143.99

The Health Cost Guidelines was used to develop Per Capita Claim Costs relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726, ATU Local 1056 unions and MTA Bus Company. These were then combined to match the aggregate claim experience provided by MTA. Claims were adjusted to an incurred basis from a paid claim basis utilizing aging reports specific to MTA. An adjustment of (.5%) for health benefits was applied. Finally, an administrative load was applied equal to 7.2% for Empire BCBS medical benefits, 3.5% for United Healthcare medical benefits and 4.6% for pharmacy benefits.

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, this 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 2014 utilizing the baseline assumptions included in the model, except inflation is 2.5% and real GDP is 1.8%. Further adjustments are made for aging, percentage of costs associated with administrative expenses, trend on administrative costs, potential excise taxes due to healthcare reform, and other healthcare reform provisions. Short-term trends reflect current conditions and are graded into the long-term trend that takes into account a variety of factors such as medical cost increases, changes in utilization of healthcare services, and technological advances.

The overall trend assumption also takes into account the lower expected annual trend on other OPEB benefits. Dental and vision benefits were assumed to have an annual trend of 4% and Medicare Part B reimbursements were assumed to have an annual trend of 4.5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption.

For those retirees participating in NYSHIP, actual premiums were used for 2015 and the trend was not applicable. For increases in the short-term, lower trends were assumed due to actual experience of NYSHIP premium increases.

Health Care Cost Trend Rates —

Fiscal Year	Trend	Fiscal Year	Trend
2008	6.2 %	2027	5.5 %
2009	6.6	2032	5.4
2010	6.7	2037	5.0
2011	6.2	2042	4.9
2012	5.8	2047	4.8
2017	5.7		
2022	5.6		

Participation —

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 groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees in MTA Bus:

OPEB Participation By MTA Bus as of January 1, 2014		MTA Bus Company
Active members:		
Number		3,539
Average age		47.1
Average service		11.7
Retirees:		
Single medical coverage		624
Employee/spouse coverage		893
Employee/child coverage		43
No medical coverage		126
Total number		1,686
Average age		69.8
Total number with dental		85
Total number with vision		1,529
Total number with supplement		1,454
Average monthly supplement amount (excluding Part B premium)		\$ 24.80
Total number with life insurance		199
Average life insurance amount		\$ 5,214

Dependent Coverage — 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 groups that do not participate in NYSHIP, details on coverage election rates are as below:

Male Dependents			Female Dependents		
	Medical	Pharmacy		Medical	Pharmacy
<25	\$ 193.50	\$ 67.01	<25	\$ 193.50	\$ 67.01
25-49	449.04	183.84	25-49	560.55	204.95
50-54	539.15	200.31	50-54	620.21	234.23
55-59	645.44	236.37	55-59	689.81	275.35
60-64	829.39	277.19	60-64	814.84	305.21
65-69	124.51	149.44	65-69	124.28	134.58

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).

Demographic Assumptions:

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. No blue collar adjustments were used for management members of Headquarters.

Postretirement Healthy Lives — RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of Headquarters.

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.

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 MTA Bus 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, which were only provided by Headquarters.

Age at Termination	Percent Electing
<40	- %
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 Bus's annual OPEB cost for the year, the amount actually paid, and changes in the MTA Bus's net OPEB obligation to the plan for the years ended December 31, 2015 and 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.

	2015 (In millions)	2014 (In millions)
Annual required contribution	\$ 109.9	\$ 146.4
Interest on net OPEB obligation	20.8	18.3
Adjustment to annual required contribution	<u>(51.6)</u>	<u>(40.0)</u>
Annual OPEB cost/expense	79.1	124.7
Contributions made	<u>(18.1)</u>	<u>(19.6)</u>
Increase in net OPEB obligation	60.9	105.1
Net OPEB obligation — beginning of year	<u>593.8</u>	<u>488.7</u>
Estimated net OPEB obligation — end of year	<u>\$ 654.7</u>	<u>\$ 593.8</u>

MTA Bus's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net estimated OPEB obligation for the years ended December 31, 2015, 2014, and 2013 are as follows:

Year Ended	Annual OPEB Cost (In millions)	Percentage of Annual OPEB Cost Paid	Estimated Net OPEB Obligation (In millions)
12/31/2015	\$ 79.1	22.9 %	\$ 60.9
12/31/2014	124.7	15.8	105.1
12/31/2013	118.7	15.6	100.1

Period Ended	Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b) (In millions)	Unfunded Actuarial Accrued Liability (UAAL) (c)=(b)-(a) (In millions)	Funded Ratio (a)/(c)	Covered Payroll (d) (In millions)	Ratio of UAAL to Covered Payroll (c)/(d)
12/31/15	1/1/2014	\$ -	\$ 706.5	\$ 706.5	0.00%	\$ 220.0	321.2 %

The required schedule of funding progress immediately following the notes to the financial statements and the supplemental schedules presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

8. DUE TO NYCTA

NYCTA bills MTA Bus for the administration and payment of health and welfare claims, for diesel fuel delivered to MTA Bus depots and paid for by NYCTA on shared contracts, for materials and supplies issued from NYCTA storerooms, and for NYCTA employees that have been permanently assigned to MTA Bus. In addition, MTA Bus is charged for the cost of labor and overhead for operating support (mainly NYCTA Department of Buses) and for employees assigned to MTA Bus to perform facilities related maintenance, construction and repair work.

9. EXISTING CAPITAL FUNDING ARRANGEMENTS

MTA Bus capital projects included in the MTA 2000-2004 Capital Program and the MTA 2005-2009 Capital Program are being funded from a combination of interagency loans and MTA Transportation Revenue Bond proceeds. The interagency loans consist of a \$76.6 million loan to MTA Bus from MTA New York City Transit and a \$37.1 million interagency loan from MTA capital funds. MTA has agreed to reimburse MTA Bus for the debt service on such interagency loans over a twelve-year period beginning in 2007. The amount of Federal grants and The City matching funds included in the MTA 2000-2004 Capital Program is \$171.5 million and the amount of Federal grants and The City matching funds included in the MTA 2005-2009 Capital Program is \$152.0 million, for an aggregate of \$323.5 million. Because MTA Bus was unable to use the Federal grants and The City matching funds directly, they were assigned to MTA New York City Transit to fund a portion of its capital program. MTA New York City Transit agreed to reimburse MTA Bus for the debt service on an equal amount of MTA Transportation Revenue Bonds that were issued to finance MTA Bus capital projects that otherwise would have been funded with the Federal grants and The City matching moneys if they were available for such use.

In December 2007, the MTA Board approved a funding agreement whereby, in 2015, MTA Bus received \$24.9 million in MRT-2 monies and subsequently used \$12.6 million of these funds to repay a portion of the \$113.8 million intercompany capital pool loan. Pursuant to the agreement, MTA Bus will make monthly payments to the MTA and NYCTA over an amortization period of 12 years. As of December 31, 2015 and 2014, the outstanding principal balance of the intercompany capital pool loan amounts to \$33.6 million and \$44.1 million, respectively.

10. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

MTA Bus establishes its liability for injuries to persons, excluding employees, on the basis of independent actuarial estimates of future liability. A summary of activity in estimated liability arising from injuries to persons and damage to third-party property, for the years ended December 31, 2015 and 2014, is as follows:

	2015	2014
Balance — beginning of year	\$ 94,264,000	\$ 94,299,000
Activity during the year:		
Current year claims and changes in estimates	34,951,502	32,221,813
Claims paid	<u>(26,483,502)</u>	<u>(32,256,813)</u>
Balance — end of year	102,732,000	94,264,000
Less — current liability	<u>(26,000,000)</u>	<u>(23,000,000)</u>
Noncurrent liability	<u>\$ 76,732,000</u>	<u>\$ 71,264,000</u>

Not included in the amount is \$12.0 million of current liability and \$90.0 million of non current liability related to employees.

11. CONTINGENCIES

Neither the MTA nor its Component, MTA Bus, assumed any liability for claims, suits, and any other pending litigation matters arising from or in connection with the operation of the former seven privately franchised bus companies prior to their merger dates into MTA Bus. Beginning January 3, 2006, and on each of the three merger dates occurring thereafter (Green Bus on January 9, 2006, Jamaica Bus on January 30, 2006, and Triboro Coach on February 2006), MTA Bus assumed responsibility for all liability claims arising from operating the former City bus routes. Legal counsel to MTA Bus believes that there is no litigation or claims that could have a material effect on the financial position of MTA Bus.

12. ENVIRONMENTAL POLLUTION REMEDIATION

MTA Bus implemented GASB Statement No. 49 in 2008. In accordance with GASB Statement No. 49, a pollution remediation expense provision totaling \$202,991 and a corresponding liability were recorded on the Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position. As of December 31, 2015 and 2014, the pollution remediation liability totaled \$13.6 million and \$14.5 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, soil contamination, and arsenic contamination at MTA Bus. MTA Bus does not anticipate any changes in the near future that would have a material impact on the recorded obligations due to changes resulting from price increase or reduction, technology, or changes in applicable laws or regulations. In addition, MTA Bus does not expect any recoveries of cost that would have a material effect on the recorded obligations.

During 2005, environmental consultants, on behalf of the New York City Department of Design performed on site investigation at the former Green, Jamaica and Triboro Coach Bus lines prior to their

merger into MTA Bus. As a result of the site investigations, these depots were found to require extensive soil and groundwater remediation. The Transit Authority's Capital Programs Management Environmental Engineering Division estimated that the cost to remediate the contaminated sites would total approximately \$4.3 million. During 2006, the New York State Department of Environmental Conservation issued stipulation and consent decrees requiring MTA Bus to commence soil and ground water remediation at the College Point and Eastchester depots. The estimated cost for cleanup efforts at these sites is approximately \$2.0 million. Pursuant to the letter agreement between The City and the MTA, remediation costs will be reimbursable by The City and, as such, a reserve for environmental remediation was not recorded in MTA Bus's financial statements. As stated in Note 2, The City has funded the \$6.3 million in estimated costs for potential environmental remediation. During 2011, The City requested an update on proposed remediation projects and accordingly funded an additional \$11.1 million. At December 31, 2015, the Environmental Remediation Reserve fund had a balance of \$8.4 million remaining for future Environmental projects.

13. RELATED PARTY TRANSACTIONS

MTA Bus and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back. Funds for MTA Bus's capital project expenditures are also provided by MTA. MTA Bus recognizes funds contributed by MTA for MTA Bus's capital project expenditures as contributed capital.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2015 and 2014 (in thousands):

	2015		2014	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ 51,547	\$ 60,985	\$ 59,200	\$ 95,251
Affiliated agencies	<u>6,889</u>	<u>28,279</u>	<u>5,480</u>	<u>35,944</u>
Total MTA and affiliated agencies	<u>\$ 58,436</u>	<u>\$ 89,264</u>	<u>\$ 64,680</u>	<u>\$ 131,195</u>

* * * * *

REQUIRED SUPPLEMENTARY INFORMATION

MTA BUS COMPANY
(Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA BUS'S PROPORTIONATE SHARE OF NET PENSION LIABILITY IN COST-
SHARING MULTIPLE-EMPLOYER PENSION PLAN
FOR THE YEAR ENDED DECEMBER 31, 2015

		MTA Defined Benefit Plan
		2015
		(in thousands, except %)
MTA Bus's proportion of the net pension liability		16.51%
MTA Bus's proportionate share of the net pension liability	\$	170.80
MTA Bus's actual covered-employee payroll	\$	203.91
MTA Bus's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll		83.763%
Plan fiduciary net position as a percentage of the total pension liability		74.77%

MTA BUS COMPANY
(Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF MTA BUS'S CONTRIBUTIONS FOR ALL PENSION PLANS
FOR THE YEARS ENDED DECEMBER 31, 2015 THROUGH 2006

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
MTA Defined Benefit Plan										
Actuarially Determined Contribution	\$ 43,851,553	\$ 45,717,151	\$ 45,437,363	\$ 40,482,849	\$ 32,556,239	\$ 29,091,067	\$ 25,682,244	\$ 20,420,372	\$ 13,195,312	\$ 4,229,172
Actual Employer Contribution	45,928,494	46,605,811	45,437,363	40,482,849	32,556,239	29,091,067	25,682,244	20,420,372	13,195,312	21,229,886
Contribution Deficiency (Excess)	<u>(2,076,941)</u>	<u>(888,660)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(17,000,714)</u>
Covered Payroll		203,907,469	-	-	-	-	-	-	-	-
Contributions as a % of Covered Payroll	#DIV/0!	22.86%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule of MTA Bus's Contributions to Pension Plan:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2014 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2014 funding valuation.

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

MTA BUS COMPANY
(Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS — POSTEMPLOYMENT BENEFIT PLAN
YEARS ENDED DECEMBER 31, 2015, 2014 AND 2013
(In millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrual 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)
12/31/2015	1/1/2014	\$ -	\$ 706.5	\$ 706.5	0.0%	\$ 220.0	321.2%
12/31/2014	1/1/2012		934.1	934.1	0.0%	201.4	463.8%
12/31/2013	1/1/2012		934.1	934.1	0.0%	201.4	463.8%

Staten Island Rapid Transit Operating Authority

(Component of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Required Supplementary Information, and
Independent Auditors' Report

DRAFT

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying statements of net position of the Staten Island Rapid Transit Operating Authority (the "Authority"), a component of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's 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 the 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 Authority'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 purposes of expressing an opinion on the effectiveness of the Authority'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 net position of the Authority as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1 to the financial statements, the Authority is a component of the MTA. The MTA is a component unit of the State of New York. The Authority requires significant subsidies from and has material transactions with MTA, The City of New York and the State of New York. Our opinion is not modified with respect to this matter.

As described in Note 2 to the financial statements, in 2015, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. 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, Schedule of SIRTOA’s Proportionate Share of the Net Pension Liability in the MTA Defined Benefit Pension Plan on page 47, Schedule of SIRTOA’s Contributions to the MTA Defined Benefit Pension Plan on page 48, and Schedule of Funding Progress for the Staten Island Rapid Transit Operating Authority Postemployment Benefit Plan on page 49 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

April XX, 2016

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

(Component of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) YEARS ENDED DECEMBER 31, 2015 AND 2014

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction to the Annual Report — The following is a narrative overview and analysis of the financial activities of Staten Island Rapid Transit Operating Authority ("SIRTOA" or "Authority") for the years ended December 31, 2015 and 2014. This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Notes to the Financial Statements and Required Supplementary Information.

Management's Discussion and Analysis — The following is a narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2015 and 2014. This management discussion and analysis ("MD&A") is intended to serve as an introduction to the Authority's financial statements. It provides an assessment of how Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected Authority's overall financial position. It may contain opinions, assumptions or conclusions by Authority's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described below.

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

The Statements of Revenues, Expenses and Changes in Net Position show how the Authority's net position changed during each year. They account for all of the current year's revenues and expenses, measures the financial results of the Authority over the past year and can be used to determine how the Authority has funded its costs.

The Statements of Cash Flows provide information about the Authority's cash receipts, cash payments, and net changes in cash resulting from operations, non-capital financing, capital and related financing, and investing activities.

The Notes to the Financial Statements — The notes provide information that is essential to understanding the basic financial statements, such as the Authority's accounting methods and policies, details of cash and investments, capital assets, employee benefits, lease transactions, and future commitments and contingencies of the Authority, and information about other events or developing situations that could materially affect the Authority's financial position.

Required Supplementary Information — The Required Supplementary Information provides information concerning the Authority's net pension liability, contribution to its pension plan, and progress in funding its obligation to provide other postemployment benefits to its employees.

2. FINANCIAL REPORTING ENTITY

SIRTOA is a public benefit corporation and is a component of the Metropolitan Transportation Authority (“MTA”) and was organized pursuant to the New York State (“State”) Public Authorities Law. The Authority operates and maintains the commuter rail service in Staten Island pursuant to an interim arrangement pending renewal of its Lease and Operating Agreement (“Operating Agreement”) with The City of New York (“The City”). The Operating Agreement provides that the Authority establish fares required to make operations self-sustaining (as defined in the operating agreement), and pay its operating expenses and The City pays the Authority’s capital costs and operating deficits. The City has the option to terminate the Operating Agreement at any time.

The Authority requires, and will likely continue to require, substantial subsidies from various governmental sources in order to maintain its operations in the future. The Authority estimates that current fare levels and anticipated operating subsidy levels will provide sufficient revenue to meet operating expenses. Subsidies required for future years are presently being determined. If the funds made available to the Authority are not sufficient to meet its needs, the Authority must raise fares, curtail its service and operations, or defer certain other expenditures (not including maintenance) in order to continue operating within the limits of the funds.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the Authority’s financial position for the years ended December 31, 2015 and 2014. Additionally, an examination of major economic factors and industry trends that have contributed to these changes are provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Authority’s financial statements, which are presented in accordance with generally accepted accounting principles in the United States of America.

Total assets, distinguishing between capital and other assets, and deferred outflows of resources:

	2015	December 31, 2014	2013	Increase/(Decrease)	
				2015–2014	2014–2013
Capital assets — net	\$ 176,285,906	\$ 135,078,780	\$ 118,120,898	\$ 41,207,126	\$ 16,957,882
Other assets	49,038,152	63,031,107	36,479,039	(13,992,955)	26,552,068
Deferred outflows of resources	<u>9,133,338</u>	<u>-</u>	<u>-</u>	<u>9,133,338</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 234,457,396</u>	<u>\$ 198,109,887</u>	<u>\$ 154,599,937</u>	<u>\$ 36,347,509</u>	<u>\$ 43,509,950</u>

Significant changes in assets include:

December 31, 2015 versus 2014 — Net capital assets increased from December 31, 2014 to December 31, 2015 by \$41,207,126 or 30.5%. This is due primarily to additions to capital assets. The net additions to capital assets of \$49,279,466 or 16.8% results from the increase in construction in progress, structures, stations and shops and yards, partly offset by an increase in accumulated depreciation of \$8,072,340 or 5.1% due to normal depreciation of assets. More detailed information about the Authority’s capital assets is presented in Note 5 to the financial statements.

Overall, other assets decreased by \$13,992,955 or 22.2% compared with the prior year. This decrease is primarily attributable to the decrease in Due from MTA of \$23,914,638 for payment of the 2013 NYC operating recovery subsidy to SIRTOA received by the MTA in 2014. The decrease was partly offset by an increase in the NYC operating recovery subsidy receivable of \$10,478,000 estimated for the operating deficit for calendar year 2015.

As a result of adopting GASB Statements No. 68, *Accounting and Financial Reporting for Pensions*, and GASB No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, SIRTOA is reporting deferred outflows of resources related to contributions made after the measurement date and other differences of \$9,133,338 at December 31, 2015. Refer to Note 6 to the financial statements for more information regarding SIRTOA's pension.

December 31, 2014 versus 2013 — Net capital assets increased from December 31, 2013 to December 31, 2014 by \$16,957,882 or 14.4%. This is due primarily to additions to capital assets and a reduction in depreciation expense. The net additions to capital assets of \$24,880,628 or 9.3% results from the increase in construction in progress, structures, signals and vehicles, partly offset by an increase in accumulated depreciation of \$7,922,745 or 5.3% due to normal depreciation of assets. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

Overall, current assets increased by \$26,552,068 or 72.8% compared with the prior year. This increase is primarily attributable to increase in the Due from MTA and NYC operating recovery subsidy receivable of \$23,949,356 and \$3,713,000, respectively and partly offset by a decrease in other and MTA capital program funds receivable of \$795,733 and \$518,271, respectively.

Total liabilities, distinguishing between long-term liabilities and current liabilities:

	2015	December 31, 2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Current liabilities	\$ 51,417,764	\$ 70,458,455	\$ 35,820,356	\$ (19,040,691)	\$ 34,638,099
Long-term liabilities	<u>56,068,924</u>	<u>25,827,866</u>	<u>21,975,615</u>	<u>30,241,058</u>	<u>3,852,251</u>
Total liabilities	<u>\$ 107,486,688</u>	<u>\$ 96,286,321</u>	<u>\$ 57,795,971</u>	<u>\$ 11,200,367</u>	<u>\$ 38,490,350</u>

Significant changes in liabilities include:

December 31, 2015 versus 2014 — Total liabilities increased from December 31, 2014 to December 31, 2015 by \$11,200,367 or 11.6%. Current liabilities decreased by \$19,040,691, due primarily to a decrease of \$22,965,470 in Due to MTA and constituent authorities for changes in the MTA investment pool, partly offset by an increase of \$3,093,440 in accrued salaries and wages related to the United Transportation Union ("UTU") settlement. The increase in long-term liabilities of \$30,241,058 was primarily the result of the addition of \$22,345,592 of net pension liability resulting from the adoption of GASB Statement No. 68 and \$6,775,750 of post-employment benefits other than pensions based upon an updated OPEB actuarial valuation.

December 31, 2014 versus 2013 — Total liabilities increased from December 31, 2013 to December 31, 2014 by \$38,490,350 or 66.6%. Current liabilities increased by \$34,638,099, due primarily to an increase of \$32,048,238 in Due to MTA and constituent authorities and \$2,542,000 in accrued salaries and wages. The long-term liability increase of \$3,852,251 was primarily the result of the addition of \$2,397,685 of post-employment benefits other than pensions based upon an updated

OPEB actuarial valuation and \$1,584,400 of increase in estimated liability arising from injuries to persons, also based on the most recent actuarial valuation.

Total net position, distinguishing among net investment in capital assets, restricted amounts, and unrestricted amounts:

	2015	December 31, 2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Net investment in capital assets	\$ 176,285,906	\$ 135,078,780	\$ 118,120,898	\$ 41,207,126	\$ 16,957,882
Unrestricted deficit	(49,315,198)	(33,255,214)	(21,316,932)	(16,059,984)	(11,938,282)
Total net position	<u>\$ 126,970,708</u>	<u>\$ 101,823,566</u>	<u>\$ 96,803,966</u>	<u>\$ 25,147,142</u>	<u>\$ 5,019,600</u>

Net position represents the residual interest in the Authority's assets after liabilities are deducted and consists of two sections: net investment in capital assets and unrestricted. Net investment in capital assets include capital assets, net of accumulated depreciation, reduced by outstanding debt, net of applicable debt service reserves. The Authority has no restricted net position. All other assets and liabilities are unrestricted.

December 31, 2015 versus 2014 — Total net position was \$126,970,708 at the end of 2015, a net increase of \$25,147,142 or 24.7% from the end of 2014. The net increase was due to an operating loss of \$56,142,497 and decrease of \$15,657,851 for the restatement of beginning net position related to the adoption of GASB Statements No. 68 and 71 (see Note 2 to the financial statements), offset by nonoperating income of \$48,347,099 and MTA capital contributions of \$48,600,391.

December 31, 2014 versus 2013 — Total net position was \$101,823,566 at the end of 2014, a net increase of \$5,019,600 or 5.2% from the end of 2013. The net increase was due to an operating loss of \$51,816,245, offset by nonoperating income of \$32,636,127 and MTA capital contributions of \$24,199,718.

Condensed statements of revenues, expenses, and changes in net position:

	Year Ended December 31,		
	2015	2014	2013
Operating revenues	\$ 9,035,932	\$ 8,307,241	\$ 7,941,955
Operating expenses	(65,178,429)	(60,123,486)	(50,873,794)
Asset impairment and related expenses	-	-	(1,501,000)
Operating loss	(56,142,497)	(51,816,245)	(44,432,839)
Nonoperating revenues (expenses):			
Grants, appropriations, and taxes	4,600,543	4,735,852	4,620,877
Subsidies	43,831,000	27,746,000	23,877,000
Federal Transit Authority / Federal Emergency Management Agency reimbursement	2,455	29,246	1,813,481
Other nonoperating revenue/expenses - net	(86,899)	125,029	47,529
Total net nonoperating revenues	48,347,099	32,636,127	30,358,887
Loss before capital contributions	(7,795,398)	(19,180,118)	(14,073,952)
Capital contributions	48,600,391	24,199,718	12,945,244
Change in net position	40,804,993	5,019,600	(1,128,708)
Net position — beginning of year	101,823,566	96,803,966	97,932,674
Restatement of beginning net position	(15,657,851)	-	-
Net position — end of year	<u>\$ 126,970,708</u>	<u>\$ 101,823,566</u>	<u>\$ 96,803,966</u>

Revenues, by major source:

	Year Ended December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Fare revenue	\$ 6,400,508	\$ 5,898,026	\$ 5,504,313	\$ 502,482	\$ 393,713
Student and elderly reimbursement	1,775,714	1,714,317	1,758,718	61,397	(44,401)
Other	859,710	694,898	678,924	164,812	15,974
Total operating revenue	<u>\$ 9,035,932</u>	<u>\$ 8,307,241</u>	<u>\$ 7,941,955</u>	<u>\$ 728,691</u>	<u>\$ 365,286</u>

December 31, 2015 versus 2014 — Revenues from fares and student and elderly reimbursements were \$8,176,222 in 2015, an increase of 7.4% from the prior year. Ridership in 2015 was 4.502 million, an increase of 3.1% from 2014. The increase in revenue was primarily due to the ridership increase and the March 2015 fare increase. Other revenues in 2015 consist mainly of advertising revenue and rental income. The increase in other revenues of \$164,812 or 23.7% from prior year was mainly due to additional advertising revenues.

December 31, 2014 versus 2013 — Revenues from fares and student and elderly reimbursements were \$7,612,343 in 2014, an increase of 4.8% from the prior year. Ridership in 2014 was 4.368 million, an increase of 3.5% from 2013. The increase in revenue was primarily due to the annualization of the March 2013 fare increase. Other revenues in 2014 consist mainly of advertising revenue and rental income.

Operating Expenses:

(In thousands)	Year Ended December 31,			Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Salaries and wages	\$ 25,132	\$ 23,167	\$ 19,040	\$ 1,965	\$ 4,127
Health and welfare	4,263	4,296	3,005	(33)	1,291
Pensions	4,486	5,865	5,831	(1,379)	34
Other post employment benefits	8,926	3,492	3,159	5,434	333
Other fringe benefits	2,404	4,903	3,229	(2,499)	1,674
Traction and propulsion power	4,119	4,587	4,290	(468)	297
Materials and supplies	1,945	1,766	1,411	179	355
Insurance	1,566	1,593	588	(27)	1,005
Public liability claims	1,212	283	14	929	269
Maintenance and other operating contracts	1,129	833	869	296	(36)
Professional service contracts	623	1,247	731	(624)	516
Environmental remediation	1,119	(42)	-	1,161	(42)
Depreciation	8,072	7,923	8,114	149	(191)
Other business expenses	182	210	592	(28)	(382)
Total operating expenses	<u>\$ 65,178</u>	<u>\$ 60,123</u>	<u>\$ 50,873</u>	<u>\$ 5,055</u>	<u>\$ 9,250</u>

December 31, 2015 versus 2014 — Operating expenses increased by \$5,054,943 or 8.4%. The increase of \$1,964,877 in salaries and wages was primarily due to an increase in the retroactive wage accrual for the UTU settlement, wage increases in 2015 for non-represented personnel and headcount increases in support of Tropical Storm Sandy projects and various maintenance programs. Pension expenses decreased by \$1,379,069, as the amount calculated in accordance with GASB Statement No. 68 resulted in a lower amount than calculated in previous years. The increase of \$5,434,000 in other post-employment benefits was primarily the result of the adoption of benefits for represented members similar to those for New York City Transit Authority employees, a decrease in the discount rate from 3.75% to 3.50%, and dental and vision benefits are now to be provided to retired represented members until eligible for Medicare by SIRTOA. Other fringe benefits decreased by \$2,498,785 due primarily due to lower Workers' Compensation reserve requirements based upon the latest actuarial valuation. Public liability claims expense increased by \$928,844 mainly due to the settlement of a major unreserved case in 2015. Professional service contracts decreased by \$623,219 due to the MTA consolidation of IT functions. Environmental remediation expense increased by \$1,160,924 due to an increase in environmental remediation projects in connection with the St. George Inerlocking capital project.

December 31, 2014 versus 2013 — Operating expenses increased by \$9,249,692 or 18.2%. The increase of \$4,127,137 in salaries and wages was primarily due to an increase in the retroactive wage accrual for the tentative UTU settlement, non-represented personnel received wage increase in 2014 and overtime expenses for additional Tropical Storm Sandy requirements and several operational support initiatives. Health and welfare expenses increased by \$1,291,956 due primarily to higher rates for health and welfare plans. Other fringe benefits increased by \$1,673,894 due primarily to an increase in employer social security for the UTU retroactive wage accrual and non-represented personnel wage increase and higher Worker's Compensation reserve requirements based upon current actuarial determination. Insurance expenses increased by \$1,005,355, due to increase MTA insurance policy coverage.

Nonoperating Revenues and Expenses:

Nonoperating revenues include various forms of State, The City and MTA subsidies and operating assistance. These subsidies are subject to annual appropriations by governmental units and periodic

approval of the tax subsidies. The City and MTA subsidies are provided primarily to fund the operating deficit of SIRTOA.

Operating assistance subsidies from New York State and The City have been maintained at the same level each year.

Capital contributions from the MTA of \$48,600,391 in 2015 and \$24,199,718 in 2014 represent capital program funding from several sources including bonds, Federal, State and City funding.

Changes in Net Position

The change in net position represents the net total of capital contributions, operating losses and nonoperating income. Net position increased by \$40,804,994 in 2015, before the restatement of beginning net position, and increased by \$5,019,600 in 2014. The accumulated prior year net position restatement of \$15,657,851 was related to the adoption of GASB Statements No. 68 and 71 (see Note 2 to the financial statements).

Budget Highlights — Operating revenues in 2015 of \$9.036 million were below Budget by \$1.439 million (13.7%), due mostly to the elimination of Sandy insurance reimbursements assumed in the budget.

Operating expenses of \$65.178 million were slightly below Budget by a net \$0.780 million (1.2%). Payroll expenses increased by \$2.871 million (14.7%), caused by accrued pattern labor adjustments consistent with the recent MTA Railroad agreements. Other fringe benefits increased by \$1.964 million (96.7%), mostly from an increase in Workers' Compensation reserve requirements based on a current actuarial update. OPEB expense also increased by \$5.163 million, also based on a current actuarial update. These increases were essentially offset by \$10.482 million of maintenance contract savings, resulting from a delay of five months in 2015 in the implementation of an R44 Car Fleet maintenance project. This work is being performed by NYCTA and began December 1, 2015.

4. OVERALL FINANCIAL POSITION, 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 Authority consists of commuter rail service. In order to achieve maximum efficiency and success in its operations, the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Seasonally adjusted non-agricultural employment in New York City for the fourth quarter was higher in 2015 than in 2014 by 95.3 thousand jobs (2.3%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-one 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 0.7% in the fourth quarter of 2015, according to the most recent advance estimate released by the Bureau of Economic Analysis. The slowdown in RGDP in the third quarter primarily reflected a deceleration in personal consumption expenditures and downturns in nonresidential fixed investment, in exports, and in state and local government spending that were

partly offset by a smaller decrease in private inventory investment, a deceleration in imports, and an acceleration in federal government spending. The annualized RGDP growth for the fourth quarter was under the annualized rate of 2.0% in the third quarter; nevertheless, the national economy has now seen expansion in twenty-four of the last twenty-five quarters

The New York City metropolitan area's price inflation, as represented by the Consumer Price Index for All Urban Consumers ("CPI-U"), was slightly higher than the national average in the fourth quarter of 2015 with the metropolitan area index increasing 0.6% while the national index increased 0.5%. A 17.6% fall in the regional price of energy products, along with a 14.9% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.9%; nationally, inflation exclusive of energy prices increased 1.7%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 35.2% from an average price of \$2.082 to an average of \$1.350 per gallon between the fourth quarters of 2014 and 2015.

In December 2015, the Federal Open Market Committee ("FOMC") announced it would raise its target for the Federal Funds rate to the range of 0.25% to 0.50%, its first increase in the Federal Funds rate since the target was lowered to a range of 0% to 0.25% in late 2008 when the financial and housing crises first deepened. In announcing its decision, the FOMC cited recent evidence that economic activity has been expanding at a moderate rate. Household spending and business fixed investment have been increasing, and the housing sector has further improved. While net exports have been soft, a range of labor market indicators have shown further improvement, confirming that underutilization of labor resources has diminished since the early part of 2015, and inflation continues to run below the FOMC's long-term objective of 2 percent. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. Given its judgement that there has been considerable improvement in labor market conditions and that it is reasonably confident that inflation will rise over the medium term to its 2 percent objective, and further recognizing the time necessary for policy actions to affect future economic outcomes, the FOMC raised the Federal Funds target rate. The FOMC expects that economic conditions will evolve in a manner that will warrant only gradual increases in the Federal Funds rate, and that in the near-term rates will remain below levels that are expected to prevail in the longer run. Additionally, the FOMC is maintaining its policy of reinvesting 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.

Results of Operations and Overall Financial Position — Total revenue from fares and student and elderly reimbursements was \$8,176,222 in 2015, an increase of 7.4% from 2014. Total ridership was 4.502 million, an increase of 3.1% from 2014. Total non-reimbursable expenses, including depreciation, pension costs and other post-employment benefits, were \$65,178,429 in 2015, an increase of 8.4%.

Going forward, the stability of the Authority's financial position is subject to certain risks, requiring the efficient management of costs, including the establishment of new cost reduction programs, in order to counteract any adverse impacts to revenue streams or cost increases.

5. SIGNIFICANT CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Program — The MTA has ongoing programs on behalf of its affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area.

The Transit Authority's portion of the current MTA Capital Program for 2010-2014, which includes SIRTOA, totals \$20.0 billion. As of December 31, 2015, \$10.5 billion has been committed under the five-year plan, of which \$6.4 billion has been expended. Funding for the Capital Program comes from new money bonds, federal grants, bonds supported by the payroll mobility tax applied within the MTA regional district, The City capital funding and other sources. In late December 2012, the MTA Board approved an amendment to the plan to add projects for the repair and restoration of MTA agency assets damaged as a result of Tropical Storm Sandy, which struck the region on October 29, 2012. The revised program provides for an additional \$3.3 billion in the Authority's portion of Sandy recovery-related capital expenditures. This amended plan was deemed approved by the Capital Program Review Board in January 2013. On July 22, 2013, the MTA Board approved a further amendment to the 2010-2014 Capital Program to include specific revisions to planned projects and to include new resilience / mitigation initiatives in response to Tropical Storm Sandy. The Authority's share of the new initiative is \$5.1 billion.

SIRTOA projects incorporated into the overall program include commitment for Tropical Storm Sandy repairs of St. George Employee Facilities & Tower A - \$2.1 million. Upcoming capital projects include Sandy Recovery and Mitigation of Clifton Shop - \$210.3 million, Non-Reporting Block Alarm - \$3.7 million, and the construction of three new power substations to improve reliability of train service by furnishing adequate electrical power along the right of way. The three substations are located at Tottenville - \$23.0 million, Clifton - \$23 million and New Dorp - \$26.1 million.

In addition, several projects were completed in 2015 including Passenger Stations Security Initiatives of SIR stations - \$21.8 million and Station Structural Repairs at eight SIR Locations - \$14.4 million.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority's February 2016 Financial Plan includes certain risks such as possible lower investment returns on pensions, chronic cost issues relating to Workers' Compensation, public liability claims and overtime. These risks need to be addressed in order to be able to balance future year budgets. To assist in achieving this, the ongoing identification and implementation of sustainable new savings programs including the maximization of annual recurring cost savings will be required.

The full funding of the 2015-2019 Capital Program is necessary in order to meet all important requirements.

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STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 691,296	\$ 604,095
Receivables:		
New York City Department of Education	725,344	739,022
NYC operating recovery	44,982,000	34,504,000
Due from MTA	205,929	24,120,567
MTA capital program funds receivable	281,865	76,574
Other	365,734	191,328
Less allowance for doubtful accounts	(138,707)	(137,719)
Net receivables	46,422,165	59,493,772
Materials and supplies — at average cost — net	1,288,560	1,343,185
Pension prepayment	-	766,528
Prepaid expense and other current assets	636,131	823,527
Total current assets	49,038,152	63,031,107
NONCURRENT ASSETS:		
Capital assets (Note 5):		
Construction work-in progress	86,828,742	59,438,425
Other capital assets, net of accumulated depreciation	89,457,164	75,640,355
Total assets	225,324,058	198,109,887
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pension (Note 6)	9,133,338	-
Total deferred outflows of resources	9,133,338	-
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 234,457,396	\$ 198,109,887

See notes to financial statements.

(Continued)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 906,677	\$ 1,057,274
Accrued salaries and wages	6,057,682	2,964,242
Accrued sick and vacation pay	3,950,959	3,388,751
Accrued payroll taxes and related liabilities	900,686	704,971
Due to New York City Transit Authority	1,604,700	1,268,191
Due to MTA and constituent authorities (Note 4)	36,614,806	59,580,276
Estimated liability arising from injuries to persons (Note 8)	1,100,000	1,494,750
Pollution remediation projects	282,254	-
Total current liabilities	<u>51,417,764</u>	<u>70,458,455</u>
NONCURRENT LIABILITIES:		
Net pension liability (Note 6)	22,345,592	-
Other post employment benefits (Note 7)	23,813,278	17,037,528
Estimated liability arising from injuries to persons (Note 8)	8,781,000	8,470,250
Pollution remediation projects	1,129,054	320,088
Total noncurrent liabilities	<u>56,068,924</u>	<u>25,827,866</u>
Total liabilities	<u>107,486,688</u>	<u>96,286,321</u>
NET POSITION:		
Net investment in capital assets	176,285,906	135,078,780
Unrestricted	(49,315,198)	(33,255,214)
Total net position	<u>126,970,708</u>	<u>101,823,566</u>
TOTAL LIABILITIES AND NET POSITION	<u><u>\$ 234,457,396</u></u>	<u><u>\$ 198,109,887</u></u>

See notes to financial statements.

(Concluded)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
OPERATING REVENUE:		
Fare revenue	\$ 6,400,508	\$ 5,898,026
Student fare reimbursement	1,742,042	1,680,645
Elderly fare reimbursement	33,672	33,672
Other	859,710	694,898
Total operating revenues	<u>9,035,932</u>	<u>8,307,241</u>
OPERATING EXPENSES:		
Salaries and wages	25,131,845	23,166,968
Health and welfare	4,263,574	4,296,576
Pensions	4,485,834	5,864,903
Other post employment benefits	8,926,000	3,492,000
Other fringe benefits	2,404,056	4,902,841
Traction and propulsion power	4,118,532	4,586,848
Materials and supplies	1,944,914	1,766,479
Insurance	1,566,265	1,593,515
Public liability claims (Note 2)	1,212,091	283,247
Maintenance and other operating expenses	1,128,566	832,580
Professional service contracts	623,413	1,246,632
Environmental remediation	1,119,380	(41,544)
Depreciation	8,072,340	7,922,745
Other business expenses	181,619	209,696
Total operating expenses	<u>65,178,429</u>	<u>60,123,486</u>
OPERATING LOSS	<u>(56,142,497)</u>	<u>(51,816,245)</u>
NONOPERATING REVENUE — Operating assistance subsidies:		
New York State tax supported subsidy	3,521,573	3,625,148
New York State — 18B Assistance	539,485	555,352
New York City — 18B Assistance	539,485	555,352
NYC operating recovery subsidy (Note 2)	43,831,000	27,746,000
Federal Transit Authority/Federal Emergency Management Agency reimbursement	2,455	29,246
Total nonoperating revenues	<u>48,433,998</u>	<u>32,511,098</u>
Other nonoperating (expenses) income - net	<u>(86,899)</u>	<u>125,029</u>
Total nonoperating income	<u>48,347,099</u>	<u>32,636,127</u>
LOSS BEFORE CAPITAL CONTRIBUTIONS	<u>(7,795,398)</u>	<u>(19,180,118)</u>
CAPITAL CONTRIBUTIONS:		
MTA contributions for capital projects	<u>48,600,391</u>	<u>24,199,718</u>
Increase in net position	40,804,993	5,019,600
NET POSITION — Beginning of year	<u>101,823,566</u>	<u>96,803,966</u>
Restatement of beginning net position (Note 2)	<u>(15,657,851)</u>	<u>-</u>
NET POSITION — End of year	<u>\$ 126,970,708</u>	<u>\$ 101,823,566</u>

See notes to financial statements.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts	\$ 8,189,900	\$ 7,640,983
Rent and other receipts	887,276	778,542
Payroll and related fringe benefits	(36,541,151)	(38,480,223)
Other operating expenses	(11,048,661)	(6,251,298)
Net cash used in operating activities	(38,512,636)	(36,311,996)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	61,986,543	4,740,864
Recoveries from insurance related to Tropical Storm Irene	-	155,123
FTA / FEMA reimbursement	2,455	29,246
Net cash provided by noncapital financing activities	61,988,998	4,925,233
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital project costs incurred for capital program	(3,204,268)	(1,723,389)
Payments on MTA Transportation bonds issued to fund capital assets	(707,233)	(193,807)
Reimbursement of capital project costs from MTA	3,006,063	1,468,144
Net cash used in capital and related financing activities	(905,438)	(449,053)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA investment pool	(22,489,799)	43,497,996
Interest and dividends on investment	6,076	(11,859,416)
Net cash (used in) provided by investing activities	(22,483,723)	31,638,580
NET INCREASE (DECREASE) IN CASH	87,201	(197,236)
CASH — Beginning of year	604,095	801,331
CASH — End of year	\$ 691,296	\$ 604,095
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES —		
MTA contributed capital assets to SIRTOA of \$48,600,391 and \$24,199,718 in 2015 and 2014, respectively.		

See notes to financial statements.

(Continued)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss before non-operating revenues and contributions	\$ (56,142,497)	\$ (51,816,245)
Adjustments to reconcile operating loss to net cash used in operating activities — depreciation	8,072,340	7,922,745
Changes in operating assets and liabilities:		
Decrease in receivable from New York City Department of Education	13,678	28,640
(Increase) decrease in receivable from MTA	(120,411)	83,644
(Increase) decrease in other receivables	(173,418)	739,544
Decrease (increase) in materials and supplies inventory	54,625	(151,086)
Decrease (increase) in other assets	187,396	(204,789)
Decrease (increase) in pension prepayment	766,528	(129,906)
Increase in deferred outflows of resources	(9,133,338)	-
Decrease in accounts payable	(150,597)	(348,758)
Increase in accrued salaries and wages	3,093,440	2,542,000
Increase in accrued sick and vacation	562,208	192,425
Increase (decrease) in payroll taxes payable	195,715	(100,998)
Increase in net pension liability	6,687,741	-
(Decrease) increase in due to MTA and constituent Authorities	(545,525)	773,345
Increase in due to New York City Transit Authority	336,509	25,592
Increase in other post employment benefits	6,775,750	2,397,685
(Decrease) increase in estimated liabilities arising from personal injuries	(84,000)	1,864,000
Increase (decrease) in liability for environmental pollution remediation	1,091,220	(129,834)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (38,512,636)</u>	<u>\$ (36,311,996)</u>
See notes to financial statements.		(Concluded)

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

(Component of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

1. BASIS OF PRESENTATION

Reporting Entity — The Staten Island Rapid Transit Operating Authority (“SIRTOA” or “Authority”) is a public benefit corporation and a component of the Metropolitan Transportation Authority (“MTA”) organized pursuant to the New York State (“State”) Public Authorities Law. SIRTOA is part of the financial reporting group of the MTA and is included in the MTA consolidated financial statements. The MTA is a component unit of the State and is included in the State of New York’s Comprehensive Annual Financial Report as a public benefit corporation.

SIRTOA operates and maintains the commuter rail service in Staten Island pursuant to an arrangement pending renewal of its Lease and Operating Agreement (Operating Agreement) with New York City (“The City”). The Operating Agreement provides that SIRTOA establishes fares required to make operations self-sustaining (as defined in the Operating Agreement), and pays its operating expenses and The City pays SIRTOA’s capital costs and operating deficits. The City has the option to terminate the Operating Agreement at any time.

SIRTOA requires and will continue to require substantial subsidies from various governmental sources in order to maintain its operations in the future. SIRTOA estimates that current fare levels and anticipated operating subsidy levels will provide sufficient revenue to meet operating expenses. Subsidies required for future years are presently being determined. If the funds made available to SIRTOA are not sufficient to meet its needs, SIRTOA must raise fares, curtail its services and operations or defer certain other expenditures (but not maintenance) in order to continue operating within the limits of the funds.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Standards — In fiscal year 2015, SIRTOA adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c. 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.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions this Statement identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. As a result of adopting this Statement, SIRTOA is reporting net pension liabilities and deferred outflows of resources for its qualified plan and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$15,657,851, representing the retroactive effect of adoption. SIRTOA did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. Net pension liability of \$22,345,592 and deferred outflows of resources of \$9,133,338 were reported at December 31, 2015. SIRTOA recognized pension expense of \$4,485,834 for the year-end December 31, 2015. Refer to Note 6 for more information regarding SIRTOA's pension.

In fiscal year 2015, SIRTOA adopted 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68. SIRTOA recognized deferred outflows of resources of \$6,164,903 at December 31, 2015 for contributions made after the measurement date. Refer to Note 6 for more information regarding SIRTOA's pension.

SIRTOA 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.

SIRTOA 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 are effective for fiscal years beginning after June 15, 2016.

SIRTOA 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, and 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.

SIRTOA 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.

SIRTOA 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—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.

SIRTOA has not completed the process of evaluating the impact of GASB 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.

SIRTOA 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.

SIRTOA 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.

SIRTOA has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units— An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

SIRTOA has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-

interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Capital Assets — SIRTOA is part of the MTA five-year Capital Program (“Capital Program”). The costs of capital assets acquired and transferred to SIRTOA without payment obligation under the MTA Capital Program is reflected in the accompanying financial statements under the captions “Capital Assets” and “Net Investment in Capital Assets.”

The cost of SIRTOA’s City funded in-house track rehabilitation is reflected in the accompanying financial statements under the captions “Capital Assets” and “Net Investment in Capital Assets.”

Capital assets are carried at cost and are depreciated on a straight-line basis over their estimated useful lives of 25 years for shops and yards, stations and signals. Track is depreciated over 30 years while structures and equipment and others are depreciated over 10 years. Vehicles are depreciated over 5 and 10 years, depending on their nature.

Net Position — SIRTOA follows the “business type” activity requirements of GASB Statement No. 34, which requires that resources be classified for accounting and reporting purposes into the following three net position categories:

- *Net Investment in Capital Assets* — Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- *Restricted:*
 - Nonexpendable — Net position subject to externally imposed stipulations such that SIRTOA maintains them permanently. For the years ended December 31, 2015 and 2014, SIRTOA did not have nonexpendable restricted net position.
 - Expendable — Net position whose use by SIRTOA is subject to externally imposed stipulations that can be fulfilled by actions of SIRTOA pursuant to those stipulations or that expire by the passage of time. For the years ended December 31, 2015 and 2014, SIRTOA did not have expendable restricted net position.
- *Unrestricted* — Net position that is not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by actions of management or the Board of Directors or may be otherwise limited by contractual agreements with outside parties.

Subsidies — SIRTOA receives operating assistance subsidies under various New York State (the “State”) and City programs and from the proceeds of certain taxes instituted by the State for the benefit of the New York City Transit Authority and SIRTOA. These subsidies are subject to annual appropriations by the governmental units and periodic approval of the tax subsidies.

SIRTOA’s policy is to record one year’s operating assistance subsidy in each fiscal year. Such subsidy is recorded as revenue as the funds are made available. The New York City Transit Authority administers all tax-supported subsidies for SIRTOA on a formula amount determined by passenger ridership and vehicle revenue miles. The tax-based subsidies are recognized as revenue based on the amount of tax collections reported by the State, which are allocable to SIRTOA pursuant to this formula. In 2015 and 2014, the MTA provided SIRTOA with budgeted amounts of operating assistance subsidies as required. The MTA did not make the funds available to SIRTOA before they were required to finance its operations.

Pursuant to a letter agreement between The City and MTA, The City has agreed to pay SIRTOA’s annual operating deficit, the difference between the actual operating costs and all revenues, including reimbursements, as an annual subsidy to SIRTOA. At December 31, 2015, SIRTOA recorded a NYC operating recovery receivable and subsidy revenue of \$44,982,000 and \$43,831,000, respectively for the calendar year 2015. In 2015, SIRTOA received \$33,353,000 from The City for calendar year 2014 operating deficit.

In addition to operating and tax supported subsidies, SIRTOA receives expense reimbursement subsidies from The City and the MTA for the costs associated with various capital programs.

MTA Investment Pool — The MTA, on behalf of SIRTOA, invests funds which are not immediately required for SIRTOA’s operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. All investments are held by the MTA’s agent in custody accounts in the name of the MTA.

Investments — SIRTOA’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.

Investments are recorded on the statement of net position at fair value. All investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values. At December 31, 2015 and 2014, SIRTOA had investment balances of \$146,907 and \$167,978, respectively, classified under other current assets.

The Authority has no financial instruments with significant individual or group concentrations of credit risk.

Receivables — Receivables are recorded as amounts due to SIRTOA, reduced by an allowance for doubtful accounts, to report the receivables at net realizable value.

Pollution Remediation Projects — Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 9). 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: SIRTOA is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; SIRTOA is named by a regulator as a responsible or potentially responsible party to participate in remediation; SIRTOA voluntarily commences or legally obligates itself to commence remediation efforts; or SIRTOA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Public Liability Claims — SIRTOA establishes its liability to employees and to the general public on the basis of independent actuarial estimates of future liability.

Materials and Supplies — Materials and supplies consist of new maintenance parts and supplies, and are recorded at weighted average cost, net of a reserve for obsolescence.

Revenue Recognition — Revenues from the sales of farecards are recognized as income as the farecards are used and are reported as operating income.

Operating Expenses — Operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating SIRTOA (e.g., salaries, insurance, depreciation, etc.) are reported as operating expenses.

Pension Plans — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which established standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. SIRTOA had adopted this standard for its pension plan through calendar year 2014. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost for the year ended December 31, 2014 is equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

Effective for the year-ended December 31, 2015, SIRTOA adopted the standards of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for its pension plan.

SIRTOA recognizes a proportionate share of the net pension liability for the qualified cost-sharing, multiple-employer pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the pension plan, as of the Plan’s measurement date of December 31, 2014. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Postemployment Benefits Other than Pensions — In June 2004, the 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. SIRTOA has adopted these standards for its postemployment benefits other than pensions.

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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions.

Restatement of Beginning Net Position — The effect of the implementation of GASB Statements No. 68 and 71 is a restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, and the removal of pension prepayment, as follows:

Net position as of December 31, 2014, as previously reported	\$ 101,823,566
Composition of Restatement:	
Pension prepayment	(766,528)
Net pension liabilities	<u>(14,891,323)</u>
Total Restatement	<u>(15,657,851)</u>
Net position as of December 31, 2014, as restated	<u>\$ 86,165,715</u>

3. CASH

Bank balances are insured up to \$250,000 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. The bank balances in 2015 and 2014, that were not insured, were maintained in major financial institutions considered by management to be secure. The difference between the carrying amount and the bank balance for the years ended December 31, 2015 and 2014, is due to deposits in transit offset by any outstanding checks.

At December 31, 2015 and 2014, cash consisted of:

	2015		2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits (“FDIC”)	\$ 250,000	\$ 250,000	\$250,000	\$250,000
Uninsured deposits	<u>441,296</u>	<u>460,033</u>	<u>354,095</u>	<u>385,132</u>
	<u>\$ 691,296</u>	<u>\$ 710,033</u>	<u>\$604,095</u>	<u>\$635,132</u>

4. MTA INVESTMENT POOL

The MTA, on behalf of SIRTOA, invests funds which are not immediately required for SIRTOA’s operations, in securities permitted by the State Public Authorities Law, including repurchase agreements

collateralized by U.S. Treasury, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by the MTA's agent, in custody accounts, in the name of the MTA. SIRTOA records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. SIRTOA's earnings from short-term investments were \$1,169 and \$3,501 for the years ended December 31, 2015 and 2014, respectively. As of December 31, 2015 and 2014, SIRTOA had a negative investment pool balance of \$35,800,353 and \$58,220,298, respectively, as funds were used for working capital purposes to offset the timing of the NYC operating recovery subsidy. The negative \$35,800,353 was included in the Due to MTA and constituent authorities.

5. CAPITAL ASSETS

Capital assets at December 31 consisted of the following:

	<u>December 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 2015</u>
Track	\$ 21,359,878	\$ 91,816	\$ -	\$ 21,451,694
Structures	55,694,772	15,661,171	-	71,355,943
Cars	28,772,654	-	-	28,772,654
Shops and yard	21,424,780	2,115,216	-	23,539,996
Stations	81,972,877	3,884,493	-	85,857,370
Signals	9,413,536	136,453	-	9,549,989
Vehicles	2,297,687	-	-	2,297,687
Equipment and other	12,341,743	-	-	12,341,743
Under Construction*	<u>59,438,425</u>	<u>49,279,466</u>	<u>(21,889,149)</u>	<u>86,828,742</u>
Total capital assets, at cost	292,716,352	71,168,615	(21,889,149)	341,995,818
Less accumulated depreciation	<u>(157,637,572)</u>	<u>(8,072,340)</u>	<u>-</u>	<u>(165,709,912)</u>
Capital assets — net	<u>\$ 135,078,780</u>	<u>\$ 63,096,275</u>	<u>\$ (21,889,149)</u>	<u>\$ 176,285,906</u>

* Assets under construction are non-depreciable.

	<u>December 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 2014</u>
Track	\$ 21,359,878	\$ -	\$ -	\$ 21,359,878
Structures	53,657,021	2,037,751	-	55,694,772
Cars	28,772,654	-	-	28,772,654
Shops and yard	21,424,780	-	-	21,424,780
Stations	81,972,877	-	-	81,972,877
Signals	8,074,883	1,338,653	-	9,413,536
Vehicles	1,680,792	616,895	-	2,297,687
Equipment and other	12,341,743	-	-	12,341,743
Under Construction*	<u>38,551,096</u>	<u>24,352,022</u>	<u>(3,464,693)</u>	<u>59,438,425</u>
Total capital assets, at cost	267,835,724	28,345,321	(3,464,693)	292,716,352
Less accumulated depreciation	<u>(149,714,827)</u>	<u>(7,922,745)</u>	<u>-</u>	<u>(157,637,572)</u>
Capital assets — net	<u>\$ 118,120,898</u>	<u>\$20,422,576</u>	<u>\$ (3,464,693)</u>	<u>\$ 135,078,780</u>

* Assets under construction are non-depreciable.

6. EMPLOYEE BENEFITS

Pension Plan — SIRTOA participates in a defined benefit pension plan for their employees, the Metropolitan Transportation Authority Defined Benefit Plan (the “MTA Defined Benefit Plan”). A brief description of the pension plan follows:

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 nonrepresented 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 nonrepresented 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 Defined Benefit Plan is administered by the Board of Managers of Pensions which is comprised of the Chairman of the MTA, MTA Chief Financial Officer, MTA Director of Labor Relations and the agency head of each participating Employer. The MTA Plan may be amended by action of the MTA Board.

The pension plan issues a publicly available financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York, 10004 or at www.mta.info.

Benefits Provided:

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Staten Island Railway 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. Upon retirement, the member's vested retirement benefit from the Plan will be calculated on the final average salary, defined as the highest average compensation over any three consecutive year.

Death 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 credited service for covered MTA Staten Island Railway employees. The disability retirement allowance for 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. Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Staten Island Railway employee after completion of one year of credited service. Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Staten Island Railway employee and dies as the result of an on-the-job accidental injury.

Death benefits are paid to the participant's beneficiary in the event of the death of a covered 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.

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresented employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

Contributions and Funding Policy — SIRTOA's contributions are actuarially determined on an annual basis. Amounts recognized as receivables for contributions include only those due pursuant to legal requirements. Employee contributions to the Plan are recognized in the period in which the contributions are due. The following summarizes the types of employee contributions made to the Plan. MTA Staten Island Railway employees contribute 3% of salary except for represented employees hired on or after June 1, 2010 who contribute 4%. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service.

Contributions as a percent of covered payroll are 28.7% and 47.4%, for the years-ended December 31, 2015 and 2014, respectively. The actual contributions for the years ended December 31, 2015 and 2014 were \$6,164,903 and \$8,579,583, respectively; the required contributions were \$6,000,000 and \$5,864,903, respectively.

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 as prepaid employer contributions to the Plan.

Net Pension Liability — SIRT OA’s net pension liability reported at December 31, 2015 was measured as of December 31, 2014. The total pension liability for the Plan was determined as of the actuarial valuation date of January 1, 2014, and rolled forward to the measurement date of December 31, 2014. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by the Plan. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

Actuarial Assumptions — The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions:

Investment Rate of Return	7.00% per annum, net of investment expenses
Salary Increases	Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees.
Inflation	2.5%; 3.0% for Railroad Retirement Wage Base.
Cost-of Living Adjustments	55% of inflation assumption or 1.375%, if applicable.
Mortality:	Pre-retirement and post-retirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee. Mortality assumption is based on a 2012 experience study for all MTA plans.
Pre-retirement	RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments.
Post-retirement 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.
Post-retirement 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.

Expected Rate of Return on Investments — The long-term expected rate of return on pension plan investments was 7.0% for the Plan. The rate was determined using a building-block method in which best-estimate ranges of expected future real rates of return (“RROR”)(expected returns, net of 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 asset allocation of each of the funds and the expected real rate of returns (“RROR”) for each of the asset classes are summarized in the following table:

Asset Class	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	20.50%	6.25%	1.28%
International Public Market Equities	15.00%	6.05%	0.91%
Emerging Public Market Equities	3.50%	8.90%	0.31%
Private Market Equities	12.00%	9.15%	1.10%
Fixed Income	31.00%	2.66%	0.82%
Alternatives (Real Assets, Hedge Funds)	18.00%	3.34%	0.60%
Portfolio Long Term Average Arithmetic RROR	<u>100.00%</u>		<u>5.02%</u>
Assumed Inflation - Mean			2.50%
Assumed Inflation - Standard Deviation			2.00%
Portfolio Arithmetic Mean Return as per Actuary			7.55%
Portfolio Standard Deviation			12.25%
Calculated RROR per Summarized Asset Class			7.52%
Long Term Expected Rate of Return selected by MTA			7.00%

Discount Rate — As of December 31, 2014, the discount rate used to measure the total pension liability of the MTA Plan was 7.0%.

The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable and that the employer contributions will be made at the rate determined 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.

SIRTOA’s Proportion of Net Pension Liability — The following table presents SIRTOA’s proportionate share of the net pension liability of the MTA Plan at the measurement date of December 31, 2014, and the proportion percentage of the net pension liability of the Plan allocated to SIRTOA:

SIRTOA's proportion of the net pension liability	2.16%
SIRTOA's proportionate share of the net pension liability	\$ 22,345,592

SIRTOA’s proportion of the respective Plan’s net pension liability was based on actual required contributions of the participating employer for the fiscal year-end

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate— The following table presents SIRTOA's proportionate share of the net pension liability calculated using the discount rate of 7.0% for the MTA Plan, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
SIRTOA's proportionate share of the net pension liability	\$ 33,586,640	\$ 22,345,592	\$ 12,879,346

Pension Expense and Deferred Outflows of Resources Related to Pension — For the year ended December 31, 2015, SIRTOA recognized pension expense of \$4,485,834 related to the Plan.

At December 31, 2015, SIRTOA reported deferred outflows of resources for the Plan as follows:

	Outflows of Resources
Differences between expected and actual experience	\$ 43,641
Net difference between projected and actual earnings on pension plan investments	1,685,387
Changes in proportion and differences between contributions and proportionate share of contributions	1,239,407
Employer contribution to plan subsequent to the measurement date of net pension liability	<u>6,164,903</u>
Total	<u><u>\$ 9,133,338</u></u>

The annual differences between the projected and actual earnings on investments are amortized over a 5-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over a 7.7-year close period beginning the year in which the deferred amount occurs.

\$6,164,903 reported as deferred outflows of resources related to pension resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2016. Other amounts reported as deferred outflows of resources related to pension at December 31, 2015 will be recognized as pension expense as follows:

Year ending December 31:

2016	\$ 612,846
2017	612,846
2018	612,846
2019	612,846
2020	191,500
Thereafter	<u>325,551</u>
Total	<u><u>\$ 2,968,435</u></u>

Section 401(k) Plan — SIRTOA's employees may participate in the MTA's deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). The plan was established in 1988 and is currently available to all employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants. Accordingly, no amounts are reflected in the accompanying financial statements for the 401(k) Plan. SIRTOA is not required to, and did not, make any contributions to the Plan in 2015 or 2014.

7. OTHER POSTEMPLOYMENT BENEFITS

SIRTOA has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes 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 SIRTOA include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions. The different types of benefits provided vary by employee type (represented employees versus management). All benefits are provided upon retirement as stated in the MTA Pension Plan. SIRTOA provides benefits to some members if terminated within 5 years of attaining retirement eligibility.

SIRTOA 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 Preferred Provider Organization ("PPO") plan and several Health Maintenance Organization ("HMO") plans. Represented and non-represented employees who retired prior to January 1, 1996 or January 1, 2001, do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

SIRTOA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Services, 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, 2015, and was performed with a valuation date of January 1, 2014. The total number of plan participants as of December 31, 2015, the last valuation reporting period receiving retirement benefits was 95.

During 2012, MTA funded \$250 million into an OPEB Trust ("Trust") allocated between MTA Headquarters and MTA New York City Transit. In addition, \$50 million was funded during 2013 allocated between MTA Long Island Railroad and MTA Metro-North Railroad. There have been no further contributions made to the Trust. 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 this 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 3.25% resulting in a discount rate under GASB 45 of 3.50%, which is slightly lower than the discount rate of 3.75% 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 — SIRTOA’s annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. Currently, SIRTOA 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 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, SIRTOA has chosen to use the Frozen Initial Liability Cost Method (“FIL”), 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, 2015, is 14 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 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.

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, 2014 which is 12 months prior to the beginning of the 2015 fiscal year. Census data for the next full valuation will be based on a valuation date of January 1, 2016.

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, the discount rate for this valuation has been lowered from 3.75% to 3.50%.

Healthcare Reform — The valuation reflects the actuaries 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. Legislative changes passed in December 2015 have delayed the effective date of the excise tax until 2020. However, the calculation of the threshold amounts remains unchanged. 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 current provisions of ACA should be reflected in the projection of benefits and therefore, the value of the excise tax and ACA fees which apply to the plan are not included. It is assumed that there will be no changes to the current law and that there will be no changes in plan design to help mitigate the impact of the excise tax.

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

Valuation date	January 1, 2014
Actuarial cost method	Frozen initial liability
Discount rate	3.50%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen initial liability
Amortization period	14 years
Period closed or open	Closed

* In general, all coverages are paid for by SIRTOA.

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 (“PCCC”) — 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.

Based on an initial 2006 report, as well as an updated 2014 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, it stated that the Empire Plan of NYSHIP is community-rated for all participating employers. 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 are non-NYSHIP as well as some Pre-NYSHIP Transit members. For these benefits, we developed per capita claims cost relativity factors that varied by benefit, age and gender for retirees of the TWU Local 100, ATU Local 726 and ATU Local 1056 unions for 2014 and 2015. These were then combined to match the aggregate claim experience provided by the Authority and MTA. Claims were adjusted to an incurred from a paid claim basis utilizing aging reports specific to the Authority and MTA. An adjustment of (0.5)% for health benefits was applied. Finally, an administrative load was applied equal to 7.2% for Empire BCBS medical benefits, 3.5% for United Healthcare medical benefits and 4.6% for pharmacy benefits. The per capita costs assumptions reflect medical and pharmacy claims information, including the Employer Group Waiver Plan (EGWP) for providing pharmacy benefits to Medicare-eligible retirees, for 2014 and 2015.

The following charts detail the monthly 2014 PCCCs used in the valuation:

<u>Age</u>	<u>Empire Blue</u> <u>Cross /</u> <u>Blue Shield</u>	<u>United</u> <u>Healthcare</u>	<u>Pharmacy</u>	<u>Empire Blue</u> <u>Cross /</u> <u>Blue Shield</u>	<u>United</u> <u>Healthcare</u>	<u>Pharmacy</u>
	<u>Male Employees</u>			<u>Female Employees</u>		
<50	\$735.06	\$1,138.38	\$300.11	\$858.34	\$1,337.18	\$312.60
50-54	693.13	1,067.23	256.90	758.34	1,178.35	285.95
55-59	803.50	1,233.78	293.70	800.90	1,240.41	319.45
60-64	1,027.76	1,573.40	342.78	968.23	1,493.76	362.27
65-69	124.51	N/A	147.44	124.28	N/A	134.58
70-74	149.58	N/A	157.74	141.81	N/A	142.86
75-79	172.78	N/A	159.40	160.21	N/A	143.99
80-84	193.97	N/A	155.05	176.40	N/A	140.47
85+	215.42	N/A	143.39	191.54	N/A	127.87
<u>Age</u>	<u>Male Dependents</u>			<u>Female Dependents</u>		
<25	\$193.50	\$305.83	\$67.01	\$193.50	\$305.83	\$67.01
25-49	449.04	695.60	183.84	560.55	873.35	204.95
50-54	539.15	830.29	200.31	620.21	963.77	234.23
55-59	645.44	991.22	236.37	689.81	1,068.42	275.35
60-64	829.39	1,269.87	277.19	814.84	1,257.20	305.21
65-69	124.51	N/A	147.44	124.28	N/A	134.58
70-74	149.58	N/A	157.74	141.81	N/A	142.86
75-79	172.78	N/A	159.40	160.21	N/A	143.99
80-84	193.97	N/A	155.05	176.40	N/A	140.47
85+	215.42	N/A	143.39	191.54	N/A	127.87

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2014 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 5%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

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 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 2014 valuation excludes any RDS payments expected to be received by SIRTOA.

Health Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and 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 (4.5%). The NYSHIP trend reflects actual increases in premiums through 2015. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. The non-NYSHIP trend is applied directly for represented employees of NYC Transit and SIRTOA. The following lists the NYSHIP and non-NYSHIP trend assumptions along with the resulting trends assumed for Transit and SIRTOA.

Health Care Cost Trend Rates

<u>Fiscal Year</u>	<u>NYSHIP</u>	<u>Transit and SIRTOA</u>	
		<u>< 65</u>	<u>>=65</u>
2014	0.0% *	7.5 %	9.5 %
2015	6.0	7.6	9.5
2016	6.0	6.7	8.1
2017	6.0	6.2	6.8
2018	5.3	5.4	5.4
2019	5.2	12.1	5.4
2024	5.2	6.1	5.4
2029	5.5	6.1	5.4
2034	6.4	6.1	5.5
2039	5.9	5.7	5.2
2044	5.7	5.5	5.1
2049	5.6	5.4	5.3
2054	5.5	5.3	5.3

* Trend not applicable as actual 2015 premiums were valued

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

OPEB Participation for SIRTOA as of January 1, 2014

	<u>Active Members</u>
Number	260
Average age	45.1
Average service	13.6
	<u>Retirees</u>
Single medical coverage	19
Employee/spouse coverage	58
Employee/child coverage	3
No medical coverage	15
Total number	<u>95</u>
Average age	63.9
Total number with dental	46
Total number with vision	67
Total no. with supplement	22
Average monthly supplement amount (excluding Part B premium)	\$ 238
Total no. with life insurance	78
Average life insurance amount	\$ 2,763

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 groups that do not participate in NYSHIP, members are assumed to elect Empire BCBS or Aetna/United Healthcare.

Dependent Coverage — Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% of female eligible members participating in NYSHIP are assumed to elect family coverage upon retirement 60% of male and 35% female eligible members participating in non-NYSHIP programs administered by MTA New York City Transit are assumed to cover a dependent. Actual 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 from the valuation date.

Demographic Assumptions:

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. No blue collar adjustments were used for management members of SIRTOA.

Postretirement Healthy Lives — 95% of the rates from 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 adjustments were used for management members of SIRTOA.

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, Vesteess (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Authority upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteess 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 vesteess based on age at valuation date.

<u>Age at Termination</u>	<u>Percent Electing</u>
< 40	- %
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 SIRTOA's annual OPEB cost for the year, the amount contributed, and changes in SIRTOA's net OPEB obligation to the plan for the years ended December 31, 2015 and 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 thousands)	<u>2015</u>	<u>2014</u>
Annual required contribution	\$ 9,700	\$ 4,340
Interest on net OPEB obligation	597	549
Adjustment to annual required contribution	<u>(1,371)</u>	<u>(1,397)</u>
Annual OPEB cost/expense	8,926	3,492
Contributions made	<u>(1,463)</u>	<u>(1,094)</u>
Increase in net OPEB obligation	7,463	2,398
Net OPEB obligation — beginning of year	<u>17,038</u>	<u>14,640</u>
Funds transferred	<u>(687)</u>	<u>-</u>
Net OPEB obligation — end of year	<u>\$23,813</u>	<u>\$17,038</u>

SIRTOA's annual OPEB cost, the percentage of annual OPEB cost contributed and the net OPEB obligation for the year ended December 31, 2015, 2014 and 2013 are as follows (in thousands):

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
December 31, 2015	\$ 8,926	16.4 %	\$ 23,813
December 31, 2014	3,492	31.3	17,038
December 31, 2013	3,159	55.3	14,640

SIRTOA's funding progress information is as follows (in thousands):

<u>Year Ended</u>	<u>Valuation Date</u>	<u>Actuarial Value of Assets {a}</u>	<u>Actuarial Accrued Liability (AAL)* {b}</u>	<u>Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}</u>	<u>Funded Ratio {a}/{b}</u>	<u>Covered Payroll {d}</u>	<u>Ratio of UAAL to Covered Payroll {c}/{d}</u>
December 31, 2015	January 1, 2014	\$ -	\$ 63,881	\$ 63,881	- %	\$15,628	408.8 %

* Based on Entry Age Normal

The required schedule of funding progress 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.

8. RISK MANAGEMENT

SIRTOA is exposed to various risks of loss related to torts; theft of, damage to and destruction of its assets; injuries to persons, including employees; and natural disasters.

There are a number of claims and suits against SIRTOA for injuries to persons. The amounts claimed are significantly higher than the amount which management estimates will ultimately be paid. Although simple claims for minor amounts are frequently settled shortly after they arise, the settlement of more complex and large claims may take years after the claim is asserted.

It is not possible to determine with any certainty the amount for which each claim will ultimately be settled because there are many subjective factors in such determinations and all of the issues may not be known for months or even years after the incident at issue.

SIRTOA is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limit was \$2.3 million per occurrence. Claims arising on or after November 1, 2009, but before November 1, 2012 were subject to a \$2.6 million limit. Effective November 1, 2012, the retention limit was increased to \$3.0 million. Effective October 31, 2015, the retention limit was increased to \$3.2 million. Lower limits applied for claims arising prior to November 1, 2006. SIRTOA is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying consolidated statements of revenues, expenses and change in net position.

SIRTOA establishes its liabilities to employees and to the general public on the basis of independent actuarial estimates of future liability.

A summary of activity in the estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the year ended December 31, 2015 and 2014, is as follows:

	<u>2015</u>	<u>2014</u>
Balance — beginning of year	\$ 9,965,000	\$ 8,101,000
Activity during the year:		
Current year claims and changes in estimates	1,870,364	2,939,585
Claims paid	<u>(1,954,364)</u>	<u>(1,075,585)</u>
Balance — end of year	9,881,000	9,965,000
Less current portion	<u>(1,100,000)</u>	<u>(1,494,750)</u>
Long-term liability	<u>\$ 8,781,000</u>	<u>\$ 8,470,250</u>

First Mutual Transportation Assurance Company — (“FMTAC”), an insurance captive component 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway, 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 million. 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 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2015, the balance of the assets in this program was \$109.1 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). 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 million.

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 million per occurrence limit with a \$0.5 million 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 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2015, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies for \$11 million 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 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$800 million 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 million 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 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$220.1 million within the overall \$600 million property program, as follows: \$11.64 million (or 23.28%) of the \$50 million layer excess of the primary \$150 million layer, plus \$45.5 million (or 45.5%) of the \$100 million layer excess of \$250 million, plus \$87.5 million (or 58.33%) of \$150 million excess of \$350 million, plus \$35.5 million (or 71%) of the \$50 million layer excess of \$500 million, plus \$40.5 million (or 81%) of \$50 million layer excess of \$550 million.

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

Supplementing the \$600 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 million 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 million 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 million in 2015 and \$120 million 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 million 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 million 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,

and (3) 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate during 2015 or 100% of any “certified” terrorism loss which exceeds \$5 million and less than the \$120 million TRIPRA trigger up to a maximum recovery of \$120 million 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 million in 2015 and \$172.0 million in 2016. These coverages expire at midnight on May 1, 2016.

Recovery under this policy is subject to retention of \$25 million per occurrence and \$75 million 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 million, future losses in that policy year are subject to retention of \$7.5 million.

At December 31, 2015, SIRTOA has no outstanding claims requiring FMTAC coverage.

9. CONTINGENCIES

Operating Lease — SIRTOA is currently obligated under an operating lease agreement for its main office. The lease expires on January 13, 2023. Future minimum base rent under the lease is \$210,554 commencing January 14, 2016 with rent increasing at a rate of 2.5% per annum over the life of the lease.

<u>Years Ending December 31</u>	<u>Operating</u>
2016	210,554
2017	215,818
2018	221,213
2019	226,743
2020	232,412
2021-2023	<u>732,682</u>
Total minimum lease payments	<u>\$ 1,839,422</u>

Total rent expense for the years ended December 31, 2015 and 2014, were \$310,756 and \$377,829, respectively.

Pollution Remediation — In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, SIRTOA recognized pollution remediation expense of \$1,119,380 in 2015 compared to a credit in pollution remediation expense of \$41,544 in 2014. The expense was the result of upward modification of encumbrances on existing projects. A corresponding increase in the remediation liability was also recorded. The expense provision was measured at its current value utilizing the prescribed expected cash flow method (see Note 2). Pollution remediation obligations are estimates subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

At December 31, 2015, SIRTOA's pollution remediation liability totaled \$1,411,308, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination and soil contamination.

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REQUIRED SUPPLEMENTARY INFORMATION

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF SIRTOA'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY IN THE
MTA DEFINED BENEFIT PENSION PLAN AT DECEMBER 31:

(In thousands)

	2014
SIRTOA's proportion of the net pension liability	2.16%
SIRTOA's proportionate share of the net pension liability	\$22,346
SIRTOA's actual covered-employee payroll	\$16,338
SIRTOA's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll	136.77%
Plan fiduciary net position as a percentage of the total pension liability	74.77%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF SIRTOA'S CONTRIBUTIONS TO THE MTA DEFINED BENEFIT PENSION
PLAN FOR THE YEARS ENDED DECEMBER 31:

(In thousands)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
MTA Defined Benefit Plan										
Actuarially Determined Contribution	\$ 6,000	\$ 5,865	\$ 5,832	\$ 4,949	\$ 3,955	\$ 3,805	\$ 3,757	\$ 2,909	\$ 3,624	\$ 2,171
Actual Employer Contribution	6,165	8,580	5,832	4,949	3,955	3,805	3,757	2,909	3,624	11,232
Contribution Deficiency (Excess)	(165)	(2,715)	-	-	-	-	-	-	-	(9,061)
Covered Payroll	21,458	18,085								
Contributions as a % of Covered Payroll	28.73%	47.44%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes to Schedule of SIRTOA's Contributions to Pension Plan:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the MTA Defined Benefit Plan, are presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the January 1, 2014 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the January 1, 2014 funding valuation.

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
(Component of Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FUNDING PROGRESS
FOR THE STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
POSTEMPLOYMENT BENEFIT PLAN
(In thousands)

Year Ended	Valuation Date	Actual Value of Assets (A)	Actual Accrued Liability (AAL) (B)	Unfunded Actual Accrued Liability (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll (B-A)/C
December 31, 2015	January 1, 2014	\$ -	\$ 63,881	\$ 63,881	- %	\$ 15,628	408.8 %
December 31, 2014	January 1, 2012	-	32,049	32,049	-	15,283	209.7 %
December 31, 2013	January 1, 2012	-	32,049	32,049	-	15,283	209.7 %

Triborough Bridge and Tunnel Authority

(Component of the Metropolitan Transportation
Authority)

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Required Supplementary Information, and
Independent Auditors' Report

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Financial Statements

We have audited the accompanying statements of net position of the Triborough Bridge and Tunnel Authority (the "Authority"), a public benefit corporation which is a component of the Metropolitan Transportation Authority ("MTA"), as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Authority's 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 the 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 Authority'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 purposes of expressing an opinion on the effectiveness of the Authority'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 net position of the Authority as of December 31, 2015 and 2014, and the respective changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As described in Note 2 to the financial statements, in 2015, the Authority adopted Governmental Accounting Standards Board (“GASB”) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date an amendment of GASB Statement No. 68*. 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 5 through 16, Schedule of the Authority’s Proportionate Share of Net Pension Liability in the New York City Employees’ Retirement System on page 75, Schedule of the Authority’s Contributions to the New York City Employees’ Retirement System on page 76, and Schedule of Funding Progress-Postemployment Healthcare Plan on page 77 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audits of the 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.

April XX, 2016

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

(Component of the Metropolitan Transportation Authority)

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) **YEARS ENDED DECEMBER 31, 2015 AND 2014** (In thousands, except as noted)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction

The following is a narrative overview and analysis of the financial activities of Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels" or "Authority") for the years ended December 31, 2015 and 2014. This discussion and analysis is intended to serve as an introduction to MTA Bridges and Tunnels' financial statements which have the following components: (1) Management's Discussion and Analysis ("MD&A"), (2) Financial Statements (3) Notes to the Financial Statements, and (4) Required Supplemental Information.

Management's Discussion and Analysis

This MD&A provides an assessment of how MTA Bridges and Tunnels' position has improved or deteriorated and identifies the factors that, in management's view, significantly affected MTA Bridges and Tunnels' overall financial position. It may contain opinions, assumptions, or conclusions by MTA Bridges and Tunnels' management that should not be considered a replacement for and must be read in conjunction with the financial statements.

The Financial Statements Include

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

The Statements of Revenues, Expenses and Changes in Net Position show how MTA Bridges and Tunnels' net position changed during each year and accounts for all of the current and prior year's revenues and expenses, measure the success of MTA Bridges and Tunnels' operations over the twelve months and can be used to determine how MTA Bridges and Tunnels has funded its costs.

The Statements of Cash Flows provide information about MTA Bridges and Tunnels' cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

The Notes to the Financial Statements Provide

Information that is essential to understanding the financial statements, such as MTA Bridges and Tunnels' basis of presentation, and significant accounting policies, details of cash and investments, capital assets,

employee benefits, long-term debt, lease transactions, future commitments and contingencies, and subsequent events of MTA Bridges and Tunnels.

The notes to the financial statements also describe any other events or developing situations that could materially affect MTA Bridges and Tunnels' financial position.

Required Supplementary Information:

The Required Supplementary Information provides information concerning MTA Bridges and Tunnels' progress in funding its obligation to provide other postemployment benefits to its employees. It also includes the Schedule of the Authority's Proportionate Share of Net Pension Liability in the New York City Employees' Retirement System and Schedule of the Authority's Contributions to the New York City Employees' Retirement System as required by provisions for pensions under GASB Statement No. 68.

2. FINANCIAL REPORTING ENTITY

Triborough Bridge and Tunnel Authority is a public benefit corporation, separate and apart from the State of New York, without any power of taxation. Triborough Bridge and Tunnel Authority is empowered to operate and maintain nine toll bridges and tunnels and the Battery-Parking Garage, all located in New York City. The board members of the Metropolitan Transportation Authority ("MTA") also serve as the Board of Triborough Bridge and Tunnel Authority. Triborough Bridge and Tunnel Authority operates under the name of MTA Bridges and Tunnels and is a component of the MTA. The MTA is a component unit of the State of New York.

MTA Bridges and Tunnels' operations and capital costs (debt obligations) for its bridges and tunnels are paid by the revenues it generates from its facilities. MTA Bridges and Tunnels' surplus amounts are used to fund transit and commuter operations and finance capital projects for the transit and commuter systems operated by other affiliates and subsidiaries of the MTA.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in MTA Bridges and Tunnels' financial position for the years ended December 2015 and 2014. Additionally, an examination 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, summaries of the financial statements and the various exhibits presented are in conformity with MTA Bridges and Tunnels' financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

(In thousands)

	As of December 31,			Increase/(Decrease)	
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2015	2014	2013	2015 - 2014	2014 - 2013
Current Assets	\$ 771,933	\$ 819,489	\$ 652,314	\$ (47,556)	\$ 167,175
Noncurrent Assets	4,966,636	4,675,063	4,443,358	291,573	231,705
Deferred Outflows of Resources	<u>393,671</u>	<u>325,010</u>	<u>323,463</u>	<u>68,661</u>	<u>1,547</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 6,132,240</u>	<u>\$ 5,819,562</u>	<u>\$ 5,419,135</u>	<u>\$ 312,678</u>	<u>\$ 400,427</u>

Significant Changes in Assets and Deferred Outflows of Resources:

December 31, 2015 versus 2014:

Total Assets and Deferred Outflows of Resources increased by \$312,678 for the year ended December 31, 2015.

Current assets decreased by \$47,556 for the year ended December 31, 2015. The decrease was primarily due to an decrease in unrestricted short-term investments by MTA Treasury of \$20,805 and a decrease in short-term restricted investments of \$16,326. Also, prepaid expenses decreased by \$16,871. The overall decrease in current assets was related to settlements in the current portion of the long-term debt by \$60,518 which was partially offset by an increase of accounts payable by \$16,013.

Noncurrent assets increased by \$291,573 for the year ended December 31, 2015. The increase was primarily due to an increase in capital assets, net of accumulated depreciation of \$287,331.

There was an increase in deferred outflows of resources of \$68,661. Three factors were primarily responsible for this change. First, there was an increase in deferred outflows of resources of \$83,604 related to pension resulting from MTA Bridges and Tunnels adoption of GASB Statement No. 68 and GASB Statement No. 71 in 2015. This was offset by a decrease in the change in fair market value of derivative instruments of \$2,140 and a decrease in the unamortized loss on debt refunding of \$12,803.

December 31, 2014 versus 2013:

Total Assets and Deferred Outflows of Resources increased by \$400,427 for the year ended December 31, 2014.

Current assets increased by \$167,175 for the year ended December 31, 2014. The increase was primarily due to an increase in restricted short-term investments by MTA Treasury of \$166,223. Two factors were primarily responsible for this change. First, MTA Treasury invested the proceeds from General Revenue Bond Anticipation Notes, Series 2014A (\$106,000), which closed in February 2014. In addition, MTA Treasury invested \$53,166 in escrow funds, relating to the 2002 debt restructure, into MTA Bridges and Tunnels' Necessary Construction Reserve Fund in October 2014.

Noncurrent assets increased by \$231,705 for the year ended December 31, 2014. The increase was primarily due to an increase in capital assets, net of accumulated depreciation of \$237,256. This increase was offset by a decrease in derivative assets of \$5,351.

There was an increase in deferred outflows of resources of \$1,547. Two factors were primarily responsible for this change. First, there was an increase in the change in fair market value of derivative instruments of \$68,848. In addition, there was a decrease in the unamortized loss on debt refunding of \$67,301.

(In thousands)		As of December 31,			Increase/(Decrease)	
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES		2015	2014	2013	2015 - 2014	2014 - 2013
Current Liabilities	\$	829,835	\$ 847,178	\$ 734,541	\$ (17,343)	\$ 112,637
Noncurrent Liabilities		9,810,009	9,457,172	9,295,459	352,837	161,713
Deferred Inflow of Resources		48,006	-	-	48,006	-
TOTAL LIABILITIES & DEFERRED INFLOWS OF RESOURCES	\$	10,687,850	10,304,350	10,030,000	383,500	274,350

Significant Changes in Liabilities and Deferred Inflows of Resources:

December 31, 2015 versus 2014:

Total Liabilities and deferred inflows of resources increased by \$383,500 for the year ended December 31, 2015.

Current liabilities decreased by \$17,343 for the year ended December 31, 2015. First, there was a decrease in the current portion of long-term debt of \$60,518. See debt footnotes for further details. In addition, there were decreases in accrued salaries of \$5,672, due to pay out of retroactive wage adjustment settlements in 2015. These decreases were offset by increases in accounts payable of \$16,013, mainly due to increases in several miscellaneous expense payables; payable to MTA of \$16,059, resulting from increases in MTA Bridges and Tunnels Capital Project reimbursement and MTA operating expense; due to MTA of \$6,081 and NYCTA of \$4,576 because of increases in Operating Surplus and unearned tolls revenue of \$9,376 because of increases in amounts owed to other agencies.

Noncurrent liabilities increased by \$352,837 for the year ended December 31, 2015. Three factors were primarily responsible for this change. First, there was an increase in the liability for other postemployment benefits other than pensions of \$67,291. Second, there was an increase in long-term debt of \$36,380. See debt footnotes for further details. Finally, the adoption of GASB Statement No. 68 resulted in the Authority's reporting of net pension liabilities for its proportionate share of the New York City Employees' Retirement System qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement by \$243,901.

There was an increase in deferred inflows of resources of \$48,006 due the adoption of GASB Statement No. 68 in 2015.

December 31, 2014 versus 2013:

Total Liabilities increased by \$274,350 for the year ended December 31, 2014.

Current liabilities increased by \$112,637 for the year ended December 31, 2014. Four factors were primarily responsible for this change. First, there was an increase in the current portion of long-term debt of \$94,325. See debt footnotes for further details. In addition, there were increases in accounts payable of \$20,422 and the amount due to NYCTA of \$10,759. These increases were offset by a decrease in accrued salaries of \$22,673, primarily due to contract settlements with DC37 Local 1931 and the Bridge and Tunnel Officers Benevolent Association.

Noncurrent liabilities increased by \$161,713 for the year ended December 31, 2014. Three factors were primarily responsible for this change. First, there was an increase in the liability for other postemployment benefits other than pensions of \$71,148. In addition, there were increases in derivative liabilities of \$63,903 and long-term debt of \$18,732, net of bond redemptions. See debt footnotes for further details.

(In thousands)

NET POSITION	As of December 31,			Increase/(Decrease)	
	2015	2014	2013	2015 - 2014	2014 - 2013
Net investment in capital assets	\$ 491,229	\$ 576,445	\$ 693,234	\$ (85,216)	\$ (116,789)
Restricted	723,199	737,600	569,603	(14,401)	167,997
Unrestricted	<u>(5,770,038)</u>	<u>(5,798,833)</u>	<u>(5,873,702)</u>	<u>28,795</u>	<u>74,869</u>
Total net position	<u>\$ (4,555,610)</u>	<u>\$ (4,484,788)</u>	<u>\$ (4,610,865)</u>	<u>\$ (70,822)</u>	<u>\$ 126,077</u>

The negative net position has resulted from assets transferred to MTA and NYCTA, on prior years' debt financing incurred on their behalf.

Significant Changes in Net Position:

December 31, 2015 versus 2014:

In 2015 the total net position decreased by \$70,822. This was due to operating income of \$1,231,771, less nonoperating expenses of \$315,511, less net transfers out of \$750,316 (principally operating surplus). In addition, The MTA Bridges and Tunnels adopted GASB Statement No. 68 in 2015. The adoption required the restatement of the beginning net position. The restatement resulted in a decrease of \$236,766 in the beginning position.

December 31, 2014 versus 2013:

In 2014, the total net position increase of \$126,077 is comprised of operating income of \$1,096,085, less nonoperating expenses of \$332,806 and less transfers out (net) of \$637,202 (principally operating surplus).

Condensed Statements of Revenues, Expenses and Changes in Net Position

(In thousands)	Years Ended December 31,			Increase/(Decrease)	
	2015	2014	2013	2015 - 2014	2014 - 2013
OPERATING REVENUES	\$ 1,843,128	\$ 1,698,477	\$ 1,663,553	\$ 144,651	\$ 34,924
OPERATING EXPENSES	<u>(611,357)</u>	<u>(602,392)</u>	<u>(537,649)</u>	<u>(8,965)</u>	<u>(64,743)</u>
OPERATING INCOME	<u>1,231,771</u>	<u>1,096,085</u>	<u>1,125,904</u>	<u>135,686</u>	<u>(29,819)</u>
TOTAL NET NONOPERATING EXPENSES:	<u>(315,511)</u>	<u>(332,806)</u>	<u>(338,054)</u>	<u>17,295</u>	<u>5,248</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	916,260	763,279	787,850	152,981	(24,571)
TRANSFERS IN - MTA	401	352	164	49	188
TRANSFERS OUT	<u>(750,717)</u>	<u>(637,554)</u>	<u>(614,210)</u>	<u>(113,163)</u>	<u>(23,344)</u>
CHANGES IN NET POSITION	165,944	126,077	173,804	39,867	(47,727)
NET POSITION - BEGINNING	<u>(4,484,788)</u>	<u>(4,610,865)</u>	<u>(4,664,202)</u>	<u>126,077</u>	<u>53,337</u>
RESTATEMENT OF BEGINNING NET POSITION	<u>(236,766)</u>	<u>-</u>	<u>(120,467)</u>	<u>(236,766)</u>	<u>120,467</u>
NET POSITION - ENDED	<u>\$ (4,555,610)</u>	<u>\$ (4,484,788)</u>	<u>\$ (4,610,865)</u>	<u>\$ (70,822)</u>	<u>\$ 126,077</u>

Operating Revenues

For the year ended December 31, 2015, the operating revenues increased by \$144,651 as compared to December 31, 2014. This increase can be primarily attributed to an increase in toll revenue of \$132,456. See "Overall Financial Position and Results of Operations and Important Economic Conditions" below.

For the year ended December 31, 2014, the operating revenues increased by \$34,924 as compared to December 31, 2013. This increase can be primarily attributed to an increase in toll revenue of \$31,252. See "Overall Financial Position and Results of Operations and Important Economic Conditions" below.

Revenue by Major Source

MTA Bridges and Tunnels tolls accounted for 98.1% and 98.7% of operating revenues in 2015 and 2014, respectively. The remaining revenue primarily represented income from parking fees (net of operating expenses) collected at the Battery Parking Garage and fees collected from E-ZPass customers.

Toll revenues were \$1,808,901 and \$1,676,445 for the years ended December 31, 2015 and December 31, 2014, respectively.

Operating Expenses

Operating expenses, including depreciation, increased for the year ended December 31, 2015, as compared to the prior year by \$8,965. The increase was primarily due to an increase in maintenance and other operating contracts of \$18,743 and depreciation expense of \$6,779, offset by a decrease in retirement and other employee benefits and post-employment benefits other than pensions of \$8,182 and a decreases in salaries and wages of \$7,795.

Operating expenses, including depreciation, increased for the year ended December 31, 2014, as compared to the prior year by \$64,743. The increase was primarily due to an increase in retirement and other employee benefits of \$21,621, principally related to postemployment benefits other than pensions. In addition, there were increases in maintenance and other operating contracts of \$13,464, salaries and wages of \$8,097, insurance of \$6,496 and depreciation expense of \$5,804.

Nonoperating Revenues (Expenses)

Nonoperating expenses decreased by \$17,295 for the year ended December 31, 2015. This decrease was primarily due to a decrease in interest expense on the debt of \$15,830 due to 2015 debt refundings.

Nonoperating expenses decreased by \$5,248 for the year ended December 31, 2014. This decrease was primarily due to a decrease in interest expense on the debt base of \$4,849 primarily due to 2014 debt refundings.

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

Economic Conditions/Results of Operations

Two key economic factors that have statistically significant relationships to changes in traffic volumes are regional non-farm employment and inflation (CPI-U). Based on preliminary data from the U.S. Bureau of Labor Statistics, regional employment grew on average by 2.1% in 2015 and 2.4% in 2014. Inflation was 0.1% in 2015 and 1.3% in 2014.

In 2015, total annual paid traffic was 297.9 million crossings, which was over 11.5 million, or 4.0% above the 2014 level. Traffic was higher on a year-to-year basis during each month in 2015, with growth ranging between 1% and 7%. Relatively low gas prices appear to be the major driver behind the increased volume. Gas prices averaged \$2.50 in 2015, which was \$1.05 below the annual average for 2014. Weather was generally more favorable in 2015 as well. While snowfall was comparable in both years (48 inches in 2015 vs. 47 inches in 2014), rainfall totaled 37 inches over 106 days in 2015, compared to 50 inches over 117 days in 2014. Toll revenue reached \$1,808.9 million in 2015, which was \$132.5 million, or 7.9% above the 2014 level of \$1,676.4 million. The additional revenue was a result of the higher traffic volume in 2015 and the toll increase implemented on March 22, 2015.

In 2014, total annual traffic was 286.4 million vehicles, which was over 1.8 million, or 0.6% above the 2013 level. Although January and February saw several harsh winter weather events that contributed to a combined year-to-year decline of 2.7 million crossings, or 6.3%, traffic growth was favorable each month thereafter. The traffic gain over the latter 10 months of 2014 totaled 4.5 million crossings, or 1.9%. While approximately 25% of this gain occurred in December, which saw relatively favorable winter weather conditions compared to December 2013, an improving economy and falling gas prices appear to be the main drivers behind the overall favorable traffic trend. Toll revenue reached \$1,676.4 million in 2014, which was \$31.2 million, or 1.9% above the 2013 level of \$1,645.2 million. The additional

revenue was a result of the overall higher traffic volume in 2014 and a full year's impact of the toll increase implemented on March 22, 2013.

The E-ZPass electronic toll collection system continued to facilitate management of high traffic volumes. All categories grew on a year-to-year basis in both 2014 and 2013:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
Total	85.1%	84.2%	83.1%
Average Weekday	86.8%	85.9%	84.8%
Passenger Vehicles	86.1%	85.3%	84.1%
Commercial Vehicles	93.0%	92.6%	91.8%
Average Weekend	81.1%	80.1%	78.9%

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

MTA Bridge and Tunnels' facilities are all in a state of good repair. MTA Bridge and Tunnels' portion of the MTA's Capital Program for 2015-2019 totals \$2,855,971 for normal replacement and system improvement projects. The commitments made during the fourth quarter 2015 were \$127,113 bringing the total commitment under the five-year plan to \$132,860.

MTA Bridge and Tunnels' portion of the Capital Program for 2010-2014 totals \$2,108,385 for normal replacement and system improvement projects. The commitments made during the fourth quarter 2015 were \$91,265 bringing the total commitment under the five-year plan to \$1,885,185.

MTA Bridge and Tunnels' portion of the Capital Program for 2005-2009 totals \$1,126,736 for normal replacement and system improvement projects. There were no commitments during the fourth quarter 2015. The total commitment under the five-year plan is \$1,119,197.

Approximately 65% of the projected expenditures in the 2010-2014 Capital Program will be incurred at three facilities: The Robert F. Kennedy Bridge, the Throgs neck Bridge and the Verrazano-Narrows Bridge. Other major projects in the 2015-2019 Capital Program include the skewback retrofit and the reconstruction of the upper and lower level toll plaza decks and southbound approach roadway (Phase B) at the Henry Hudson Bridge, the rehabilitation of the Queens Midtown Tunnel controls and communication systems, rehabilitation of the Hugh L. Carey Tunnel ventilation systems, and scour protection, repair and replacement of the pier fender systems at the Cross Bay Bridge.

Approximately 65.5% of the projected expenditures in the 2010-2014 Capital Program will be incurred at three facilities: the Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, and the Verrazano-Narrows Bridge. Other major projects in the 2010-2014 Plan include the rehabilitation of tunnel walls, roadway drainage, firelines and ceiling repairs (Phase II) and replacement of electrical switchgear and power distribution equipment at the Brooklyn-Battery Tunnel, upper and lower level toll plazas deck rehabilitation at the Henry Hudson Bridge and a facility-wide electrical upgrade, vent building switchgear and motor control center replacement at the Queens Midtown Tunnel.

Approximately 60.0% of the expenditures in the 2005-2009 Capital Program have been incurred at four facilities: the Verrazano-Narrows Bridge, the Robert F. Kennedy Bridge, the Bronx-Whitestone Bridge, and the Throgs Neck Bridge.

MTA Bridge and Tunnels' portion of the MTA's Capital Program for Sandy Restoration and Resiliency totals \$873,500, of which \$96,000 is for facility mitigation projects. The commitments made during the fourth quarter 2015 were \$21,818 bringing the total commitment under these plans to \$533,486 to date.

Approximately 95% of the projected expenditures will be incurred at the Hugh L. Carey and Queens Midtown Tunnels.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

MTA Bridges and Tunnels Infrastructure Losses from Sandy

Based on preliminary assessments by MTA Bridges and Tunnels staff and independent engineers, the estimated capital cost of repairs, mostly for damage to the tunnels, is \$778 million. The cost of infrastructure repairs is expected to be covered by a combination of FEMA, insurance, MTA Bridges and Tunnel resources, including its necessary reconstruction reserve, and, if necessary, interim external borrowings. Any such interim borrowings are currently expected to be structured as bond anticipation notes under the MTA Bridges and Tunnels Senior Resolution, and amounts of such borrowings not reimbursed by the federal government or from insurance coverage are expected to be paid from the proceeds of bonds issued under the MTA Bridges and Tunnels Senior Resolution.

As of December 31, 2015, costs associated with the storm included repair and clean-up expenses of \$1.8 million which are included in "asset impairment and related expenses" on the Statements of Revenues, Expenses, and Changes in Net Position.

On April 16, 2014, FEMA entered into an agreement with MTA, under the Public Assistance Alternative Procedures Pilot Program, to provide approximately \$329 million in FEMA funding for repairs and \$74.5 million in FEMA funding for hazard mitigation of the damaged elements of the Hugh L. Carey Tunnel and the Queens Midtown Tunnel. To date, MTA Bridges and Tunnels has applied for an additional \$24.8 million from FEMA for restoration and hazard mitigation funding at other facilities, totaling \$428.3 million in FEMA funding for all facilities.

MTA has not yet received all of its FEMA reimbursements. FEMA has approved approximately \$17 million in Operating budget expenses for emergency measures, debris removal, repair and resiliency for the MTA Bridges and Tunnels' bridge facilities, of which \$11.3 million has been received to date.

E-ZPass Initiatives

In 2015, a number of initiatives to encourage E-ZPass participation continued:

- MTA Bridges and Tunnels began selling E-ZPass "On the Go" pre-paid tags in the cash toll lanes at each facility in 2012. Through December 2015, more than 700,000 tags have been sold.
- MTA Bridges and Tunnels introduced the MTA Reload Card in February 2012, an initiative which makes it easier for customers to replenish their E-ZPass account with cash. Through December 2015, more than 148,000 cards have been issued to customers and approximately 16% of total cash replenishments were made using the cards.
- Spanish language versions of the E-ZPass application, interactive website, and the customer service telephone voice response system were introduced in January 2012.
- In November 2012, MTA Bridges and Tunnels introduced E-ZPass "Pay per Trip," which enables customers to set up an E-ZPass account without a pre-paid balance. Those interested in this program pay for their tolls each day through an Automated Clearinghouse (ACH) deduction from their checking account. Through December 2015, over 61,000 account holders have signed up for this initiative.

In January 2011, MTA Bridges and Tunnels initiated a pilot project at the Henry Hudson Bridge to test All-Electronic Tolling (AET) collection operations. The implementation of cashless tolling at the facility began on November 10, 2012. All motorists are now able to use any lane to drive through the toll plaza without stopping. There is no change for drivers who use E-ZPass. For customers without an E-ZPass tag, an image is taken of their license plate and the registered driver receives a bill in the mail. For the year-to-date through December, 94% of total crossings were E-ZPass and 6% were "Tolls by Mail" transactions. Thus far, the equipment and technology have met expectations, with the readable photo image rate at nearly 100%. The revenue collection rate is also nearly 100%, through a combination of tolls collected through the billing process and fees assessed and collected for late payment. Based on the results of the pilot program, in May 2014 the Board approved a change in the permanent method of toll collection at the Henry Hudson Bridge to AET, collecting tolls using the same system used for the pilot, with vehicles traveling in gateless, channelized lanes, followed in the fall of 2016 or early 2017 by a gantry-based Open Road Tolling (ORT) system and demolition of the existing toll plazas including the toll booths.

Verrazano-Narrows Bridge Rebate Programs

MTA has two toll rebate programs at the Verrazano-Narrows Bridge: the Staten Island Resident ("SIR") Rebate Program, available for residents of Staten Island participating in the SIR E-ZPass toll discount plan, and the Verrazano-Narrows Bridge Commercial Rebate Program ("VNB Commercial Rebate Program"), available for commercial vehicles making more than ten trips per month using the same New York Customer Service Center ("NYCSC") E-ZPass account.

The annualized cost of the VNB Rebate Programs in 2014-2015 was approximately \$14 million, with \$7 million for the SIR Rebate Program and \$7 million for the VNB Commercial Rebate Program. The \$14 million cost of the 2014-2015 VNB Rebate Programs was funded equally by the State and MTA, with the State's contribution provided by the waiving of \$7 million of cost recovery assessments levied by the State and otherwise payable by MTA pursuant to Public Authorities Law §2975.

The projected annualized cost of the 2015-2016 VNB Rebate Programs is \$17.3 million, with \$7 million for the 2015-2016 VNB Commercial Rebate Program and \$10.3 million for the 2015-2016 SIR Rebate Program. Under the 2015-2016 VNB Rebate Programs, \$7 million of the cost for the 2015-2016 SIR Rebate Program and \$7 million of the cost of the 2015-2016 VNB Commercial Rebate Program are to be funded equally by the State and the MTA, with the State's contribution provided by appropriations to the MTA. An additional \$3.3 million in appropriations is being provided by the State to the MTA to keep an effective toll rate of \$5.50 for Staten Island residents under the SIR Rebate Program (i.e., the effective toll prior to the March 22, 2015 toll increase).

The money to fund a year's estimated costs for the VNB Rebate Programs is transferred by the MTA to MTA Bridges and Tunnels prior to the implementation of the VNB Rebate Programs each year. The 2015-2016 VNB Rebate Programs will be implemented as specified herein only for such periods during which both (a) MTA's total financial responsibility, net of State actions or available offsets, does not exceed \$3.5 million for the 2015-2016 SIR Rebate Program (which is half of the \$7 million allocated to such Program) and \$3.5 million for the 2015-2016 VNB Commercial Rebate Program (which is half of the \$7 million allocated to such Program) and (b) the State provides (i) at least \$3.5 million for the 2015-2016 SIR Rebate Program and \$3.5 million for the 2015-2016 VNB Commercial Rebate Program and (ii) such additional funds as are necessary (currently estimated to be \$3.3 million) to keep an effective toll rate of \$5.50 for Staten Island residents under the 2015-2016 SIR Rebate Program (i.e., the effective SIR toll prior to the March 22, 2015 toll increase). MTA shall apply the \$3.3 million of additional funds provided by the State as necessary to keep an effective toll rate of \$5.50 for Staten Island residents under the 2015-2016 SIR Rebate Program (i.e., the effective SIR toll prior to the March 22, 2015 toll increase).

If, as a result of unexpected toll transaction activity, MTA Bridges and Tunnels estimates that such MTA and State funds allocated to the MTA for the 2015-2016 VNB Rebate Programs, net of offsets, will be insufficient to fund the 2015-2016 VNB Commercial Rebate Program for the full Program year, MTA Bridges and Tunnels may reduce the rebate amount under such Program to a percentage that is forecast to be payable in full for the remainder of the Program year with the available funds. However, in the event that such MTA and State funds allocated to the MTA for the 2015-2016 VNB Rebate Programs are fully depleted at any time during the 2015-2016 VNB Rebate Programs annual period, the 2015-2016 VNB Rebate Programs will cease and Staten Island residents will be charged the applicable resident discount toll and trucks and other commercial vehicles will be charged the applicable NYCSC E-ZPass toll for the Verrazano-Narrows Bridge.

The VNB Rebate Programs will continue into future years provided that (a) MTA's annual period contribution does not exceed \$7 million, (b) the MTA Board approves a budget that includes MTA's contribution to such program, and (c) the State provides to MTA funds sufficient for at least half the expenses of each continuing annual period.

The 2014-2015 SIR Rebate Program began on April 25, 2014 and was retroactive to April 1, 2014. Only Staten Island residents participating in the SIR E-ZPass toll discount plan at the NYCSC are eligible for the SIR rebate. Under the 2014-2015 SIR Rebate Program, the MTA rebated \$0.50 of the \$6.00 SIR E-ZPass toll paid by Staten Island residents with three or more trips per month across the Verrazano-Narrows Bridge, and \$0.86 of the \$6.36 SIR E-ZPass toll paid by Staten Island residents with one or two trips per month across the Verrazano-Narrows Bridge where tolls are collected only in the Staten Island-bound direction in accordance with federal law. As a result of these MTA toll rebates, Staten Island residents paid an effective toll of \$5.50 per trip across the Verrazano-Narrows Bridge through March 21, 2015; from the March 22, 2015 toll increase through March 31, 2015, they paid an effective toll of \$5.74 per trip.

Under the 2015-2016 SIR Rebate Program MTA is rebating \$0.74 of the \$6.24 SIR E-ZPass toll paid by Staten Island residents with three or more trips per month across the Verrazano-Narrows Bridge, and \$1.10 of the \$6.60 SIR E-ZPass toll paid by Staten Island residents with one or two trips across the bridge. As a result of these MTA toll rebates, Staten Island residents pay an effective toll of \$5.50 per trip. The 2015-2016 SIR Rebate Program is retroactive to April 1, 2015 and will continue through March 31, 2016.

The 2014-2015 VNB Commercial Rebate Program began on June 13, 2014 and was also retroactive to April 1, 2014. Trucks and eligible commercial vehicles paying with cash or non-NYCSC E-ZPass tags are not eligible for the rebate. Under the 2014-2015 VNB Commercial Rebate Program, the MTA rebated 20 percent of the E-ZPass toll for trucks and other eligible commercial vehicles that make more than ten trips per month across the Verrazano-Narrows Bridge using the same NYCSC E-ZPass account each month through February 2015. However, the \$7 million allocated for the VNB Commercial Rebate Program was not sufficient to provide a 20 percent rebate for the entire New York State Fiscal Year. As a result, VNB Commercial Rebate customers received a 14.75 percent rebate for the month of March 2015.

Under the 2015-2016 VNB Commercial Rebate Program, the initial rebate is 18 percent of the E-ZPass toll for trucks and other commercial vehicles with more than ten (10) trips per month across the Verrazano-Narrows Bridge, using the same New York Customer Service Center (NYCSC) E-ZPass Account. Implementing an 18 percent rebate of the E-ZPass toll for trucks and other eligible commercial vehicles, rather than the 20 percent rebate as specified in the 2014-2015 VNB Commercial Rebate Program, is expected to ensure that the \$7 million allocated for the 2015-2016 VNB Commercial Rebate Program is sufficient to provide funding from April 1, 2015 through March 31, 2016. The 2015-2016 SIR Rebate Program is retroactive to April 1, 2015 and will continue through March 31, 2016.

MTA has a program to rebate tolls for E-ZPass customers who are residents of Broad Channel and the Rockaway Peninsula using the Cross Bay Veterans Memorial Bridge. From July 23, 2010, to March 31, 2012, the resident discount E-ZPass crossing charge applied for the first two trips across the Bridge and only subsequent trips made during a calendar day using the same E-ZPass tag were eligible for the toll rebate. Effective April 1, 2012, the MTA has been using funds allocated by the State Legislature to restore the rebate for tolls incurred on the first two trips made by eligible participants across the Cross Bay Veterans Memorial Bridge within a calendar day (using the same E-ZPass tag).

During 2015 and 2014, MTA Bridges and Tunnels has redeemed or refinanced a number of its bonds to manage its interest cost risk and replace downgraded insurers. See Note 11 for further Long Term Debt details.

The MTA Board passed an increase in the Crossing Charge Schedule on January 22, 2015. The new Crossing Charge Schedule went into effect on March 22, 2015.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 13,357	\$ 14,145
Unrestricted investments (Notes 4 and 5)	100,495	121,300
Restricted investments (Notes 4 and 5)	616,196	632,522
Accrued interest receivable	719	671
Accounts receivable	37,237	34,771
Less allowance for doubtful accounts	(11,808)	(8,766)
Due from MTA (Note 23)	9,924	2,162
Prepaid expenses	5,813	22,684
Total current assets	<u>771,933</u>	<u>819,489</u>
NON-CURRENT ASSETS:		
Restricted investments (Notes 4 and 5)	107,003	105,078
Insurance recovery receivable (Note 10)	126,325	124,351
Capital assets (Note 6):		
Land and construction work-in-progress	893,242	718,164
Other capital asstes (net of depreciation)	3,836,486	3,723,873
Derivative assets (Note 16)	3,580	3,597
Total non-current assets	<u>4,966,636</u>	<u>4,675,063</u>
TOTAL ASSETS	<u>5,738,569</u>	<u>5,494,552</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to pensions (Note 7)	83,604	-
Accumulated decreases in fair value of derivative instruments	160,954	163,094
Loss on debt refunding	149,113	161,916
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u>393,671</u>	<u>325,010</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 6,132,240</u>	<u>\$ 5,819,562</u>

See notes to financial statements.

(Continued)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF NET POSITION
DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 106,616	\$ 90,603
Accrued expenses:		
Interest	54,203	55,291
Payable to MTA (Note 23)	43,054	26,995
Payable to NYCTA — operating expense (Note 23)	499	946
Accrued salaries	12,106	17,778
Accrued vacation and sick pay benefits	18,373	18,834
Total accrued expenses	128,235	119,844
Current portion — long-term debt (Notes 11 to 15)	274,182	334,700
Current portion - estimated liability from injuries to persons (Note 18)	21,099	22,308
Due to NYCTA - operating surplus (Note 1 and 23)	37,022	32,446
Due to MTA - operating surplus (Note 1 and 23)	56,494	50,413
Current portion - obligations under capital lease (Note 17)	6,117	6,170
Pollution remediation projects (Note 9)	1,829	1,829
Unearned tolls revenue (includes \$42,798 and \$38,411 in 2015 and 2014, respectively, due to other toll agencies)	198,241	188,865
Total current liabilities	829,835	847,178
NON-CURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 18)	19,748	14,047
Post employment benefits other than pensions (Note 8)	573,461	506,170
Long-term debt (Notes 11 to 15)	8,668,452	8,632,072
Net pension liability	243,901	-
Derivative liabilities (Note 16)	135,856	137,661
Derivative liabilities-off market elements (Note 16)	29,310	29,866
Obligations under capital leases (Note 17)	139,281	137,356
Total non-current liabilities	9,810,009	9,457,172
TOTAL LIABILITIES	10,639,844	10,304,350
DEFERRED INFLOWS OF RESOURCES:		
Related to pensions	48,006	-
TOTAL DEFERRED INFLOWS OF RESOURCES	48,006	-
NET POSITION:		
Net investment in capital assets	491,229	576,445
Restricted	723,199	737,600
Unrestricted	(5,770,038)	(5,798,833)
TOTAL NET POSITION	(4,555,610)	(4,484,788)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 6,132,240	\$ 5,819,562

See notes to financial statements.

(Concluded)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,808,901	\$ 1,676,445
Building rentals and fees	30,695	19,388
Other income	3,532	2,644
Total operating revenues	<u>1,843,128</u>	<u>1,698,477</u>
OPERATING EXPENSES:		
Salaries and wages	128,980	136,775
Retirement and other employee benefits	77,904	83,161
Post employment benefits other than pensions	86,815	89,740
Electric power	4,991	5,699
Fuel	1,977	3,152
Insurance	14,798	16,978
Maintenance and other operating contracts	127,636	108,893
Professional service contracts	17,116	16,890
Materials and supplies	3,255	3,396
Depreciation	110,818	104,039
Other	35,203	30,926
Total operating expenses	<u>609,493</u>	<u>599,649</u>
Asset impairment and related expenses — (Note 10)	<u>1,864</u>	<u>2,743</u>
OPERATING INCOME	<u>1,231,771</u>	<u>1,096,085</u>
NON-OPERATING REVENUES (EXPENSES):		
Build America Bonds subsidy	8,733	8,406
Federal Emergency Management Agency reimbursement related to Tropical Storm Sandy	5,524	4,489
Interest expense	(330,155)	(345,985)
Change in fair value of derivative financial instruments (Note 16)	204	148
Investment income	183	136
Total net non-operating expenses	<u>(315,511)</u>	<u>(332,806)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	916,260	763,279
TRANSFERS IN — Metropolitan Transportation Authority	401	352
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(318,435)	(265,570)
Metropolitan Transportation Authority	<u>(432,282)</u>	<u>(371,984)</u>
CHANGE IN NET POSITION	165,944	126,077
NET POSITION — Beginning of year	<u>(4,484,788)</u>	<u>(4,610,865)</u>
Restatement of beginning net position (Note 2)	<u>(236,766)</u>	<u>-</u>
NET POSITION — End of year	<u>\$ (4,555,610)</u>	<u>\$ (4,484,788)</u>
See notes to financial statements.		

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	\$ 1,811,906	\$ 1,671,990
Building rentals and fees received	43,372	42,440
Payroll and related fringe benefits	(180,795)	(195,122)
Other operating expenses	<u>(275,840)</u>	<u>(239,626)</u>
Net cash provided by operating activities	<u>1,398,643</u>	<u>1,279,682</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies paid to affiliated agencies	<u>(740,242)</u>	<u>(622,900)</u>
Net cash used in noncapital financing activities	<u>(740,242)</u>	<u>(622,900)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Payment for capital assets	(391,771)	(349,408)
Debt service payments	(339,235)	(246,545)
Bond proceeds	324,843	371,586
Bonds refunded	(50,248)	-
Interest payments	<u>(341,766)</u>	<u>(375,324)</u>
Net cash used in capital and related financing activities	<u>(798,177)</u>	<u>(599,691)</u>
See notes to financial statements.		(Continued)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(A Component of the Metropolitan Transportation Authority)

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2015 AND 2014
(In thousands)

	2015	2014
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross sales of short-term securities	\$ 2,602,499	\$ 2,384,502
Gross purchases of short-term securities	(2,460,370)	(2,236,834)
Gross sales of long-term securities	451,825	718,339
Gross purchases of long-term securities	(506,582)	(1,035,479)
Increase in MTA investment pool	51,028	108,099
Unrestricted income from investments	183	137
Investment income restricted for capital purposes	405	247
Net cash provided by/(used in) investing activities	<u>138,988</u>	<u>(60,989)</u>
NET (DECREASE) IN CASH	(788)	(3,898)
CASH — Beginning of year	<u>14,145</u>	<u>18,043</u>
CASH — End of year	<u>\$ 13,357</u>	<u>\$ 14,145</u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income	\$ 1,231,771	\$ 1,096,085
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation	110,818	104,039
Capitalized salary expense	(20,574)	(20,980)
Net (decrease)/increase in receivables	(11,107)	5,636
Net increase in operating payables	110,032	106,529
Net operating outflows related to pensions	(83,604)	-
Net decrease/(increase) in prepaid expenses and deferred charges	16,871	(267)
Net increase in pension liabilities	36,701	-
Net (decrease) in accrued salary costs, vacation and insurance	(1,641)	(13,739)
Net increase in unearned revenue	<u>9,376</u>	<u>2,379</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 1,398,643</u>	<u>\$ 1,279,682</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES:		
At December 31, 2015 and 2014, the Authority had capital asset related liabilities of \$35,875 and \$28,924, respectively.		
See notes to financial statements.		(Concluded)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

(Component of the Metropolitan Transportation Authority)

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In thousands, except as noted)

1. BASIS OF PRESENTATION

Reporting Entity — The Triborough Bridge and Tunnel Authority (the “Authority” or “MTA Bridges and Tunnels”) is a public benefit corporation created pursuant to the Public Authorities Law (the “Act”) of the State of New York (the “State”). MTA Bridges and Tunnels is a component of the Metropolitan Transportation Authority (“MTA”). The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

MTA Bridges and Tunnels operates seven toll bridges, two toll tunnels, and the Battery Parking Garage. All Authority toll facilities operate E-Z Pass in conjunction with a regional electronic toll collection system. MTA Bridges and Tunnels’ annual net earnings before depreciation and other adjustments (“operating transfer”) are transferred to the New York City Transit Authority (the “TA”) and the MTA pursuant to provisions of the Act. In addition, MTA Bridges and Tunnels annually transfers its unrestricted investment income to the MTA. The operating transfer and the investment income transfer can be used to fund operating expenses or capital projects. The TA receives \$24,000 plus 50% of MTA Bridges and Tunnels’ remaining annual operating transfer, as adjusted, to reflect certain debt service transactions and the MTA receives the balance of the operating transfer, as adjusted, to reflect certain debt service transactions, plus the annual unrestricted investment income. Transfers are made during the year. The remaining amount due at December 31, 2015 and 2014, of \$93,516 and \$82,859, respectively, is recorded as a liability in MTA Bridges and Tunnels’ financial statements.

MTA Bridges and Tunnels certified to the City of New York (the “City”) and the MTA that its operating transfer and its unrestricted investment income at December 31, 2015 and 2014, were as follows:

(In thousands)	2015	2014
Operating transfer	\$ 750,717	\$ 637,554
Investment income (excludes unrealized gain or loss)	<u>183</u>	<u>136</u>
	<u>\$ 750,900</u>	<u>\$ 637,690</u>

2. SUMMARY OF ACCOUNTING POLICIES

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

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

New Accounting Standards —

In 2015, the MTA Bridges and Tunnels adopted 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 pensions that are provided through pension plans administered as trusts or similar arrangements that meet certain criteria. GASB Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- a) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- b) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- c) 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.

The requirements of GASB Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees (or volunteers that provide services to state and local governments) are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement also identifies the methods and assumptions that should 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 (RSI) requirements about pensions also are addressed.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2014. As a result of adopting this Statement, the MTA Bridges and Tunnels is reporting net pension liabilities, deferred outflows of resources and deferred inflows of resources for its qualified plan and the recognition of pension expense in accordance with the provisions of this Statement. The financial impact resulting from the implementation of GASB Statement No. 68 is the restatement of 2015 beginning net position, a decrease of \$237 million, representing the retroactive effect of adoption. The MTA Bridges and Tunnels did not have readily available information to restate amounts for periods prior to the implementation of GASB Statement No. 68. An aggregate net pension liability of \$244 million, an aggregate deferred outflow of resources of \$84 million, and an aggregate deferred inflows of resources of \$48 million, were reported at December 31, 2015. The MTA Bridges and Tunnels recognized aggregate pension expense of \$33 million for the year-end December 31, 2015. Refer to Note 7 for more information regarding the MTA Bridges and Tunnels' pensions.

In 2015, The MTA Bridges and Tunnels adopted 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. The provisions of this Statement were incorporated with the implementation of GASB Statement No. 68 in the amount of \$83,604 as Deferred Outflows of resources related to pensions. Of this amount \$39,544 relate to contributions made between the measurement date and December 31, 2015. Refer to Note 7 for more information regarding the MTA Bridges and Tunnels' pensions.

The MTA Bridges and Tunnels 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 Bridges and Tunnels 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 Bridges and Tunnels 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 Bridges and Tunnels 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 plans, 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 Bridges and Tunnels 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 Bridges and Tunnels 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 Bridges and Tunnels 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 this 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 Bridges and Tunnels 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.

The MTA Bridges and Tunnels has not completed the process of evaluating the impact of GASB Statement No. 80, *Blending Requirements for Certain Component Units—An Amendment of GASB Statement No. 14*. The objective of GASB Statement No. 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion

requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of GASB Statement No. 81 is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. Split-interest agreements are a type of giving agreement used by donors to provide resources to two or more beneficiaries, including governments. Split-interest agreements can be created through trusts—or other legally enforceable agreements with characteristics that are equivalent to split-interest agreements—in which a donor transfers resources to an intermediary to hold and administer for the benefit of a government and at least one other beneficiary. Examples of these types of agreements include charitable lead trusts, charitable remainder trusts, and life-interests in real estate. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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 amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the market value of investments, allowances for doubtful accounts, arbitrage rebate liability, accrued expenses and other liabilities, depreciable lives of capital assets, estimated liability arising from injuries to persons, pension benefits and other postemployment benefits. Actual results could differ significantly from those estimates.

Operating Revenues — Bridges and tunnel revenue is recorded as earned (i.e., tolls are paid in cash, when vehicles pass through the electronic toll collection system or cashless tolls — Henry Hudson facility).

Non-Operating Revenues — Build America Bonds subsidy and investment income account for the MTA Bridges and Tunnels' non-operating revenues.

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 Bridges and Tunnels (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, etc.) are reported as non-operating expenses.

Investments — It is MTA Bridges and Tunnels' intent to hold its investments to maturity. Investments are recorded on the statement of net position at fair value which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (either as investment income and net increase (decrease) in fair value of investments) on the statements of revenues, expenses and changes in net position. Two investments are recorded at amortized cost.

MTA Investment Pool — The MTA, on behalf of the MTA Bridges and Tunnels, invests funds which are not immediately required for the MTA Bridges and Tunnels' 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. All investments are held by the MTA's agent in custody accounts in the name of the MTA.

Capital Assets — Capital assets include all land, buildings, toll equipment, and other structures of MTA Bridges and Tunnels having a useful life of greater than two years and having a cost of at least \$25.

Capital assets are generally 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, generally 99 years for primary structures, 10 to 50 years for buildings and improvements, 40 years for toll equipment and toll plazas, 30 years for roadways, and 2 to 7 years for all other equipment. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the assets, whichever is less.

Major reconstruction and improvements to such facilities are capitalized. Expenditures for maintenance and repairs which do not extend the useful life of the asset are charged to operations as incurred.

Title to substantially all real property is vested in the City of New York, and MTA Bridges and Tunnels has the use and occupancy thereof as long as its corporate existence continues.

Pollution Remediation Projects — Effective January 1, 2008, pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 9). 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 Bridges and Tunnels is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the MTA Bridges and Tunnels is named by a regulator as a responsible or potentially responsible party to participate in remediation; the MTA Bridges and Tunnels voluntarily commences or legally obligates itself to commence remediation efforts; or the MTA Bridges and Tunnels is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Compensated Absences — MTA Bridges and Tunnels has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that MTA Bridges and Tunnels will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Total outstanding compensated balances at December 31, 2015 and 2014 were \$600 and \$500, respectively.

Subsidies — Subsidies provided by MTA Bridges and Tunnels represent its operating transfer and investment income computed on an accrual basis.

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

GASB has issued Statements No. 67 and 68, which replaced GASB Statements No. 25 and 27. The effective date of GASB Statement No. 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 ended December 31, 2015 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).

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 Statement No. 67 and 68 and is no longer relevant for the Plan financial reporting purposes for 2014.

The MTA Bridges and Tunnels recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA Bridges and Tunnels’ proportionate share thereof in the case of a cost-sharing multiple-employer plan. The net pension liability is calculated using the qualified pension plan’s measurement date. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

Restatement of Beginning Net Position

The effect of the implementation of these standards is a restatement of 2015 beginning net position to retroactively report the beginning balances for net pension liability, deferred outflows of resources, deferred inflows of resources, and the removal of any net pension obligations (assets) along with any payables to the pension plans, as follows:

Net position as of December 31, 2014, as previously reported	\$ (4,484,788)
Composition of Restatement:	
Net pension assets	(28,463)
Deferred outflows related to pensions	83,604
Net pension liabilities	(243,901)
Deferred inflows related to pensions	(48,006)
Total Restatement:	<u>(236,766)</u>
Net position as of December 31, 2014, as restated	\$ <u>(4,721,554)</u>

Postretirement Benefits — In June 2004, the 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 Statement 45. MTA Bridges and Tunnels has adopted these standards for its Postemployment Benefits Other Than Pensions.

In addition to providing pension benefits, MTA Bridges and Tunnels provides certain health care and life insurance benefits for retired employees. Substantially all of MTA Bridges and Tunnels’ employees who are members of NYCERS may become eligible for those benefits if they reach normal retirement age while working for MTA Bridges and Tunnels. The insurance premiums for these benefits are recorded on a pay-as-you-go basis and totaled \$19,524 and \$18,592 in 2015 and 2014, respectively. No contributions are made by participants. As of December 31, 2015 and 2014, 1,247 and 1,208 retirees, respectively, including spouses and dependents, met those eligibility requirements. See Note 8 for further disclosure on Other Postemployment Benefits.

3. CASH

The Bank balances are insured up to \$250 in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited.

The Bank balances in 2015 and 2014 that were not insured were maintained in major financial institutions considered by management to be secure. The difference between the carrying amount and the bank balance for the years ended December 31, 2015 and 2014 is due to the petty cash and change funds which are maintained at the various toll facilities and not recorded by the bank. In addition, there were deposits in transit in each of the years ended December 31, 2015 and 2014.

Cash at December 31, 2015 and 2014 consists of the following:

	2015		2014	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 250	\$ 250	\$ 250	\$ 250
Collateralized deposits	13,107	9,404	11,792	8,266
Uncollateralized deposits	-	-	2,103	-
	<u>\$13,357</u>	<u>\$ 9,654</u>	<u>\$14,145</u>	<u>\$ 8,516</u>

4. INVESTMENTS

MTA Bridges and Tunnels' investment policies comply with the New York State Comptroller's guidelines for investment policies. MTA's All-Agency Investment Guidelines restrict MTA Bridges and Tunnels' investments to obligations of the U.S. Treasury, its agencies and instrumentalities and repurchase agreements backed by U.S. Treasury securities. All investments were managed by the MTA, as MTA Bridges and Tunnels' agent, in custody accounts kept in the name of MTA Bridges and Tunnels for restricted investments and in the name of the MTA for unrestricted investments. MTA's All-Agency Investment Guidelines state that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. As of December 31, 2015 and 2014, all investments are at fair value as set forth below (in thousands):

	2015	2014
Investments maturing in 2015 under terms of repurchase agreements	\$ 23,080	\$ 13,153
Commercial Paper	44,985	133,956
U.S. Treasuries due 2015 to 2016	91,085	58,854
U.S. Treasury Notes	116,848	145,077
MTA Investment Pool	409,702	358,674
Other government agencies	61,494	72,686
Irrevocable deposit account	76,500	76,500
	<u>\$ 823,694</u>	<u>\$ 858,900</u>

The fair value of the above investments consists of \$100,495 and \$121,300 in 2015 and 2014 in unrestricted investments, respectively, and \$723,199 and \$737,600 in 2015 and 2014 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 0.121 % to 0.238%, for the year ended December 31, 2015 and 0.093 % to 0.117%, for the year ended December 31, 2014. The net unrealized gain (loss), respectively on investments was (\$9) and \$24 for the years ended December 31, 2015 and 2014.

Cash and investments available to pay operating and maintenance expenses, debt service and operating surplus transfers, at December 31, 2015 and 2014, are as follows (in thousands):

Investments:	2015	2014
CURRENT:		
Restricted:		
Bond Proceeds Fund	\$ 28,972	\$ 140,798
Primarily Necessary Reconstruction Fund	426,257	356,352
Debt Service Fund	160,076	135,063
Cost of Issuance Fund	710	115
COPS 2 Broadway	<u>181</u>	<u>194</u>
Total current — restricted	616,196	632,522
Total current — unrestricted	<u>100,495</u>	<u>121,300</u>
Total — current	<u>\$ 716,691</u>	<u>\$ 753,822</u>
LONG-TERM:		
Restricted:		
Senior Revenue Bonds	\$ 3	\$ 4
Capital Lease Obligation:		
U.S. Treasury Strips	30,500	28,574
Irrevocable Deposit Account	<u>76,500</u>	<u>76,500</u>
Total long-term — restricted	<u>107,003</u>	<u>105,078</u>
Total — long-term	<u>\$ 107,003</u>	<u>\$ 105,078</u>

The unexpended bond proceeds of the General Purpose Revenue Bonds 1980 Resolution, not including proceeds held for the Transportation Project, were restricted for payment of capital improvements of MTA Bridges and Tunnels' present facilities. The Debt Service Funds are restricted for the payment of debt service as provided by the bond resolutions.

MTA Bridges and Tunnels' accrual of the liability to the federal government for rebate of arbitrage income from tax-exempt borrowings was \$0 at December 31, 2015 and 2014.

5. MTA INVESTMENT POOL

The MTA, on behalf of MTA Bridges and Tunnels, invests funds which are not immediately required for MTA Bridges and Tunnels' operations in securities permitted by the MTA's All-Agency Investment Guidelines in accordance with 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.

6. CAPITAL ASSETS

(In thousands)	Balance December 31, 2013	Additions	Deletions	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015
CAPITAL ASSETS NOT BEING DEPRECIATED:							
Land	\$ 27,940	\$ 25,000	\$ -	\$ 52,940	\$ -	\$ -	\$ 52,940
Construction in progress	<u>653,691</u>	<u>307,415</u>	<u>295,882</u>	<u>665,224</u>	<u>399,916</u>	<u>225,198</u>	<u>839,942</u>
Total capital assets not being depreciated	<u>681,631</u>	<u>332,415</u>	<u>295,882</u>	<u>718,164</u>	<u>399,916</u>	<u>225,198</u>	<u>892,882</u>
CAPITAL ASSETS BEING DEPRECIATED:							
Building — 2 Broadway	82,025	-	-	82,025	-	53	81,972
Primary structures	2,325,287	200,661	-	2,525,948	144,848	-	2,670,796
Toll plazas	249,272	11,489	-	260,761	12,896	-	273,657
Toll equipment	107,128	-	-	107,128	-	-	107,128
Buildings	575,673	24,623	-	600,296	28,642	-	628,938
Roadway	1,207,570	52,938	-	1,260,508	30,177	-	1,290,685
Other	<u>186,696</u>	<u>15,051</u>	<u>-</u>	<u>201,747</u>	<u>6,921</u>	<u>-</u>	<u>208,668</u>
Total capital assets being depreciated	<u>4,733,651</u>	<u>304,762</u>	<u>-</u>	<u>5,038,413</u>	<u>223,484</u>	<u>53</u>	<u>5,261,844</u>
LESS ACCUMULATED DEPRECIATION:							
Building — 2 Broadway	38,426	1,335	-	39,761	1,115	-	40,876
Primary structures	472,831	22,863	-	495,694	24,422	-	520,116
Toll plazas	119,552	5,713	-	125,265	6,017	-	131,282
Toll equipment	45,252	2,630	-	47,882	2,630	-	50,512
Buildings	142,102	14,022	-	156,124	14,819	-	170,943
Roadway	248,095	40,515	-	288,610	42,338	-	330,948
Other	<u>144,243</u>	<u>16,961</u>	<u>-</u>	<u>161,204</u>	<u>19,477</u>	<u>-</u>	<u>180,681</u>
Total accumulated depreciation	<u>1,210,501</u>	<u>104,039</u>	<u>-</u>	<u>1,314,540</u>	<u>110,818</u>	<u>-</u>	<u>1,425,358</u>
TOTAL CAPITAL ASSETS BEING DEPRECIATED — Net of accumulated depreciation	<u>3,523,150</u>	<u>200,723</u>	<u>-</u>	<u>3,723,873</u>	<u>112,666</u>	<u>53</u>	<u>3,836,486</u>
CAPITAL ASSETS — Net	<u>\$ 4,204,781</u>	<u>\$ 533,138</u>	<u>\$ 295,882</u>	<u>\$ 4,442,037</u>	<u>\$ 512,582</u>	<u>\$ 225,251</u>	<u>\$ 4,729,368</u>

In 2015 and 2014, capital asset additions included \$20,574 and \$20,980, respectively, of costs incurred by engineers working on capital projects.

7. EMPLOYEE BENEFITS

Plan Description

Employees of MTA Bridges and Tunnels are members of the New York City Employees' Retirement System ("NYCERS"), which is a cost-sharing, multiple-employer retirement system for employees of The City of New York ("The City") and certain other governmental units.

NYCERS was established by an act of the Legislature of the State of New York under Chapter 427 of the laws of 1920. NYCERS functions in accordance with the governing statutes contained in the New York State Retirement and Social Security Law (RSSL), and the New York City Administrative Code, which are the basis by which benefit terms and employer and member contribution requirements are established and amended. The head of the retirement system is the Board of Trustees.

NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. This report may be obtained by writing to the New York City Employees' Retirement System at 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3724 or at www.nycers.org.

All persons holding permanent civil service positions in the competitive or labor class are required to become members of the system six months after their date of appointment, but may voluntarily elect to join the system prior to their mandated membership date. All other eligible employees have the option of joining the system upon appointment or anytime thereafter.

- | | |
|--------|--|
| Tier 1 | All members who joined prior to July 1, 1973. |
| Tier 2 | All members who joined on or after July 1, 1973 and before July 27, 1976. |
| Tier 3 | Only certain members who joined on or after July 27, 1976 and prior to April 1, 2012. |
| Tier 4 | All members (with certain member exceptions) who joined on or after July 27, 1976 but prior to April 1, 2012. Members who joined on or after July 27, 1976 but prior to September 1, 1983 retain all rights and benefits of Tier 3 membership. |
| Tier 6 | Members who joined on or after April 1, 2012. |

Benefits Provided

NYCERS provides pension benefits to retired employees generally based on salary, length of service, and pension tier. For certain members of NYCERS, voluntary member contributions, which are in excess of the required member contributions, also impact pension benefits provided. In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee's age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member

contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from City service or until they retire.

NYCERS provides automatic Cost-of-Living Adjustments (“COLA”), death benefits, accident, disability retirement benefits, and other supplemental pension benefits to certain retirees and beneficiaries. Members become fully vested as to benefits upon the completion of 5 years of service.

The State Constitution provides that pension rights of public employees are contractual and shall not be diminished or impaired. In 1973, 1976, 1983 and 2012, significant amendments made to the State Retirement and Social Security Law (RSSL) modified certain benefits for employees joining the Plan on or after the effective date of such amendments, creating membership tiers.

Contributions and Funding Policy

NYCERS funding policy is to contribute statutorily-required contributions (“Statutory Contributions”), determined by the Chief Actuary for the New York City Retirement Systems in accordance with State statutes and City laws, and are generally funded by employers within the appropriate Fiscal Year. The Statutory Contributions are determined under the One-Year Lag Methodology (OYLM). Under OYLM, the actuarial valuation date is used for calculating the Employer Contributions for the second following Fiscal Year. Statutory Contributions are determined annually to be an amount that, together with member contributions and investment income, provides for NYCERS’ assets to be sufficient to pay benefits when due.

Member contributions are established by law. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service.

In general, Tier 1 and Tier 2 member contribution rates are dependent upon the employee’s age at membership and retirement plan election. In general, Tier 3 and Tier 4 members make basic contributions of 3.0% of salary, regardless of age at membership. Effective October 1, 2000, in accordance with Chapter 126 of the Laws of 2000, these members, except for certain Transit Authority employees enrolled in the Transit 20-Year Plan, are not required to make basic contributions after the 10th anniversary of their membership date or completion of ten years of credited service, whichever is earlier. In addition, members who meet certain eligibility requirements will receive one month’s additional service credit for each completed year of service up to a maximum of two additional years of service credit. Effective December 2000, certain Transit Authority Tier 3 and Tier 4 members make basic member contributions of 2.0% of salary, in accordance with Chapter 10 of the Laws of 2000. Certain Tier 2, Tier 3 and Tier 4 members who are participants in special retirement plans are required to make additional member contributions of 1.85%, in addition to their base membership contribution. Tier 6 members are mandated to contribute between 3.0% and 6.0% of salary, depending on salary level, until they separate from service or until they retire.

NYCERS established a “special program” for employees hired on or after July 26, 1976. A plan for employees, who have worked 20 years, and reached age 50, is provided to Bridge and Tunnel Officers, Sergeants and Lieutenants and Maintainers. Also, an age 57 retirement plan is available

for all other such MTA Bridges and Tunnels employees. Both these plans required increased employee contributions.

Certain retirees also receive supplemental benefits from MTA Bridges and Tunnels. Certain participants are permitted to borrow up to 75% of their own contributions including accumulated interest. These loans are accounted for as reductions in such participants' contribution accounts. Upon termination of employment before retirement, certain members are entitled to refunds of their own contributions, including accumulated interest, less any outstanding loan balances.

MTA Bridges and Tunnels is required to contribute at an actuarially determined rate. For 2015, the Authority's rate is 32.80% of annual covered payroll. The rate was 19.4% of annual covered payroll in 2014.

MTA Bridges and Tunnels contributions to NYCERS for the years ended December 31, 2015 and 2014 were \$41,812 and \$33,023, respectively, equal to the required contributions for each year.

Net Pension Liability

The Authority's net pension liability reported at December 31, 2015 was measured as of the NYCERS fiscal year-end of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by actuarial valuation as of June 30, 2013 and rolled forward to the measurement date of June 30, 2015. The fiduciary net position and additions to and deductions from the fiduciary net position have been determined on the same basis as reported by NYCERS. For this purpose, benefits and refunds are recognized when due and payable in accordance with the terms of the Plan; and investments are reported at fair value.

Actuarial Assumptions

The following assumptions were used in June 30, 2013 actuarial valuation:

Actuarial Valuation Date	June 30, 2013
Investment Rate of Return	7.0% per annum, net of expenses.
Projected Salary Increases ⁽¹⁾	In general, merit and promotion increases plus assumed general wage increases of 3.0% per year.
COLAs ⁽¹⁾	1.5% per annum for Tiers 1, 2, 4 and certain Tier 3 and Tier 4 retirees. 2.5% per annum for certain Tier 3 and Tier 4 retirees.
Active Service: Withdrawal, Death Disability, Retirement	Tables adopted by the NYCERS Board of Trustees during fiscal year ended June 30, 2013.
Post-Retirement Mortality	Mortality tables for service and disability pensioners were developed from an experience study of the plan.

The mortality tables for beneficiaries were developed from an experience review.

(1) Developed assuming a long-term Consumer Price Inflation assumption of 2.5% per year

Pursuant to Section 96 of the New York City Charter, an independent actuarial firm conducts studies of the actuarial assumptions used to value liabilities of the NYCERS Pension Plan every two years.

The most recent actuarial study analyzed experience for the four-year and ten-year periods ended June 30, 2013. In a report dated October 23, 2015, the independent actuarial auditor confirmed that the Actuary's calculations of employer contributions for the year ended June 30, 2014 were reasonable and appropriate and recommended the consideration of changes to the mortality, overtime, and investment return assumptions.

In accordance with the Administrative Code of the City of New York ("ACNY") and with appropriate practice, the Boards of Trustees of NYCERS are to periodically review and adopt certain actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions, which are also generally used to determine the total pension liability, as applicable. Based, in part, upon a review of the then two most recently completed experience studies, the Actuary issued reports for NYCERS proposing changes in actuarial assumptions and methods for Fiscal Years beginning on and after July 1, 2011 (February 2012 Reports). Where required, the Boards of Trustees of the NYCERS adopted those changes to actuarial assumptions that require Board approval. The State Legislature enacted Chapter 3/13 to provide for those changes to the actuarial assumptions and methods that require legislation, including the Actuarial Interest Rate ("AIR") assumption of 7.0% per annum, net of investment expenses.

Expected Rate of Return on Investments

The long-term expected rate of return on investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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.

Management of the pension fund has determined its long-term expected rate of return to be 7.0%. This is based upon expected real rates of return ("RROR") ranging from 5.33% to 5.58% and a long-term Consumer Price inflation assumption of 2.5% offset by investment related expenses.

The target allocation and best estimates of arithmetic real rates of return for each major asset class included in NYCERS target asset allocation as of the June 30, 2013 actuarial valuation are summarized as follows:

NYCERS			
Asset Class	Target Asset Allocation	Arithmetic RROR by Asset Class	Portfolio Component Arithmetic RROR
U.S. Public Market Equities	32.60%	6.60%	2.15%
International Public Market Equities	10.00%	7.00%	0.70%
Emerging Public Market Equities	6.90%	7.90%	0.55%
Private Market Equities	7.00%	9.90%	0.69%
U.S. Fixed Income	33.50%	2.70%	0.90%
Alternatives	10.00%	4.00%	0.40%
Total	100.00%		5.39%

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2015 was 7 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the rates applicable to the current Tier for each member and that employer contributions will be made based on rates determined by the Actuary. Based on those assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current active and non-active members. Therefore, the long-term expected rate of return on investments was applied to all periods of projected benefit payments to determine the total pension liability.

Authority's Proportion of Net Pension Liability - NYCERS

The following table presents the Authority's proportionate share of the net pension liability of the NYCERS plan based on a June 30, 2013 actuarial valuation rolled forward to June 30, 2015, and the proportion percentage of the aggregate net pension liability of NYCERS allocated to the Authority.

June 30, 2015 (in millions)		
Authority's proportion of the net pension liability in NYCERS		1.205%
Authority's proportionate share of the net pension liability in NYCERS	\$	243.90

The Authority's proportion of the net pension liability was based on the Authority's actual contributions made to NYCERS for the year-ended June 30, 2015 relative to the contributions of all employers in the plan.

Sensitivity of the Proportionate Share of the Net Pension Liability to the Discount Rate Assumption

The following presents the Authority's proportionate share of the NYCERS net pension liability calculated using the discount rate of 7.0%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.0%) or 1-percentage point higher (8.0%) than the current rate.

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
	(in millions)		
Authority's proportionate share of the net pension liability	\$ 337.32	\$ 243.90	\$ 157.13

Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the Authority recognized pension expense of \$33,121 related to pensions.

At December 31, 2015, the Authority reported deferred outflow of resources and deferred inflow of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	(in millions)	
Differences between expected and actual experience	\$ -	\$ 2.446
Changes in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	25.302	45.560
Changes in proportion and differences between contributions and proportionate share of contributions	18.758	-
Employer contribution to plan subsequent to the measurement date of net pension liability	39.544	-
Total	\$ 83.604	\$ 48.006

The annual differences between the projected and actual earnings on investments are amortized over a five-year closed period beginning the year in which the difference occurs. The annual differences between expected and actual experience and the changes in proportion and differences between employer contributions and proportionate share of contributions are amortized over the weighted average remaining service life of all members, beginning the year in which the deferred amount occurs.

\$39,544 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year-ended December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows:

Year ending December 31:

2016	\$	3.579
2017		3.579
2018		3.113
2019		(6.325)
2020		-
Thereafter		-
Total	\$	<u>3.946</u>

8. OTHER POSTEMPLOYMENT BENEFITS

The MTA and its Related Groups, which includes the MTA Bridges and Tunnels, has implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* ("GASB 45"). This Statement establishes 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 whether and to what extent progress is being made in funding the plan.

Plan Description — The Benefits provided by the MTA and its Related Groups include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions.

MTA Bridges and Tunnels' participates in the New York State Health Insurance Program ("NYSHIP") to provide medical and prescription drug benefits, including Medicare Part B reimbursements to its members. NYSHIP provides a PPO plan and several HMO plans.

GASB Statement No. 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, 2015 and was performed with a valuation date of January 1, 2014.

Since the MTA Bridges and Tunnels' is a participating employer in NYSHIP, it does not issue a stand-alone financial report regarding post-employment benefits. 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.

Annual OPEB Cost and Net OPEB Obligation — MTA Bridges and Tunnels’ annual OPEB cost (expense) represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the statement of net position. The annual OPEB cost is equal to the annual required contribution (“ARC”) less adjustments if a net OPEB obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA and its Related Groups have chosen to use Frozen Initial Liability (“FIL”) cost method with the initial liability amortized over a 22-year period. The remaining amortization period at December 31, 2015 is 14 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 FIL, 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.

Actuarial valuations 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.

Actuarial Methods and Assumptions — The Frozen Initial Liability (“FIL”) Cost Method was used for determining the Normal Cost. The Entry Age Normal (“EAN”) Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Frozen Accrued liability for each individual based on a level percent of pay for service accrued through the initial valuation date. The difference between the Actuarial Present Value of Benefits and the Frozen 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.

Inflation rate used was 2.5% per annum compounded annually.

Salaries were assumed to increase by years of service as follows:

Years of Employment	Rate of Increase
1	11.0 %
2	10.0
3	9.0
4	8.0
5	7.0
6	6.0
7	5.0
8	4.0
9	3.8
10	3.6
11+	3.5

Valuation Date — January 1, 2014.

Discount Rate — 3.5%

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2014 and 2015 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 5% and 4.5% for 2014 and 2015, respectively. The lower trends were assumed due to the actual experience of NYSHIP premium increases. It also reflected actual premium decreases for dental and vision benefits and Medicare Part B reimbursements.

These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

Health Care Cost Trend Rates

Fiscal Years	Trend
2015	6.0
2016	6.0
2017	6.0
2018	5.3
2019	5.2
2024	5.2
2029	5.5
2034	6.4
2039	5.9
2044	5.7
2049	5.6
2054	5.5

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 Gross Domestic Product of 1.8% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors and potential excise tax due to healthcare reform.

Participation — For the 2,885 members who participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire Preferred Provider Organization Plan.

Dependent Coverage — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan.

Spouses are assumed to be the same age as the employee/retiree. 80% of male and 45% 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 — Pre-retirement 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.

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

Postretirement Healthy Lives — RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue-collar adjustments were used for management members of Headquarters.

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.

Turnover and Retirement Rates — All demographic assumptions were based on assumptions utilized in the 2008 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
MTA Bridges and Tunnels	NYCERS — MTA Bridges and Tunnels

Vestee Coverage — For members that participate in NYSHIP, Vesteas (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. Vesteas 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 vesteras, which were only provided by Headquarters.

Age at Termination	Percent Electing
<40	- %
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 MTA Bridges and Tunnels' net OPEB cost for the year ended December 31, 2015 and 2014, the amount paid, and changes in MTA Bridges and Tunnels' net OPEB for the year ended December 31, 2015 and 2014 (in thousands):

(In thousands)

	2015	2014
Annual required contribution	\$ 114,090	\$ 113,165
Interest on net OPEB obligation	17,716	16,313
Adjustment to annual required contribution	<u>(44,991)</u>	<u>(39,738)</u>
Annual OPEB cost/expense	86,815	89,740
Payments	<u>(19,524)</u>	<u>(18,592)</u>
Increase in net OPEB obligation	67,291	71,148
Net OPEB obligation - beginning of year	<u>506,170</u>	<u>435,022</u>
Net OPEB obligation - end of year	<u>\$ 573,461</u>	<u>\$ 506,170</u>

MTA Bridges and Tunnels' annual OPEB cost, the percentage of annual OPEB cost contributed, and the net estimated OPEB obligation for the year ended December 31, 2015, 2014, and 2013 projected is as follows (in thousands):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Paid	Net OPEB Obligation
12/31/2015	\$86,815	22.5%	\$573,461
12/31/2014	\$89,740	20.7%	\$506,170
12/31/2013	\$76,896	22.9%	\$435,022

(In millions)

Period Ended	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
12/31/2015	1/1/2014	\$ -	\$ 798.0	\$ 798.0	\$ -	\$ 117.5	679%

The required schedule of funding progress immediately following the notes to the financial statements and the supplemental schedules 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.

9. POLLUTION REMEDIATION PROJECTS

MTA Bridges and Tunnels implemented GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2008. 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 Bridges and Tunnels is in violation of a pollution prevention-related permit or license
- MTA Bridges and Tunnels is named by a regulator as a responsible or potentially responsible party to participate in remediation
- MTA Bridges and Tunnels is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or
- MTA Bridges and Tunnels voluntarily commences or legally obligates itself to commence remediation efforts

In accordance with GASB Statement No. 49, there was no pollution remediation expense provision in 2015 or 2014. The expense provision was measured at its current value utilizing the prescribed expected cash flow method.

As of December 31, 2015 and December 31, 2014, the pollution remediation liability totaled \$1,829, primarily consisting of future remediation activities associated with asbestos removal and soil contamination at MTA Bridge and Tunnels facilities.

The pollution remediation liability is an estimate and is subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

10. ASSET IMPAIRMENT AND RELATED EXPENSES

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.

As of December 31, 2015, costs associated with the storm included repair and clean-up expenses of \$1.9 million which are included in "asset impairment and related expenses" on the Statements of Revenues, Expenses, and Changes in Net Position.

As of December 31, 2014, costs associated with the storm included repair and clean-up expenses of \$2.7 million which are included in "asset impairment and related expenses" on the Statements of Revenues, Expenses, and Changes in Net Position.

On April 16, 2014, FEMA entered into an agreement with MTA, under the Public Assistance Alternative Procedures Pilot Program, to provide approximately \$329 million in FEMA funding for repairs and \$74.5 million in FEMA funding for hazard mitigation of the damaged elements of the Hugh L. Carey Tunnel and the Queens Midtown Tunnel. To date, MTA Bridges and Tunnels has applied for an additional \$24.8 million from FEMA for restoration and hazard mitigation funding at other facilities, totaling \$428.3 million in FEMA funding for all facilities.

MTA has not yet received all of its FEMA reimbursements. FEMA has approved approximately \$17 million in Operating budget expenses for emergency measures, debris removal, repair and resiliency for the MTA Bridges and Tunnels' bridge facilities, of which \$11.3 million has been received to date.

11. LONG-TERM DEBT

MTA Bridges and Tunnels issues long-term bonds to fund its own capital projects, as well as the Transportation Project, through the following two credits:

- General Revenue Bonds, and
- Subordinate Revenue Bonds.

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2015:

- On January 28, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$185,875 General Revenue Variable Rate Refunding Bonds, Series 2003B-1, 2003B-2 and 2005B-3.
- On January 28, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$122,420 Senior Revenue Variable Rate Refunding Bonds, Series 2005A.
- On January 28, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$193,100 General Revenue Variable Rate Refunding Bonds, Series 2005B-2.
- On February 2, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$58,020 Subordinate Revenue Refunding Bonds, Subseries 2013D-2a.
- On May 15, 2015, MTA Bridges and Tunnels issued \$225,000 General Revenue Bonds, Series 2015A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities and to retire Series 2014A.
- On July 1, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$193,100 General Revenue Variable Rate Refunding Bonds, Series 2005B-3.
- On August 20, 2015, MTA Bridges and Tunnels remarketed \$122,565 General Revenue Variable Rate Bonds, Series 2001C.
- On October 28, 2015, MTA Bridges and Tunnels remarketed \$187,695 General Revenue Variable Rate Refunding Bonds, Series 2002F.
- On November 16, 2015, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$91,140 General Revenue Variable Rate Refunding Bonds, Series 2008B-3.

- On November 16, 2015, MTA Bridges and Tunnels issued \$65,000 General Revenue Bonds, Series 2015B. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On November 19, 2015, MTA Bridges and Tunnels remarketed \$43,800 General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4d.
- On November 19, 2015, MTA Bridges and Tunnels remarketed \$27,900 General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4a.
- On December 17, 2015, MTA Bridges and Tunnels remarketed \$58,020 Subordinate Revenue Refunding Bonds, Subseries 2013D-2a.
- On December 17, 2015, MTA Bridges and Tunnels remarketed \$90,450 Subordinate Revenue Refunding Bonds, Subseries 2013D-2b.

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2014:

- On January 2, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$66,300 General Revenue Variable Rate Refunding Bonds, Series 2005B-4a and 2005B-4b.
- On February 6, 2014, MTA Bridges and Tunnels issued \$250,000 General Revenue Bonds, Series 2014A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On February 6, 2014, MTA Bridges and Tunnels issued \$100,000 General Revenue Bond Anticipation Notes, Series 2014A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.
- On September 30, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$147,850 Subordinate Revenue Variable Rate Refunding Bonds, Series 2000ABCD.
- On November 17, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$63,650 General Revenue Bonds, Subseries 2008B-2.
- On December 11, 2014, MTA Bridges and Tunnels entered into a firm remarketing agreement in connection with the Remarketing of \$38,700 General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4c.

MTA Bridges and Tunnels' non-current portion of long-term debt as of December 31, 2015 and 2014 is comprised of the following:

(In thousands)

	2015	2014
Senior Revenue Bonds (Notes 12 and 14)	\$7,047,361	\$6,942,253
Subordinate Revenue Bonds (Note 13)	1,613,829	1,681,097
2 Broadway Certificates of Participation (Note 15)	<u>7,262</u>	<u>8,722</u>
Total long-term debt - net of premiums and discounts	<u>\$8,668,452</u>	<u>\$8,632,072</u>

MTA Bridges and Tunnels has entered into several Letter of Credit Agreements and Standby Bond Purchase Agreements (together, "Credit and Liquidity Agreements") as listed on the table below.

Resolution	Series	Provider	Exp. Date
TBTA General Revenue	2001B	State Street	9/28/2018
TBTA General Revenue	2001C	Bank of Tokyo Mitsubishi	8/17/2018
TBTA General Revenue	2002F	Helaba	11/1/2018
TBTA General Revenue	2003B-1	PNC	1/26/2018
TBTA General Revenue	2003B-3	Wells Fargo	1/26/2018
TBTA General Revenue	2005A	TD Bank	1/28/2020
TBTA General Revenue	2005B-2	Wells Fargo	1/26/2018
TBTA General Revenue	2005B-3	Bank of Tokyo Mitsubishi	6/29/2018
TBTA SUB	TBTA SUB 2013D-2a Taxable	Bank of America ML	12/14/2018
TBTA SUB	TBTA SUB 2013D-2b Taxable	Bank of America ML	12/14/2018

According to the terms of the Credit and Liquidity Agreements, if the remarketing agent fails to remarket any of the bonds listed above that are tendered by the holders, the bank is required (subject to certain conditions) to purchase such unremarketed portion of the bonds. Bonds owned by the bank and not remarketed after a specified amount of time (generally 90 days) are payable to the bank as a term loan over five years in ten equal semiannual principal payments including interest thereon. As of December 31, 2015, there were no term loans outstanding.

12. DEBT — SENIOR REVENUE BONDS

Senior Revenue Bonds at December 31, 2015 and 2014, consist of the following:

(In thousands)	Original Issuance	December 31, 2014	Issued	Principal Repayments & Retirements During 2015	December 31, 2015
Series EFC 1996A	\$ 23,530	\$ 4,150	\$ -	\$ 1,710	\$ 2,440
Series 2001B&C, 4.10% - 5.25%	296,400	245,135	-	-	245,135
Series 2002B	2,157,065	75,480	-	75,480	-
Series 2002F	246,480	195,300	187,695	195,300	187,695
Series 2003B	250,000	192,915	185,875	192,915	185,875
Series 2005A	150,000	122,420	122,420	126,165	118,675
Series 2005B	800,000	582,000	457,900	460,600	579,300
Series 2006A	200,000	71,045	-	4,785	66,260
Series 2007A	223,355	131,640	-	4,850	126,790
Series 2008A	822,770	618,105	-	19,895	598,210
Series 2008B	252,230	252,230	91,140	105,080	238,290
Series 2008C	629,890	500,180	-	12,695	487,485
Series 2009A-1	150,000	114,905	-	6,560	108,345
Series 2009A-2	325,000	293,820	-	4,830	288,990
Series 2009B - BAB	200,000	200,000	-	-	200,000
Series 2010A-1	66,560	43,380	-	6,475	36,905
Series 2010A-2 - BAB	280,400	280,400	-	-	280,400
Series 2011A	609,430	586,210	-	16,535	569,675
Series 2012A	231,490	221,275	-	4,325	216,950
Series 2012B	1,236,898	1,235,473	-	970	1,234,503
Series 2013B	257,195	257,195	-	-	257,195
Series 2013C	200,000	196,610	-	3,460	193,150
Series 2014A	250,000	244,960	-	4,015	240,945
Series 2015A	-	-	225,000	3,075	221,925
Series 2015B	-	-	65,000	-	65,000
	<u>\$ 9,858,693</u>	6,664,828	1,335,030	1,249,720	6,750,138
Add net unamortized bond discount and premium		<u>462,819</u>	<u>54,014</u>	<u>9,893</u>	<u>506,940</u>
		<u>\$ 7,127,647</u>	<u>\$1,389,044</u>	<u>\$ 1,259,613</u>	<u>\$ 7,257,078</u>

General Revenue Fixed Rate Bonds Series 2009B and General Revenue Fixed Rate Bonds Series 2010A-2 are Federally Taxable — Issuer Subsidy- Build America Bonds.

Debt Service Requirements:

December 31	Principal	Interest	Debt Service
(In thousands)			
2016	\$ 209,670	\$ 304,938	514,608
2017	218,185	295,791	513,976
2018	227,480	285,965	513,445
2019	234,045	275,516	509,561
2020	255,075	264,157	519,232
2021–2025	1,341,270	1,140,010	2,481,280
2026–2030	1,672,993	817,752	2,490,745
2031–2035	1,441,335	530,924	1,972,259
2036–2040	935,775	164,340	1,100,115
2041–2045	154,875	34,225	189,100
2046–2050	<u>59,435</u>	<u>9,205</u>	<u>68,640</u>
	<u><u>\$6,750,138</u></u>	<u><u>\$4,122,823</u></u>	<u><u>\$ 10,872,961</u></u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for variable rate bonds are as follows: variable rate bonds at an assumed rate of 4%; swapped bonds at the applicable synthetic fixed rate for the swapped portion and 4% otherwise; floating rate notes at the applicable synthetic fixed rate plus the current fixed spread to maturity for the swapped portion and 4% plus the current fixed spread to maturity for the portion that is not swapped.

13. DEBT — SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds at December 31, 2015 and 2014, consist of the following:

(In thousands)	Original Issuance	December 31, 2014	Issued	Principal Repayments & Retirements During 2015	December 31, 2015
Series 2000AB	\$ 201,120	\$ -	\$ -	\$ -	\$ -
Series 2000CD	201,080	-	-	-	-
Series 2000ABCD	147,850	147,850	-	19,150	128,700
Series 2002E	756,095	139,825	-	-	139,825
Series 2003A	500,170	9,545	-	4,495	5,050
Series 2008D	491,110	374,160	-	20,115	354,045
Series 2013A	653,964	647,194	58,020	60,055	645,159
Series 2013D	313,975	312,975	148,470	149,700	311,745
	<u>\$ 3,265,364</u>	<u>1,631,549</u>	<u>206,490</u>	<u>253,515</u>	<u>1,584,524</u>
Add net unamortized bond discount and premium		<u>96,573</u>	<u>-</u>	<u>2,804</u>	<u>93,769</u>
		<u>\$ 1,728,122</u>	<u>\$ 206,490</u>	<u>\$ 256,319</u>	<u>\$ 1,678,293</u>

Debt Service Requirements:

Year Ending December 31	Principal	Interest	Aggregate Debt Service
(In thousands)			
2016	\$ 64,465	\$ 67,098	131,563
2017	67,770	63,998	131,768
2018	92,350	60,490	152,840
2019	97,610	56,840	154,450
2020	81,840	53,092	134,932
2021–2025	473,235	205,164	678,399
2026–2030	543,170	137,935	681,105
2031–2032	<u>164,084</u>	<u>59,255</u>	<u>223,339</u>
	<u>\$ 1,584,524</u>	<u>\$ 703,872</u>	<u>\$ 2,288,396</u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for variable rate bonds are as follows: variable rate bonds at an assumed rate of 4%; swapped bonds at the applicable synthetic fixed rate for the swapped portion and 4% otherwise; floating rate notes at the applicable synthetic fixed rate plus the current fixed spread to maturity for the swapped portion and 4% plus the current fixed spread to maturity for the portion that is not swapped.

14. BOND ANTICIPATION NOTES

On February 6, 2014, MTA Bridges and Tunnels issued \$100,000 General Revenue Bond Anticipation Notes, Series 2014A. The net proceeds were issued to finance projects for MTA Bridges and Tunnels' own facilities.

(In thousands)	December 31, 2014	Issued	Principal Repayments & Retirements During 2015	December 31, 2015
Series 2014A	\$ 100,000	\$ -	\$ 100,000	\$ -
Add net unamortized bond premium	<u>2,281</u>	<u>-</u>	<u>2,281</u>	<u>-</u>
	<u>\$ 102,281</u>	<u>\$ -</u>	<u>\$ 102,281</u>	<u>\$ -</u>

15. CERTIFICATES OF PARTICIPATION

In 2000, the Trust (Note 17) issued \$121,200 of fixed rate Serial and Term Certificates of Participation, Series 2000A. In 1999, the Trust issued \$328,205 of fixed rate Serial and Term Certificates of Participation, Series 1999A. In 2004, the Trust issued \$357,925 of fixed rate Serial and Term Certificates of Participation, Series 2004A. The proceeds of the Certificates were used to finance certain building and tenant improvements to the 2 Broadway office building in New York City, occupied by the Transit Authority, MTA, on behalf of its subsidiaries, The Long Island Rail Road Company, Metro-North Commuter Railroad Company, and MTA Bridges and Tunnels (Notes 17 and 22). The Transit Authority is obligated to pay 68.7% of the debt service, the MTA 21.0%, and MTA Bridges and Tunnels 10.3%.

Certificates of Participation at December 31, 2015 and 2014 consist of the following:

(In thousands)	Original Issuance	December 31, 2014	Issued	Principal Repayments & Retirements During 2015	December 31, 2015
Series 1999A	\$ 328,205	\$ -	\$ -	\$ -	\$ -
Series 2000A	121,200	-	-	-	-
Series 2004A	<u>357,925</u>	<u>8,722</u>	<u>-</u>	<u>1,460</u>	<u>7,262</u>
	<u>\$ 807,330</u>	<u>8,722</u>	<u>-</u>	<u>1,460</u>	<u>7,262</u>
Add net unamortized bond discount and premium		<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>\$ 8,722</u>	<u>\$ -</u>	<u>\$ 1,460</u>	<u>\$ 7,262</u>

MTA Bridges and Tunnels' share of the debt service requirements:

Certificates of Participation
(In thousands)

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2016		261	261
2017	1,342	229	1,571
2018	1,772	163	1,935
2019	1,957	89	2,046
2020	1,161	43	1,204
2021–2025	515	139	654
2026–2030	515	41	556
	<u>\$ 7,262</u>	<u>\$ 965</u>	<u>\$ 8,227</u>

The above interest amounts include both fixed and variable rate calculations. The interest rate assumptions for Certificates of Participation are as follows:

- *Certificates of Participation, Series 2004A* — 3.542% per annum taking into account the interest rate swaps

The above Certificates of Participation include net payments made by MTA Bridges and Tunnels under the swap agreements (Note 21)

16. GASB 53 — DERIVATIVE INSTRUMENTS

MTA Bridges and Tunnels implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, in 2010. The Statement deals with the recognition, measurement, and disclosure of information regarding derivative instruments, and addresses hedge accounting requirements. Hedging derivative instruments are supposed to significantly reduce financial risk by substantially offsetting the associated changes in cash flows or fair values of the underlying bond portfolio.

For the year ended December 31, 2015, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$204, \$135,856 and \$160,954, respectively. Also recognized in the same period are derivative assets and derivative liabilities-off market elements in the amounts of \$3,580 and \$29,310, respectively.

For the year ended December 31, 2014, the MTA Bridges and Tunnels is reporting gains, derivative liabilities and deferred outflows from derivative instruments in the amounts of \$148, \$137,661 and \$163,094, respectively. Also recognized in the same period are derivative assets and derivative liabilities-off market elements in the amounts of \$3,597 and \$29,866, respectively.

GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments
Summary Information as of December 31, 2015

	Bond Resolution	Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Entered Date	Notional Amount as of 12/31/15 (in millions)	Fair Values as of 12/31/15 (in millions)
Investment Swap	2 Broadway Certificate of Participation ⁽¹⁾	2004A	Pay-Fixed Swap	N/a	N/a	8/10/2004	\$ 8.722	\$ (0.636)
Hedging Swaps	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	193.100	(37.154)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	23.520	(4.283)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	579.300	(111.462)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	76.150	(8.055)

(1) MTA Bridges and Tunnels' share of the debt service requirements for the 2 Broadway Certificate of Participation is 10.3% (Note 15). Thus, as of December 31, 2015, the notional amount is calculated as 10.30% of \$84.675 million; and the fair value is calculated as 10.3% of \$(6.177) million.

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

	Changes In Fair Value		Fair Value at December 31, 2015		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
Government activities					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$2,140	Debt	(\$160,954)	\$872.070
Investment hedge:					
Pay-fixed interest rate swaps	Investment Expense	0.204	Debt	(0.636)	8.722

For the year ended December 31, 2015, the MTA Bridges and Tunnels recorded \$204 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 year ended December 31, 2015, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of five (5) swaps and hedging relationships that were reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of that total, four (4) were deemed effective using Synthetic Instrument Method and one (1) was deemed ineffective.

For the four (4) 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 is classified as a swaption for which a premium was received by MTA Bridges and Tunnels at contract inception as shown in the Table below. 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	Premuim	Date of the Swaption Contract	Premium Payment Date
MTA Bridges & Tunnels-Subordinate	2000AB	\$22,740,000	8/12/1998	8/25/1998

17. CAPITAL LEASE OBLIGATIONS

2 Broadway

During 1998, the MTA, TA, and MTA Bridges and Tunnels entered into an agreement with the United States Trust Company of New York (collectively, the "Trust") to provide for the lease of an office

building located at 2 Broadway in New York City. Subsequently, the same parties provided for the delivery of certain certificates of participation to finance building and tenant improvements at 2 Broadway (Note 14). The lease is composed of both an operating lease (for the lease of land) (Note 21) and capital lease (for the lease of the building) elements.

The lease term expires June 30, 2048, with the right to extend the term of the lease for two successive periods of fifteen years each. Rental payments will be allocated to the MTA, TA, and MTA Bridges and Tunnels based upon usage.

On November 4, 2003, MTA entered into agreement to end the litigation between the MTA and the owners of the 2 Broadway facilities. The settlement provides for a rent credit to MTA Bridges and Tunnels over a 30-year period commencing January 1, 2004.

The credit, which aggregated amounts to \$4,525 has been reflected proportionately, on an annual basis through January 1, 2034, in the 2 Broadway capital lease obligations schedule included in the tables below.

MTA Bridges and Tunnels has recorded capital lease assets using the net present value, and using a borrowing rate of 9.11%, and has reflected a capital lease obligation as of December 31, 2015 and 2014, of \$38,398 and \$38,452, respectively.

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 the TA, for net proceeds of \$84,229. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The gain on the sale of \$34,231 was deferred and netted against the carrying value of the leased assets, and the assets were recontributed to the TA. MTA Bridges and Tunnels transferred \$5,488 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds equal the net present value of the lease obligation, of which \$71,258 was placed in an irrevocable deposit account and \$7,483 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 obligations under the lease as they become due.

In 2015 and 2014, there were no capital lease obligation payments which were funded by the aforementioned investments. At December 31, 2015 and 2014, the balance in the irrevocable deposit account was \$76,500 and the investments in U.S. Treasury Strips had a market value of \$30,500 and \$28,574 at December 31, 2015 and 2014, respectively.

At the end of the lease term, MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106,000, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89,000, which is expected to be covered by the irrevocable deposit.

Total net obligations under all capital leases as of December 31, 2015 and 2014, are as follows:

(In thousands)	2015	2014
2 Broadway	\$ 38,398	\$ 38,452
Subway cars	<u>107,000</u>	<u>105,074</u>
	145,398	143,526
Less current portion	<u>(6,117)</u>	<u>(6,170)</u>
	<u>\$ 139,281</u>	<u>\$ 137,356</u>

Net minimum lease payments are as follows:

Years Ending December 31	Aggregate Lease Payments
(In thousands)	
2016	\$ 17,375
2017	104,641
2018	6,227
2019	6,334
2020	6,398
2021-2025	33,099
2026-2030	34,379
2031-2035	33,299
2036-2040	29,173
2041-2045	20,641
2046-2050	<u>5,917</u>
Minimum future lease payments	297,483
Less amount representing interest	<u>(152,085)</u>
	<u>\$ 145,398</u>

Total accumulated depreciation under capital leases was approximately \$40,876 and \$39,761 in 2015 and 2014, respectively.

18. RISK MANAGEMENT

MTA Bridges and Tunnels is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

MTA Bridges and Tunnels is self-insured up to \$3.2 million per occurrence for liability arising from injuries to persons, excluding employees. MTA Bridges and Tunnels is self-insured for work-related injuries to employees and for damage to third-party property. MTA Bridges and Tunnels provides reserves to cover the self-insured portion of these claims, including a reserve for claims incurred but not reported. The annual cost arising from injuries to employees and damage to third-party property is included in "Retirement & other employee benefits" and "Insurance" in the accompanying statements of revenues, expenses and changes in net position.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, as of December 31, 2015 and 2014, is as follows (in thousands):

(In thousands)	2015	2014
Balance — beginning of year	\$ 36,355	\$ 29,477
Activity during the year:		
Current year claims and changes in estimates	6,222	13,340
Claims paid	<u>(1,730)</u>	<u>(6,462)</u>
Balance — end of year	40,847	36,355
Less current portion	<u>(21,099)</u>	<u>(22,308)</u>
Long-term liability	<u>\$ 19,748</u>	<u>\$ 14,047</u>

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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.6 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and \$1.9 million 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 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3 million for MTA Staten Island Railway; and \$2.6 million for MTAHQ and MTA Bridges and Tunnels. Effective October 31, 2015 the self-insured retention limits for ELF were increased to the following amounts: \$11 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; \$3.2 million for MTA Staten Island Railway; 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 million. 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 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums

based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2015, the balance of the assets in this program was \$109.1million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of \$350 million for a total limit of \$400 million (\$350 million excess of \$50 million). 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 million.

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 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate as well as certain exceptions summarized below. The total program is \$600 million 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 million 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 million per occurrence self-insured retention, MTA self-insures All Risk (excluding Earthquake, Flood, and Wind) above that retention for an additional \$220.1 million within the overall \$600 million property program, as follows: \$11.64 million (or 23.28%) of the \$50 million layer excess of the primary \$150 million layer, plus \$45.5 million (or 45.5%) of the \$100 million layer excess of \$250 million, plus \$87.5 million (or 58.33%) of \$150 million excess of \$350 million, plus 35.5 million (or 71%) of the \$50 million layer excess of \$500 million, plus \$40.5 million (or 81%) of \$50 million layer excess of \$550 million.

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

Supplementing the \$600 million per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 million 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 of the Authority and the 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 million 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 million in 2015 and \$120 million 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 million 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 million 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 million and less than the \$100 million TRIPRA trigger up to a maximum recovery of \$100 million for any occurrence and in the annual aggregate during 2015 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$120 million TRIPRA trigger up to a maximum recovery of \$120 million 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 million in 2015 and \$172.0 million in 2016. These coverages expire at midnight on May 1, 2016.

Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million 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 million future losses in that policy year are subject to a retention of \$7.5 million.

19. LEASE-LEASEBACK TRANSACTION

On March 31, 1997, the MTA entered into a lease/leaseback transaction with a third party whereby the MTA leased MTA Long Island Rail Road's Hillside maintenance facility to the third party. The term of the lease is 22 years, and the third party has the right to renew for a further 21.5 year term. The facility was subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Long Island Rail Road. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made.

Under the terms of the lease/leaseback agreement, the MTA initially received \$314,000, which was utilized as follows. The MTA paid \$266,000 to Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The MTA used \$21,000 to purchase Treasury securities, which are pledged as collateral to the third party. The value at maturity of these Treasury securities, together with the proceeds from the aforementioned obligation of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., is sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the related purchase option is exercised. A further \$600 was used to pay for legal and other costs of the transaction, and \$3,000 was used to pay the first rental payment under the sublease. A further \$23,000 is the MTA's net benefit from the transaction, representing consideration for the tax benefits.

20. COMMITMENTS AND CONTINGENCIES

At December 31, 2015 and 2014, MTA Bridges and Tunnels had unused standby letters of credit, relative to insurance, amounting to \$2.712 million.

MTA Bridges and Tunnels is involved in various litigations and claims involving personal liability claims and certain other matters. Although the ultimate outcome of these claims and suits cannot be predicted at this time, management does not believe that the ultimate outcome of these matters will have a material effect on the financial position, results of operations and cash flows of MTA Bridges and Tunnels.

21. SWAP AGREEMENTS

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

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond 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 BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/15 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/15 (in millions)	Swap Termination Date	Counterparty
Series 2002F ⁽¹⁾	\$193.100	07/07/05	3.076 %	67% of one-month LIBOR ⁽¹⁾	\$(37.154)	01/01/32	Citibank, N.A.
Series 2005A ⁽⁴⁾⁽⁵⁾	23.520	09/24/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points	(4.283)	01/01/30	UBS AG
Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e ⁽¹⁾	579.300	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	(111.462)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$795.920				\$(152.899)		
MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/2015 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/2015 (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD ¹⁽²⁾⁽³⁾	\$76.150	01/01/01	6.080 %	SIFMA – 15 bp	\$(8.055)	01/01/19	JPMorgan Chase Bank, NA
Total	\$76.150				\$ (8.055)		

- (1) 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.
- (2) In accordance with a swaption entered into on August 12, 1998, the Counterparty paid to MTA Bridges and Tunnels a premium of \$22,740,000.
- (3) 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.
- (4) 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-1.
- (5) 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-1.

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 million 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 million in notional amount as of December 31, 2015, of which MTA New York City Transit is responsible for \$58.172 million, MTA for \$17.781 million, and MTA Bridges and Tunnels for \$8.722 million. As of December 31, 2015, the aggregate fair value of the remaining portion associated with the 2004A COPs was (\$6.177) million (MTA Bridges and Tunnels portion is 10.3%).

Counterparty Ratings

The current ratings of the counterparties are as follows as of December 31, 2015:

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

Swap Notional Summary

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

<u>Series</u>	<u>Outstanding Principal</u>	<u>Notional Amount</u>
TBTA SUB 2000ABCD	128,700,000	76,150,000
TBTA 2005B-4 (a,b,c,d,e)	193,100,000	193,100,000
TBTA 2005B-3	193,100,000	193,100,000
TBTA 2005B-2 (a,b,c)	193,100,000	193,100,000
TBTA 2005A	118,675,000	23,520,000
TBTA 2003B (1,2,3)	185,875,000	(a)
TBTA 2002F	187,695,000	193,100,000
COPs 2004A	84,675,000	84,675,000
Total	\$1,284,920,000	\$956,745,000

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

Counterparty	Notional Amount (in thousands)	% of Total Notional Amount
JPMorgan Chase Bank, NA	\$827,100	33.75%
UBS AG	806,200	32.90
The Bank of New York Mellon	331,020	13.51
Citibank, N.A.	193,100	7.88
BNP Paribas North America, Inc.	193,100	7.88
AIG Financial Products Corp.	100,000	4.08
Total	\$2,450,520	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 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.

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 (amounts in whole dollars)(
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 (amounts in whole dollars)(
Series 2005-A1	See 2 Broadway Certificates of Participation	

Series 2002F (swap with Citibank, N.A.), Series 2005B-2a,b,c, 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 (amounts in whole dollars)(
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.

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-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e (swap 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	<ol style="list-style-type: none"> 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, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the related swap insurer, MBIA. 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

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 BRIDGES AND TUNNELS (IN MILLIONS)				
Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
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	25.4	37.0	(7.0)	55.4
2021-2025	170.3	166.5	(33.5)	303.3
2026-2030	408.3	116.8	(26.8)	498.3
2031-2035	350.2	9.0	(1.6)	357.6

22. OPERATING LEASES

During 1998, the MTA, TA and MTA Bridges and Tunnels entered into a lease and related agreements whereby each, as sub lessees, will rent for at least an initial stated term of approximately 50 years, space at 2 Broadway in lower Manhattan (Note 17).

The total annual rental payments over the initial lease term are \$1,600. Of this amount, approximately \$488 represents land accounted for under an operating lease agreement. Rental payments will be allocated to the MTA, TA, and MTA Bridges and Tunnels based upon usage. Minimum lease payments representing MTA Bridges and Tunnels' share of the operating lease are as follows:

Year Ending December 31	Aggregate Lease Payments
(In thousands)	
2016	\$ 2,405
2017	2,405
2018	2,405
2019	2,405
2020	2,405
2021-2025	2,405
2026-2030	2,405
2031-2035	2,405
2036-2040	2,405
Thereafter	<u>57,725</u>
Minimum future lease payments	<u>\$ 79,370</u>

23. 23. RELATED PARTY TRANSACTIONS

MTA Bridges and Tunnels and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back.

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying balance sheets.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2015 and 2014:

(In thousands)	2015		2014	
	Receivable	(Payable)	Receivable	(Payable)
Due from (due to) MTA	\$ 9,924	\$ (99,548)	\$ 2,162	\$ (77,408)
Due from (due to) affiliated agencies	<u>-</u>	<u>(37,521)</u>	<u>-</u>	<u>(33,392)</u>
Total MTA and affiliated agencies	<u>\$ 9,924</u>	<u>\$ (137,069)</u>	<u>\$ 2,162</u>	<u>\$ (110,800)</u>

24. SUBSEQUENT EVENTS

On January 28, 2016, MTA Bridges and Tunnels issued \$541.240 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2016A. The proceeds from the transaction were used to finance bridge and tunnel projects and to advance refund \$61.285 TBTA General Revenue Bonds, Series 2006A; \$78.490 TBTA General Revenue Bonds, Series 2007A; \$31.925 TBTA General Revenue Bonds, Series 2008B; \$26.150 TBTA General Revenue Bonds, Series 2008C; \$5.040 TBTA General Revenue Bonds, Series 2009A; \$34.990 TBTA General Revenue Refunding Bonds, Series 2011A; \$11.665 TBTA General Revenue Refunding Bonds, Series 2012A; \$4.970 TBTA General Revenue Refunding Bonds, Series 2013C; and \$1.505 TBTA General Revenue Bonds, Series 2014A. The Series 2016A bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2046.

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REQUIRED SUPPLEMENTARY INFORMATION

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY IN THE NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM AT JUNE 30, 2015

		NYCERS
		2015
		(in thousands)
Authority's proportion of the net pension liability		1.205%
Authority's proportionate share of the net pension liability	\$	243.90
Authority's actual covered-employee payroll	\$	127.48
Authority's proportionate share of the net pension liability as a percentage of the Authority's covered-employee payroll		191.324%
Plan fiduciary net position as a percentage of the total pension liability		73.125%

Note: This schedule is intended to show information for ten years. Additional years will be displayed as they become available. The data provided in the schedule is based as of the measurement date of NYCERS' net pension liability, which is June 30, 2015

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS TO THE NEW YORK CITY EMPLOYEES' RETIREMENT SYSTEM FOR THE YEARS ENDED DECEMBER 31,

(in thousands, except %)	2015	2014	2013	2012	2011	#	2010	2009	2008	2007	2006
Contractually required contribution	\$ 41,812	\$ 33,023	\$ 33,461	\$ 36,183	\$ 27,671		\$ 25,455	\$ 24,821	\$ 20,403	\$ 18,537	\$ 12,926
Contributions in relation to the contractually required contribution	41,812	33,023	33,461	36,183	27,671		25,455	24,821	20,403	18,537	12,926
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -	\$ -	\$ -	\$ -
Authority's covered-employee payroll	\$ 127,477	\$ 170,560	\$ 132,095	\$ 128,184	\$ 128,730		\$ 135,339	\$ 148,082	\$ 142,728	\$ 129,739	\$ 127,751
Contributions as a percentage of covered-employee payroll	32.80%	19.36%	25.33%	28.23%	21.50%		18.81%	16.76%	14.30%	14.29%	10.12%

Notes to Authority's Contributions to NYCERS:

Significant methods and assumptions used in calculating the actuarially determined contributions of an employer's proportionate share in a Cost Sharing, Multiple-Employer pension plan, the NYCERS Plan, should be presented as notes to the schedule. Factors that significantly affect trends in the amounts reported are changes of benefit terms, changes in the size or composition of the population covered by the benefit terms, or the use of different assumptions. Following is a summary of such factors:

Changes of Benefit Terms

There were no changes of benefit terms in the June 30, 2013 funding valuation.

Changes of Assumptions

There were no changes of benefit assumptions in the June 30, 2013 fund.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
(Component of the Metropolitan Transportation Authority)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS - POSTEMPLOYMENT HEALTHCARE PLAN
(In millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
12/31/2015	1/1/2014		\$ 798	\$ 798		\$ 118	679.0%
12/31/2014	1/1/2012	-	\$ 707.0	\$ 707.0	-	\$ 106.9	661.4%
12/31/2013	1/1/2012	-	\$ 707.0	\$ 707.0	-	\$ 106.9	661.4%

**MTA
CONSOLIDATED FINANCIAL
STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

MANAGEMENT'S REVIEW
AUDIT COMMITTEE MEETING
April 18, 2016



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

(\$'s in Millions)

The MTA's Consolidated Financial Statements are prepared in conformity with Generally Accepted Accounting Principles in the United States (GAAP) using accounting standards established by the Government Accounting Standards Board (GASB). They include 5 sections as follows:

- 1. Management's Discussion and Analysis (MD&A)**
- 2. The basic Financial Statements which include:**
 - The Consolidated Statements of Net Position
 - The Consolidated Statements of Revenues, Expenses and Changes in Net Position
 - The Consolidated Statements of Cash Flows
- 3. The Notes to the Financial Statements**
- 4. Required Supplementary Information (RSI)**

Additional information required under GASB, regarding the MTA's Pension and OPEB obligations.
- 5. Additional Supplementary Information**

Additional information not required under GASB, provides a reconciliation of the February Financial Plan Final 2015 Estimate to the Audited Statement of Revenues, Expenses & Changes in Net Position.



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

New GASB Pension Standards – GASB 67, 68 & 71

Standard #	Title	MTA Effective Date
GASB 67	Financial Reporting for Pension Plans <i>(Effects Pension Plan Financial Statements)</i>	Fiscal Year 2014
GASB 68	Accounting and Financial Reporting for Pensions <i>(Effects MTA's Financial Statements)</i>	Fiscal year 2015
GASB 71	Pension Transition for Contributions Made Subsequent to the Measurement Date <i>(Effects MTA's Financial Statements)</i>	Fiscal year 2015



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

GASB 67 Required Changes

Pension Plan Financial Statements

- ☐ Footnotes disclosures expanded
- ☐ RSI-significantly expanded
- ☐ Actuarial valuation timing – as of the plan's year-end
- ☐ Actuarial assumption changes

GASB 68 Required Changes

MTA's Financial Statements

- ☐ Large liability recorded on Statement of Net Position. **Net Pension Liability** for:
 - 3 Single Employer Pension Plans
 - 3 Cost-sharing, Multiple-employer Pension Plans (MTADB, NYCERS, & NYSLERS)
- ☐ Deferred Outflows & Inflows recorded on Statement of Net Position
- ☐ Pension Expense no longer equals the Annual Required Contribution (ARC)
- ☐ Large reduction in the MTA's Net Position
- ☐ Extensive additional Footnotes and RSI disclosures for 6 Pension Plans.
- ☐ Substantial changes to actuarial methods and assumptions
- ☐ ARC is no longer relevant to GAAP financial reporting. However still used for employer funding (ARC has been replaced with ADC – Actuarial Determined Contribution)
- ☐ **GASB 68 has no effect on funding-MTA has not changed it's Funding Policy**

GASB 71 Required Changes

MTA's Financial Statements

- ☐ Requires that Pension Plan Contributions made after the measurement date be shown as Deferred Outflows
- ☐ Actuarial assumption changes



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

GASB 68 Key Definitions

- **Net Pension Liability (NPL)**
 - Total Pension Liability minus Plan Net Position (Assets) = NPL
- **Pension Deferred Outflows/Inflows of Resources** – Amounts that are permitted to be recognized as part of pension expense over a period of years:
 - Differences between expected and actual plan experiences
 - Changes in actuarial assumptions
 - Differences between projected and actual investment earnings
 - Employer contributions made after the plan measurement date
- **Pension Expense** – Historically Pension Expense was based on employer contributions- MTA's pension expense = the ARC (annual required contributions). Now under GASB 68 Pension Expense is:
 - The change in the Net Pension Liability (NPL) from year to year.
 - Adjusted for changes in Deferred Inflows and Outflows each year.



MTA CONSOLIDATED STATEMENTS OF NET POSITION

		DECEMBER 31, 2015	2014
ASSETS			
	Cash & Investments	6,778	5,259
	Accounts Receivables (Net)	1,622	1,876
	Capital Assets (Net)	61,377	59,060
GASB 68	➡ Other Assets	761	1,368
	TOTAL ASSETS	70,538	67,562
DEFERRED OUTFLOWS OF RESOURCES			
	Deferred Outflows	1,107	1,066
GASB 68/ 71	➡ Deferred Outflows for Pensions	1,528	-
	TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,635	1,066
	TOTAL ASSETS & DEFERRED OUTFLOWS OF RESOURCES	\$ 73,173	\$ 68,628
LIABILITIES			
	Long-term debt	37,070	35,144
	Post employment benefits other than pension	13,560	12,066
GASB 68	➡ Net Pension Liability	7,704	-
	Liability for injury claims	2,883	2,509
GASB 68	➡ Other liabilities	5,147	5,593
	TOTAL LIABILITIES	66,364	55,311
DEFERRED INFLOWS OF RESOURCES			
	Deferred Inflows	32	35
GASB 68	➡ Deferred Inflows from Pensions	955	-
	TOTAL DEFERRED INFLOWS OF RESOURCES	987	35
GASB 68	➡ NET POSITION	5,822	13,282
	TOTAL LIABILITIES, DEFERRED INFLOWS & NET POSITION	\$ 73,173	\$ 68,628



MTA CONSOLIDATED FINANCIAL STATEMENTS

Assets & Deferred Outflows

	DECEMBER 31,		CHANGE	
	2015	2014	\$	%
CASH & INVESTMENTS	\$ 6,779	\$ 5,258	\$ 1,521	29%
RECEIVABLES	1,621	1,876	(255)	-14%
CAPITAL ASSETS (Net)	61,377	59,060	2,317	4%
➔ OTHER ASSETS	761	1,368	(607)	-44%
TOTAL ASSETS	70,538	67,562	2,976	4%
DEFERRED OUTFLOWS	1,107	1,066	41	4%
➔ DEFERRED OUTFLOWS FOR PENSIONS	1,528	-	1,528	
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,635	1,066	1,569	147%
TOTAL ASSETS & DEFERRED OUTFLOWS	\$ 73,173	\$ 68,628	\$ 4,545	7%

- Cash & Investments increased \$1,521 due largely to increased restricted investments.
- Receivables decreased \$255 due to decreases in due from Sandy Insurance recoverable of \$141 and New York State of \$105.
- Capital assets increased \$2,317 as a result of increased capital investments.
- ➔ • Other assets decreased \$607 due primarily to a \$636 decrease in advances to pension plans as a result of implementation of GASB 68.
- ➔ • Deferred outflows for pensions consists of \$933 of employer contributions made after the measurement date (GASB 71), and \$595 related to differences between projected and actual investment returns under GASB 68



MTA CONSOLIDATED FINANCIAL STATEMENTS

Liabilities & Deferred Inflows

	DECEMBER 31,		CHANGE	
	2015	2014	\$	%
LONG-TERM DEBT	\$ 37,070	\$ 35,143	\$ 1,927	5%
OTHER POST EMPLOYMENT BENEFITS	13,560	12,066	1,494	12%
➔ NET PENSION LIABILITIES	7,704	-	7,704	
LIABILITIES FOR INJURY CLAIMS	2,883	2,509	374	15%
➔ OTHER LIABILITIES	5,147	5,628	-481	-9%
TOTAL LIABILITIES	\$ 66,364	\$ 55,311	\$ 11,053	20%
DEFERRED INFLOWS FOR DEBT REFUNDINGS	32	35	(3)	-9%
➔ DEFERRED INFLOWS FOR PENSIONS	955	-	955	
TOTAL DEFERRED INFLOWS OF RESOURCES	\$ 987	\$ 35	\$ 952	2720%

- Long term debt increased \$1,927 due to net new borrowings.
- OPEB liability increased \$1,494 due to funding shortfall of ARC.
- ➔ • Net Pension Liability increased \$7,704 due to GASB 68 implementation in 2015.
- Liabilities for injury claims increased \$374 due to increased workmen's comp claims.
- ➔ • Other liabilities decreased \$481 due to primarily to reclassification of current pension liability to net pension liability under GASB 68.
- ➔ • Deferred Inflows of resources increased \$952 due primarily to differences between projected and actual pension investment earnings of \$955 as required by GASB 68.

MTA CONSOLIDATED FINANCIAL STATEMENTS CONDENSED FINANCIAL INFORMATION

NET POSITION

	DECEMBER 31,		CHANGE	
	2015	2014	\$	%
NET INVESTMENT IN CAPITAL ASSETS	\$ 23,777	\$ 22,944	\$ 833	4%
RESTRICTED FOR DEBT SERVICE	487	434	53	12%
RESTRICTED FOR CLAIMS	142	167	(25)	-15%
RESTRICTED FOR OTHER PURPOSES	1,051	1,011	40	4%
➔ UNRESTRICTED	-19,635	-11,274	-8,361	-74%
TOTAL NET POSITION	\$ 5,822	\$ 13,282	\$ -7,460	-56%

- Net investment in Capital Assets increased \$833 due to a \$2,672 increase in net capital assets, offset by a \$1,839 increase in net capital related liabilities.
- Restricted for debt service increased \$53 due to an increase in debt service related investments.
- Restricted for claims decreased \$25 due to an increases in FMTAC loss reserves.
- Net Position for other purposes increased \$40 due to an increase in other restricted investments
- ➔ • Unrestricted net position decreased by \$8,361 due primarily the net effect of GASB 68 implementation of \$6,816, and the increase in OPEB liability of \$1,494.

MTA CONSOLIDATED FINANCIAL STATEMENTS CONDENSED FINANCIAL INFORMATION

Revenues, Expenses and Change in Net Position

	DECEMBER 31,		CHANGE	
	2015	2014	\$	%
OPERATING REVENUES	\$ 8,408	\$ 7,970	\$ 438	5%
➔ OPERATING EXPENSES	-15,348	-15,848	-500	-3%
OPERATING DEFICIT	-6,940	-7,878	938	12%
SUBSIDIES & TAX REVENUES	6,710	6,559	151	2%
LESS: INTEREST EXPENSE	-1,401	-1,358	43	3%
DEFICIT BEFORE CAPITAL GRANTS & APPROPRIATIONS	-1,631	-2,677	1,046	39%
CAPITAL GRANTS & APPROPRIATIONS	1,979	1,754	225	13%
CHANGE IN NET POSITION (BEFORE GASB 68 EFFECT)	\$ 348	\$ -923	\$ 1,271	138%
NET POSITION - BEGINNING OF YEAR	\$ 13,282	\$ 14,205	\$ -923	-6%
➔ GASB 68 ADJUSTMENT TO BEGINNING NET POSITION	-7,808	-	-7,808	
NET POSITION - END OF YEAR	\$ 5,822	\$ 13,282	\$ -8,731	-66%

- ➔ • GASB 68 /71 implementation resulted in a \$419 reduction in pension expense in 2015.
- ➔ • GASB 68 /71 cumulative reduction in beginning net position of \$7,808 in 2015

MTA CONSOLIDATED FINANCIAL STATEMENTS CONDENSED FINANCIAL INFORMATION

Consolidated Cash Flow

	DECEMBER 31,		CHANGE	
	2015	2014	\$	%
Net Cash from Operating Activities	\$ -3,085	\$ -3,817	\$ 732	19%
Net Cash From Non-Capital Financing Activities	6,644	6,293	-351	-6%
Net Cash from Capital & Related Financing Activities	-2,139	-2,733	594	22%
Net Cash From Investing Activities	-1,277	210	-1,487	-708%
Net Change in Cash	143	-47	190	-404%
Cash - Beginning of Year	311	358	-47	-13%
Cash - End of Year	<u>\$ 454</u>	<u>\$ 311</u>	<u>\$ 143</u>	46%

NOTE: GASB 68 & 71 HAD NO EFFECT ON CASHFLOW FOR FY15. MTA CONTRIBUTED-100% OF ACTUAL REQUIRED CONTRIBUTION (ARC) FOR 2015



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

GASB 68 Required Footnotes for 6 Pension Plans

- Plan information for 6 plans:
 - Plan descriptions, benefits provided
 - Membership- number of active and former employees and retirees
- Contributions and funding policy.
- Net Pension Liability disclosures including:
 - Actuarial methods & assumptions
 - Expected rate of return on investments
 - i. Target asset allocation
 - ii. Long-term expected real rate of return
 - iii. Discount rate
- Changes in the Net Pension Liability (NPL)
 - Changes in NPL for single employer plans-MABSTOA, MNR Cash Balance Plan, & LIRR Additional Plan as well as the MTA DB Plan
 - Proportionate share of NPL for Multi-employer plans– NYCERS & NYSLERS
 - Sensitivity analysis and impact on NPL for a +/-1% change in discount rate.
- Breakdown of pension expense
- Schedule of deferred inflows and outflows
- Contributions payable at the end of the year



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

GASB 68 RSI for 6 Pension Plans

Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for Single-Employer Plans

Schedule of MTA's Proportionate Share of Net pension Liability for Cost-Sharing Multi-Employer Pension Plans

Schedule of the MTA's Contributions for All Pension Plans

Notes to Schedule of MTA's Contributions



MTA CONSOLIDATED FINANCIAL STATEMENTS

For the Year Ended 12/31/2015

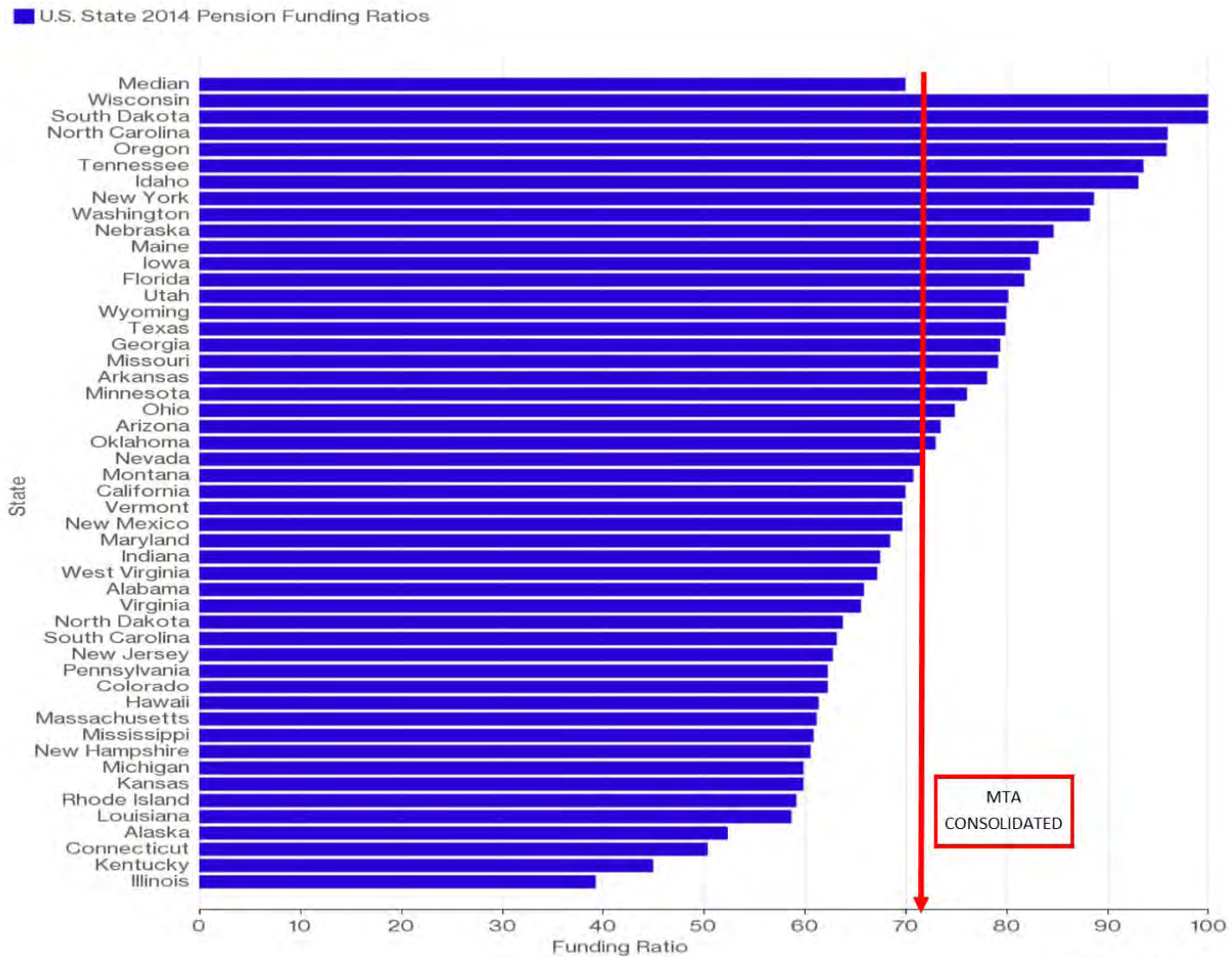
GASB 68 Plan Summary

<u>GASB 68 Plan Summary</u>		Balances as of December 31, 2015							
Pension Plan		Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability	Funded Ratio	Deferred Inflows	Deferred Outflows	Annual Expense	FY15 ADC Contributions
<u>Single Employer</u>									
1	MABSTOA Plan	(3,331)	2,265	(1,066)	68.00%	(1)	250	134	215
** 2	LIRR Add'l Plan	(1,602)	783	(819)	48.88%	-	115	77	82
3	MNR Cash Balance Plan	(1)	1	(0)	98.36%	(0)	0	0	0
Total Single-employer		(4,934)	3,049	(1,885)	61.79%	(1)	365	212	297
<u>Cost-sharing Multi-employer</u>									
4	MTADB PLAN = 100%	(4,100)	3,065	(1,035)	74.76%	(13)	315	199	274
5	MTA % NYSLERS = 0.29%	(476)	466	(10)	97.90%	(0)	18	9	16
6	MTA % NYCERS = 24.25%	(17,763)	12,989	(4,774)	73.12%	(940)	831	452	748
Total Cost-sharing Multi-employer		(22,339)	16,520	(5,819)	73.95%	(953)	1,164	659	1,038
TOTAL MTA CONSOLIDATED		\$ -27,273	\$ 19,569	\$ -7,704	71.75%	\$ -955	\$ 1,528	\$ 871	\$ 1,335

**** NOTE: \$140 additional contribution held back from LIRR Add'l Plan pending approval of 2015-2019 Capital Plan.
Funded Ratio with \$140 additional contribution would be approximately 58%**



MTA CONSOLIDATED FINANCIAL STATEMENTS



Condensed Financial Information

Reconciliation of Financial Plan to GAAP Statement of Revenues, Expenses & Changes in Net Position

	December 31, 2015		
	Financial Plan Estimate	Financial Statement Actual	Variance
Total Operating Revenues	\$ 8,372	\$ 8,408	\$ 36
Operating Expenses:			
Total Labor Expenses	10,589	9,859	-730
Total Non-Labor Expenses	3,207	3,040	-166
Depreciation	2,380	2,444	64
Asset Impairment & related expenses, net	-	5	5
Total Operating Expenses	16,175	15,348	-827
Net Operating Deficit	\$ -7,803	\$ -6,940	\$ 862
Subsidies & Other Non-Operating Revenues	6,620	6,709	89
Debt Service (Financial Plan includes Principal + Interest)	-2,383	-1,401	982
Conversion to Cash Basis: Non Cash Liability Adj's	4,417	0	-4,417
Surplus/(Deficit) Before Capital Grants & Appropriations	\$ 851	\$ -1,632	\$ -2,484

MTA CONSOLIDATED FINANCIAL STATEMENTS

Reconciliation of Financial Plan Estimate for 2015 to Audited Statement of Revenues, Expenses & Changes in Net Position

Financial Plan Actual Operating Loss at 12/31/2015	\$ -7,803
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The Audited Financial Statements Includes:

1	Higher operating revenues based on accrual adjustments	49
2	Lower labor expense based on most recent actuarial results for Worker's Compensation and OPEB	353
3	Lower pension expense related to the adoption of GASB Statement No. 68	419
4	Higher claims expense based on most recent actuarial results for non-employee claims	72
5	Higher pollution remediation expense	14
6	Intercompany eliminations and other adjustments	-44
	Total Operating Reconciling Items	863

Audited Financial Statements Operating Loss at 12/31/2015	\$ -6,940
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Financial Plan Actual Surplus after Subsidies and Debt Service at 12/31/2015	\$ 851
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The Financial Plan Actual Includes:

1	Debt Service Bond Principal Payments	982
2	Adjustments for non-cash liabilities:	
	Depreciation	-2,380
	Unfunded OPEB Expense	-2,030
	Unfunded Pollution Remediation Expense	-7
		-4,417

The Audited Financial Statements Includes:

3	Higher subsidies and other non-operating revenues	89
4	Total Operating Reconciling Items (from above)	863

Audited Financial Statements Loss Before Capital Grants & Appropriations at 12/31/2015	\$ -1,632
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Memorandum

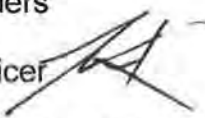


Metropolitan Transportation Authority

State of New York

Date April 12, 2016

To All MTA Financial Disclosure Statement Filers

From Lamond W. Kears, Chief Compliance Officer 

Re Financial Disclosure Statement – 2016 Covering Calendar Year 2015

The New York State Joint Commission on Public Ethics ("JCOPE") has begun the process of e-mailing or mailing notices regarding the New York State Annual Financial Disclosure Statement for 2016, covering calendar year 2015, to applicable employees. All employees who have been designated FDS filers have an obligation to file a financial disclosure statement with JCOPE. This statement, whether completed on-line or hard copy, should be filled out carefully and thoughtfully and filed with JCOPE no later than May 16, 2016 pursuant to JCOPE's instructions.

JCOPE is authorized to enforce the State's ethics and financial reporting laws, which include the ability to impose a civil penalty up to \$40,000 or to seek prosecution as class A misdemeanor violations of those laws. Pursuant to Board guidelines, in addition to providing its full cooperation and assistance to JCOPE in its enforcement of the law, the MTA will impose such disciplinary action as may be appropriate in the case of violations.

I urge all officers and employees to review our MTA All Agency Code of Ethics. A copy of the code can be found on MTA's Intranet, Internet or obtained from MTA Corporate Compliance. As you complete your financial disclosure form, you should be aware of any or actual potential conflicts of interest that you may need to report.

There is no exemption from filing for anyone who is away from work for any part of the calendar year or is working a reduced work schedule.

Again this year, JCOPE will assess penalties for filings received after the statutory deadline. To avoid late fines and possible disciplinary action, your statement must be received by JCOPE no later than May 16, 2016.

New employees that are required to file, who commence service after the MTA submits its written list of financial filers, are required to file within 30 days of commencing employment.

Financial Interest Reports

April 12, 2016

Page 2

Should you find yourself in a situation that raises any question as to your obligations concerning conflicts of interest or whether you are required to file a financial disclosure statement with JCOPE, I encourage you to contact the Ethics Helpline at 888 U-ASK-MTA (888-827-5682) for guidance.

Memorandum



Metropolitan Transportation Authority

State of New York

Date April 12, 2016

To Members of the Board

From Lamond W. Kearse, Chief Compliance Officer

A handwritten signature in black ink, likely belonging to Lamond W. Kearse, Chief Compliance Officer.

Re Financial Disclosure Statement – 2016 Covering Calendar Year 2015

The New York State Joint Commission on Public Ethics ("JCOPE") has developed a new Financial Disclosure filing system for use in submitting this year's 2016 Financial Disclosure Statement ("FDS").

In order to file your Financial Disclosure Statement, a NY.GOV account has been created for you. Your new NY.GOV account will be your e mail address on file with JCOPE. In order to login, you will need to do the following:

1. Go to the JCOPE Website www.JCOPE.NY.GOV
2. Click "**Electronic Filing of Financial Disclosure Statements**"
3. Click the "**State Employees Other Filers**" button
4. You will be directed to the "NY.gov.ID" page
5. Enter your username and then click on the forgotten password
6. Follow the prompts to set your new password

On Friday, April 15, 2016 JCOPE will begin emailing notices regarding the filing of the annual Financial Disclosure Statement for 2016, covering calendar year 2015. All Board Members have an obligation to file a financial disclosure statement with JCOPE pursuant to Section 1.03 of the MTA Board Member Code of Ethics and New York Ethics Law. This statement, whether completed on-line or hard copy, should be filled out carefully and thoughtfully and filed with JCOPE no later than May 16, 2016.

JCOPE is authorized to enforce the State's ethics and financial reporting laws, which include the ability to impose a civil penalty up to \$40,000 or prosecute as class A misdemeanor violations of those laws. The MTA provides its full cooperation and assistance to the JCOPE in its enforcement of the law.

Should you find yourself in a situation that raises any questions as to your obligation to file a financial disclosure statement with JCOPE, I encourage you to contact me at 646-252-1330 for guidance.

c: Thomas F. Prendergast
Donna M. Evans
Jerome F. Page

Memorandum



Metropolitan Transportation Authority

State of New York

Date April 13, 2016

To Audit Committee

From Lamond W. Kears, Chief Compliance Officer

A handwritten signature in black ink, appearing to be "LW Kears", written over a horizontal line.

Re Annual Report on 2016 Financial Interest Reporting Compliance

At its January 1992 meeting, this Committee requested an annual report regarding compliance by MTA Headquarters and the MTA Agencies ("MTA") with the financial interest reporting requirements established by the Public Officers Law and the MTA's all Agency Code of Ethics as approved by the Board.

Pursuant to MTA's Code of Ethics and Public Officers Law §73-a, each year MTA identifies those employees who are required to file a Financial Disclosure Statement based upon earning in excess of the statutory amount and those employees who are designated policy makers. This information is sent to Joint Commission on Public Ethics. Employees in these categories receive notices from the Commission that they are required to complete a Financial Disclosure Statement which must be returned to the Commission by the statutory deadline of May 16.

At its January 1996 Board meeting, the Board Authorized and directed the Chairman or his designees to actively assist the Commission in its enforcement of the State's financial reporting requirements and to impose disciplinary action in appropriate cases.

In accordance with the Board's directive, and in order to reinforce in the minds of all MTA employees the MTA's commitment to compliance with the State's financial disclosure requirements, I sent the annexed memorandum regarding compliance with financial disclosure to all MTA employees concurrently with the distribution by the Notice of the Commission.

The MTA will also continue actively to assist the Commission in its enforcement of the law. The Commission has a three-step enforcement process by which it notifies all delinquent filers and the MTA of the failure to file the required annual disclosure statement.

In approximately July or August the Commission sends confidential notices of a failure to file the State Disclosure Statement to all applicable employees. The filer has 15 days to file; in the event noncompliance continues, the Commission sends a notice of delinquency to the filer and to the President of the filer's employing Agency and the MTA Chief Compliance Officer.

Each MTA Agency will notify delinquent filers of its receipt of the notice. The notices will stress to each delinquent filer that compliance with the filing requirements of MTA's Code of Ethics and State law is an urgent matter, and that an employee's failure to comply with the filing requirements can result in serious penalties, imposed pursuant to State law by the Commission, as well as in discipline, imposed by MTA Agencies pursuant to our Code of Ethics.

The Commission's final step for noncompliance following the public notice is to schedule an administrative hearing. Notice of an administrative hearing is sent to the Chairman of the MTA with a copy to the Chief Compliance Officer.

MTA Corporate Compliance will be monitoring compliance closely in the coming year.

c: Thomas F. Prendergast
Donna M. Evans
Jerome F. Page
Agency Presidents
Agency General Counsels
Agency Ethics Officers

Metropolitan Transportation Authority

Department of Diversity and Civil Rights

Report to the Audit Committee
April 18, 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”) – Implemented	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 March 31, 2016

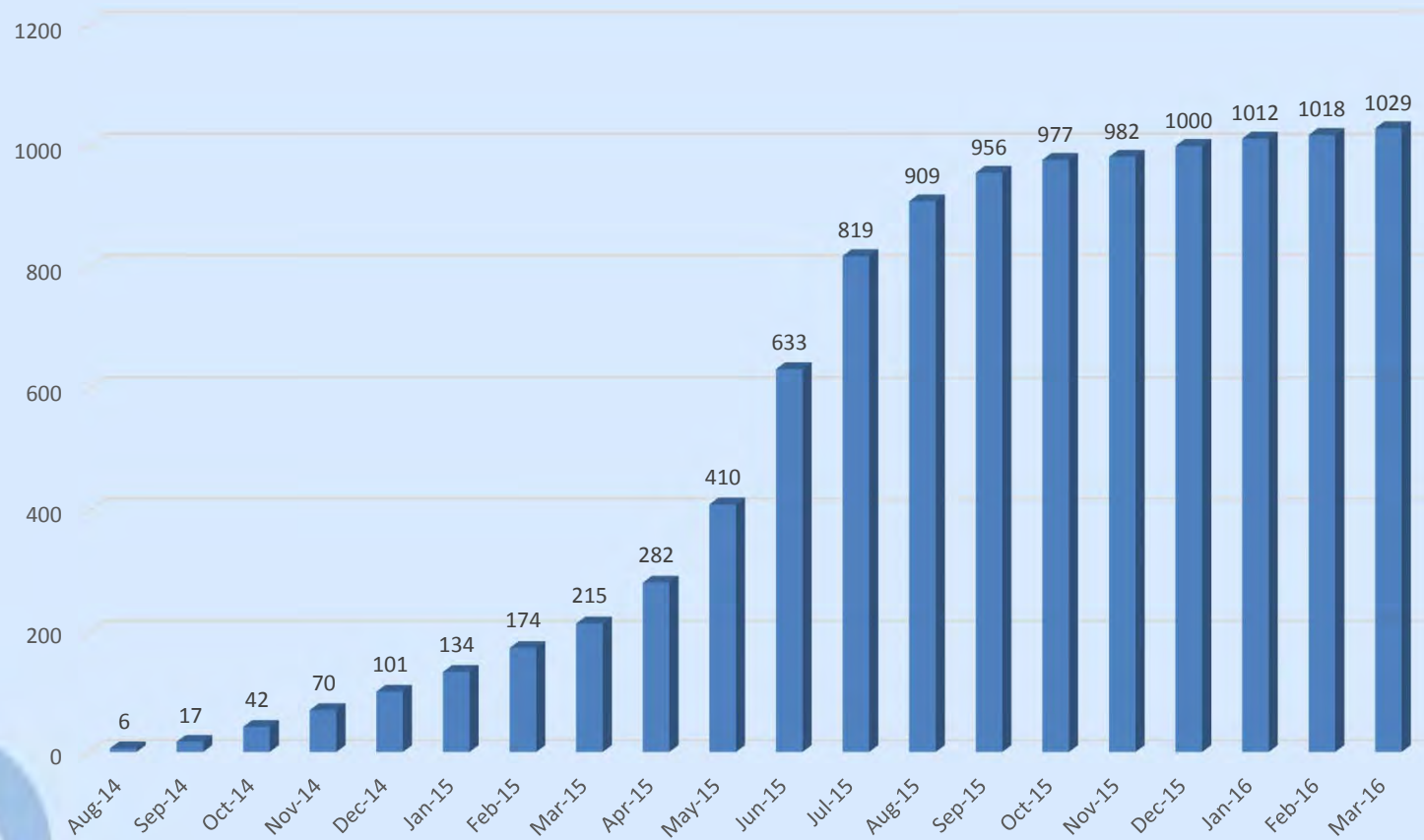
Inactive Contracts with Goals	#
1. Total Contracts Reviewed and Closed	749
2. Contracts Administratively Closed	280¹
Sub-Total	1029 (94%)
3. Close-Outs in Progress	42
4. Contracts Pending Agency Action	32
Total	1,103² (100%)

1. *Contracts administratively closed because of the age of the contract (beyond the established seven-year record retention period).*
2. *Total number of inactive contracts as of March 31, 2016.*



MTA Headquarters DDCR Update

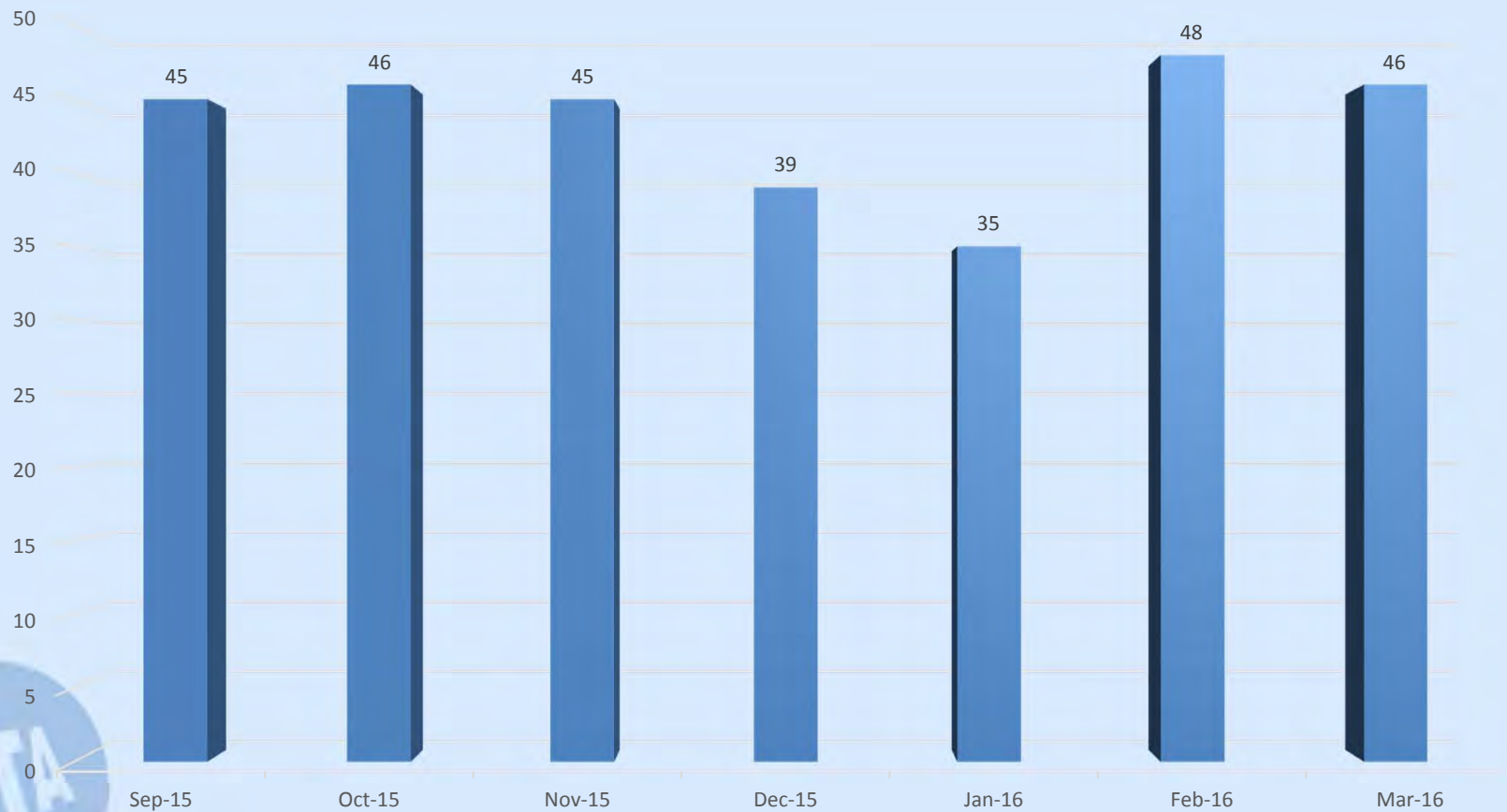
DDCR Contract Closeout Progression August 2014 to March 31, 2016



MTA Headquarters DDCR – Project Site Visits

September 1, 2015 to March 31, 2016

Total Site Visits Performed = 304



MTA Headquarters DDCR Update

New Contract Compliance System

- ❑ **MTA has purchased a new contract compliance system, the New York State Contract Compliance System (B2G) – implementation projected in 2016.**
- ❑ **It is New York State’s goal to have all State Agencies & Authorities utilize B2G.**
- ❑ **The implementation of the B2G will allow:**
 - **Improved tracking and monitoring of M/W/DBE contract goal compliance.**
 - **Prime contractors to directly enter into the system payments made to M/W/DBE subcontractors.**
 - **M/W/DBE subcontractors to confirm receipt of payments.**
 - **Prompt payment status verification.**

