



Metropolitan Transportation Authority

Audit Committee Meeting

June 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
Wednesday, 6/22/2016
9:00 - 10:00 AM ET

1. PUBLIC COMMENTS PERIOD

2. APPROVAL OF MINUTES

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3. AUDIT COMMITTEE WORK PLAN

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4. INDEPENDENT ACCOUNTANT'S REVIEW REPORT - 1ST QUARTER 2016

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5. 2015 SINGLE AUDIT REPORT

Draft - 2015 MTA SINGLE AUDIT REPORT - Page 145

6. INVESTMENT COMPLIANCE REPORT

Draft - MTA 2015 Investment Compliance Report 2015 - Page 179

7. MANAGEMENT LETTER

Final 2015 MTA Consolidated Mgmt Letter - Page 180

8. REVIEW OF MTA INSPECTOR GENERAL OFFICE

Draft - 2015 MTA IG Report - Page 232

9. APPOINTMENT OF EXTERNAL AUDITORS

PCAOB Report on 2014 Inspection of Deloitte - Page 234

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12. 2016 AUDIT PLAN STATUS

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**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, APRIL 18, 2016 – 2:15 P.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

James L. Sedore
Fernando Ferrer

Robert C. Bickford
Andrew Albert

Neal Zuckerman

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

L. Kearse - MTA
M. Gardner - MTA
N. Din - MTA

M. Fritz - Deloitte
G. Friedrich - Deloitte
D. Patel - Deloitte
J. Strohmeier - Deloitte
B. Geambasu - Deloitte

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the January 25, 2016 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORKPLAN

There no changes to the work plan.

4. MANAGEMENT’S REVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

Pat Kane briefed the Committee on the preparation and contents of the MTA’s 2015 consolidated financial statements, stating they were prepared in accordance with Generally Accepted Accounting Principles and the standards established by Government Accounting Standards Board (GASB). He explained the accounting and reporting changes required by GASB 67, 68 and 71 and noted that they impacted the MTA’s pension liabilities and financial reporting but not the cash flows. In presenting the MTA’s Balance Sheet or net position, he highlighted the changes in Other Assets, Deferred Outflows for Pensions, Other Liabilities, Deferred Inflows from Pensions and the \$7.7 billion increase in Net Pension Liability (NPL) as a result of GASB 68. In response to a Committee inquiry, Pat Kane said the decrease in Net Position was the contra to the increase in NPL. He also presented the Revenue, Expenses and Change in Net Position from 2014 to 2015 and highlighted: the \$419 million decrease in pension expense in 2015 as a result of GASB 68/71; the \$7.8 billion cumulative decrease in net position, essentially due to GASB 68/71 and the \$143 million net increase in Cash in 2015. Additionally, he presented a summary schedule, which showed the December 31, 2015 balances and the “Funded Ratio” of each of the single employer plans and the three MTA Cost-Sharing Multi-Employer Plans and a graph which showed MTA’s Pension Funding Ratio being above the median of PFRs nation-wide. Lastly, Pat Kane discussed the Reconciliation of Financial Plan to GAAP Statement of Revenues, Expenses and Changes in Net Position, noting the actual labor expense

being lower based on most recent actuarial results and GASB's 68 overall impact on MTA's 2015 financial statements.

5. 2015 FINANCIAL STATEMENTS

Mike Fritz (Deloitte) first introduced the audit team: Glen Friedrich, Darshan Patel, Jill Strohmeyer and Bodgan Geambasu. He then briefed the Committee on the contents of a report that was just handed to the members, which he said was a required communication summarizing the results of their audit of the 2015 financial statements of: MTAHQ, NYC Transit Authority, FMTAC, Long Island Rail Road, Metro-North Railroad, MTA Bus Company, SIRTOA and TBTA. He said their audit is about complete and they expect to issue the financial statements by April 28. He stated their audit was conducted in accordance with Generally Accepted Auditing Standards and with Government Auditing Standards as required for Single Audit Reports under OMB A-133. With regards to the accountant's opinion statement, Mike Fritz indicated Deloitte would cite an exception as it related to consistency in accounting practices as a result of the MTA's adoption of GASB 68 and 71 but a "clean" opinion would be provided on the financial statements. He said that "emphasis of a matter paragraphs" would be included in their report to address the adoption of GASB 68/71 and material transactions with other parties. In discussing the conduct and the results of their audit he cited, among others that, except for the increased liabilities associated with the GASB 68/71 adoption, there were no significant uncorrected or past adjustments to share with financial management and that it received full cooperation from management during the course of their audit. He also discussed a "significant deficiency" in TBTA's internal control relating to: the year-end and post-closing procedures for estimating and proving the accuracy of year-end accruals against actual invoices; and the review of capitalized interest calculations not being properly performed, resulting in a \$10.9 million audit adjustment increasing Construction Work in Progress and decreasing Interest Expense. He also cited a prior year significant deficiency that recurred relating to a contract (\$10 million in value) that did not include all the federal requirements but was nevertheless "federalized" and, thus, the associated funds had to be returned to the grantor. Lastly, Mike Fritz briefed the Committee on the evaluations they performed with the assistance of its actuarial specialists to ensure the reasonableness of the critical accounting estimates related to the \$7.7 billion net pension liability, the \$1.5 billion net increase in Other Post Employment Pension Benefit (OPEB) and the \$400 million increase in estimated Liabilities Arising from Injuries to Persons. In response to a Committee inquiry regarding the significant deficiency items, Mike Fritz indicated that the recurrence of the year-end accrual exceptions caused the item to be elevated to "significant deficiency" level and Pat Kane said that the \$10 million that was refunded to the grantor was not a loss as it could be drawn-down on other capital projects. Bob Foran further explained that such exceptions do occur when anticipated funding for a project does not materialize as planned in the period anticipated.

A motion was made and seconded to approve the 2015 financial statements as presented.

6. FINANCIAL INTEREST REPORT AND THE ETHICS PROGRAM

Lamond Kears (MTA Chief Compliance Officer) spoke about the requirement and due date for submitting the Financial Disclosure Statement to the New York State Joint Commission on Public Ethics (JCOPE) for 2016, covering calendar year 2015. He said that there are 7,695 employees MTA-wide required to file the disclosure statements and so far, to date, he has not received any notice of delinquent filers on the prior year filing. He talked about the new filing system that JCOPE has developed, citing that a NY.GOV account has been set up for each filer's use in filing the disclosure statement. Lastly, he urge all to file early as there are new disclosure information required by JCOPE. Lamond mentioned Question 8 b of the disclosure statement, in particular, which requires individuals licensed to practice in the State of New York to provide detailed information about their professional practice. There were discussions on the difficulties

encountered in filing the disclosure statement under the new system, and Lamond said his office is providing assistance to resolve the problem.

7. DDCR PERFORMANCE MEASURES UPDATE

Michael Garner (MTA Chief Diversity Officer) briefed the Committee on DDCR's progress in implementing the Inspector General's recommendations. He said that as of today, DDCR has closed out 1,035 contracts, 965 of which was the original backlog going back to 2002, a significant accomplishment that was achieved with the assistance of the Chief Compliance Office, Audit Services and the IG. He also said that DDCR's efforts to keep the closeout current continue and these include requiring agencies to forward to DDCR the documentation on contracts at 98% completion and formulating an all-agency W/M/DBE policy that would establish accountability and assign agency project management and DDCR staff closeout responsibilities. He also said DDCR is now conducting approximately 44 to 45 site visits a month and that, overall, 80% of the IG recommendations have been implemented. He stated the remaining 20% pertained to the implementation of a new contract compliance system, the B2G system, in which he confirmed to the Committee that full implementation would occur this fall. Mike Garner said this system will improve the tracking and monitoring of M/W/DBE contract goal compliance and will allow, among other things, subcontractors to confirm payments from the primes. He said weekly meetings with the B2G system consultant are ongoing and separate meetings are scheduled with the agencies for their feedback to ensure that system is fully operational this fall. The Committee inquired if the system and the system's data would be on the web and publicly discoverable. He responded in the affirmative, but would find out if the portal would be on the MTA website. The Chair commented that DDCR indeed has "come a long way" and Mike Garner again acknowledged the DDCR's accomplishments were made possible from the assistance provided by the Chief Compliance Office, Audit Services and the IG.

8. EXECUTIVE SESSION

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

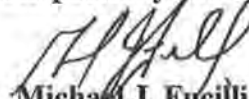
9. MOTION TO RETURN TO PUBLIC SESSION

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

10. MOTION TO ADJOURN

A motion was made and seconded to adjourn the meeting.

Respectfully submitted,


Michael J. Fucilli
Auditor General

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

June 2016

Quarterly Financial Statements – 1 st Quarter 2016	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers
Review of MTA/IG's Office	External Auditor/IG
Appointment of External Auditors	Committee Chair & Members
Enterprise Risk Management Update	Chief Compliance Officer
Ethics and Compliance Program	Chief Compliance Officer
MTAAS Audit Plan Status Report	Auditor General

September 2016

Quarterly Financial Statements – 2 nd Quarter 2016	External Auditor/CFOs
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November 2016

MTA Enterprise Risk Management and Internal Control Guidelines	Chief Compliance Officer
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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
DDCR Performance Measures

Chief Compliance Officer
Chief Compliance Officer/Agency ICOs

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

April 2017

Financial Statements and Audit
Representation Letters
Management's Review of Financial Statements
Contingent Liabilities/Third Party
Lawsuits (Executive Session)
Financial Interest Reports
DDCR Performance Measures

External Auditor/CFOs/Controllers
Comptroller

General Counsels/External Auditor
Chief Compliance 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

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.

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.

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.

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.

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.

Ethics and Compliance Program

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

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.

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.

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.

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.

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.

APRIL 2017

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 2016 Financial Statements.

Management's Review of MTA Consolidated Financial Statements

The MTA Comptroller will present a management's review of the 2016 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.

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Review Report

Consolidated Interim Financial Statements as of and
for the Three-Month Period Ended March 31, 2016

DRAFT

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

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INDEPENDENT AUDITORS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Report on the Consolidated Interim Financial Information

We have reviewed the accompanying consolidated interim statement of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of March 31, 2016, and the related consolidated interim statements of revenues, expenses and changes in net position and consolidated cash flows for the three-month periods ended March 31, 2016 and 2015 (the "consolidated interim financial information").

Management's Responsibility for the Consolidated Interim Financial Information

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

Auditors' Responsibility

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

Conclusion

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

Emphasis of a Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 20, the Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for the Single Employer Pension Plans on page 120, the Schedule of the MTA's Proportionate

Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans on page 121, the Schedule of the MTA's Contributions for All Pension Plans on pages 122-123, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 127 be presented to supplement the consolidated interim financial information. Such information, although not a part of the consolidated interim financial information, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated interim financial information in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, applicable to reviews of interim financial information, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated interim financial information, and other knowledge we obtained during our reviews of the consolidated interim financial information. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

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

Report on Consolidated Statement of Net Position as of December 31, 2015

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated statement of net position of the MTA as of December 31, 2015, and the related consolidated statement of revenues, expenses and changes in net position and cash flows for the year then ended (not presented herein); and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated April 28, 2016, which contains explanatory paragraphs that (1) the MTA requires significant subsidies from other governmental entities, and (2) 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*. In our opinion, the accompanying consolidated statement of net position of the MTA as of December 31, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

June 22, 2016

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

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF MARCH 31, 2016 AND DECEMBER 31, 2015 AND FOR
PERIODS ENDED MARCH 31, 2016 AND 2015
(\$ In Millions, except as noted)

1. OVERVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Introduction

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

Management's Discussion and Analysis

This MD&A provides a narrative overview and analysis of the financial activities of the Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA" or "MTA Group") as of March 31, 2016 and December 31, 2015 and for the periods ended March 31, 2016 and 2015. For financial reporting purposes, the subsidiaries and affiliates of the MTA are blended component units. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated interim financial statements. It provides an assessment of how the MTA Group's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA Group's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA Group's management that must be read in conjunction with, and should not be considered a replacement for, the consolidated interim financial statements.

The Consolidated Interim Financial Statements

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

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

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

Notes to the Consolidated Interim Financial Statements

The notes provide information that is essential to understanding the consolidated interim financial statements, such as the MTA Group's accounting methods and policies, details of cash and investments,

employee benefits, long-term debt, lease transactions, future commitments and contingencies of the MTA Group, and information about other events or developing situations that could materially affect the MTA Group's financial position.

Required Supplementary Information

The required supplementary information provides information 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 interim statements of revenues, expenses and changes in net position.

2. FINANCIAL REPORTING ENTITY

The Metropolitan Transportation Authority ("MTA" or "MTA Group") was established under the New York Public Authorities Law and is a public benefit corporation and a component unit of the State of New York whose mission is to continue, develop, and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area. The financial reporting entity consists of subsidiaries and affiliates, considered component units of the MTA, because the Board of the MTA serves as the overall governing body of these related entities.

MTA Related Groups

The following entities, listed by their legal names, are subsidiaries (component units) 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 New York State ("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 (component units) 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 AND CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION**

The following sections discuss the significant changes in the MTA Group’s financial position as of March 31, 2016 and December 31, 2015 and for the periods ended March 31, 2016 and 2015. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated interim financial statements and the various exhibits presented were derived from the MTA Group’s consolidated interim financial statements.

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

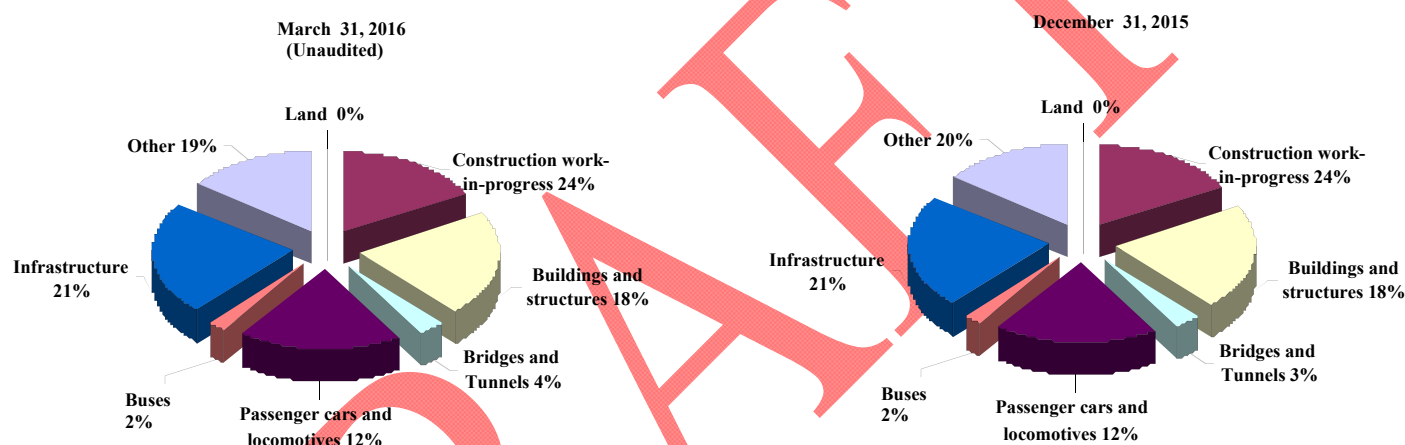
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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.

(In millions)	March 31, 2016 (Unaudited)	December 31, 2015	December 31, 2014	Increase/(Decrease)	
				2016 - 2015	2015 - 2014
Capital assets — net (see Note 6)	\$ 61,918	\$ 61,388	\$ 59,060	\$ 530	\$ 2,328
Other assets	11,707	9,153	8,502	2,554	651
Deferred outflows of resources	2,459	2,140	1,066	319	1,074
Total assets and deferred outflows of resources	<u>\$ 76,084</u>	<u>\$ 72,681</u>	<u>\$ 68,628</u>	<u>\$ 3,403</u>	<u>\$ 4,053</u>

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

March 31, 2016 versus December 31, 2015

- Net capital assets increased at March 31, 2016 by \$530, or 0.9%. This increase is attributable to net increases in construction work-in-progress of \$442, infrastructure for \$250, other capital assets of \$150, buses for \$127, buildings and structures for \$107, passenger cars and locomotives for \$40. Those increases were offset by a net increase in accumulated depreciation of \$586. 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 stations, replacement of escalators at various stations.
- Other assets increased by \$2,554, or 27.9%. The major items contributing to this change include:
 - An increase in investments of \$830, or 13.1%, derived from:
 - An increase in restricted investments of \$1,047, due primarily to higher debt service funds and an increase in proceeds from the issuances of Transportation Revenue Bonds and Bond Anticipation Notes in the first quarter of 2016.
 - An increase in capital lease related investments of \$3 as per the capital lease debt service schedule.
 - A decrease in unrestricted investments of \$220, due to the use of funds for capital projects.
 - An increase in current and non-current net receivables of \$1,828, or 113.3%, derived mainly from:
 - An increase in due from State and regional mass transit taxes of \$1,681 due to the approval of the New York State 2016-2017 budget in March 2016.
 - An increase in other State and local assistance of \$190.
 - An increase in Station maintenance of \$40.
 - A decrease in Federal and State Governments for capital projects of \$15.
 - A decrease in other various receivables of \$68 mainly due to the receipt of reinsurance recoveries related to Tropical Storm Sandy of \$47.
 - A decrease in other current and non-current assets of \$104, or 8.6%, derived from:
 - A decrease in cash of \$109 from net cash flow activities.
 - An increase in various other assets of \$5.

Deferred outflows of resources increased by \$319, or 14.9% due to a change in the fair market value of derivative instruments of \$89, an increase in the loss on debt refunding of \$238, offset by a decrease of \$8 related to pensions.

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

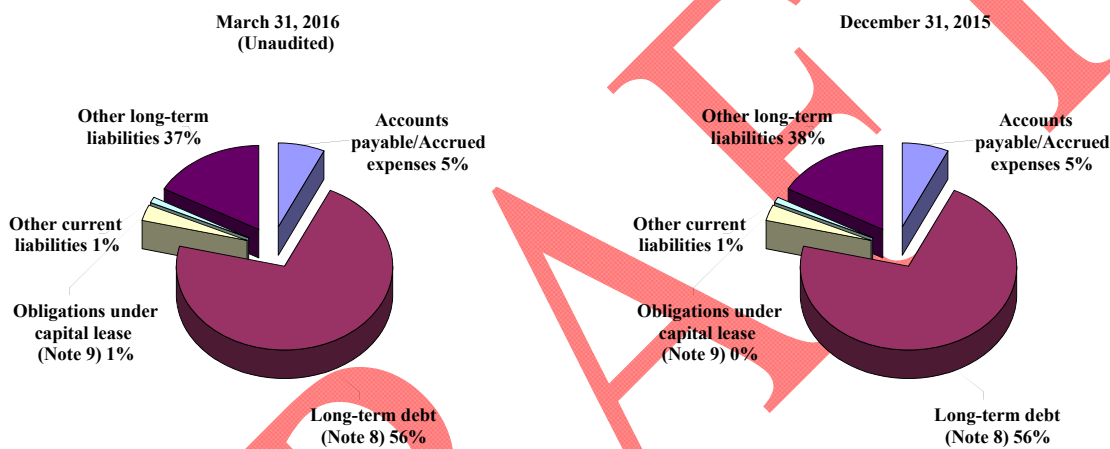
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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.

	March 31, 2016 (Unaudited)	December 31, 2015	December 31, 2014	Increase/(Decrease)	
(In millions)				2016 - 2015	2015 - 2014
Current liabilities	\$ 6,868	\$ 6,465	\$ 5,273	\$ 403	\$ 1,192
Non-current liabilities	61,583	59,891	50,038	1,692	9,853
Deferred inflows of resources	491	492	35	(1)	457
Total liabilities and deferred inflows of resources	<u>\$ 68,942</u>	<u>\$ 66,848</u>	<u>\$ 55,346</u>	<u>\$ 2,094</u>	<u>\$ 11,502</u>

Total Liabilities



Significant Changes in Liabilities Include:

March 31, 2016 versus December 31, 2015

Current liabilities increased by \$403, or 6.2%. The major items contributing to this change include:

- An increase in accrued expenses of \$348, or 12.2%, due to:
 - An increase in interest payable of \$332 due to new bonds issuances in the later part of 2015 and in the first quarter of 2016.
 - An increase in other various accrued expenses of \$16.
- An increase in other various current liabilities of \$69, or 15.5% primarily due to an increase in accounts payable of \$72 due to vendors.
- An increase in unearned revenue of \$54, or 9.6%, largely due to increases in MTA New York City Transit for school and elderly fare subsidies, unused fare cards and advertising revenue.
- A decrease in the current portion of long-term debt of \$68, or 2.6%, primarily from debt service payment on January 2, 2016.

Noncurrent liabilities increased by \$1,692, or 2.8%. The major items contributing to this increase include:

- An increase in non-current portion of long-term debt of \$1,231, or 3.6%, primarily due to the issuances of Transportation Revenue Bonds, Series 2016A issued on February 25, 2016 and Bond Anticipation Notes, Series 2016A issued on March 30, 2016.
- An increase in postemployment benefits other than pension liability ("OPEB") of \$374, or 2.8%, as a result of actuarial determined calculations as required by GASB Statement No. 45 (See Note 5).
- An increase in derivative liabilities of \$88, or 20.3%, due to changes in fair market value.
- A net decrease in other various non-current liabilities of \$1, or 0.03%.

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

	March 2016 (Unaudited)	December 2015	December 2014	Increase/(Decrease)	
(In millions)				2016 - 2015	2015 - 2014
Net investment in capital assets	\$ 24,051	\$ 23,788	\$ 22,944	\$ 263	\$ 844
Restricted for debt service	936	487	434	449	53
Restricted for claims	148	142	167	6	(25)
Restricted for other purposes	993	1,051	1,011	(58)	40
Unrestricted	<u>(18,986)</u>	<u>(19,635)</u>	<u>(11,274)</u>	<u>649</u>	<u>(8,361)</u>
Total Net Position	<u>\$ 7,142</u>	<u>\$ 5,833</u>	<u>\$ 13,282</u>	<u>\$ 1,309</u>	<u>\$ (7,449)</u>

Significant Changes in Net Position Include:

March 31, 2016 versus December 31, 2015

At March 31, 2016, total net position increased by \$1,309, or 22.4%, when compared with December 31, 2015. This change is a result of net non-operating revenues of \$2,691 and appropriations, grants and other receipts externally restricted for capital projects of \$478 offset by operating losses of \$1,860.

The net investment in capital assets increased by \$263, or 1.1%. Funds restricted for debt service, claims and other purposes increased by \$397, or 23.6% in the aggregate, while unrestricted net position increased by \$649, or 3.3%.

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

(In millions)	March 31, 2016 (Unaudited)	March 31, 2015 (Unaudited)	March 31, 2014 (Unaudited)	Increase/(Decrease) 2016 - 2015 2015 - 2014	
Operating revenues					
Passenger and tolls	\$ 1,872	\$ 1,737	\$ 1,706	\$ 135	\$ 31
Other	<u>149</u>	<u>156</u>	<u>151</u>	<u>(7)</u>	<u>5</u>
Total operating revenues	<u>2,021</u>	<u>1,893</u>	<u>1,857</u>	<u>128</u>	<u>36</u>
Non-operating revenues					
Grants, appropriations and taxes	2,828	2,744	2,725	84	19
Other	<u>170</u>	<u>168</u>	<u>182</u>	<u>2</u>	<u>(14)</u>
Total non-operating revenues	<u>2,998</u>	<u>2,912</u>	<u>2,907</u>	<u>86</u>	<u>5</u>
Total revenues	<u>5,019</u>	<u>4,805</u>	<u>4,764</u>	<u>214</u>	<u>41</u>
Operating expenses					
Salaries and wages	1,421	1,363	1,256	58	107
Retirement and other employee benefits	684	490	472	194	18
Postemployment benefits other than pensions	<u>499</u>	<u>631</u>	<u>595</u>	<u>(132)</u>	<u>36</u>
Depreciation and amortization	<u>589</u>	<u>568</u>	<u>547</u>	<u>21</u>	<u>21</u>
Other expenses	<u>688</u>	<u>696</u>	<u>675</u>	<u>(8)</u>	<u>21</u>
Operating expenses	<u>3,881</u>	<u>3,748</u>	<u>3,545</u>	<u>133</u>	<u>203</u>
Net (recoverables) /expenses related to asset impairment	<u>-</u>	<u>4</u>	<u>-</u>	<u>(4)</u>	<u>4</u>
Total operating expenses	<u>3,881</u>	<u>3,752</u>	<u>3,545</u>	<u>129</u>	<u>207</u>
Non-operating Expense					
Interest on long-term debt	358	357	335	1	22
Other net non-operating expenses	<u>(51)</u>	<u>(51)</u>	<u>(23)</u>	<u>-</u>	<u>(28)</u>
Total non-operating expenses	<u>307</u>	<u>306</u>	<u>312</u>	<u>1</u>	<u>(6)</u>
Total expenses	<u>4,188</u>	<u>4,058</u>	<u>3,857</u>	<u>130</u>	<u>201</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>478</u>	<u>469</u>	<u>413</u>	<u>9</u>	<u>56</u>
Change in net position	1,309	1,216	1,320	93	(104)
Net position, beginning of period	<u>5,833</u>	<u>13,282</u>	<u>14,205</u>	<u>(7,449)</u>	<u>(923)</u>
Net position, end of period	<u>\$ 7,142</u>	<u>\$ 14,498</u>	<u>\$ 15,525</u>	<u>\$ (7,356)</u>	<u>\$ (1,027)</u>

Revenues and Expenses, by Major Source:

Period ended March 31, 2016 versus 2015

- Total operating revenues increased by \$128, or 6.8%.
 - Fare and toll revenue increased by \$135 primarily due to higher subway ridership and an increase in vehicle crossings for the period ended March 31, 2016, when compared to the period ended March 31, 2015.
 - Other operating revenues decreased by \$7 due to lower advertising revenues collected on behalf of all agencies.
- Total non-operating revenue increased by \$86, or 3.0%.
 - Total grants, appropriations, and taxes were higher by \$84 for the period ended March 31, 2016.
 - Tax supported subsidies from New York State increased by \$120, due to the approval of New York State budget in March 2016. There was an increase in subsidies for Operating Assistance of \$104, Payroll Mobility Tax of \$13, Mass Transportation Trust Fund of \$7, offset by a decrease in MTA Aid Trust Account of \$4.
 - Tax supported subsidies from New York City and from MTA service areas decreased by \$36 due to a decrease in Urban Tax of \$51, offset by an increase in Mortgage Recording Tax of \$15.
 - Other non-operating revenues increased by \$2. There was an increase in subsidies from New York City of \$2 for MTA Bus and MTA Staten Island Railway and from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$1, offset by a decrease in Station Maintenance and Use assessments of \$1.
- Labor costs increased by \$120, or 4.8%. The major changes within this category are:
 - Retirement and employee benefits increased by \$194 primarily from higher pension adjustments for MTA New York City Transit.
 - Salaries and wages increased by \$58 due largely to increases in MTA New York City Transit.
 - Postemployment benefits other than pensions decreased by \$132, based on changes in the actuarial estimates.
- Non-labor operating costs increased by \$9, or 0.7%. The variance was due to:
 - Increase in depreciation of \$21 due largely to MTA New York City Transit placing additional facilities, track work and new buses and subway cars into service.
 - Increase in professional service contracts by \$11 due largely to additional IT consultants and higher technical services requirement.
 - Increase in maintenance and other contracts by \$21 and paratransit service contracts by \$3.

- Increase in material and supplies by \$8, mainly due to ongoing maintenance and repairs for transit and commuter systems.
- Increase in claims arising from injuries to persons of \$4 based on most recent actuarial valuations.
- Decrease in electric power by \$27 and fuel by \$19 due to lower prices in the first quarter of 2016.
- Decrease in insurance by \$4 due to lower liability premiums.
- Net decrease in other business expenses of \$5.
- Decrease in asset impairment expenses of \$4 when compared to the same period in 2015.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$9, or 1.9%, mainly due to timing in the availability of Federal grants for capital projects.

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

Economic Conditions

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

Preliminary MTA system-wide utilization for the first quarter of 2016 increased relative to 2015, with ridership up by 17.1 million trips (2.7%). While Subway ridership accounted for almost seventy percent of this improvement, increases took place at all MTA Agencies. The favorable improvement mostly reflects low ridership during the first quarter of 2015: while ridership during the first quarter of 2016 was impacted by the late January blizzard and extremely low temperatures during the Presidents' Day weekend in February, harsh weather during the first quarter of 2015 took an even greater toll on ridership levels, with significant snowfall totals, record cold temperatures and the "Juno" blizzard in January. Vehicle traffic at MTA Bridges and Tunnels facilities increased by 5.5 million crossings (8.4%) during the first quarter, reflecting both growth in the regional economy and the continuation of low gasoline prices.

Seasonally adjusted non-agricultural employment in New York City for the first quarter was higher in 2016 than in 2015 by 104.6 thousand jobs (2.5%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-two 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.

National economic growth, as measured by Real Gross Domestic Product ("RGDP"), expanded at an annualized rate of 0.5% in the first quarter of 2016, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase in RGDP reflected positive contributions from personal consumption expenditures, residential fixed investment, and state and local government spending that were partly offset by negative contributions from nonresidential fixed investment, private inventory investment, exports, and federal spending; imports, which are a subtraction to Gross Domestic Product ("GDP"),

increased. The deceleration in RGDP in the first quarter from the revised fourth quarter 2015 rate of 1.4% reflected a larger decrease in nonresidential fixed investment, a deceleration in personal consumption expenditures, a downturn in federal government spending, an upturn in imports, and larger decreases in private inventory investment and exports that were partly offset by an upturn in state and local government spending and an acceleration in residential fixed investment.

The New York City metropolitan area's price inflation, as represented by the Consumer Price Index for All Urban Consumers ("CPI-U"), was lower than the national average in the first quarter of 2016, with the metropolitan area index increasing 0.7% while the national index increased 1.1%, when compared with the first quarter of 2015. A 14.4% fall in the regional price of energy products, along with a 10.6% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.7%; nationally, inflation exclusive of energy prices increased 2.0%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 26.8% from an average price of \$1.538 to an average of \$1.127 per gallon between the first quarters of 2015 and 2016.

Citing evidence that economic activity had been expanding at a moderate rate, the Federal Open Market Committee ("FOMC") in December 2015 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. Since that increase, the FOMC has maintained the target range for the Federal Funds rate at 0.25% to 0.50%, maintaining an accommodative monetary policy stance, and thereby supporting further improvement in labor market conditions and a return to 2% inflation.

As noted in the FOMC's April 27, 2016 policy release, recent information indicates that labor market conditions have further improved even as growth in economic activity appears to have slowed. While growth in household spending has moderated, households' real income has risen at a solid rate and consumer sentiment remains high. Since the beginning of the year, the housing sector has improved further, but business fixed investment and net exports have been soft; recent indicators also point to additional strengthening of the labor market. However, inflation has continued to run below the FOMC's 2% longer-run objective due to earlier declines in energy prices and fall pricing for non-energy imports.

Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. 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. The FOMC currently expects that economic activity will expand at a moderate rate and labor market indicators will continue to strengthen. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but rise to 2% over the medium term as the transitory effects of declines in energy and import prices dissipate and the labor market strengthens further. Against this backdrop, the FOMC has left unchanged the target range for the Federal Funds rate.

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. A discernible upward trend in MRT receipts began during the first quarter of 2012 which continued through the third quarter of 2015; however, receipts for the past two quarters have modestly slipped. Mortgage Recording Tax collections for the first quarter of 2016 were higher than the first quarter of 2014 by \$9.6 million (9.4%); however, the first quarter of 2016 was \$2.6 million (2.3%) less than the prior quarter.

Despite of the gradual overall recovery of MRT receipts that has been occurring since 2012, average monthly receipts during the first quarter remain \$26.5 million (41.6%) worse than the monthly average for 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, and can vary significantly from quarter to quarter based on the timing of exceptionally high-priced transactions – demonstrated a pronounced rise and continued strength since the economic recovery. Compared with one year earlier, average monthly Urban Tax receipts during the first quarter of 2016 were lower by \$12.8 million (4.8%). Quarterly receipts of Urban Taxes in the first quarter of 2016 totaled \$255.6 million, and the monthly average was \$11.6 million (15.7%) greater than the monthly average in 2007, just prior to the steep decline in Urban Tax revenues.

Results of Operations

MTA Bridges and Tunnels - Paid traffic for the first quarter of 2016 totaled 70.3 million vehicles, which was 5.5 million crossings, or 8.4% higher than the first quarter of 2015. The primary reason for the increase was generally less severe winter weather this year compared to last year, continued modest improvements in the regional economy and gas prices that have remained relatively low. The higher traffic volume, along with the toll increase implemented on March 22, 2015, pushed toll revenue up to \$427.3 million for the quarter, which was \$44.6 million higher than the total for the first quarter of 2015.

The E-ZPass electronic toll collection system continued to facilitate management of high traffic volumes and experienced year-to-year increases. Total average market share as of March 31, 2016 was 86.3% compared to 85.1% as of 2015. The average weekday market shares were 87.8% and 86.7% for the first quarter March 31, 2016 and 2015, respectively.

MTA New York City Transit - Total revenue from fares were \$1,066 for the three months ended March 31, 2016, an increase of \$67 or 6.7% compared to the three months ended March 31, 2015. The increase was due to (1) the fare increase effective March 22, 2015 which impacted only nine days of revenue in the first quarter of 2015 compared to three full months in the first quarter of 2016, (2) an extra day in February 2016 due to the leap year, and (3) total ridership was 2,428 million passengers for the first quarter of 2016, an increase of 2.5% compared to the first quarter of 2015.

MTA Long Island Rail Road – Total operating revenues increased by \$11.3 or 6.7% for the first three months of 2016 in 2015 compared to the first three months of 2015.

MTA Metro-North Railroad – During the first three months of 2016, Operating Revenue increased by \$10,666 or 6.4 percent compared to the first three months of 2015. During the same period of time, Operating Expenses decreased by \$4,767 or 1.3 percent. In addition, Net Position decreased by \$69,912 or 1.9 percent compared to December 31, 2015 due to non-operating revenues of \$118,906 offset by operating losses of \$188,818. During the first three months of 2015, Net Position decreased by \$81,759 or 2.1 percent compared to December 31, 2014 due to non-operating revenues of \$125,434 offset by operating losses of \$207,193.

Year-to-date 2016 Fare Revenue and Ridership increased by 6.7 percent and 2.8 percent, respectively, compared to the same period in 2015. The increases in revenue occurred on the Hudson, Harlem and New Haven Lines for non-commutation and monthly commutation.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance (“MMTOA”) receipts each year, with the state advancing the first quarter of each succeeding calendar year's receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During March 2016, 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, 2015 increased by 18% compared to December 31, 2014, from \$366.6 to \$434.1. However, the total MRT at March 31, 2016 increased by 16% compared to March 31, 2015, from \$96.7 to \$111.8.

Capital Programs

At March 31, 2016, \$1,476 had been committed and \$14 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, and \$24,094 had been committed and \$14,356 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$23,891 had been committed and \$22,989 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program and \$21,594 had been committed and \$21,367 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 April 20, 2016, the MTA Board approved revised capital programs for the years covering 2015-2019. The revised capital programs provided for 29,456 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; \$4,956 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. The revised Capital Programs are pending CPRB approval. The revised 2015-2019 MTA Bridges and Tunnels Capital Program, as approved by the MTA Board on April 20, 2016, is 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 March 31, 2016, the 2010-2014 MTA Capital Programs budget increased by \$88 primarily due to additional work scope funded through additional grants. Of the \$34,889 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, \$774 from City Capital Funds, and \$1,535 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 March 31, 2016, \$24,094 had been committed and \$14,356 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 March 31, 2016, 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, \$2,826 in City Capital Funds, and \$1,322 from other sources.

At March 31, 2016, \$23,891 had been committed and \$22,989 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

2000-2004 Capital Program — Capital programs covering the years 2000-2004 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2000–2004 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2000–2004 Transit Capital Program”) were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2000–2004 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in April 2000 and was not subject to CPRB approval. The 2000–2004 amended Commuter Capital Program and the 2000–2004 amended Transit

Capital program (collectively, the “2000–2004 MTA Capital Programs”) were last amended by the MTA Board in December 2006. This amendment was submitted to the CPRB for approval in April 2007, but was subsequently disapproved. In December 2007, the MTA Board approved a modified amendment; this amendment was submitted to the CPRB for approval, which was granted in January 2008.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program, provide for \$21,147 in capital expenditures. By March 31, 2016, 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 March 31, 2016, \$21,594 had been committed and \$21,367 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The MTA’s Variable Rate Debt Portfolio

During the period ended March 31, 2016, 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 \$252.38 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of March 31, 2016, had been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

The February Financial Plan (the “February Plan”)

The MTA 2016 Adopted Budget and February Financial Plan 2016-2019 (collectively, the “February Plan”) was presented to the MTA Board at its February 24, 2016 meeting. Unlike the July and November Plans, the February Plan does not include any new proposals or programs. Certain elements of the February Plan which represent changes in MTA financial results from the November Plan are noted below:

- Commuter railroad overhead rates have been adjusted to reflect 2014 retroactive wage adjustments – increasing the non-reimbursable budget by \$35 million in 2016 and by \$12 million per year thereafter.
- While the MMTOA appropriation in the State Executive Budget for the State’s 2016-2017 fiscal year is unchanged from the prior year, it is \$36 million lower than was projected in the November Plan. Further, in 2015, \$104 million of MMTOA monies were redirected by the State from the MTA operating budget to the Capital Program. The Executive Budget for the State’s 2016-2017

fiscal year does not include this redirection, and MTA is offsetting this reduction to the Capital Program with a corresponding increase in its contribution to capital from the operating budget.

- The Board-approved 2016-2019 Financial Plan gave MTA management the discretion to apply unexpended 2015 general reserve funds towards unfunded needs or to reduce long term liabilities. The November Plan assumed those funds would be used to reduce the LIRR unfunded pension liability, but to date, those funds have yet to be invested. The February Plan assumed that \$70 million of such funds would be invested, with the remaining \$70 million balance used to address the combined effect of two of the above-described changes: the \$35 million due to the change in the commuter rail overhead recovery and the \$36 million reduction from the MMTOA forecast. However, at the February Finance Committee meeting, MTA stated that without an approved Capital Plan, it will delay investment of any of the unused 2015 general reserve funds pending further review.

Year-ending cash positions have changed since the November Plan. The February Plan is projecting year-end cash balances of \$295 million in 2015, \$121 million in 2016, and \$3 million in each of 2017 and 2018, with a projected cash deficit of \$256 million in 2019. The February Plan includes funding for all of the programs included in the November Plan.

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 March 31, 2016, MTA has drawn down a total of \$982.8 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 - No changes since February Plan.

MTA Headquarters – To date, all expired bargaining agreements at MTA Headquarters have been settled. A 60 month agreement expiring December 31, 2019 was reached with the Transportation Communications Union Local 982 representing information technology workers from various agencies that were recently consolidated as an MTA Headquarters department. The agreement is consistent with other HQ bargaining unit agreements. The Transport Workers Union, Local 100 has also recently won the right to represent former non-represented MaBSTOA employees who were part of the IT Consolidation. Negotiations on an agreement for that bargaining unit have not yet begun. Pursuant to the Taylor Law, until a collective bargaining agreement is reached, terms and conditions of employment remain status quo. Finally MTA HQ is in discussions with the TCU over titles affected by a newly forming consolidated Procurement Department which will handle non-core procurements for all MTA agencies.

MTA New York City Transit Authority/Manhattan and Bronx Surface Transit Operating Authority – The Transport Workers Union, Local 100 has recently won the right to represent non-represented MaBSTOA

employees in certain computer titles. Negotiations on an agreement for that bargaining unit have not yet begun. Pursuant to the Taylor Law, until a collective bargaining agreement is reached, terms and conditions of employment remain status quo. NYCT is currently in negotiations with the Doctor's Counsel, representing 17 physicians and Deputy Medical Directors.

Staten Island Rapid Transit Operating Authority – No changes since February Plan.

MTA Bus Company – A 60 month agreement was reached with TWU, Local 100 for the period from January 16, 2012 through January 15, 2017 consistent with pattern. The parties have agreed to refer the outstanding issue of pension enhancement to arbitration.

Bridges and Tunnels – Bridges and Tunnels continues to negotiate with its maintenance workers (DC 37 1931), Bridge & Tunnel Officers (BTOBA) and Superior Officers (SOBA).

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METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENT OF NET POSITION AS OF MARCH 31, 2016

AND CONSOLIDATED STATEMENT OF NET POSITION AS OF DECEMBER 31, 2015

(\$ In millions)

	March 31, 2016 (Unaudited)	December 31, 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 345	\$ 454
Unrestricted investments (Note 3)	3,733	3,928
Restricted investments (Note 3)	2,563	1,519
Restricted investments held under capital lease obligations (Notes 3 and 9)	92	3
Receivables:		
Station maintenance, operation, and use assessments	161	121
State and regional mass transit taxes	1,834	153
Mortgage Recording Tax receivable	41	40
State and local operating assistance	225	13
Other receivable from New York City and New York State	223	249
Connecticut Department of Transportation	-	0
Due from Build America Bonds	4	1
Due from Nassau County for Long Island Bus	0	-
Capital project receivable from federal and state government	122	137
Other	242	241
Less allowance for doubtful accounts	(24)	(24)
Total receivables — net	2,828	931
Materials and supplies	597	582
Advance to defined benefit pension trust	0	-
Prepaid expenses and other current assets (Note 2)	164	173
Total current assets	10,322	7,590
NON-CURRENT ASSETS:		
Capital assets (Note 6):		
Land and construction work-in-progress	15,171	14,729
Other capital assets (net of accumulated depreciation)	46,747	46,659
Unrestricted investments (Note 3)	32	57
Restricted investments (Note 3)	360	357
Restricted investments held under capital lease obligations (Notes 3 and 9)	374	460
Other non-current receivables	427	496
Receivable from New York State	187	187
Other non-current assets	5	6
Total non-current assets	63,303	62,951
TOTAL ASSETS	73,625	70,541
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decreases in fair value of derivative instruments (Note 8)	615	526
Loss on debt refunding	819	581
Deferred outflows related to pensions (Note 4)	1,025	1,033
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,459	2,140
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 76,084	\$ 72,681

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENT OF NET POSITION AS OF MARCH 31, 2016

AND CONSOLIDATED STATEMENT OF NET POSITION AS OF DECEMBER 31, 2015

(\$ In millions)

	March 31, 2016 (Unaudited)	December 31, 2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 465	\$ 393
Accrued expenses:		
Interest	542	210
Salaries, wages and payroll taxes	254	256
Vacation and sick pay benefits	892	880
Current portion — retirement and death benefits	12	15
Current portion — estimated liability from injuries to persons (Note 11)	484	444
Other	1,008	1,039
Total accrued expenses	3,192	2,844
Current portion — long-term debt (Note 8)	2,519	2,587
Current portion — obligations under capital lease (Note 9)	18	9
Current portion — pollution remediation projects (Note 13)	26	26
Derivative fuel hedge liability (Note 15)	31	43
Unearned revenues	617	563
Total current liabilities	6,868	6,465
NON-CURRENT LIABILITIES:		
Net pension liability (Note 4)	7,704	7,704
Estimated liability arising from injuries to persons (Note 11)	2,425	2,439
Post employment benefits other than pensions (Note 5)	13,934	13,560
Long-term debt (Note 8)	35,714	34,483
Obligations under capital leases (Note 9)	502	510
Pollution remediation projects (Note 13)	75	74
Contract retainage payable	301	281
Derivative liabilities (Note 8)	521	433
Derivative liabilities with off market elements (Note 8)	100	100
Other long-term liabilities	307	307
Total non-current liabilities	61,583	59,891
Total liabilities	68,451	66,356
DEFERRED INFLOWS OF RESOURCES:		
Gain on debt refunding	31	32
Deferred Inflows related to pensions (Note 4)	460	460
TOTAL DEFERRED INFLOWS OF RESOURCES	491	492
NET POSITION:		
Net investment in capital assets	24,051	23,788
Restricted for debt service	936	487
Restricted for claims	148	142
Restricted for other purposes (Note 2)	993	1,051
Unrestricted	(18,986)	(19,635)
Total net position	7,142	5,833
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 76,084	\$ 72,681

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

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PERIODS ENDED MARCH 31, 2016 AND 2015

(\$ In millions)

	March 31, 2016	March 31, 2015
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	\$ 1,445	\$ 1,354
Vehicle toll revenue	427	383
Rents, freight, and other revenue	149	156
Total operating revenues	2,021	1,893
OPERATING EXPENSES:		
Salaries and wages	1,421	1,363
Retirement and other employee benefits	684	490
Postemployment benefits other than pensions (Note 5)	499	631
Electric power	107	134
Fuel	30	49
Insurance	10	14
Claims	65	61
Paratransit service contracts	95	92
Maintenance and other operating contracts	122	101
Professional service contracts	74	63
Pollution remediation projects (Note 13)	2	4
Materials and supplies	141	133
Depreciation	589	568
Other	42	45
Total operating expenses	3,881	3,748
Net expenses/(recoverables) related to asset impairment (Note 7)	-	4
OPERATING LOSS	(1,860)	(1,859)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	148	141
Metropolitan Mass Transportation Operating Assistance subsidies	1,668	1,564
Payroll Mobility Tax subsidies	422	409
MTA Aid Trust Account subsidies	66	70
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	112	97
Urban Tax subsidies	193	244
Other subsidies:		
Operating Assistance - 18-B program	217	217
Build America Bond subsidy	2	2
Total grants, appropriations and taxes	\$ 2,828	\$ 2,744

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PERIODS ENDED MARCH 31, 2016 AND 2015

(\$ In millions)

	March 31, 2016	March 31, 2015
	(Unaudited)	
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 31	\$ 30
Subsidies paid to Dutchess, Orange, and Rockland Counties	(1)	(1)
Interest on long-term debt	(358)	(357)
Station maintenance, operation and use assessments	40	41
Operating subsidies recoverable from NYC	99	97
Other net non-operating expenses	52	52
	<u>2,691</u>	<u>2,606</u>
Net non-operating revenues		
	<u>2,691</u>	<u>2,606</u>
GAIN BEFORE APPROPRIATIONS	831	747
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>478</u>	<u>469</u>
CHANGE IN NET POSITION	1,309	1,216
NET POSITION— Beginning of year	<u>5,833</u>	<u>13,282</u>
NET POSITION — End of year	<u>\$ 7,142</u>	<u>\$ 14,498</u>

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2016 AND 2015

(\$ In millions)

	March 31, 2016	March 31, 2015
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 1,914	\$ 1,812
Rents and other receipts	178	116
Payroll and related fringe benefits	(2,220)	(2,117)
Other operating expenses	(758)	(805)
Net cash used by operating activities	(886)	(994)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	1,035	1,076
Operating subsidies from CDOT	45	22
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(2)
Net cash provided by noncapital financing activities	1,076	1,096
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,635	1,261
MTA Bridges and Tunnels bond proceeds	646	559
MTA bonds refunded/reissued	(1,037)	-
TBTA bonds refunded/reissued	(288)	(559)
MTA anticipation notes proceeds	707	602
MTA anticipation notes redeemed	(502)	(602)
MTA credit facility refunded	-	(300)
Grants and appropriations	503	569
Payment for capital assets	(994)	(871)
Debt service payments	(173)	(130)
Net cash provided by capital and related financing activities	497	529
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(3,052)	(1,666)
Sales or maturities of long-term securities	2,516	1,605
Net purchases of short-term securities	(273)	(615)
Earnings on investments	13	6
Net cash used by investing activities	(796)	(670)
NET DECREASE IN CASH	(109)	(39)
CASH — Beginning of year	454	311
CASH — End of year	\$ 345	\$ 272

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS

PERIODS ENDED MARCH 31, 2016 AND 2015

(\$ In millions)

	March 31, 2016	March 31, 2015 (Unaudited)
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (1,860)	\$ (1,859)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	589	568
Net increase in payables, accrued expenses, and other liabilities	322	315
Net (increase) decrease in receivables	43	(62)
Net increase in materials and supplies and prepaid expenses	<u>20</u>	<u>44</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (886)</u>	<u>\$ (994)</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital assets related liabilities	\$ 467	\$ 599
Capital leases related liabilities	520	511
Interest expense includes amortization of net (premium) / discount	(73)	65
Interest expense which was capitalized	<u>10</u>	<u>10</u>
TOTAL NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 924</u>	<u>\$ 1,185</u>

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF MARCH 31, 2016 AND DECEMBER 31, 2015 AND FOR
PERIODS ENDED MARCH 31, 2016 AND 2015
(\$ In millions, except as noted)**

1. BASIS OF PRESENTATION

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

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

Metropolitan Transportation Authority and Related Groups (Component Units)

- 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.

The subsidiaries and affiliates, considered component units of the MTA, are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s consolidated interim financial statements as blended component units 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 organizations 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. All of the component units publish separate annual financial statements, which are available by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York 10004.

Although the MTA Group collects fares for the transit and commuter service, they provide and receive revenues from other sources, such as the leasing out of real property assets, and the licensing of advertising. Such revenues, including forecast-increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such services. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Non-operating subsidies to the MTA Group for transit and commuter service for the period ended March 31, 2016 and 2015 totaled \$2.8 billion and \$2.7 billion, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Standards —

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. The MTA will adopt GASB Statement No. 72 for the June 30, 2016 reporting period, which will require additional disclosures related to the hierarchy of valuation inputs and valuation techniques in the notes to the financial statements. 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 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.

The MTA 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 MTA has determined that GASB Statement No. 77 had no impact on its financial position, results of operations, and cash flows.

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 MTA has determined that GASB Statement No. 79 had no impact on its financial position, results of operations, and cash flows.

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.

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 interim financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant estimates include the market value of investments, allowances for doubtful accounts, valuation of derivative instruments, 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.

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

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

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

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

Investments are recorded on the consolidated interim statement of net position at fair value. All investment income, including changes in the fair value of investments, is reported as revenue on the consolidated interim statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at March 31, 2016 and December 31, 2015.

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 tickets or farecards are used. Tickets are assumed to be used in the month of purchase, with the exception of advance purchases of monthly and weekly tickets. When the farecards expire, revenue is recorded for the unused value of the farecards.

MTA Bridges and Tunnel 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 VNB Commercial Rebate Program and SIR Rebate Program are funded by the State and MTA.

Capital Financing — The MTA has ongoing programs on behalf of its subsidiaries and affiliates, 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 operations.

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 0.25% 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 0.25% of certain mortgages secured by real estate improved or to be improved by structures containing one to nine dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55% to certain transit operations and 45% to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually (subject to the monies being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of March 31, 2016 and 2015, the amount allocated to NYS Suburban Highway Transportation Fund was \$0 and \$0, respectively. Of the MTA New York City Transit portion, the MTA distributed \$0 and \$0 as of March 31, 2016 and 2015, respectively.
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland ("DOR") Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of March 31, 2016, the MTA paid to Dutchess, Orange and Rockland Counties the 2015 excess amounts of MRT-1 and MRT-2 totaling \$2.4.
- 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 the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

Mobility tax — In June of 2009, Chapter 25 of the NYS Laws of 2009 added Article 23, which establishes the Metropolitan Commuter Transportation Mobility Tax ("MCTMT"). The proceeds of this tax, administered by the New York State Tax Department, are to be distributed to the Metropolitan Transportation Authority. This tax is imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district which includes New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This Tax is imposed on certain employers that have payroll expenses within the Metropolitan Commuter Transportation District, to pay at a rate of 0.34% of an employer's payroll expenses for all covered

employees for each calendar quarter. The employer is prohibited from deducting from wages or compensation of an employee any amount that represents all or any portion of the MCTMT. The effective date of this tax was March 1, 2009 for employers other than public school district; September 1, 2009 for Public school districts and January 1, 2009 for individuals.

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

Dedicated Taxes — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund (“MTTF”) and Metropolitan Mass Transportation Operating Assistance Fund (“MMTOA”). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to the Transit System (defined as MTA New York City Transit and MaBSTOA), SIRTAA and the Commuter Railroads to pay operating and capital costs. The MMTOA receipts are comprised of 0.375% 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, 2015, 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 54.3% of the Grand Central Terminal (“GCT”) operating deficit. The New Haven line’s share of the net operating

deficit for the use of GCT is comprised of a fixed fee, calculated using several years as a base, with annual increases for inflation, and the actual 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 2013, 2014 and 2015 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 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.

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 \$0 million in for the three months ended March 31, 2016 and 2015, respectively for the reimbursement of transit police costs.

Similarly, MTAHQ bills MTA Metro-North Railroad through its consolidated services for MTA police costs in the New Haven line of which MTA Metro-North Railroad recovers approximately 65% from Connecticut Department of Transportation. The amounts billed for the periods ended March 31, 2016 and 2015 were \$5.0 and \$5.2, respectively. The amounts recovered for the periods ended March 31, 2016 and 2015 were approximately \$3.3 and \$3.4, 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 \$51.5 and \$54.2 for the periods ended March 31, 2016 and 2015, 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 Net Non-operating 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 March 31, 2016, the balance of the assets in this program was \$110.6.

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, 2016, 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 \$11 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, 2016, 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, 2015, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total All Risk program annual limit is \$800 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is 100% reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate 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.

Supplementing the \$800 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 \$800 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 84% of "certified" losses in 2016 and 83% of "certified" losses in 2017 and 82% of "certified" losses in 2018, as covered by the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") of 2015. The remaining 16% (2016), 17% (2017) and 18% (2018) of the Related Entities' 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 \$120 million in 2016, \$140 million in 2017 and \$160 million in 2018. The United States government's reinsurance is in place through December 31, 2020.

To supplement the reinsurance to FMTAC through the TRIPRA, MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 16% of any "certified" act of terrorism up to a maximum recovery of \$172 million for any one occurrence and in the annual aggregate during 2016, 17% of any "certified" act of terrorism up to a maximum recovery of \$182.75 million for any one occurrence and in the annual aggregate during 2017 and 18% of any "certified" act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018, (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 \$120 TRIPRA trigger up to a maximum recovery of \$120 million for any occurrence and in the annual aggregate during 2016, or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$140 million TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017 or 100% of any "certified" terrorism loss which exceeds \$5

million and less than the \$160 million TRIPRA trigger up to a maximum recovery of \$160 million for any occurrence and in the annual aggregate during 2018.

Additionally, MTA purchases coverage for Acts of Terrorism which are not certified under TRIPRA to a maximum of \$172 million in 2016, \$182.75 million in 2017 and \$193.5 million in 2018. Recovery under the Terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities' deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The Terrorism coverages expire at midnight on May 1, 2018.

Pension Plans — 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 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 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 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.

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.

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

3. CASH AND INVESTMENTS

The Bank balances are insured up to \$250 thousand in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. Cash, including deposits in transit, consists of the following at March 31, 2016 and December 31, 2015 (in millions):

	<u>March 31, 2016</u>		<u>December 31, 2015</u>	
	<u>Carrying Amount (Unaudited)</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
FDIC insured or collateralized deposits	\$ 191	\$ 183	\$ 175	\$ 168
Uninsured and not collateralized	<u>154</u>	<u>116</u>	<u>279</u>	<u>231</u>
	<u>\$ 345</u>	<u>\$ 299</u>	<u>\$ 454</u>	<u>\$ 399</u>

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

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

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

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

Investments, at fair value, consist of the following at March 31, 2016 and December 31, 2015 (in millions):

	March 31, 2016 (Unaudited)	December 31, 2015
Repurchase agreements	\$ 132	\$ 172
Commercial paper	1,812	1,551
Federal Agencies due 2016	485	708
U.S. Treasuries due 2016–2021	3,919	3,007
Investments restricted for capital lease obligations:		
U.S. Treasury Notes due 2016 - 2021	\$ 205	\$ 199
Short-term investment fund	77	77
Federal Agencies due 2030 - 2033	40	40
Other Agencies due 2022-2033	<u>143</u>	<u>147</u>
Sub-total	<u>465</u>	<u>463</u>
Other Agencies due 2016	77	168
Asset and mortgage backed securities*	23	27
Commercial mortgage backed securities*	48	45
Corporate bonds*	161	153
Foreign bonds*	13	11
Equities*	<u>19</u>	<u>19</u>
Total	<u>\$ 7,154</u>	<u>\$ 6,324</u>

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 1.54% and 0.51% for the three months ended March 31, 2016 and year ended December 31, 2015, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at March 31, 2016 and December 31, 2015 (in millions):

	March 31, 2016 (Unaudited)	December 31, 2015
Construction or acquisition of capital assets	\$ 4,000	\$ 3,230
Funds received from affiliated agencies for investment	331	605
Debt service	938	488
Payment of claims	643	735
Restricted for capital leases	466	464
Other	612	527
	<u>6,990</u>	<u>6,049</u>
Unrestricted funds	509	729
Total cash and investments	<u>\$ 7,499</u>	<u>\$ 6,778</u>

Credit Risk — At March 31, 2016 and December 31, 2015, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

Quality Rating Standard & Poor's	March 31, 2016 (Unaudited)	Percent of Portfolio	December 31, 2015	Percent of Portfolio
A-1+	\$ 481	7 %	\$ 739	12 %
A-1	1,812	26	1,551	25
AAA	105	2	112	2
AA+	40	1	40	1
AA	29	0	27	0
A	101	1	91	2
BB	2	-	-	-
BBB	91	1	51	1
Not rated	138	2	180	3
U.S. Government	<u>4,144</u>	<u>60</u>	<u>3,322</u>	<u>54</u>
Total	6,943	100 %	6,113	100 %
Equities and capital leases	<u>211</u>		<u>211</u>	
Total investment	<u>\$ 7,154</u>		<u>\$ 6,324</u>	

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

(In millions) Securities	March 31, 2016 (Unaudited)		December 31, 2015	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)
U.S. Treasuries	\$ 3,919	4.71	\$ 3,007	4.55
Federal Agencies	524	2.47	708	0.02
Other Agencies	30	-	162	3.34
Tax benefits lease investments	273	4.17	269	9.66
Repurchase agreement	132	-	172	-
Certificate of deposits	6	-	6	-
Commercial paper	1,812	0.06	1,551	-
Asset-backed securities ⁽¹⁾	23	1.07	27	0.99
Commercial mortgage-backed securities ⁽¹⁾	48	2.42	45	1.87
Foreign bonds ⁽¹⁾	13	0.00	11	0.01
Corporates ⁽¹⁾	161	2.49	153	2.96
Total fair value	6,941		6,111	
Modified duration		3.10		2.90
Equities ⁽¹⁾	19		19	
Total	6,960		6,130	
Investments with no duration reported	194		194	
Total investments	\$ 7,154		\$ 6,324	

⁽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 component units. 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 sponsor and participate 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 covers MTA Long Island Rail Road employees hired effective July 1, 1971 and prior to January 1, 1988. The Additional Plan’s activities, including establishing and amending contributions and benefits are 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.

The Board of Managers of Pensions 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 or the designee of a member of the Board of Managers. The Additional Plan for Additional Pensions may be amended by action of the MTA Board.

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. MaBSTOA Plan —

The MaBSTOA Plan is a single-employer defined benefit 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 the eligibility of employees and beneficiaries for retirement and death benefits. The MaBSTOA Plan assigns authority to the MaBSTOA to modify, amend or restrict the MaBSTOA Plan or to discontinue it altogether, subject, however, to the obligations under its collective bargaining agreements.

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, 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 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 MNR Cash Balance Plan’s activities, including establishing and amending contributions and benefits.

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.

4. MTA Defined Benefit Plan —

The MTA Defined Benefit Pension Plan (the “MTA Plan” or the “Plan”) is a cost sharing, multiple-employer defined benefit 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 MTA, 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, including benefits and contributions, 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. 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. 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 employees of the Related Group holding permanent civil service positions in the competitive or labor class are required to become members of NYCERS six months after their date of appointment, but may voluntarily elect to join NYCERS prior to their mandated membership date. All other eligible employees have the option of joining NYCERS upon appointment or anytime thereafter. NYCERS members are assigned to a “tier” depending on the date of their membership.

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| 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. 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. 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.

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| 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	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.

The terms of the Additional Plan are established by, and may only be amended by the MTA Long Island Rail Road, subject to the obligations of the MTA Long Island Rail Road under its collective bargaining agreements.

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. 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.

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, amendments must be approved by the MTA Board.

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 MTA New York City Transit participants in NYCERS. Benefits vest after either 5, 10, or 20 years of credited service, depending on the date of membership.

In 2008, NYCERS had 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 — For Tier 1 members the amount of the death benefit is a lump sum equal to six months' pay for members with less than 10 years of service; a lump sum equal to a 12 months of pay for members with more than 10 but less than 20 years of service, and a lump sum equal to two times 12 months of pay for members with more than 20 years of service.

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 ("FAC") for the first 30 years of service plus 1.5% of FAC for years of service in excess of 30. FAC 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 FAC 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 basic 55/25Plan 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 FAC for the first 30 years of service plus 1.5% of FAC 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 FAC 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 FAC for the first 30 years of service plus 1.5% of FAC 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 FAC multiplied by years of service.

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

Ordinary Death Benefits — For eligible members of the Regular 62/5 Plan, 55/25 Plan, 57/5 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 55/25 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 Final Average Salary ("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 compensation over five consecutive years.

Tier 6 members in the Basic 63/10 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 early retirement precedes age 63.

Ordinary and Accidental Disability Benefits — For eligible members of the 55/25 Special Plan and the Basic 63/10 Plan, ordinary and accidental disability benefits, are provided after 10 years of credited service for ordinary disability benefit. There is no service requirement for accidental disability benefit. 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 55/25 Special Plan and the Basic 63/10 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 are vested in their benefit upon the earlier of (a) the completion of 5 years of service with 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 may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or they may elect a monthly life annuity. Participants may elect to receive their pension 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 a service retirement allowance upon termination if the participant satisfied both age and service requirements. A participant is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed at least 10 years of credited service. Terminated participants with 5 or more years of credited service are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on the first day of the month following the participant's 62nd birthday.

Certain represented employees of the MTA Long Island Rail Road and the MTA Metro-North Railroad continue to make contributions to the Plan for 15 years. Certain represented employees of the MTA Long Island Rail Road and the MTA Metro-North Railroad are eligible for an early retirement allowance upon termination if the participant has attained age 60 and completed at least 5 years of credited service, or has attained age 55 and completed at least 30 years of credited service. The early retirement allowance is reduced one-quarter of 1% per month for each full month that retirement predates age 60 for certain represented employees of the MTA Long Island Rail Road and the MTA Metro-North Railroad.

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 62. 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 55.

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 65.

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 62.

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 10 years of covered MTA Bus service; 10 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 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 (whole dollars) 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 61. 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.

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 represented 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.

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%.

Tier 4 participants upon satisfying applicable eligibility requirements may be mandated or elected, as applicable, into the Basic 62/5 Retirement Plan, the 57/5 Plan, the 55/25 Plan, the Transit 55/25 Plan, the MTA Triborough Bridge and Tunnel Authority 50/20 Plan, and the Automotive Member 25/50 Plan. These plans provide annual benefits of 40% to 50% of final salary after 20 or 25 years of service, with additional benefits equal to a specified percentage per year of service (currently 1.5% to 2%) of final salary.

Chapter 18 of the Laws of 2012 created Tier 6. These changes increase the retirement age to 63, require member contributions for all years of service, institute progressive member contributions, 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.

6. NYSLERS — NYSLERS provides retirement benefits as well as death and disability benefits. Members who joined prior to January 1, 2010 need 5 years of service to be fully vested. Members who joined on or after January 1, 2010 need 10 years of service.

Tiers 1 and 2 —

Eligibility: Tier 1 members generally must be at least age 55 to be eligible for a retirement benefit. There is no minimum service requirement for Tier 1 members. Generally, Tier 2 members must have 5 years of service and be at least age 55 for 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% 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: Most Tier 3 and 4 members must have 5 years of service and be at least age 55 to be eligible for a retirement benefit. Tier 5 members, must have 10 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% 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% 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 10 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 110% of the average of the previous two years.

Tier 6 —

Eligibility: Generally, Tier 6 members must have 10 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% 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% 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% of final average salary is applied for each year of service over 20 years. Tier 6 members with 10 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 110% 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 (whole 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 (whole 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	7,739	15	16,688	24,763
Retirees and beneficiaries receiving benefits	6,089	5,168	26	11,038	22,321
Vested formerly active members not yet receiving benefits	67	1,104	19	1,422	2,612
Total	6,477	14,011	60	29,148	49,696

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 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 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.

Contributions as a percent of covered payroll was 283.43% for the year ended December 31, 2015. The actual contributions for the year ended December 31, 2015 was \$100.0.

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, including the 2000 amendments which are all under the same terms and conditions as NYCERS:

- (i.) Tier 1 and 2 - Basic Plans;
- (ii.) Tier 3 and 4 - 55 and 25 Plan;
- (iii.) Tier 3 and 4 - Regular 62 and 5 Plan;
- (iv.) Tier 4 - 57 and 5 Plan
- (v.) Tier 6 - 55 and 25 Special Plan
- (vi.) Tier 6 - Basic 63 and 10 Plan

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 30.97% of annual covered payroll for the year ended December 31, 2015. MTA New York City Transit Authority's actual contribution to the MaBSTOA Plan for the year ended December 31, 2015 was \$214.9.

3. MNR Cash Balance Plan —

Funding for the MNR Cash Balance 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 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 contributions were made to the MNR Cash Balance Plan in several subsequent years.

MNR Cash Balance Plan’s contribution rate was 0.85% of annual covered payroll for the year ended December 31, 2015. The actual contribution for the year ended December 31, 2015 was \$14 thousand.

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 (whole dollars) per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 (whole dollars) per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 (whole dollars) per week; Spring Creek represented employees contribute \$32.00 (whole dollars) 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 \$45.9 for the year ended December 31, 2015. Both of these employer contributions were paid to the MTA Plan in their respective years.

The MTA Defined Benefit Plan's contribution rate is 13.68% of annual covered payroll for the year ended December 31, 2015. The MTA's actual contribution to the MTA Defined Benefit Plan for the year ended December 31, 2015 was \$221.7.

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 33.62% of covered payroll for the year ended December 31, 2015. MTA New York City Transit’s contribution rate to the NYCERS plan is 21.6% of covered payroll for the year ended December 31, 2015.

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 contribution to NYCERS for the year ended December 31, 2015 was \$694.4.

MTA Bridges and Tunnels’ required contribution to NYCERS for the year ended December 31, 2015 was \$41.8.

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.

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 NYSLERS, 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%, respectively, for the year ended December 31, 2015.

The MTAHQ’s required contribution for the year ended December 31, 2015 was \$15.792. MTA Long Island Bus’ required contribution for the year ended December 31, 2015 was \$0.0.

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 6 retirees. 2.5% per annum for certain Tier 3 and Tier 6 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	MTA Defined Benefit Plan			MNR Cash Balance 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	<u>\$ 1,602,159</u>	<u>\$ 782,852</u>	<u>\$ 819,307</u>	<u>\$ 3,331,464</u>	<u>\$ 2,265,293</u>	<u>\$ 1,066,171</u>

	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	<u>\$ 710</u>	<u>\$ 698</u>	<u>\$ 12</u>	<u>\$ 4,099,738</u>	<u>\$ 3,065,220</u>	<u>\$ 1,034,518</u>

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 (5.5%)
	(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		
	1% Decrease (6.5%)	Current Discount 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	188,621
NYCERS	451,016
NYSLERS	8,774
Total	\$ 860,033

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	-	396,499	1,697	-	129,380	396,507
Changes in proportion and differences between contributions and proportionate share of contributions	(44,529)	-	-	265	(31,134)	13,660
Employer contributions to the plan subsequent to the measurement of net pension liability	380,227	-	15,792	-	932,608	-
Total	<u>\$ 335,698</u>	<u>\$ 444,367</u>	<u>\$ 17,802</u>	<u>\$ 265</u>	<u>\$ 1,033,187</u>	<u>\$ 459,364</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.

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 interim 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 ended 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 (whole dollars) 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.

(In thousands)	2015	
	401K	
Contributions:		
Employee contributions, net of loans	\$	226,090
Participant rollovers		17,449
Employer contributions		4,878
Total contributions	\$	248,417

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. Forty-Five thousand plan participants were receiving retirement benefits as of December 31, 2014, the last valuation reporting period.

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 calendar 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 and MTA Bus (amounts are in percentages).

Health Care Cost Trend Rates

Fiscal Year	NYSHIP	Transit and SIRTOA		MTA Bus Company	
		< 65	>=65	< 65	>=65
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 (Valuation date for December 31, 2015)

	MTA New York City Transit	MTA Long Island Rail Road	MTA Metro- North Road	MTA Bridges & Tunnels	MTA HQ	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 in whole dollars (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, Vestees (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. Vestees 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 vestees 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 periods ended March 31, 2016 and December 31, 2015. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

(In millions)	March 31, 2016 (Unaudited)	December 31, 2015
Annual required contribution ("ARC")	\$ 668.5	\$ 2,673.8
Interest on net OPEB obligation	105.6	422.3
Adjustment to ARC	<u>(274.7)</u>	<u>(1,098.9)</u>
OPEB cost	499.3	1,997.2
Payments made	<u>(125.9)</u>	<u>(503.4)</u>
Increase in net OPEB obligation	373.5	1,493.8
Net OPEB obligation — beginning of period	<u>13,560.1</u>	<u>12,066.3</u>
Net OPEB obligation — end of period	<u>\$ 13,933.6</u>	<u>\$ 13,560.1</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, 2014, December 31, 2015 and March 31, 2016 (in millions):

	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015	Additions (Unaudited)	Deletions (Unaudited)	Balance March 31, 2016 (Unaudited)
Capital assets not being depreciated:							
Land	\$ 199	\$ 9	\$ -	\$ 208	\$ -	\$ -	\$ 208
Construction work-in-progress	11,998	4,969	2,446	14,521	1,161	719	14,963
Total capital assets not being depreciated	12,197	4,978	2,446	14,729	1,161	719	15,171
Capital assets being depreciated:							
Buildings and structures	16,773	558	91	17,240	107	-	17,347
Bridges and tunnels	2,527	144	-	2,671	-	-	2,671
Equipment:							
Passenger cars and locomotives	13,800	216	60	13,956	43	3	13,996
Buses	2,717	492	-	3,209	127	-	3,336
Infrastructure	20,292	719	173	20,838	250	-	21,088
Other	18,227	814	478	18,563	150	-	18,713
Total capital assets being depreciated	74,336	2,943	802	76,477	677	3	77,151
Less accumulated depreciation:							
Buildings and structures	5,804	474	4	6,274	115	-	6,389
Bridges and tunnels	496	24	-	520	6	-	526
Equipment:							
Passenger cars and locomotives	6,072	454	57	6,469	105	3	6,571
Buses	1,559	238	(4)	1,801	55	-	1,856
Infrastructure	7,501	647	16	8,132	157	-	8,289
Other	6,041	607	26	6,622	151	-	6,773
Total accumulated depreciation	27,473	2,444	99	29,818	589	3	30,404
Total capital assets being depreciated — net	46,863	499	703	46,659	88	-	46,747
Capital assets — net	\$ 59,060	\$ 5,477	\$ 3,149	\$ 61,388	\$ 1,249	\$ 719	\$ 61,918

Interest capitalized in conjunction with the construction of capital assets for the periods ended March 31, 2016 and December 31, 2015 was \$10.1 and \$57.4, respectively.

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

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At March 31, 2016 and December 31, 2015, these securities totaled \$103.5 and \$99.6, respectively, had a market value of \$71.0 and \$87.8, respectively, and are not included in these financial statements.

7. ASSET IMPAIRMENT 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.

Asset impairment related expenses include the storm related impairment losses to the MTA's assets, and storm related repairs and clean-up costs. Since the storm made landfall in 2012, the total cumulative expenses associated with this catastrophe as of March 31, 2016 and 2015 are \$725 and \$724, respectively, of which \$0 and \$1 were incurred during the periods ended March 31, 2016 and 2015, respectively. Offsetting these total storm related expenses are estimated insurance recoveries of \$775 under the property insurance policy, with a receivable of \$418 and \$631 as of March 31, 2016 and 2015, respectively. Additional recoveries under the MTA property insurance policy for Sandy-related damages and losses above that estimated sum are possible. Any additional insurance proceeds for Sandy-related losses in excess of the noted probable recoveries will be recognized for income purposes in future periods when such proceeds are estimable and all related contingencies are removed. For the periods ended March 31, 2016 and 2015, MTA received \$118 and \$52, 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. For the period ended March 31, 2016, there were \$0 asset impairment expenses. 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 \$2.9 of asset impairment expenses for the period ended March 31, 2015.

8. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2015	Issued (Unaudited)	Retired	March 31, 2016 (Unaudited)
MTA:					
Transportation Revenue Bonds					
1.37%–6.68% due through 2056	\$ 29,556	\$ 20,728	\$ 783	\$ 366	\$ 21,145
Bond Anticipation Notes					
2.0% due through 2018	2,700	1,700	700	500	1,900
State Service Contract Bonds					
4.125%–5.70% due through 2031	2,395	218	-	36	182
Dedicated Tax Fund Bonds					
2.05%–5.00% due through 2040	9,458	4,857	580	671	4,766
Certificates of Participation					
5.3%–5.625% due through 2030	807	71	-	-	71
	<u>\$ 44,916</u>	<u>27,574</u>	<u>2,063</u>	<u>1,573</u>	<u>28,064</u>
Net unamortized bond discount and premium		<u>564</u>	<u>280</u>	<u>(99)</u>	<u>943</u>
		<u>28,138</u>	<u>2,343</u>	<u>1,474</u>	<u>29,007</u>
TBTA:					
General Revenue Bonds					
1.83%–5.85% due through 2050	\$ 12,387	6,750	541	293	6,998
Subordinate Revenue Bonds					
4.00%–5.77% due through 2032	3,958	1,584	-	34	1,550
	<u>\$ 16,345</u>	<u>8,334</u>	<u>541</u>	<u>327</u>	<u>8,548</u>
Net unamortized bond discount and premium		<u>598</u>	<u>106</u>	<u>26</u>	<u>678</u>
		<u>8,932</u>	<u>647</u>	<u>353</u>	<u>9,226</u>
Total		<u>\$ 37,070</u>	<u>\$ 2,990</u>	<u>\$ 1,827</u>	<u>\$ 38,233</u>
Current portion		<u>(2,587)</u>			<u>(2,519)</u>
Long-term portion		<u>\$ 34,483</u>			<u>\$ 35,714</u>

(In millions)	Original Issuance	December 31, 2014	Issued	Retired	December 31, 2015
MTA:					
Transportation Revenue Bonds					
2.00%–5.50% due through 2050	\$ 28,773	\$ 19,556	\$ 3,063	\$ 1,891	\$ 20,728
Bond Anticipation Notes					
2.0% due through 2018	2,000	300	1,700	300	1,700
Transportation Revenue Bond Anticipation Notes					
Commercial Paper due through 2016	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>\$ 43,753</u>	<u>25,767</u>	<u>4,763</u>	<u>2,956</u>	<u>27,574</u>
Net unamortized bond discount and premium		<u>419</u>	<u>314</u>	<u>169</u>	<u>564</u>
		<u>26,186</u>	<u>5,077</u>	<u>3,125</u>	<u>28,138</u>
TBTA:					
General Revenue Bonds					
4.00%–5.77% due through 2038	\$ 13,044	6,665	290	205	6,750
Subordinate Revenue Bonds					
4.00%–5.77% due through 2032	3,958	1,631	-	47	1,584
General Revenue Anticipation Notes					
5.0% due through 2015	100	100	-	100	-
	<u>\$ 17,102</u>	<u>8,396</u>	<u>290</u>	<u>352</u>	<u>8,334</u>
Net unamortized bond discount and premium		<u>561</u>	<u>54</u>	<u>17</u>	<u>598</u>
		<u>8,957</u>	<u>344</u>	<u>369</u>	<u>8,932</u>
Total		<u>\$ 35,143</u>	<u>\$ 5,421</u>	<u>\$ 3,494</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>

MTA Transportation Revenue Bonds — Prior to 2016, MTA issued fifty eight 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 \$30,251. 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 February 25, 2016, MTA issued \$782.500 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 \$72.345 of Transportation Revenue Bonds, Series 2006A and \$293.680 of Transportation Revenue Bonds, Series 2008C. The Series 2016A bonds were issued as \$444.560 Transportation Revenue Green Bonds, Series 2016A-1 and \$337.960 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 March 30, 2016, MTA issued \$700 of MTA Transportation Revenue Bond Anticipation Notes, Series 2016A to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2016A Notes were issued through a competitive method of sale. The Series 2016A Notes were issued as fixed rate tax-exempt notes with a final maturity of February 1, 2017.

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 March 30, 2016, MTA issued \$700 of MTA Transportation Revenue Bond Anticipation Notes, Series 2016A to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2016A Notes were issued as fixed rate tax-exempt notes with a final maturity of February 1, 2017.

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 2016, 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 \$182. 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 2016, 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 March 10, 2016, MTA issued \$579.955 of Dedicated Tax Fund Refunding Bonds, Series 2016A. The proceeds from the transaction were used to retire \$12.980 Dedicated Tax Fund Bonds, Series 2004B; \$204.215 Dedicated Tax Fund Bonds, Series 2006A; \$260.530 Dedicated Tax Fund Bonds, Series 2006B; \$113.850 Dedicated Tax Fund Bonds, Series 2009A; and \$79.030 Dedicated Tax Fund Bonds, Series 2009B. The Series 2016A bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2036.

On March 23, 2016, MTA effectuated a mandatory tender and remarketed \$150 of Dedicated Tax Fund Variable Rate Bonds Subseries 2002B-1, because its related letter of credit was set to expire by its terms and was replaced with an irrevocable direct-pay letter of credit issued by Bank of Tokyo-Mitsubishi. The letter of credit is scheduled to expire on March 22, 2021.

MTA Certificates of Participation — Prior to 2016, 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 \$70,500.

MTA Bridges and Tunnels General Revenue Bonds — Prior to 2016, MTA Bridges and Tunnels issued twenty-six 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 \$11,622. 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, 2016, MTA 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.

MTA Bridges and Tunnels Subordinate Revenue Bonds — Prior to 2016, 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.

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 \$32,214. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

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

At March 31, 2016 and December 31, 2015, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

(In millions)	March 31, 2016 (Unaudited)	December 31, 2015
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 219	\$ 219
Commuter Facilities Revenue Bonds	230	230
Transit and Commuter Facilities Service Contract Bonds	128	128
Dedicated Tax Fund Bonds	94	94
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	15	23
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	735	970
Special Obligation Subordinate Bonds	128	128
Mortgage Recording Tax Bonds	14	43
Total	<u>\$ 1,563</u>	<u>\$ 1,835</u>

Debt Service Payments — Future principal and interest debt service payments at March 31, 2016 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal (Unaudited)	Interest	Principal (Unaudited)	Interest	Principal (Unaudited)	Interest
2016	\$ 2,308	\$ 1,362	\$ 247	\$ 379	\$ 2,555	\$ 1,741
2017	997	1,297	293	373	1,290	1,670
2018	799	1,278	305	359	1,104	1,637
2019	743	1,247	319	345	1,062	1,592
2020	745	1,203	343	329	1,088	1,532
2021-2025	4,483	5,323	1,847	1,402	6,330	6,725
2026-2030	5,699	4,053	2,285	924	7,984	4,977
2031-2035	5,646	2,619	1,634	485	7,280	3,104
2036-2040	4,544	1,320	963	199	5,507	1,519
2041-2045	1,630	300	234	51	1,864	351
2046-2050	354	97	78	10	432	107
Thereafter	116	22			116	22
	<u>\$28,064</u>	<u>\$20,121</u>	<u>\$ 8,548</u>	<u>\$ 4,856</u>	<u>\$36,612</u>	<u>\$24,977</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 periods ended March 31, 2016 and December 31, 2015.

For the three months ended March 31, 2016, MTA refunding transactions decreased aggregate debt service payments by \$256.90 and provided an economic gain of \$206.14. There were no refunding transactions during the first three months ended March 31, 2015.

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	Bank of Tokyo Mitsubishi	LOC	3/22/2021
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 March 31, 2016, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2015 are as follows:

Derivative Instruments

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

Summary Information at March 31, 2016

(\$ In Millions)	Bond Resolution	Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	Notional Amount as of 3/31/2016 (Unaudited) (in millions)	Fair Value as of 3/31/2016 (Unaudited) (in millions)
Investment Swaps	2 Broadway Certificate of Participation	2004A	Pay-Fixed Swap	N/a	N/a	8/10/2004	\$ 70.500	\$ (6.404)
Hedging Swaps	MTA Transportation Revenue Bonds	2002D-2	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(89.897)
	MTA Transportation Revenue Bonds	2012G	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	12/12/2007	357.850	(116.584)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	192.200	(45.079)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	6/2/2005	576.600	(135.238)
	MTA Transportation Revenue Bonds	2005D & 2005E	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	9/10/2004	400.000	(102.733)
	MTA Dedicated Tax Fund Bonds	2008A	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	3/8/2005	331.020	(71.749)
	MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	155.815	(22.126)
	MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	46.555	(20.647)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	1/1/2011	23.230	(4.911)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000ABCD	Pay-Fixed Swap	Cash Flow	Synthetic Instrument	8/12/1998	55.800	(5.788)
Total							\$ 2,409.570	\$ (621.156)

	Changes In Fair Value		Fair Value at March 31, 2016		Notional (in millions) (UnAudited)
	Classification	Amount (in millions) (UnAudited)	Classification	Amount (in millions) (UnAudited)	
Government activities					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ (88.411)	Debt	\$ (614.752)	\$ 2,339.070
Investment hedges:					
Pay-fixed interest rate swaps	Unrealized investment loss	(0.227)	Debt	(6.404)	70.500

For the three-month period ended March 31, 2016, the MTA recorded \$0.227 as an unrealized loss related to the change in fair market value of certain investment swaps that are not accounted for as hedging derivatives.

For the three-month period ended March 31, 2016, 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 (March 31, 2016) 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 valuations do not represent fair value as defined under GASB Statement No. 72 and therefore do not reflect any adjustments as required under the Statement.

The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap. See "Termination Risk" below.

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

MTA TRANSPORTATION REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 3/31/16 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 3/31/2016 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002D-2	\$200.000	01/01/07	4.450 %	69% of one-month LIBOR ⁽¹⁾	\$(89.897)	11/01/32	JPMorgan Chase, NA
Series 2002G-1 ⁽²⁾	155.815	09/22/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR – 45bp	(22.126)	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⁾	(77.048)	11/01/35	UBS AG
Series 2005E-1,2,3	100.000	11/02/05	3.561	67% of one-month LIBOR ⁽¹⁾	(25.686)	11/01/35	AIG Financial Products Corp.
Series 2011B ⁽²⁾⁽⁹⁾⁽¹⁰⁾	46.555	09/22/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR -45bp	(20.647)	01/01/30	UBS AG
Series 2012G ⁽³⁾	357.850	11/15/12	3.563	67% of one-month LIBOR ⁽¹⁾	(116.584)	11/01/32	JPMorgan Chase Bank, NA
Total	\$1,160.220				\$(351.988)		

⁽¹⁾ London Interbank Offered Rate.

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

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

MTA DEDICATED TAX FUND BONDS							
Associated Bond Issue	Notional Amounts as of 3/31/16 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 3/31/16 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2008A ⁽⁴⁾⁽⁵⁾	\$331.020	03/24/05	3.316%	67% of one-month LIBOR ⁽¹⁾	\$ (71.749)	11/01/31	Bank of New York Mellon ⁽⁶⁾
Total	\$331.020				\$ (71.749)		

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

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

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 3/31/16 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 3/31/16 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2002F & 2003B-2 ⁽⁶⁾	\$192.200	07/07/05	3.076%	67% of one-month LIBOR ⁽¹⁾	\$ (45.079)	01/01/32	Citibank, N.A.
Series 2005A ⁽²⁾⁽⁹⁾⁽¹⁰⁾	23.230	09/22/04	3.092	Lesser of Actual Bond or 67% of one-month LIBOR - 45 basis points	(4.911)	01/01/30	UBS AG
Series 2005B-2a,b,c, 2005B-3 and 2005B-4a,b,c,d,e ⁽⁶⁾	576.600	07/07/05	3.076	67% of one-month LIBOR ⁽¹⁾	(135.238)	01/01/32	33% each – JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Total	\$792.030				\$ (185.228)		

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

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 3/31/16 (Unaudited) (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 3/31/16 (Unaudited) (in millions)	Swap Termination Date	Counterparty
Series 2000ABCD ⁽⁷⁾⁽⁸⁾	\$55.800	01/01/01	6.080%	SIFMA – 15 bp ⁽¹¹⁾	\$ (5.788)	01/01/19	JPMorgan Chase Bank, NA
Total	\$55.800				\$ (5.788)		

⁽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 \$70,500 in notional amount as of March 31, 2016, of which MTA New York City Transit is responsible for \$48.425, MTA for \$14.805, and MTA Bridges and Tunnels for \$7.270. As of March 31, 2016, the unaudited aggregate fair value of the remaining portion associated with the 2004A COPs was (\$6.404).

Counterparty Ratings

The current ratings of the counterparties are as follows as of March 31, 2016.

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	A1	A

Swap Notional Summary

The following table sets forth the notional amount of Synthetic Fixed Rate debt and the outstanding principal amount of the underlying floating rate series as of March 31, 2016 (in millions).

<u>Series</u>	<u>Outstanding Principal (Unaudited)</u>	<u>Notional Amount (Unaudited)</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	46.555
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)	169.870	155.815
TRB 2002D-2 (a, b)	200.000	200.000
TBTA SUB 2000ABCD	94.300	55.800
TBTA 2005B-4 (a,b,c,d,e)	192.200	192.200
TBTA 2005B-3	192.200	192.200
TBTA 2005B-2	192.200	192.200
TBTA 2005A	118.675	23.230
TBTA 2003B (1,2,3)	180.365	4.505
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	70.500
Total	\$2,892.600	\$2,409.570

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

Risks Associated with the Swap Agreements

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

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

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

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

Credit Risk. The following table shows, as of March 31, 2016, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all swaps. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in thousands) (Unaudited)	% of Total Notional Amount (Unaudited)
JPMorgan Chase Bank, NA	\$805,850	33.44%
UBS AG	788,300	32.71
The Bank of New York Mellon	331,020	13.74
Citibank, N.A.	192,200	7.98
BNP Paribas North America, Inc.	192,200	7.98
AIG Financial Products Corp.	100,000	4.15
Total	\$2,409,570	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 (in whole dollars) 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 (whole dollars)
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 (whole dollars)
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 (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 (whole dollars)
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 (whole dollars)
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 (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.

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) (Unaudited)				
Period Ended March 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2016	\$ 22.2	\$ 52.4	\$ (6.4)	\$ 68.2
2017	34.4	51.5	(6.3)	79.6
2018	35.8	50.1	(6.1)	79.8
2019	55.6	48.6	(5.8)	98.4
2020	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) (Unaudited)				
Period Ended March 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 March 31, 2016, the market value of total collateral funds was \$36.9.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 29, 2003. From time to time, additional collateral has been required to be added such that the total market value of the securities being held as additional collateral are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under the lease. As of March 31, 2016, the market value of total collateral funds was \$52.0.

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 2015, the MTA made rent payments of \$23. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately \$358 of certificates of participation that partially refunded the two previously issued certificates. As of March 31, 2016, 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.

Total rent expense under operating leases approximated \$15.0 and \$14.7 for the periods ended March 31, 2016 and 2015 respectively.

At March 31, 2016, the future minimum lease payments under non-cancelable leases are as follows (in millions):

Years	Operating (Unaudited)	Capital
2016	\$ 44	\$ 32
2017	61	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>\$ 2,059</u>	1,545
Amount representing interest		<u>(1,025)</u>
Total present value of capital lease obligations		<u>520</u>
Less current present value of capital lease obligations		<u>18</u>
Noncurrent present value of capital lease obligations		<u>\$ 502</u>

Capital Leases Schedule
For the Period Ended March 31, 2016
(in millions)

Description	December 31, 2015	Increase (Unaudited)	Decrease (Unaudited)	March 31, 2016 (Unaudited)
Sumitomo	\$ 15	\$ -	\$ -	\$ 15
Met Life	5	-	-	5
Met Life Equity	19	-	-	19
Bank of New York	22	-	-	22
Bank of America	32	-	-	32
Bank of America Equity	16	-	-	16
Sumitomo	38	-	-	38
Met Life Equity	47	-	-	47
Grand Central Terminal & Harlem Hudson Railroad Lines	14	-	-	14
2 Broadway Lease Improvement	166	-	-	166
2 Broadway	38	-	-	38
Subway Cars	107	1	-	108
Total MTA Capital Lease	\$ 519	\$ 1	\$ -	\$ 520
Current Portion Obligations under Capital Lease	9			18
Long Term Portion Obligations under Capital Lease	<u>\$ 510</u>			<u>\$ 502</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>

10. FUTURE OPTION

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

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

11. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the period ended March 31, 2016 and year ended December 31, 2015 is presented below (in millions):

	March 31, 2016 (Unaudited)	December 31, 2015
Balance — beginning of year	\$ 2,883	\$ 2,509
Activity during the year:		
Current year claims and changes in estimates	188	763
Claims paid	<u>(162)</u>	<u>(389)</u>
Balance — end of year	2,909	2,883
Less current portion	<u>(484)</u>	<u>(444)</u>
Long-term liability	<u>\$ 2,425</u>	<u>\$ 2,439</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.

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. While questioned costs may occur, ultimate repayments required of the MTA or the Authority have been infrequent in prior years.

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 \$2 and \$4 for the periods ended March 31, 2016 and 2015, 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 March 31, 2016 and December 31, 2015 were as follows:

	March 31, 2016 (Unaudited)	December 31, 2015
Balance at beginning of year	\$ 100	\$ 99
Activity during the year:		
Current year expenses/changes in estimates	2	21
Current year payments	<u>(1)</u>	<u>(20)</u>
Balance at end of year	101	100
Less current portion	<u>(26)</u>	<u>(26)</u>
Long-term liability	<u><u>\$ 75</u></u>	<u><u>\$ 74</u></u>

14. CURRENT AND NON-CURRENT LIABILITIES

Changes in the activity of current and non-current liabilities for the periods ended March 31, 2016 and December 31, 2015 is presented below:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Additions (Unaudited)	Reductions (Unaudited)	Balance March 31, 2016 (Unaudited)
Current liabilities:							
Accounts payable	\$ 437	\$ -	\$ (44.00)	\$ 393	\$ 72	\$ -	\$ 465
Interest	211	-	(1)	210	332	-	542
Salaries, wages and payroll taxes	374	-	(118)	256	-	(2)	254
Vacation and sick pay benefits	838	42	-	880	12	-	892
Current portion — retirement and death benefits	384	-	(369)	15	-	(3)	12
Other accrued expenses	1,036	-	3	1,039	-	(31)	1,008
Unearned revenues	514	-	49	563	54	-	617
Total current liabilities	<u>\$ 3,794</u>	<u>\$ 42</u>	<u>\$ (480)</u>	<u>\$ 3,356</u>	<u>\$ 470</u>	<u>\$ (36)</u>	<u>\$ 3,790</u>
Non-current liabilities:							
Contract retainage payable	\$ 296	\$ -	\$ (15)	\$ 281	\$ 20	\$ -	\$ 301
Other long-term liabilities	302	5	-	307	-	-	307
Total non-current liabilities	<u>\$ 598</u>	<u>\$ 5</u>	<u>\$ (15)</u>	<u>\$ 588</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 608</u>

15. 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 in whole dollars:

Counterparty	JPM - Ventures Energy Corp	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	J. Aron & Company	J. Aron & Company	Bank of America Merrill Lynch	Bank of America Merrill Lynch
Trade Date	4/30/2014	5/15/2014	6/25/2014	7/29/2014	8/27/2014	9/24/2014	10/29/2014	11/25/2014
Effective Date	4/1/2015	7/1/2014	6/1/2015	7/1/2015	8/1/2015	4/1/2015	10/1/2015	11/1/2015
Termination Date	3/31/2016	4/30/2016	5/31/2016	6/30/2016	7/31/2016	8/31/2016	9/30/2016	10/31/2016
Price/Gal	\$2.8210	\$2.8630	\$2.9265	\$2.8645	\$2.8175	\$2.7360	\$2.5510	\$2.3950
Original Notional Quantity (\$)	7,850,843	12,865,827	8,644,395	8,461,232	8,322,340	8,050,125	7,487,723	7,029,766
Counterparty	JPM - Ventures Energy Corp	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	Bank of America Merrill Lynch
Trade Date	12/23/2014	1/29/2015	2/26/2015	3/25/2015	4/29/2015	5/28/2015	6/30/2015	7/30/2015
Effective Date	12/1/2015	1/1/2016	2/1/2016	3/1/2016	4/1/2016	5/1/2016	6/1/2016	7/1/2016
Termination Date	11/30/2016	12/31/2016	1/31/2017	2/28/2017	3/30/2017	4/30/2017	5/31/2017	6/30/2017
Price/Gal	\$2.0340	\$1.8095	\$2.0520	\$1.9195	\$2.0855	\$1.9970	\$2.0130	\$1.8145
Original Notional Quantity (\$)	5,970,231	5,253,199	6,017,839	5,629,297	5,957,391	5,831,540	5,882,999	5,298,402
Counterparty	Bank of America Merrill Lynch	Bank of America Merrill Lynch	J. Aron & Company	Bank of America Merrill Lynch	J. Aron & Company	J. Aron & Company	JPM - Ventures Energy Corp	Macquarie Energy LLC
Trade Date	8/27/2015	9/28/2015	10/29/2015	11/24/2015	12/17/2015	1/27/2016	2/23/2016	3/29/2016
Effective Date	8/1/2016	9/1/2016	2/1/2016	11/1/2016	12/1/2016	1/1/2017	2/1/2017	3/1/2017
Termination Date	7/31/2017	8/31/2017	9/30/2017	10/31/2017	11/30/2017	12/31/2017	1/31/2018	2/28/2018
Price/Gal	\$1.6600	\$1.6950	\$1.7100	\$1.6515	\$1.4825	\$1.2760	\$1.3100	\$1.3820
Original Notional Quantity (\$)	4,847,240	5,130,241	5,631,317	4,863,189	4,266,180	3,745,930	3,845,749	3,926,350

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 a contract’s termination date, the MTA will take delivery of the fuel. As of March 31, 2016, the total outstanding notional value of the ULSD contracts was 54.5 million gallons with a negative fair market value of \$31.2.

16. CONDENSED COMPONENT UNIT INFORMATION

The following table presents condensed interim financial information for MTA's component units (in millions).

March 31, 2016 (Unaudited)	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
Current assets	\$ 8,724	\$ 192	\$ 203	\$ 570	\$ 1,096	\$ (463)	\$ 10,322
Capital assets	8,188	4,480	5,541	38,925	4,776	8	61,918
Other Assets	10,897	5	1	1	236	(9,755)	1,385
Intercompany receivables	259	80	93	1,441	11	(1,884)	-
Deferred outflows of resources	1,401	111	213	998	391	(655)	2,459
Total assets and deferred outflows of resources	\$ 29,469	\$ 4,868	\$ 6,051	\$ 41,935	\$ 6,510	\$ (12,749)	\$ 76,084
Current liabilities	\$ 4,080	\$ 259	\$ 205	\$ 1,739	\$ 664	\$ (79)	\$ 6,868
Non-current liabilities	30,558	907	2,018	18,489	10,188	(577)	61,583
Intercompany payables	1,961	73	30	94	128	(2,286)	-
Deferred inflows of resources	45	-	-	893	48	(495)	491
Total liabilities and deferred inflows of resources	\$ 36,644	\$ 1,239	\$ 2,253	\$ 21,215	\$ 11,028	\$ (3,437)	\$ 68,942
Net investment in capital assets	\$ (25,288)	\$ 4,465	\$ 5,541	\$ 38,729	\$ 703	\$ (99)	\$ 24,051
Restricted	1,714	-	-	-	754	(391)	2,077
Unrestricted	16,399	(836)	(1,743)	(18,009)	(5,975)	(8,822)	(18,986)
Total net position	\$ (7,175)	\$ 3,629	\$ 3,798	\$ 20,720	\$ (4,518)	\$ (9,312)	\$ 7,142
For the period ended March 31, 2016 (Unaudited)							
Fare revenue	\$ 53	\$ 161	\$ 166	\$ 1,066	\$ -	\$ (1)	\$ 1,445
Vehicle toll revenue	-	-	-	-	428	(1)	427
Rents, freight and other revenue	22	16	13	105	8	(15)	149
Total operating revenue	75	177	179	1,171	436	(17)	2,021
Total labor expenses	293	228	286	1,738	76	(17)	2,604
Total non-labor expenses	98	80	80	408	42	(20)	688
Depreciation	21	58	85	396	29	-	589
Total operating expenses	412	366	451	2,542	147	(37)	3,881
Operating (deficit) surplus	(337)	(189)	(272)	(1,371)	289	20	(1,860)
Subsidies and grants	217	31	-	-	2	98	348
Tax revenue	2,416	-	-	435	-	(242)	2,609
Interagency subsidy	169	55	135	38	-	(397)	-
Interest expense	(275)	-	-	(2)	(84)	3	(358)
Other	(345)	-	-	1	-	436	92
Net non-operating revenues (expenses)	2,182	86	135	472	(82)	(102)	2,691
Gain before appropriations	1,845	(103)	(137)	(899)	207	(82)	831
Appropriations, grants and other receipts externally restricted for capital projects	(59)	33	106	316	(169)	251	478
Change in net position	1,786	(70)	(31)	(583)	38	169	1,309
Net position, beginning of period	(8,961)	3,699	3,829	21,303	(4,556)	(9,481)	5,833
Net position, end of period	\$ (7,175)	\$ 3,629	\$ 3,798	\$ 20,720	\$ (4,518)	\$ (9,312)	\$ 7,142
For the period ended March 31, 2016 (Unaudited)							
Net cash (used in) / provided by operating activities	\$ (322)	\$ (117)	\$ (153)	\$ (615)	\$ 317	\$ 4	(886)
Net cash (used in) / provided by non-capital financing activities	1,018	100	162	588	(187)	(605)	1,076
Net cash provided by / (used in) capital and related financing activities	(132)	16	(9)	(258)	187	693	497
Net cash (used in) / provided by investing activities	(658)	-	-	272	(318)	(92)	(796)
Cash at beginning of period	357	15	5	63	14	-	454
Cash at end of period	\$ 263	\$ 14	\$ 5	\$ 50	\$ 13	\$ -	\$ 345

December 31, 2015	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
Current assets	\$ 6,324	\$ 199	\$ 211	\$ 645	\$ 352	\$ (141)	\$ 7,590
Capital assets	7,897	4,503	5,543	38,535	4,730	180	61,388
Other Assets	11,205	5	1	181	237	(10,066)	1,563
Intercompany receivables	315	81	91	1,723	420	(2,630)	-
Deferred outflows of resources	1,083	104	218	527	368	(160)	2,140
Total assets and deferred outflows of resources	\$ 26,824	\$ 4,892	\$ 6,064	\$ 41,611	\$ 6,107	\$ (12,817)	\$ 72,681
Current liabilities	\$ 3,821	\$ 244	\$ 200	\$ 1,638	\$ 693	\$ (131)	\$ 6,465
Non-current liabilities	29,597	892	1,997	18,214	9,810	(619)	59,891
Intercompany payables	2,321	57	38	33	137	(2,586)	-
Deferred inflows of resources	46	-	-	423	23	-	492
Total liabilities and deferred inflows of resources	\$ 35,785	\$ 1,193	\$ 2,235	\$ 20,308	\$ 10,663	\$ (3,336)	\$ 66,848
Net investment in capital assets	\$ (20,499)	\$ 4,488	\$ 5,543	\$ 38,516	\$ 701	\$ (4,961)	\$ 23,788
Restricted	1,295	-	-	-	723	(338)	1,680
Unrestricted	10,243	(789)	(1,714)	(17,213)	(5,980)	(4,182)	(19,635)
Total net position	\$ (8,961)	\$ 3,699	\$ 3,829	\$ 21,303	\$ (4,556)	\$ (9,481)	\$ 5,833
For the period ended March 31, 2015 (Unaudited)							
Fare revenue	\$ 49	\$ 151	\$ 155	\$ 999	\$ -	\$ -	\$ 1,354
Vehicle toll revenue	-	-	-	-	383	-	383
Rents, freight and other revenue	20	15	12	116	5	(12)	156
Total operating revenue	69	166	167	1,115	388	(12)	1,893
Total labor expenses	267	223	275	1,642	80	(3)	2,484
Total non-labor expenses	71	95	92	418	37	(13)	700
Depreciation	21	55	81	383	28	-	568
Total operating expenses	359	373	448	2,443	145	(16)	3,752
Operating (deficit) surplus	(290)	(207)	(281)	(1,328)	243	4	(1,859)
Subsidies and grants	217	30	-	-	2	(30)	219
Tax revenue	2,280	-	-	619	-	(374)	2,525
Interagency subsidy	130	65	134	25	-	(354)	-
Interest expense	(271)	-	-	(2)	(87)	3	(357)
Other	(488)	-	-	3	-	704	219
Net non-operating revenues (expenses)	1,868	95	134	645	(85)	(51)	2,606
Gain before appropriations	1,578	(112)	(147)	(683)	158	(47)	747
Appropriations, grants and other receipts externally restricted for capital projects	(124)	30	88	376	(130)	229	469
Change in net position	1,454	(82)	(59)	(307)	28	182	1,216
Net position, beginning of period	(8,052)	3,888	5,168	26,140	(4,485)	(9,377)	13,282
Net position, end of period	\$ (6,598)	\$ 3,806	\$ 5,109	\$ 25,833	\$ (4,457)	\$ (9,195)	\$ 14,498
For the period ended March 31, 2015 (Unaudited)							
Net cash (used in) / provided by operating activities	\$ (223)	\$ (77)	\$ (198)	\$ (795)	\$ 281	\$ 18	(994)
Net cash provided by / (used in) non-capital financing activities	1,013	87	178	723	(150)	(755)	1,096
Net cash provided by / (used in) capital and related financing activities	47	(10)	21	(193)	(142)	806	529
Net cash (used in) / provided by investing activities	(872)	-	-	256	15	(69)	(670)
Cash at beginning of period	222	14	6	55	14	-	311
Cash at end of period	\$ 187	\$ 14	\$ 7	\$ 46	\$ 18	\$ -	\$ 272

17. SUBSEQUENT EVENTS

On April 28, 2016, MTA executed a 2,914,408 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.554/gallon. The hedge covers the period from April 2017 through March 2018.

On April 29, 2016, the following outstanding swaps associated with the 2004A Certificates of Participation that were entered into on August 10, 2004 between: TBTA and UBS AG with an outstanding notional amount of \$30,500,000; MTA and UBS AG with an outstanding notional amount of \$62,175,000; and the New York City Transit Authority (NYCTA) and UBS AG with an outstanding notional amount of \$203,425,000, were modified and novated. The MTA and NYCTA swaps total outstanding notional amounts were combined and novated from MTA and NYCTA and transferred to TBTA pursuant to an interagency agreement. TBTA's outstanding swap now has a total combined outstanding notional of \$296,100,000. Simultaneously, UBS AG novated its position under the swap on a pro-rata basis to Wells Fargo Bank N.A. and U.S. Bank National Association. The Ambac Assurance Corporation swap insurance policy for the benefit of UBS AG was also terminated.

On May 9, 2016, MTA effectuated a mandatory tender and remarketed \$50.000 million of MTA Transportation Revenue Bonds, Subseries 2012A-2 because its current interest rate period was set to expire by its terms. The Subseries 2012A-2 Bonds were remarketed via a competitive bidding process. The Subseries 2012A-2 Bonds will remain in Term Rate Mode as Floating Rate Tender Notes with a purchase date of June 1, 2019.

On May 26, 2016, MTA executed a 2,914,416 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.6225/gallon. The hedge covers the period from May 2017 through April 2018.

On May 26, 2016, MTA issued \$588.305 million of Dedicated Tax Fund Green Bonds, Series 2016B. The proceeds from the transaction were used to pay off the existing outstanding Dedicated Tax Fund Bond Anticipation Notes, Series 2015A in the amount of \$500.000 million and to refund \$109.455 million of Dedicated Tax Fund Bonds, Series 2009A and \$82.595 million of Dedicated Tax Fund Bonds, Series 2009B. The Series 2016B bonds were issued as \$413.415 million Dedicated Tax Fund Green Bonds, Subseries 2016B-1 and \$174.890 Dedicated Tax Fund Green Bonds, Subseries 2016B-2. The Subseries 2016B-1 and Subseries 2016B-2 bonds were both issued as tax-exempt fixed-rate bonds with final maturities of November 15, 2036 and November 15, 2039, respectively.

On June 9, 2016, MTA issued \$700 million of Dedicated Tax Fund Bond Anticipation Notes, Series 2016A. The Series 2016A Notes are being issued to finance existing approved transit and commuter projects.

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for Single Employer Pension Plans

	Additional Plan	MaBSTOA Plan	MNR Cash Balance Plan	MTA Defined Benefit Plan
	(\$ 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%	68.00%	98.36%	74.77%
Covered-employee payroll	\$ 43,594	\$ 671,600	\$ 2,080	\$ 1,395,336
Employer's net pension liability as a percentage of covered-employee payroll	1879.42%	158.75%	0.58%	74.14%

Note: Information was not readily available for periods prior to 2014. 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 of December 31, 2014 used by the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, and the MTA Defined Benefit Plan.

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

**Schedule of the MTA's Proportionate Share of the Net Pension Liabilities of Cost-Sharing
Multiple-Employer Pension Plans**

	<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	\$ 2,989,480	\$ 87,315
MTA's proportionate share of the net pension liability as a percentage of the MTA's covered-employee payroll	159.686%	11.187%
Plan fiduciary net position as a percentage of the total pension liability	73.125%	97.947%

Note: Information was not readily available for periods prior to 2015. 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
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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	\$ 82,382	\$ 112,513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	100,000	407,513	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ (17,618)</u>	<u>\$ (295,000)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	<u>\$ 35,282</u>	<u>\$ 43,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a % of Covered Payroll	283.43%	934.79%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
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)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (100,000)</u>
Covered Payroll	<u>\$ 693,900</u>	<u>\$ 671,600</u>	<u>\$ 582,081</u>	<u>\$ 575,989</u>	<u>\$ 579,696</u>	<u>\$ 591,073</u>	<u>\$ 569,383</u>	<u>\$ 562,241</u>	<u>\$ 519,680</u>	<u>\$ 498,039</u>
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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	14	-	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ (14)</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	<u>\$ 1,664</u>	<u>\$ 2,080</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a % of Covered Payroll	0.85%	0.00%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
MTA Defined Benefit Plan*										
Actuarially Determined Contribution	\$ 273,700	\$ 271,523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	221,694	331,259	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	<u>\$ 52,006</u>	<u>\$ (59,736)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	<u>\$ 1,620,635</u>	<u>\$ 1,395,336</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a % of Covered Payroll	13.68%	23.74%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

* For the MTA Defined Benefit Plan, Additional Plan and Metro-North Cash Balance Plan, information was not readily available for periods prior to 2014. This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

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

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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

	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	\$ 3,339,459	\$ 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	22.05%	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	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	15,792	13,816	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 88,071	\$ 85,826	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	17.93%	16.10%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

** For the NYSLERS plan, information was not readily available for periods prior to 2014. This schedule is intended to show information for ten years. Additional years will be displayed as they become available.

METROPOLITAN TRANSPORTATION AUTHORITY
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REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

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:

	Additional Plan	MaBSTOA Plan	MNR Cash Balance Plan	MTA Defined Benefit Plan	NYCERS Plan	NYSLERS Plan
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 (UNAUDITED)

(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
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION

(Concluded)

Notes to Schedule of MTA's Contributions for All 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
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN

(\$ in millions)

(Unaudited)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrual Liability (AAL) {b}	Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}	Funded Ratio {a} / {b}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 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**(A Component Unit of the State of New York)****SUPPLEMENTARY INFORMATION****SCHEDULE OF CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN
AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2016****(\$ in millions)****(Unaudited)**

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 1,445	\$ 1,445	\$ -
Vehicle toll revenue	427	427	-
Other operating revenue	<u>153</u>	<u>149</u>	<u>(4)</u>
Total revenue	<u>2,025</u>	<u>2,021</u>	<u>(4)</u>
OPERATING EXPENSES:			
Labor:			
Payroll	1,217	1,218	1
Overtime	200	203	3
Health and welfare	277	279	2
Pensions	316	313	(3)
Other fringe benefits	177	174	(3)
Postemployment benefits	514	499	(15)
Reimbursable overhead	<u>(97)</u>	<u>(82)</u>	<u>15</u>
Total labor expenses	<u>2,604</u>	<u>2,604</u>	<u>0</u>
Non-labor:			
Electric power	107	107	-
Fuel	30	30	-
Insurance	7	10	3
Claims	65	65	-
Paratransit service contracts	95	95	-
Maintenance and other	135	122	(13)
Professional service contract	90	74	(16)
Pollution remediation project costs	2	2	-
Materials and supplies	141	141	-
Other business expenses	<u>42</u>	<u>42</u>	<u>-</u>
Total non-labor expenses	<u>714</u>	<u>688</u>	<u>(26)</u>
Depreciation	<u>589</u>	<u>589</u>	<u>-</u>
Total operating expenses	<u>3,907</u>	<u>3,881</u>	<u>(26)</u>
NET OPERATING LOSS	<u>\$ (1,882)</u>	<u>\$ (1,860)</u>	<u>\$ 22</u>

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION

SCHEDULE OF CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2016

(\$ in millions)

(Unaudited)

	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Accrued Subsidies				
Mass transportation operating assistance	\$ 1,668	\$ 1,668	\$ -	{1}
Mass transit trust fund subsidies	148	148	-	{1}
Mortgage recording tax 1 and 2	112	112	-	{1}
MRT transfer	(2)	(1)	1	{1}
Urban tax	193	193	-	{1}
State and local operating assistance	217	217	-	{1}
Station maintenance	40	40	-	{1}
Connecticut Department of Transportation (CDOT)	30	31	1	{1}
Subsidy from New York City for MTA Bus and SIRTOA	121	99	(22)	{1}
Build American Bonds Subsidy	-	2	2	{1}
Mobility tax	488	488	-	{1}
Other non-operating income	-	52	52	{2}
Total accrued subsidies	3,015	3,049	34	
Net operating deficit before subsidies and debt service	(1,882)	(1,860)	22	
Debt Service	(631)	(358)	273	
Conversion to Cash basis: Depreciation	589	-	(589)	
Conversion to Cash basis: OPEB Obligation	376	-	(376)	
Conversion to Cash basis: GASB 68 pension adjustment	170	-	(170)	
Conversion to Cash basis: Pollution & Remediation	2	-	(2)	
Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects	\$ 1,639	\$ 831	\$ (808)	

{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.

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

SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE PERIOD ENDED MARCH 31, 2016
(\$ in millions)
(Unaudited)

Financial Plan Actual Operating Loss at March 31, 2016	\$ (1,882)
The Financial Plan Actual Includes:	
Higher other operating revenues	(12)
The Audited Financial Statements Includes:	
Lower OPEB expense based on the most recent actuarial results	15
Higher labor expense related to reimbursable overhead	13
Intercompany eliminations and other adjustments	6
Total Operating Reconciling Items	<u>22</u>
Audited Financial Statement Operating Loss	<u>\$ (1,860)</u>
Financial Plan Actual Surplus after Subsidies and Debt Service at March 31, 2016	<u>\$ 1,639</u>
The Financial Plan Actual Includes:	
Debt Service Bond Principal Payments	273
Adjustments for non-cash liabilities:	
Depreciation	(589)
Unfunded OPEB Expense	(376)
Unfunded GASB 68 Pension adjustment	(170)
Unfunded Pollution Remediation Expense	<u>(2)</u>
	<u>(1,137)</u>
The Audited Financial Statements Includes:	
Higher subsidies and other non-operating revenues	34
Total Operating Reconciling Items	<u>22</u>
Financial Statements Gain Before Appropriations	<u>\$ 831</u>

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Report on Consolidated Financial
Statements as of and for the Years Ended December 31, 2015
and 2014, Required Supplementary Information,
Supplementary Information, for the Year Ended December 31,
2015 and Independent Auditors' Reports on Internal Controls and
Compliance, and Schedule of Expenditures of Federal Awards
and Schedule of State of New York Department of Transportation
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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 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

Opinion

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

Emphasis of 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 Schedules of Changes in the MTA's Net Pension Liability and Related Ratios for the Single Employer Pension Plans on page 130, the Schedule of the MTA's Proportionate Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans on Page 131, the Schedule of the MTA's Contributions for All Pension Plans pages 132-133, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 137 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 28, 2016 on our consideration of the MTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MTA's internal control over financial reporting and compliance.

April 28, 2016

**[INSERT FROM METROPOLITAN TRANSPORTATION
AUTHORITY 2015 CAFR]**

DRAFT

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

To The Members of the Board of
Metropolitan Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, which comprise the consolidated statement of net position, as of December 31, 2015, and the related consolidated statements of revenues, expenses and changes in net position, consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2016, which contains explanatory paragraphs regarding the MTA requiring significant subsidies from other governmental entities and the adoption of 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*.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to the Audit Committee and management of the MTA in a separate letter dated April 28, 2016.

Purpose of this Report

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

April 28, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE;
AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
REQUIRED BY THE UNIFORM GUIDANCE**

To The Members of the Board of
Metropolitan Transportation Authority:

Report on Compliance for Each Major Federal Program

We have audited the Metropolitan Transportation Authority's (the "MTA"), a component unit of the State of New York, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the MTA's major federal programs for the year ended December 31, 2015. The MTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the MTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2015-001. Our opinion on each major federal program is not modified with respect to these matters.

MTA's response to the noncompliance findings identified in our audit are described in the accompanying, schedule of findings and questioned costs. The MTA's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal controls over compliance, as described in the accompanying *Schedule of Findings and Questioned Costs* as item 2015-001, that we consider to be a significant deficiency.

The MTA's response to the internal control over compliance findings identified in our audit are described in the accompanying *Schedule of Findings and Questioned Costs*. The MTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the consolidated financial statements of the MTA as of and for the year ended December 31, 2015, and have issued our report thereon dated April 28, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

May 23, 2016

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

<u>Federal CFDA Number</u>	<u>Federal Agency/Program Description/Grant Title</u>	<u>Pass-through Identifying Number</u>	<u>Grant Agreement Date</u>	<u>Pass-through to subrecipient</u>	<u>Federal Expenditures</u>
	U.S. Department of Transportation/Federal Transit Administration Federal Transit Cluster:				
	DIRECT - U.S. Department of Transportation/Federal Transit Administration				
20.500	Federal Transit—Capital Investment Grants—Section 3 Discretionary Grants				
	MTA CCC East side Access (Cont'd)	NY-03-0344	8/1/2007		\$ 39,393,412
	Second Avenue Subway Final Design	NY-03-0408	8/4/2006		210,730,726
	CNG BUSES	NY-04-0064	8/16/2011		105,809
	MTA NYCT Bus Radio & Command Center	NY-04-0086	9/12/2012		583,769
	Intergrated Whole Life Asset Mgmt System	NY-04-0091	9/25/2013		1,739,163
	SGR Bus Purchase	NY-04-0092	9/13/2013		8,199,575
	SGR Bus Purchase	NY-04-0093	6/19/2013		14,578,747
	MTA FY10 FGM LIRR/MNR/NYCT Projects	NY-05-0113	6/30/2010		36,003,114
	MTA FY11 FGM LIRR/MNR/NYCT Projects	NY-05-0115	2/23/2012		7,951,995
	MTA FY12 FGM LIRR/MNR/NYCT Projects	NY-05-0116	11/6/2012		20,692,591
	NYCT—ITS Sensor Technology	NY-55-0007	1/25/2012		791,911
	ARRA MTA §5309 MNR/NYCT FGM	NY-56-0001	8/14/2009	-	12,676,964
	Subtotal Federal Transit—Capital Investment Grants—Section 3 Discretionary Grants			-	353,447,775
20.507	Federal Transit—Formula Grants (Urbanized Area Formula Program)—Section 9 and 9A Formula Grants and Operating Assistance Grants				
	DIRECT - U.S. Department of Transportation/Federal Transit Administration				
	Purchase/Procurement for Transit/Commuter Improvement	NY-90-X567	8/31/2007		2,287,591
	MTA Bus Sec 5307 FFY06 and 07/Security Projects	NY-90-X594	9/24/2008		5,330,286
	MTA Bus 5307 FFY08 and FFY 09	NY-90-X620	9/1/2010		7,255,771
	MTA FY09 §5307 LIRR/MNR/NYCT Projects	NY-90-X627	11/18/2009		121,894
	MTA FY10 §5307 LIRR/MNR/NYCT Projects	NY-90-X663	9/13/2011		23,586,448
	MTA FY11 §5307 LIRR/MNR/NYCT Projects	NY-90-X674	7/10/2012		59,134,948
	MTA Bus FY13 Formula	NY-90-X703	7/10/2013		8,336,860
	MTA FY 12 5307 LIRR/MN/NYCT Projects	NY-90-X722	9/19/2013		121,129,247
	MTA FY 12 5307 LIRR/MN/NYCT Projects	NY-90-X727	7/31/2014		89,269,016
	MTA Bus Radio Cmd Ctr (Cont'd)	NY-90-X738	9/19/2014		75,764
	MTA FY14 §5307 LIRR/MNR/NYCT Projects	NY-90-X749	3/13/2015		53,928,790
	MTA FY15 §5307 LIRR/MNR/NYCT	NY-90-X755	9/10/2015		70,003,993
	Transit/Commuter Flexible Funded Projects FFY 2007	NY-95-X002	9/14/2007		1,133,333
	Rolling Stock and Signal Improvements	NY-95-X025	9/24/2010		866,890
	MTA Flex Funding FFY 2011	NY-95-X029	2/23/2012		621,155
	MTA FLEX FFY 2012	NY-95-X037	1/4/2013		26,124,366
	MTA FLEX FFY 2013	NY-95-X042	11/1/2013		24,763,873
	MTA Flex FFY 2014	NY-95-X051	5/27/2015		1,004,493
	ARRA MTA §5307 LIRR/MNR/NYCT Formula	NY-96-X011	8/14/2009	-	22,137,332
	Subtotal Federal Transit—Formula Grants (Urbanized Area Formula Program)—Section 9 and 9A Formula Grants and Operating Assistance Grants			-	517,112,054
20.525	Federal Transit Administration—State of Good Repair Grants Program				
	DIRECT - U.S. Department of Transportation/Federal Transit Administration				
	MTA FY 13 SGR LIRR/MNR/NYCT §5337	NY-54-0001	5/7/2014		78,624,555
	MTA FY14 SGR LIRR/MNR/NYCT §5337	NY-54-0004	3/3/2015		232,525,276
	MTA FY15 SGR LIRR/MNR/NYCT §5337	NY-54-0005	8/24/2015	-	78,723,919
	Subtotal Federal Transit Administration—State of Good Repair Grants Program			-	389,873,750
	Total Federal Transit Cluster			-	1,260,433,578

(Continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

<u>Federal CFDA Number</u>	<u>Federal Agency/Program Description/Grant Title</u>	<u>Pass-through Identifying Number</u>	<u>Grant Agreement Date</u>	<u>Pass-through to Subrecipients</u>	<u>Federal Expenditures</u>
	U.S. Department of Transportation/Federal Transit Administration (Continued)				
	Public Transportation Research				
	Direct - U.S. Department of Transportation/Federal Transit Administration				
20.319	ARRA—High-Speed Rail Corridors and Intercity Passenger Rail Service— Capital Assistance Grants—passthrough NYSDOT	X935.93.371	8/22/2011		\$ 51,482,083
20.514	MN TCSP Poughkeepsie TOD Conceptual Plan	NY-26-0023	9/6/2010		949
	LIRR Little Neck Quiet Zone (National Research Programs)	NY-26-7112	4/25/2012	-	7,823
	Total Public Transportation Research, Technical Assistance, and Training			-	8,772
	Transit Services Programs Cluster:				
	Direct - U.S. Department of Transportation/Federal Transit Administration				
20.516	MTA MNR Station JARC	NY-37-X068	9/24/2009		188,731
20.521	GCT Elevator	NY-57-X018	9/10/2010		184,980
	MTA New Freedoms 2012	NY-57-X036	9/21/2012	-	106,333
	Total Transit Services Programs Cluster			-	480,044
	Direct - U.S. Department of Transportation/Federal Transit Administration				
20.522	West of Hudson Region Transp AA	NY-39-0001	9/23/2010	-	(241,455)
	Direct - U.S. Department of Transportation/Federal Transit Administration				
20.523	ARRA Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions-MTA NYCT Wayside Batteries	NY-88-0001	1/24/2012	-	427,661
	Direct - U.S. Department of Transportation/Federal Transit Administration				
20.527	Public Transportation Emergency Relief Program				
	NY MTA Hurricane Sandy Relief 5324	NY-44-X001	4/5/2013		4,738,186
	NY MTA Hurricane Sandy Relief 5324	NY-44-X007	1/28/2014		140,157,243
	NY MTA Hurricane Sandy Relief 5324	NY-44-X008	9/23/2014		72,178,390
	NY MTA Hurricane Sandy Relief 5324	NY-44-X011	5/11/2015		50,438,641
	NY MTA Hurricane Sandy Relief 5324	NY-44-X012	2/12/2015		16,190,847
	MNR Power&Signals Resiliency Improvement	NY-44-X015	8/18/2015		285,799
	Emergency Communications Enhancements	NY-44-X016	9/2/2015		269,285
	Internal Station Hardening NYCT	NY-44-X017	9/2/2015	-	664,608
				-	284,922,999
	Direct - U.S. Department of Transportation/Federal Transit Administration				
20.Unknown	Lower Manhattan Recovery Office Grant: (PL 107-206)				
	Fulton Street Transit Center	NY-43-0001	6/5/2006	-	47,604,506
	TOTAL FROM U.S. DEPARTMENT OF TRANSPORTATION			-	1,645,118,188
	U.S. Department of Homeland Security:				
	Pass-Through - State of New York Department of Emergency Management				
97.039	Hazard Mitigation Grant Program	FEMA 1391 DRNY	4/11/2003	-	837,018
	Direct - U.S. Department of Homeland Security				
97.075	Rail and Transit Security Grant program	FE2010-RAT0K028	6/1/2010	3,793,218	42,932,984
		FE2011-RAK00092	9/1/2011	11,641,440	20,928,823
		FE2013-RA-00012	9/6/2013	5,651,567	21,460,951
		FE2014-RA-00017	10/30/2014	3,534,792	6,640,506
	Total Rail and Transit Security Grant Program			24,621,017	91,963,263

(Continued)

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

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED DECEMBER 31, 2015

<u>Federal CFDA Number</u>	<u>Federal Agency/Program Description/Grant Title</u>	<u>Pass-through Identifying Number</u>	<u>Grant Agreement Date</u>	<u>Pass-through to Subrecipients</u>	<u>Federal Expenditures</u>
Pass-Through - State of New York Department of Emergency Management					
97.036	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 1692 DRNY	5/21/2007		\$ (9,089)
	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 1899 DRNY	6/23/2010		289,921
	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 1943 DRNY	12/31/2010		104,101
	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 4111 DRNY	6/28/2013		656,582
	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 4020 DRNY	11/29/2011		1,199,252
	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 4085 DRNY (capital)	1/20/2015		36,153,483
	Disaster Grants - Public Assistance (presidentially Declared Disasters)	FEMA 4085 DRNY (operating)	11/23/2012	-	5,709,979
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			-	<u>44,104,229</u>
	TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>24,621,017</u>	<u>136,904,510</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 24,621,017</u>	<u>\$ 1,782,022,698</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2015

1. BASIS OF ACCOUNTING

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 (Component Units):

- 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.

The subsidiaries and affiliates, considered component units of the MTA, 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 as blended component units 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 organizations 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. All of the component units publish separate annual financial statements, which are available by writing to the MTA Comptroller, 2 Broadway, 16th Floor, New York, New York 10004.

2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule”) includes the federal award activity of the Metropolitan Transportation Authority (the “MTA”), a component unit of the State of New York under programs of the federal government for the year ended December 31, 2015. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). The Schedule is prepared on a cash basis of accounting. Because the Schedule presents only a selected portion of the operations of the MTA, it is not intended to and does not present the financial position, changes in net position, or cash flows of the MTA.

3. PASS-THROUGH PROGRAMS

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

4. INDIRECT RATE

The MTA has not elected to use the 10% de minimis indirect cost rate.

5. OTHER FEDERAL ASSISTANCE

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

6. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS

The regulations and guidelines governing the preparation of Federal and state financial reports vary by state and Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in

the Federal and state financial reports do not necessarily agree with the amounts reported in the accompanying Schedule of Expenditures of Federal Awards, which is prepared as explained in Note 1 above.

7. BASIS OF ACCOUNTING – DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS PROGRAM)

Reconciliation of Federal Expenditures related to Disaster Grants—Public Assistance (Presidentially Declared Disasters) (“Disaster Grant”) CFDA # 97.036; reported in the Schedule of Expenditures of Federal Awards to the MTA’s Consolidated Financial Statements—On October 29, 2012, Tropical Storm Sandy made landfall just south of Atlantic City, New Jersey, as a post-tropical cyclone. The 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. In accordance with the FEMA reporting requirements, the MTA must record expenditures on the schedule of expenditures of federal awards when: (1) FEMA has approved the MTA’s Project Worksheet, and (2) the MTA has incurred the eligible expenditures. Federal awards expended in years subsequent to the calendar year in which the Project Worksheet is approved are to be recorded on the MTA’s schedule of expenditures of federal awards in those subsequent years.

The reconciliation below of the Federal Expenditures reported in the MTA’s 2015 Schedule of Expenditures of Federal Awards to the MTA’s Consolidated Financial Statements shows that as of December 31, 2015, FEMA has obligated \$414 million. Below is the reconciliation of Federal Expenditures related to the Disaster Grants—Public Assistance (Presidentially Declared Disasters) CFDA # 97.036; reported in the Schedule of Expenditures of Federal Awards to the MTA’s Consolidated Financial Statements.

Total cumulative project worksheets obligated as of December 31, 2015	\$ 413,592,156
Total federal expenditures incurred as of December 31, 2014, and reported in the 2014 Schedule of Expenditures for Federal Awards	(30,633,684)
Total cumulative project worksheet obligated, but not expensed and are not included in the Schedule of Expenditures of Federal Awards	(338,854,243)
Total project worksheets obligated and expensed for the year ended December 31, 2015, and included in the 2015 Schedule of Expenditures of Federal Awards	\$ 44,104,229

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2015

1. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified

 Yes ☒ No

Significant deficiency(ies) identified?

 Yes ☒ None Reported

Noncompliance material to financial
statements noted?

 Yes ☒ No

Federal Awards

Internal Control over major programs:

Material weakness(es) identified

 Yes ☒ No

Significant deficiency(ies) identified?

☒ Yes None Reported

Type of auditor's report issued on compliance for
Major Programs:

Unmodified

Any audit findings disclosed that are required to be reported in
accordance with Uniform Guidance?

☒ Yes No

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED DECEMBER 31, 2015

1. SUMMARY OF AUDITORS' RESULTS—(CONTINUED)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program</u>
20.500/20.507/20.525	Federal Transit Cluster (Including ARRA)
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)
97.039	Hazard Mitigation Grant Program

Dollar threshold used to distinguish
between Type A and Type B programs \$5,346,068

Auditee qualified as low-risk auditee? Yes

Major Federal Financial Assistance Programs

For the MTA's purposes, a Type A Federal financial assistance program, as defined by Uniform Guidance, is any program that exceeds \$5,346,068 when the total Federal Expenditures of the reporting entity exceeds \$1 billion. Total expenditures of Federal awards for all the MTA programs were \$1,782,022,698. As a result, all programs with expenditures of \$5,346,068 or more were classified as Type A programs. All other programs were categorized as Type B.

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

None.

3. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS

See accompanying pages 154 through 156.

* * * * *

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

FEDERAL TRANSIT CLUSTER (CFDA # 20.500/20.507/20.525)
FEDERAL AGENCY: U.S. DEPARTMENT OF TRANSPORTATION
REFERENCE: 2015-001

1. TOPIC SENTENCE—Procurement contract did not conform to applicable Federal law and regulations.

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

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

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

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

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

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

FEDERAL TRANSIT CLUSTER (CFDA # 20.500/20.507/20.525)
FEDERAL AGENCY: U.S. DEPARTMENT OF TRANSPORTATION
REFERENCE: 2015-001 (CONTINUED)

2. CONDITION

During our review of the MTA's procurement contracts, we noted that of the sixty procurement files selected for testing, one contract was awarded to a vendor for Consulting Services for the R179 Subway Car Contract, which was procured for use with local funds in 2012. The Willingness to Assume Risk ("WAR") certificate indicates 100% funded by the MTA at the time of award. This contract did not include one or more federally and state-required documents, including Debarment certification, Lobbying certification, Disadvantaged Business Enterprises certification, Buy America documentation or FTA approval of waiver, Public notification of federal participation, Advance payment concurrence, Bidders/offers questionnaire, and Price differential.

A similar finding was included in the prior year's single audit report on page 123 (Reference: 2014-001).

3. CAUSE

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

4. EFFECT

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

5. RECOMMENDATION

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

6. QUESTIONED COST

\$129,378. Questioned cost was calculated based upon the payments made to one vendor in our sample and reimbursed by the federal agency. The total drawdown amount for this contract during fiscal year 2015 was \$10,562,471.

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

FEDERAL TRANSIT CLUSTER (CFDA # 20.500/20.507/20.525)
FEDERAL AGENCY: U.S. DEPARTMENT OF TRANSPORTATION
REFERENCE: 2015-001 (CONTINUED)

7. VIEW OF RESPONSIBLE OFFICIAL

The finding of \$129,378 in questionable / ineligible charges is associated with the Consultant Construction Administration task of Purchase of 300 B Division Rail Cars (R179) project. The 300 B Division Rail Cars purchase (R179) is a federally funded project with a total budget of \$736 million. As of April 7, 2016, the federal funding under Grant NY-90-X663 assigned to the Consultant Construction Administration task has been de-linked and the task and its expenditures are now 100% MTA locally funded.

Background: For 3rd party contracts, the process calls for the MTA Capital Program Funding (CPF) to assign funding linkage to the task prior to advertisement and solicitation of bids. This is done by confirming that the project is funded under the approved Grant. In March 2011, prior to advertisement and in absence of executed Grant, the task was erroneously approved as "Federal" and then corrected to be "Local". The consultant contract of \$18 million was procured as locally funded contract, which was done correctly. The task was committed as "Local" in June 2012.

In July 2015, CPF sent NYCT Capital Planning a list of projects and tasks for grant NY-90-X663 to re-confirm which projects/tasks of work should be linked with federal funds, including the project/tasks associated with the Purchase of B Division Rail Cars. With NYCT Capital Planning & Budget's reconfirmation, the funding linkage remained 100% Local and unchanged by CPF. In December 2015, CPF sent out another list of funded tasks for confirmation of federal funding eligibility and, NYCT Capital Planning declared the task federally eligible/procured and was also reconfirmed in February 2016.

On March 31, 2016, CPF was informed by MTA Comptroller's Office that the Independent Auditor had identified the Consultant Construction Admin task as potentially ineligible. On April 1, 2016, after further review, NYCT Capital Planning confirmed the task to be ineligible for federal funding, a determination that was later confirmed by the Single Audit on April 6th. This incorrect information and misunderstanding by NYCT Capital Planning & Budget resulted from the initial error that occurred prior to advertisement as stated above. Accordingly, CPF notified FTA Region 2 staff of this improper payment on April 6, 2016, and on April 7, 2016 CPF removed all federal funds from the task replacing them with MTA local funds. Going forward, tighter controls have been put into place to prevent this from re-occurring.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
YEAR ENDED DECEMBER 31, 2015

The following schedule contains the finding reference number and title for each of the findings included in the December 31, 2014 report. The letters under the heading Corrective Action indicates the following:

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

Reference Number	Grant	Corrective Action
2014-001	Federal Transit Cluster (CFDA #20.500/20.507)	R

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED REQUIRED BY PART 43 OF THE NEW YORK STATE CODIFICATION OF RULES AND REGULATIONS

To the Members of the Board of
Metropolitan Transportation Authority:

Report on Compliance for Each Major State of New York Department of Transportation Assistance Program

We have audited the Metropolitan Transportation Authority's (the "MTA"), a component unit of State of New York, compliance with the types of compliance requirements described in the *Part 43 of the New York State Codification of Rules and Regulations* ("NYSCRR") that could have a direct and material effect on each of the MTA's major State of New York Department of Transportation assistance programs for the year ended December 31, 2015. The MTA's major State of New York Department of Transportation assistance program is identified in the summary of auditor's results section of the accompanying State of New York Department of Transportation assistance expended schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of regulations, and the term and conditions applicable to its State of New York Department of Transportation assistance program.

Auditors' Responsibility

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

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

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

In our opinion, the MTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State of New York Department of Transportation assistance programs for the year ended December 31, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with NYSCRR and which are described in the accompanying schedule of findings and questioned costs as item 2015-01S. Our opinion on each major State of New York Department of Transportation assistance program is not modified with respect to these matters.

The MTA's response to the noncompliance finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. The MTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be a material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying *schedule of findings and questioned costs* as item 2015-01S, that we consider to be a significant deficiency.

The MTA's responses to the internal control over compliance findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The MTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Report on Schedule of State of New York Department of Transportation Assistance Expended as Required by the NYSCRR

We have audited the consolidated financial statements of the MTA as of and for the year ended December 31, 2015, and have issued our report thereon dated April 28, 2016, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of State of New York Department of Transportation Assistance Expended is presented for purposes of additional analysis as required by the NYSCRR and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The 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, the Schedule of State of New York Department of Transportation Assistance Expended is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

May 23, 2016

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

STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION
SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION
ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2015

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

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

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

NOTES TO SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED YEAR ENDED DECEMBER 31, 2015

1. BASIS OF PRESENTATION

a. Reporting Entity—General

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

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

b. Program Tested

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

c. Indirect Costs

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

2. BASIS OF ACCOUNTING

The accompanying 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 MTA applies Governmental Accounting Standards Board ("GASB") Codification of Governmental Accounting and Financial Reporting Standards ("GASB Codification") Section P80, *Proprietary Accounting and Financial Reporting*.

Operating Assistance— The MTA Group receives, subject to annual appropriation, New York State ("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 The City of New York and the seven other counties within the MTA's service area.

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

**NOTES TO SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE
EXPENDED
YEAR ENDED DECEMBER 31, 2015 (CONTINUED)**

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 totaled \$6.0 billion.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS — STATE OF NEW YORK DEPARTMENT OF
TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2015**

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

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

Material weakness(es) identified Yes ☒ No

Significant deficiency(ies) identified? ☒ Yes None Reported

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

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

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

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

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

See Pages 165 through 166.

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

PROGRAM: STATEWIDE MASS TRANSPORTATION OPERATING ASSISTANCE
STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION
REFERENCE: 2015-01S

1. **TOPIC SENTENCE**—Supporting schedule not reconciled with quarterly reports submitted to New York State Department of Transportation.

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

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

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

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

2. **CONDITION**

The Metropolitan Transportation Authority (“MTA”) is responsible for monitoring compliance with State Transportation Assistance laws and regulation. MTA has policies and procedures in place to monitor such laws and provision. During our testing, we reviewed all quarterly reports submitted to the State of New York Department of Transportation during calendar year 2015 by the MTA. We noted that there were differences between Revenue Passenger Ridership reported on the quarterly reports submitted to the NYSDOT and the supporting schedules prepared to support Revenue Passenger Ridership on the 4th quarter report. For the Revenue Passenger Ridership, we noted there was a variance of 1,345 miles.

We also noted that the third and fourth quarter service payment application reports of the Commuter Rail and the Subway and Bus were not submitted in a timely fashion.

3. **CAUSE**

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

4. **EFFECT**

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

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

PROGRAM: STATEWIDE MASS TRANSPORTATION OPERATING ASSISTANCE
STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION
REFERENCE: 2015-01S (CONTINUED)

5. RECOMMENDATION

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

6. QUESTIONED MILEAGE

The difference between quarterly Revenue Passenger Ridership reports the MTA sends to NYSDOT and the supporting schedule provided to support Ridership was 1,345 miles.

7. VIEWS OF RESPONSIBLE OFFICIAL

Regarding missed deadlines, the deadlines that were missed fell on weekends and reports were submitted on the first business day following the weekend deadline. To ensure timely reporting to the State Department of Transportation, MTA will be implementing a plan to ensure accurate and timely submissions. MTA is asking each Agency to assign a primary and secondary contact, who will be responsible for compiling and transmitting the data to MTA. MTA will provide, in advance, an annual schedule with deadlines, along with reminders in advance of deadlines. MTA will also provide a data reporting template for the current quarter's data, as well as data for prior quarters – this template is intended to ensure a uniform approach is taken to data reporting, as well as reminding the Agency contacts to review the prior submissions for any necessary revisions. Finally, MTA will forward completed reports to the MTA CEO in an expeditious manner so reports can be reviewed and signed, and then submitted to the State Department of Transportation by the required deadline date.

The differential in reported miles occurred because one MTA agency revised their figures after initially providing MTA with mileage at year-end that was mislabeled as “final”. MTA will remind Agencies to provide updates each and every time revisions are made.

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

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS—STATE OF NEW YORK
DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED
YEAR ENDED DECEMBER 31, 2015

The following schedule contains the finding reference number and title for each of the findings included in the December 31, 2014 report. The letters under the heading Corrective Action indicates the following:

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

<u>Reference Number</u>	<u>Grant</u>	<u>Corrective Action</u>
2014-01	Statewide Mass Transportation Operating Assistance	R

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

Dear Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, which comprise the consolidated statement of net position as of December 31, 2015, and the related consolidated statement of revenues, expenses and changes in net position and consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated April 28, 2016, which contains emphasis-of-matter paragraphs that (1) the Authority requires significant subsidies from other governmental entities and (2) 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*.

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

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

April 28, 2016

The Metropolitan Transportation Authority

Report to Management

Year Ended December 31, 2015

April 28, 2016

The Audit Committee
Metropolitan Transportation Authority
New York, New York

And

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

Dear Members of the Audit Committee and Management:

In planning and performing our audits of the consolidated financial statements of the Metropolitan Transportation Authority (the “Authority”) and of the financial statements of the First Mutual Transportation Assurance Company, Long Island Rail Road Company, Metro-North Commuter Railroad Company, MTA Bus Company, New York City Transit Authority, Staten Island Rapid Transit Operating Authority and the Triborough Bridge and Tunnel Authority (collectively the “MTA”) as of and for the year ended December 31, 2015 (on which we have issued our reports dated April 28, 2016, which contain explanatory paragraphs that (1) the MTA requires significant subsidies from other governmental entities and (2) 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*), in accordance with auditing standards generally accepted in the United States of America, we considered the MTA’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MTA’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, in connection with our audits, we have identified, and included in the attached Appendix A, a certain matter involving the Triborough Bridge and Tunnel Authority’s internal control over financial reporting that we consider to be a significant deficiency under standards established by the American Institute of Certified Public Accountants. However, this matter does not rise to the level of a significant deficiency for the Authority’s consolidated financial statements

We have also identified, and included in the attached Appendix A, other deficiencies related to the MTA’s internal control over financial reporting and other matters as of December 31, 2015, that we wish to bring to your attention.

We also plan to issue our reports dated April 28, 2016, in accordance with *Government Auditing Standards* and the U.S. Office of Management and Budget (“OMB”) audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“OMB Uniform Grant Guidance”) which will include (1) Independent Auditors’ Report

on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and (2) Independent Auditors' Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by OMB Uniform Grant Guidance.

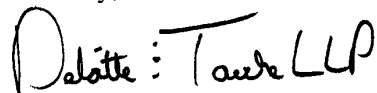
The definitions of a deficiency, a material weakness, and a significant deficiency are set forth in the attached Appendix B

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

A description of the responsibility of management for establishing and maintaining internal control over financial reporting and of the objectives of and inherent limitations of internal control over financial reporting, is set forth in the attached Appendix C and should be read in conjunction with this report.

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

Sincerely,

Deloitte : Touche LLP

THE METROPOLITAN TRANSPORTATION AUTHORITY
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APPENDIX A

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS

METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS
CURRENT YEAR COMMENTS- OTHER MATTERS-2015

OTHER MATTERS

We identified, and have included below, Other Matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2015, related to the Metropolitan Transportation Authority- Headquarters' ("MTA" or "MTAHQ") that we wish to bring to your attention are as follows:

1. GFOA Checklist

Criteria:

The Government Finance Officers Association ("GFOA") established the Certificate of Achievement for Excellence in Financial Reporting (the "Certificate") Program to encourage and assist state and local governments to go beyond the minimum requirements of generally accepted accounting principles when preparing comprehensive annual financial reports. The goal of this program is to ensure transparency and full disclosure in the information provided to the users of the financial statements. Credit rating agencies and other interested parties may also view the Certificate award as a positive factor in decision making.

Condition:

GFOA provides a checklist designed to assist in the preparation of financial reports.

Effect:

As accounting standards evolve, there is a risk that required disclosures are not included in the annual financial statements.

Recommendation:

As an enhancement to the financial closing and reporting process by the MTA and its agencies, it is recommended that management at each agency complete the GFOA checklist annually to ensure completeness of the disclosures in the annual financial statements. The MTA and its agencies should document the completion of this checklist as part of their financial closing and reporting process.

Financial Statement Impact:

No impact noted.

Management Response:

Management is in agreement with this recommendation and will establish procedures to incorporate and document completion of the GFOA checklist as part of the annual financial reporting process.

MTA BUSINESS SERVICE CENTER

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

DEFICIENCIES

We identified, and have included below, deficiencies involving the MTA Business Service Center's ("MTA BSC" or "BSC") internal control over financial reporting as of December 31, 2015, that we wish to bring to your attention:

1. Invoices Not Paid Timely

Observation:

Vendor invoices are not paid timely.

Background:

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

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

Recommendation:

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

Management Response (2011):

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

Status Update (2012):

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

Management Response (2012):

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

Status Update (2013):

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

Management Response (2013):

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

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

1. Invoices Not Paid Timely (continued)

Management Response (2013) (continued):

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

Status Update (2014):

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

Management Response (2014):

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

Status Update (2015):

This comment remains open. There are still instances in which vendor invoices are not paid timely

We reiterate our prior year recommendations.

Management Response (2015):

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

MTA CONSOLIDATED INFORMATION TECHNOLOGY (“IT”) DEPARTMENT

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

DEFICIENCIES

We identified, and have included below, deficiencies involving the MTA Consolidated IT Department's internal control over financial reporting as of December 31, 2015, that we wish to bring to your attention:

1. Impact Application Password Parameters

Agency:

Metropolitan Transportation Authority- Headquarters

Criteria:

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

Condition:

D&T noted passwords to the Impact application are not in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements.

Cause:

Headquarters did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Implementing password parameters that will align with IT Security policies will be complete by the end of July 2016 with the exception of password history. Password history will be implemented with the Sail Point identity management project in the 2nd quarter of 2017.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

2. Oracle Database Password Parameters

Agency:

MTA Business Service Center

Criteria:

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

Condition:

D&T noted passwords to the Oracle database supporting PeopleSoft are not in compliance with MTA security policies or industry best practices as the current password settings lack complexity, length, and history requirements.

Cause:

BSC did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

We recommend the BSC align their password parameters with security policies and procedures guidelines.

Financial Statement Impact:

No Impact

Management Response (2015):

Implemented and completed in May 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

3. TSS Application Password Parameters

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

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

Condition:

D&T noted passwords on the TSS application are not in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements.

Cause:

LIRR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review TSS Application Password to ensure that they meet all MTA security standards. Any accounts that require exceptions to the policy will be documented. We will be moving from AD to LDAP as part of the SailPoint project which is expected to be completed Q4 2017.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

4. Oracle Database Password Parameters (TSS)

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

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

Condition:

D&T noted passwords to the Oracle database supporting the TSS application are not in compliance with MTA security policies or industry best practices for the profile ‘DBA_PROFILE;’ the current password settings lack sufficient password length and complexity requirements.

Cause:

LIRR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

DBA profiles have been changed according to the password standards

- Password must not be the same as your user-ID,
- Password length must be a minimum of 8 characters,
- A strong password including:
 - o One number
 - o One letter
 - o One special character (e.g., “!,@,#,\$,%,^,&*,(,)” etc.)
- Maximum password age will be 90 days,
- Password uniqueness (history) – 12,
- A password must not be reused within a 13 month period,
- Lock out account after 3 invalid attempts.

This had been completed.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

5. Change Management - Access to Production - TSS Application

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

Access to implement changes (including interface and database changes) into the application production environment is appropriately restricted to the IT Security Administrator and the VP-IT Department and is segregated.

Condition:

D&T noted there are improper segregation of duties between development and deployment for the TSS application as there are three developers with the ability to develop and deploy changes. Therefore, it is possible for a developer to migrate their own change into the TSS production environment without appropriate change management testing and approvals.

Cause:

Management has not appropriately segregated logical access for developers; they are granted access to both the development and production environment.

Effect:

Given that logical access has not been appropriately segregated, there is a risk of unauthorized changes being implemented into the production environment.

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review current developer access levels and controls in place in the production environment. Access will be removed where practical or adequate compensating controls will be put in place where access is required. This will be completed by Q4 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

6. CAMS-FS Application Password Parameters

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

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

Condition:

D&T noted passwords on the CAMS-FS application are not in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements.

Cause:

LIRR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

The CAMS-FS support application is in the system test phase of upgrading the application to a version that is LDAP enabled and subject to their configuration of password parameters. The CAMS-FS upgrade is scheduled for November 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

7. Oracle Database Password Parameters (CAMS-FS)

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

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

Condition:

D&T noted passwords to the Oracle database supporting the CAMS-FS application are not in compliance with MTA security policies or industry best practices for the profiles ‘DEFAULT’ & ‘DBA_PROFILE;’ the current password settings lack sufficient password length, complexity, expiration, and history requirements.

Cause:

LIRR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

DBA profiles and default profiles have been changed according to the password standards

- Password must not be the same as your user-ID,
- Password length must be a minimum of 8 characters,
- A strong password including:
 - o One number
 - o One letter
 - o One special character (e.g., “!,@,#,\$,%,^,&*,(,)”, etc.)
- Maximum password age will be 90 days,
- Password uniqueness (history) – 12,
- A password must not be reused within a 13 month period,
- Lock out account after 3 invalid attempts.

This has been completed.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

8. Change Management - Access to Production – CAMS-FS Application

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

Access to implement changes (including interface and database changes) into the application production environment is appropriately restricted to the IT Security Administrator and the VP-IT Department and is segregated.

Condition:

D&T noted there are improper segregation of duties between development and deployment for the CAMS-FS application as there are developers with accounts in the LIRRAD\CAMS Fleet Support group, which grants them the ability to develop and deploy changes. Therefore, it is possible for a developer to migrate their own change into the CAMS-FS production environment without appropriate change management testing and approvals.

Cause:

Management has not appropriately segregated logical access for developers; they are granted access to both the development and production environment.

Effect:

Given that logical access has not been appropriately segregated, there is a risk of unauthorized changes being implemented into the production environment.

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

MTA-IT management agrees with this finding as is it has in many previous audits. MTA-IT supports several hundred applications developed in numerous technologies. The production turnover and/or QA resources lack the skills to support every technology deployed across these applications.

Compensating controls have been implemented to mitigate this issue. The CAMS-FS team provides implementation documentation packages detailing all production changes and approved by QA prior to implementation. Also, all changes are recorded in the change management application and reviewed prior to implementation. There is a weekly review of all change management requests.

The CAMS-FS rotates responsibility of the actual production implementation tasks amongst team members. Production modifications occur only after the creation and review of the implementation plan in the QA region. Upon successful test in the QA region, QA approval, change management review, and application manager approval the change is applied to production.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

9. Mail&Ride Application Password Parameters

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

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

Condition:

D&T noted passwords on the Mail&Ride application are not in compliance with MTA security policies or industry best practices as the current password settings lack sufficient password history requirements.

Cause:

LIRR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review Mail&Ride application passwords to ensure that they meet all MTA security standards. Any accounts that require exceptions to the policy will be documented. This will be completed by Q4 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

10. Oracle Database Password Parameters (Mail&Ride)

Agency:

Long Island Rail Road Company (“LIRR”)

Criteria:

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

Condition:

D&T noted passwords to the Oracle database supporting the Mail&Ride application are not in compliance with MTA security policies or industry best practices for the profiles ‘DBA_PROFILE’ & ‘USER_PROFILE;’ the current password settings lack sufficient password length and complexity requirements.

Cause:

LIRR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

DBA profiles have been changed according to the password standards

- Password must not be the same as your user-ID,
- Password length must be a minimum of 8 characters,
- A strong password including:
 - o One number
 - o One letter
 - o One special character (e.g., “!,@,#,\$,%,^,&*,(,)” etc.)
- Maximum password age will be 90 days,
- Password uniqueness (history) – 12,
- A password must not be reused within a 13 month period,
- Lock out account after 3 invalid attempts.

Management agrees to review Mail&Ride USER_PROFILE to ensure that it meets all MTA security standards. Any accounts that require exceptions to the policy will be documented.

This has been completed.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

11. CSS Application Password Parameters

Agency:

Metro-North Commuter Railroad Company (“MNCR”)

Criteria:

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

Condition:

D&T noted passwords on the CSS application are not in compliance with MTA security policies or industry best practices as the current password settings lack password complexity, lockout, history, age, or length requirements.

Cause:

MNCR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review CSS application passwords to ensure that they meet all MTA security standards. Any accounts that require exceptions to the policy will be documented. This will be completed by Q4 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

12. Mail&Ride Application Password Parameters

Agency:

Metro-North Commuter Railroad Company (“MNCR”)

Criteria:

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

Condition:

D&T noted passwords on the Mail&Ride application are not in compliance with MTA security policies or industry best practices as the current password settings lack password complexity requirements.

Cause:

MNCR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review Mail&Ride application passwords to ensure that they meet all MTA security standards. Any accounts that require exceptions to the policy will be documented. This will be completed by Q4 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

13. AMS Application Password Parameters

Agency:

Metro-North Commuter Railroad Company (“MNCR”)

Criteria:

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

Condition:

D&T noted passwords on the AMS application are not in compliance with MTA security policies or industry best practices as the current password settings lack password complexity requirements.

Cause:

MNCR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

AMS uses Active Directory and subject to their configuration of password parameters. Changes will be made by Q3 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

14. Oracle Database Password Parameters (AMS)

Agency:

Metro-North Commuter Railroad Company (“MNCR”)

Criteria:

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

Condition:

D&T noted passwords to the Oracle database supporting the AMS application are not in compliance with MTA security policies or industry best practices for the following profiles: AMSDEV_PROFILE, AMS_PROFILE, DEFAULT, MNR_DEFAULT, and MNR_PROFILE. The current password settings lack password length, complexity, age, lockout, and history requirements.

Cause:

MNCR did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review AMS application profiles to ensure that they meet all MTA security standards. Any accounts that require exceptions to the policy will be documented. Changes will be made by Q4 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
CURRENT YEAR COMMENTS- DEFICIENCIES- 2015**

15. ETC Application Password Parameters

Agency:

Triborough Bridge and Tunnel Authority ("TBTA")

Criteria:

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

Condition:

D&T noted passwords on the ETC application are not in compliance with MTA security policies or industry best practices as the current password settings lack password history requirements.

Cause:

TBTA did not follow security policies and procedures guidelines.

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response (2015):

Management agrees to review ETC application passwords to ensure that they meet all MTA security standards. Any accounts that require exceptions to the policy will be documented. This will be completed by Q4 2016.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
PRIOR YEAR COMMENTS- DEFICIENCIES- 2012**

16. Change Management - Access to Production - Impact Application

Agency:

Metropolitan Transportation Authority- Headquarters

Observation:

D&T noted that there are improper segregation of duties between development and deployment for the Impact application as each Impact administrator, with the ability to deploy changes, also had the ability to develop changes. As such, it is possible for a developer to migrate their own change into the Impact production environment.

Background:

Developers (programmers) had access to the Impact source code and access to the production environment.

Recommendation:

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

Management's Response (2012):

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

Status Update (2013):

The identified observation still remains open.

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

We reiterate our prior recommendation.

Management's Response (2013):

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

Status Update (2014):

The identified observation still remains open.

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

We reiterate our prior recommendations.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
PRIOR YEAR COMMENTS- DEFICIENCIES- 2012**

16. Change Management - Access to Production - Impact Application (continued)

Management's Response (2014):

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

Status Update (2015):

The identified observation still remains open.

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

We reiterate our prior recommendations.

Management's Response (2015):

An analyst has been trained in the QA function for the IMPACT application. He will assume this role immediately and will be the sole person that will move code from test to production adhering to strict change management procedures. The programmers will no longer have access to production.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
PRIOR YEAR COMMENTS- DEFICIENCIES- 2014**

17. Data Center Access

Agency:

New York City Transit Authority

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Financial Statement Impact:

No Impact

Management Response:

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

Status Update (2015):

The identified observation still remains open.

D&T noted access to the data center was not appropriately restricted to a reasonable amount of appropriate IT individuals as an excessive quantity of users still had access to the data center.

We reiterate our prior recommendations.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT
PRIOR YEAR COMMENTS- DEFICIENCIES- 2014**

17. Data Center Access (continued)

Management's Response (2015):

A manual recertification was conducted with an e-mail and request forms sent to all persons with current access and all MTA IT staff on September 29, 2015. A second and final email was sent out on January 11, 2016, indicating that all current persons with access will be disallowed on February 1, 2016. On February 1, 2016 all access was revoked and a new data base was effective with those who completed the new access form. This recertification was completed on February 1, 2016 resulting in a 20% reduction of data center individual access rights. In the future, MTA IT Security will create a recertification system (workflow) to automate this process.

NEW YORK CITY TRANSIT AUTHORITY

**NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-OTHER MATTERS- 2015**

OTHER MATTERS

We identified, and have included below, Other Matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2015, related to the New York City Transit Authority (“NYCTA”) that we wish to bring to your attention are as follows:

1. Review and approval of claims files (to be archived and/or destroyed)

Criteria:

Workers compensation claims files are sent to Livonia storage facility when there is not sufficient storage available at 130 Livingston Street, Brooklyn NY (Law Department – Workers Compensation Claims Division or “the Division”). . Certain claims files may still be open when they are sent to Livonia. Files are sent in a box – which contains multiple files. If review of a file in storage is required, the Division requests that the box of files be sent back to 130 Livingston Street. The delivered files are reviewed accordingly, repackaged into the box, and sent back to Livonia.

Condition:

The Division is unable to locate specific claims files in a timely fashion because the filing and storage of the boxes (and respective claims files) is not conducted in an organized manner. This causes delays in the Division’s ability to review claims files and also provide the files as support for internal/external audit procedures.

Cause:

When boxes are “checked out” and sent back to 130 Livingston Street (from Livonia), the Division does not ensure that the claims files get placed back into their respective boxes. This diminishes the Division’s ability to track a claim file.

Effect:

The audit team experienced delays when trying to perform substantive testing procedures because the Division could not provide claim files in a timely fashion. Refer to chart below for specific claim requests:

Claim Id	Minor Cov Descrip	Accident Date	Status Descrip
SIXXXXXXXX17	WC - Workers Compensation	7/23/2003	O - Open
SIXXXXXXXX07	WC - Workers Compensation	2/22/2001	O - Open
SIXXXXXXXX75	WC - Workers Compensation	12/13/1995	O - Open

Recommendation:

We recommend the Division consider implementing a new system or enhancing an existing system, which will better aid in the tracking, storing and retrieving of files at the Livonia storage facility.

Financial Statement Impact:

No material impact

NEW YORK CITY TRANSIT AUTHORITY
CURRENT YEAR COMMENTS-OTHER MATTERS- 2015

1. Review and approval of claims files (to be archived and/or destroyed) (continued)

Management Response:

Management concurs. In the future, the Division will continue to ensure that files are retrieved or replicated timely (note: files are properly destroyed after a certain period of time but can then be replicated from electronically stored documentation, as was the case for this audit).

Target Date:

3rd Quarter, 2016

2. Reconciliation of Claims Paid (for health benefits)

Criteria:

The Benefits Department (“the department”) reconciles claims paid invoice data to the actual claims file provided as well as matching to the NYCTA eligibility file to ensure that the claims paid and adjustments for that period were appropriately recorded. The team maintains reconciliations and payment request templates with signatures to validate that a review of the reconciliation’s has been completed by the department’s management.

Condition:

There were indications that the reconciliation had been performed effectively; however, the supporting documents were not made available to the external auditors in a timely fashion.

Cause:

The department was not aware of the timeline for when supporting documentation, reconciliations and other audit evidence was to be provided to the external auditors.

Effect:

The audit team experienced delays when performing substantive testing procedures because the department did not provide evidence of the reconciliations for certain testing selections timely.

Recommendation:

We recommend that the department provides to the external auditors supporting documentation that summarizes the reconciliation process and explains any reconciling items in a timely manner.

Financial Statement Impact:

No material impact

Management Response:

Management concurs. Going forward, the Benefits Department will provide supporting documentation on a more timely basis.

Target Date:

3rd Quarter, 2016

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY

STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY
CURRENT YEAR COMMENTS-DEFICIENCY- 2015

DEFICIENCY

We identified, and have included below, deficiency involving the Staten Island Rapid Transit Operating Authority's ("SIRTOA") internal control over financial reporting as of December 31, 2015, that we wish to bring to your attention:

1. Inventory Tagging

Criteria:

Inventory items are tagged for tracking purposes. Sufficiently tagged inventory items help aid management's control procedures related to receiving, shipping, and tracking obsolescence.

Condition:

During our inventory count of storeroom 050 (on 11/23/15 and 11/24/15), we noticed two inventory items (out of 52 testing selections) were not appropriately and clearly tagged - item #'s 01 80 1420 and 01 59 1388.

Cause:

SIRTOA track managers and staff did not tag the selected inventory items.

Effect:

There were items that were counted during the inventory count of storeroom 050 that were unable to be traced back to accounting records using the tagged item #. However, the items were able to be traced to the accounting records using the item description.

Recommendation:

SIRTOA management should enforce its track managers and staff to properly tag and track inventory based on the assigned "item numbers".

Financial Statement Impact:

No Impact

Management Response:

Management Concurs. Going forward SIRTOA management will ensure that all inventory items are properly tagged.

Target Date:

3rd Quarter, 2016

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
CURRENT YEAR COMMENTS-SIGNIFICANT DEFICIENCY- 2015

SIGNIFICANT DEFICIENCY

We consider the following deficiencies in the Triborough Bridge and Tunnel Authority's ("TBTA") internal control over financial reporting to be a significant deficiency as of December 31, 2015. However, this matter does not rise to the level of a significant deficiency for the MTA's consolidated financial statements.

1. Internal Control Over Financial Reporting

Criteria:

Internal control over financial reporting is a process affected by those charged with governance, management, and other personnel. This process is designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with the applicable financial reporting framework, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and
- provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Internal control has inherent limitations. Internal control is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control also can be circumvented by collusion or improper management override.

Condition:

Certain controls surrounding the financial reporting and closing process are not designed, implemented or operating effectively, which resulted in areas that need improvement and strengthening. During 2015, there were breakdown in controls in the following areas.

1. TBTA management needs to enhance their year-end process for estimating capital and operating accruals.
2. Subsequent to year-end, TBTA management does not perform a retrospective review of accruals by comparing the actual invoice received to the estimate recorded by management.
3. The capitalized interest calculation was not properly reviewed by TBTA management resulting in an overstatement of interest expense and understatement of construction work-in-progress.

Cause:

1. TBTA management needs to enhance their year-end process for estimating capital and operating accruals. Often actual invoices are received after December 31st for which management initially recorded an estimated amount in the general ledger because the actual invoice was not available. While this is appropriate practice, management does not perform a retrospective review or "true up"

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
CURRENT YEAR COMMENTS-SIGNIFICANT DEFICIENCY- 2015

1. Internal Control Over Financial Reporting (continued)

Cause (continued):

of the estimated accruals. This is done by comparing actual invoices received to the estimated amounts and making any necessary adjustments in the general ledger.

2. Subsequent to December 31, 2015, TBTA management does not perform a retrospective review of accruals by comparing the actual invoice received to the estimate recorded by management. Often actual invoices are received after December 31st for which management initially recorded an estimated amount in the general ledger because the actual invoice was not available. While this is appropriate practice, management does not perform a retrospective review or “true up” of the estimated accruals. This is done by comparing actual invoices received to the estimated amounts and making any necessary adjustments in the general ledger.
3. In conjunction with the construction of capital assets, the TBTA will capitalize interest based on a mathematical calculation. TBTA will perform this calculation in order to reclassify a portion of their interest expense to capital assets. Management did not properly review the journal entry and supporting documentation prior to posting the journal entry in the PeopleSoft accounting system.

Effect:

1. During the 2015 audit, 17 instances totaling approximately \$1.7 million in known errors and \$4.0 million in extrapolated errors were noted. An accrual was not recorded at December 31, 2015, for the goods and services received prior to December 31, 2015. Based on an audit recommendation, this was corrected by management in the 2015 financial statements.
2. As a result, approximately \$10.9 million of interest was erroneously expensed when it should have been capitalized to general ledger account #171695 – Fixed Asset – Capital Interest. Based on an audit recommendation, this was corrected by management in the 2015 financial statements.

Recommendation:

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

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
CURRENT YEAR COMMENTS-SIGNIFICANT DEFICIENCY- 2015

1. Internal Control Over Financial Reporting (continued)

Financial Statement Impact:

1. Prior to the correcting entry made by management, accounts payable and operating expenses/fixed assets were understated in the financial statements.
2. Prior to the correcting entry made by management, interest expense was overstated and construction work-in-progress was understated in the financial statements.

Management Response:

1. Management agrees and will look into enhancing the year-end process for estimating capital and operating accruals to ensure that all amounts are recorded at December 31.
2. Management agrees and will look into the year-end accrual process to determine the optimal process of identifying actual invoices received subsequent to December 31st and adjusting effected accruals
3. Management agrees and will review all journal entries and documentation to ensure accurate postings to the general ledger.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIENCY- 2014

DEFICIENCY

We identified, and have included below, deficiency involving the Triborough Bridge and Tunnel Authority's ("TBTA") internal control over financial reporting as of December 31, 2015, that we wish to bring to your attention:

2. Classification of Liabilities

Criteria:

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

Condition:

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

Cause:

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

Effect:

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

Recommendation:

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

Financial Statement Impact:

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

Management Response (2014):

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

Status Update (2015):

It was noted during the 2015 audit that the classification related to the New York City Employee Retirement System Contribution was correct. However during 2015, additional classification errors were noted in the following two areas:

1. Per review of the bond premium/discount amortization schedule, 5 instances were noted in which the wrong amount was used to record interest expense resulting in an overstatement of interest expense and an understatement of accumulated amortization on bond premium/discount of approximately \$2.9

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY
PRIOR YEAR COMMENTS-DEFICIENCY- 2014

2. Classification of Liabilities (continued)

Status Update (2015) (continued):

million at December 31, 2015. Based on an audit recommendation, this was corrected by management in the 2015 financial statements.

2. It was noted that management erroneously used an incorrect amount per the swap schedule to record amounts at December 31, 2015, resulting in an overstatement to the Derivative Liabilities-Off Market Elements and an understatement of the Derivative Liabilities of approximately \$435 thousand. Based on an audit recommendation, this was corrected by management in the 2015 financial statements.

As such we reiterate our prior recommendation that management should thoroughly review all journal entries, supporting documentation, and amortization schedules to ensure amounts posted to the general ledger are accurate.

Management Response (2015):

Management agrees and will review all journal entries, documentation and schedules to ensure proper amounts are posted to the general ledger. We will add a second approval to some of our journal entries such as:

- a) New bond issues/refundings
- b) Fixed assets addition/deletions
- c) Additional journal entries which are only done on a quarterly basis e.g. premium/discount amortizations

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

OTHER MATTERS

We identified, and have included below, Other Matters related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2015, related to the Triborough Bridge and Tunnel Authority's ("TBTA") that we wish to bring to your attention are as follows:

3. Succession Planning

Observation:

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

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

Background:

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

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

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

3. Succession Planning (continued)

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

References:

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

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

Recommendation:

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

Management Response (2012):

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

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

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

3. Succession Planning (continued)

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

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

Status Update (2013):

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

Management Response (2013):

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

Status Update (2014):

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

Management Response (2014):

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

Status Update (2015):

In light of recent departures and retirements in critical positions within several TBTA departments including TBTA's accounting department, it is imperative that a strategic succession plan be developed.

The TBTA needs to develop a competitive compensation package to attract qualified candidates to fill these positions which should be comparable to the compensation packages offered by other MTA agencies for similar positions. In addition, the pool of candidates in which to choose should not be limited by outside influences.

Management Response (2015):

TBTA management agrees and succession planning continues to be a critical priority for senior management.

PRIOR YEAR COMMENTS ADDRESSED

PRIOR YEAR COMMENTS ADDRESSED

Metropolitan Transportation Authority- Headquarters

1. Backup Monitoring- 2014
2. User Access Revocation – 2014
3. Succession Planning – 2011
4. Audit Logs/Security Event Tracing- Impact Application – 2011
5. User Access Reviews-Impact Application – 2011
6. Financial Statement Drafting – 2014

MTA Business Service Center

1. Vendor Master File – 2014
2. Backup Monitoring – 2014
3. PeopleSoft Access to Modules – 2013
4. User Access Reviews- PeopleSoft Application – 2012

First Mutual Transportation Assurance Company

1. Writing Insurance Premium Policies – 2013

Long Island Rail Road Company

1. Assets Not Capitalized Timely – 2014
2. Annual User Recertification Review – 2013

Metro-North Commuter Railroad Company

1. Assets Not Capitalized Timely – 2014
2. Annual Access Revocation- CSS Application – 2014
3. Privileged- level Access – 2014

MTA Bus Company

1. Farebox Revenue Allocation – 2012

PRIOR YEAR COMMENTS ADDRESSED (continued)

New York City Transit Authority

1. Liability- Time-Based Farecards – 2014
2. Administrative Access – 2013
3. Security Events Logging – 2013
4. Cash- Revenue Fund Accounts – 2014
5. Unapplied Cash- A/R – 2014

Staten Island Rapid Transit Operating Authority

1. Inventory Reserve for Obsolescence – 2014

Triborough Bridge and Tunnel Authority

1. Data Center Access – 2014
2. Administrative Rights to the Kronos Application – 2014
3. Kronos Application Password Parameters – 2013
4. Oracle Database Password Parameters – 2013
5. Windows Password Parameters – 2013
6. Job Processing Documentation – 2013
7. User Access Reviews (Kronos) – 2011
8. Database Password Controls (Kronos) – 2011

APPENDIX B

DEFINITIONS

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

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

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

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

APPENDIX C

MANAGEMENT’S RESPONSIBILITY FOR, AND THE OBJECTIVES AND LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management’s responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are adapted from auditing standards generally accepted in the United States of America.

Management’s Responsibility

The Authority’s management is responsible for the overall accuracy of the financial statements and their conformity with generally accepted accounting principles. In this regard, management is also responsible for establishing and maintaining effective internal control over financial reporting.

Objectives of Internal Control over Financial Reporting

Internal control over financial reporting is a process effected by those charged with governance, management, and other personnel and designed to provide reasonable assurance about the achievement of the Authority’s objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Internal control over the safeguarding of assets against unauthorized acquisition, use, or disposition may include controls related to financial reporting and operations objectives. Generally, controls that are relevant to an audit of financial statements are those that pertain to the Authority’s objective of reliable financial reporting (i.e., the preparation of reliable financial statements that are fairly presented in conformity with generally accepted accounting principles).

Inherent Limitations of Internal Control over Financial Reporting

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

* * * * *

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

The Audit Committee of the
Metropolitan Transportation Authority

We have performed the procedures enumerated below, which were agreed to by the Metropolitan Transportation Authority's Office of the Inspector General (the "IG") and the Auditor General of Metropolitan Transportation Authority ("MTA" or "Authority"), solely to assist you with the budget accountability of the Inspector General for the year ended December 31, 2015. The IG's management is responsible for its budget accountability. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures that we performed and our findings are as follows:

1. We utilized a random number generator to randomly select five employees from the MTA Headquarters - IG payroll register for December 2015, we compared each individual's salary to an approved Personnel Action Form, and noted no exceptions.
2. We utilized a random number generator to randomly select two terminated employees from the listing of terminated employees for the year ended December 31, 2015, we read each individual's Personnel Action Form for completeness, and noted no exceptions. We read the payroll register subsequent to each employee's termination, and noted that these employees were removed from the payroll register without exception.
3. We compared the IG's total payroll per the payroll register for the month of December to the MTA's monthly expense report for the month of December 2015 and noted they agree without exception.
4. We utilized a random number generator to randomly select five purchases made during the year from the general ledger for the year ended December 31, 2015, and noted that the related requisitions and purchase orders were approved, and the bids were obtained without exception.
5. We utilized a random number generator to randomly select fifteen disbursements from the IG's General Fund for the year ended December 31, 2015 and compared the selected disbursements to supporting documentation and noted that the disbursements were authorized and supported by proper documentation without exception.

6. We utilized a random number generator to randomly select five petty cash vouchers from the petty cash vouchers for the three months ended December 31, 2015, and noted these vouchers were approved without exception.
7. We read the IG General Fund's bank reconciliation for the month of December 2015, and noted that the bank balance per the IG's General Fund's bank reconciliation agreed to the Authority's general ledger without exception.
8. We utilized a random number generator to randomly select five employee reimbursements and five employee expense reports from listing of employee reimbursements and expenses for the year ended December 31, 2015, and noted the reimbursements and expense reports were supported without exception.
9. Management informed us that there were no fixed asset addition purchases made during the year ended December 31, 2015.
10. Management informed us that there were no fixed asset disposals made during the year ended December 31, 2015.
11. Management informed us that there was no depreciation expense during the year ended December 31, 2015, as all fixed assets were disposed during the year ended December 31, 2014.
12. We noted that there are no fixed assets in the general ledger for the year ended December 31, 2015, and therefore no depreciation expense amount for the month of December 2015. We compared to the MTA's general ledger, and noted no exception.
13. We read and compared the IG's monthly expense report to the MTA's monthly expense report for the month of December 2015 and noted that they were not equal. We noted the expense reports did not reconcile for the one expense code listed below. The amount per the MTA's monthly expense report for the month of December 2015 exceeded the IG's monthly expense report by \$1,227.
 - a. Employee Expense – Tuition Reimbursement (724720)
14. We compared the IG's 2015 expense budget to the actual expenditures for 2015, and noted total actual expenditures were less than the IG's 2015 expense budget by \$2,304,274.

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on compliance. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified parties listed above and is not intended to be and should not be used by anyone other than these specified parties.

April 28, 2016



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Report on
2014 Inspection of Deloitte & Touche LLP
(Headquartered in New York, New York)

Issued by the
Public Company Accounting Oversight Board

May 12, 2015

THIS IS A PUBLIC VERSION OF A PCAOB INSPECTION REPORT
PORTIONS OF THE COMPLETE REPORT ARE OMITTED
FROM THIS DOCUMENT IN ORDER TO COMPLY WITH
SECTIONS 104(g)(2) AND 105(b)(5)(A)
OF THE SARBANES-OXLEY ACT OF 2002

PCAOB RELEASE NO. 104-2015-095

2014 INSPECTION OF DELOITTE & TOUCHE LLP

Preface

In 2014, the Public Company Accounting Oversight Board ("PCAOB" or "the Board") conducted an inspection of the registered public accounting firm Deloitte & Touche LLP ("the Firm") pursuant to the Sarbanes-Oxley Act of 2002 ("the Act").

Inspections are designed and performed to provide a basis for assessing the degree of compliance by a firm with applicable requirements related to auditing issuers. For a description of the procedures the Board's inspectors may perform to fulfill this responsibility, see Part I.D of this report (which also contains additional information concerning PCAOB inspections generally). The inspection included reviews of portions of selected issuer audits. These reviews were intended to identify whether deficiencies existed in the reviewed work, and whether such deficiencies indicated defects or potential defects in the Firm's system of quality control over audits. In addition, the inspection included a review of policies and procedures related to certain quality control processes of the Firm that could be expected to affect audit quality.

The Board is issuing this report in accordance with the requirements of the Act. The Board is releasing to the public Part I of the report, portions of Appendix C, and Appendix D. Appendix C consists of the Firm's comments, if any, on a draft of the report. If the nonpublic portions of the report discuss criticisms of or potential defects in the Firm's system of quality control, those discussions also could eventually be made public, but only to the extent the Firm fails to address the criticisms to the Board's satisfaction within 12 months of the issuance of the report. Appendix D presents the text of the paragraphs of the auditing standards that are referenced in Part I.A in relation to the description of auditing deficiencies there.

PART I

INSPECTION PROCEDURES AND CERTAIN OBSERVATIONS

Members of the Board's staff ("the inspection team") conducted primary procedures¹ for the inspection from October 2013 to January 2015. The inspection team performed field work at the Firm's National Office and at 31 of its approximately 66 U.S. practice offices.

A. Review of Audit Engagements

The inspection procedures included reviews of portions of 52 issuer audits performed by the Firm and a review of the Firm's audit work on one other issuer audit engagement in which the Firm played a role but was not the principal auditor. The inspection team identified matters that it considered to be deficiencies in the performance of the work it reviewed.

The descriptions of the deficiencies in Part I.A of this report include, at the end of the description of each deficiency, references to specific paragraphs of the auditing standards that relate to those deficiencies. The text of those paragraphs is set forth in Appendix D to this report. The references in this sub-Part include only standards that primarily relate to the deficiencies; they do not present a comprehensive list of every auditing standard that applies to the deficiencies. Further, certain broadly applicable aspects of the auditing standards that may be relevant to a deficiency, such as provisions requiring due professional care, including the exercise of professional skepticism; the accumulation of sufficient appropriate audit evidence; and the performance of procedures that address risks, are not included in the references to the auditing standards in this sub-Part, unless the lack of compliance with these standards

¹ For this purpose, the time span for "primary procedures" includes field work, other review of audit work papers, and the evaluation of the Firm's quality control policies and procedures through review of documentation and interviews of Firm personnel. The time span does not include (1) inspection planning, which may commence months before the primary procedures, and (2) inspection follow-up procedures, wrap-up, analysis of results, and the preparation of the inspection report, which generally extend beyond the primary procedures.

is the primary reason for the deficiency. These broadly applicable provisions are described in Part I.B of this report.

Certain of the deficiencies identified were of such significance that it appeared to the inspection team that the Firm, at the time it issued its audit report, had not obtained sufficient appropriate audit evidence to support its opinion that the financial statements were presented fairly, in all material respects, in accordance with the applicable financial reporting framework and/or its opinion about whether the issuer had maintained, in all material respects, effective internal control over financial reporting ("ICFR"). In other words, in these audits, the auditor issued an opinion without satisfying its fundamental obligation to obtain reasonable assurance about whether the financial statements were free of material misstatement and/or the issuer maintained effective ICFR.

The fact that one or more deficiencies in an audit reach this level of significance does not necessarily indicate that the financial statements are misstated or that there are undisclosed material weaknesses in ICFR. It is often not possible for the inspection team, based only on the information available from the auditor, to reach a conclusion on those points.

Whether or not associated with a disclosed financial reporting misstatement, an auditor's failure to obtain the reasonable assurance that the auditor is required to obtain is a serious matter. It is a failure to accomplish the essential purpose of the audit, and it means that, based on the audit work performed, the audit opinion should not have been issued.²

² Inclusion in an inspection report does not mean that the deficiency remained unaddressed after the inspection team brought it to the firm's attention. Depending upon the circumstances, compliance with PCAOB standards may require the firm to perform additional audit procedures, or to inform a client of the need for changes to its financial statements or reporting on internal control, or to take steps to prevent reliance on its previously expressed audit opinions. The Board expects that firms will comply with these standards, and an inspection may include a review of the adequacy of a firm's compliance with these requirements, either with respect to previously identified deficiencies or deficiencies identified during that inspection. Failure by a firm to take appropriate actions, or a firm's misrepresentations in responding to an

The audit deficiencies that reached this level of significance are described in Part I.A.1 through I.A.11, below.

Effects on Audit Opinions

Of the 11 issuer audits that appear in Part I.A, deficiencies in seven audits relate to testing controls for purposes of the ICFR opinion and deficiencies in seven audits relate to the substantive testing performed for purposes of the opinion on the financial statements, as noted in the table below. Of the seven audits in which substantive testing deficiencies were identified, one audit included a deficiency in substantive testing that the inspection team determined was caused by a reliance on controls that was too high in light of deficiencies in the testing of controls.

	Number of Audits
Deficiencies included in Part I.A related to both the financial statement audit and the ICFR audit	3
Deficiencies included in Part I.A related to the financial statement audit only	4
Deficiencies included in Part I.A related to the ICFR audit only	4
Total	11

Most Frequently Identified Audit Deficiencies

The following table lists, in summary form, the types of deficiencies that are included most frequently in Part I.A of this report. A general description of each type is provided in the table; the description of each deficiency later in Part I.A contains more specific information about the individual deficiency. The table includes only the four

inspection report about whether it has taken such actions, could be a basis for Board disciplinary sanctions.

most frequently identified deficiencies that are in Part I.A of this report and is not a summary of all deficiencies in Part I.A.

Deficiencies	Part I.A Audits
Failure to sufficiently test controls over or sufficiently test the accuracy and completeness of issuer-produced data or reports	<u>6 Audits:</u> Issuers A, C, D, E, I, and J
Failure to sufficiently test significant assumptions or data that the issuer used in developing an estimate	<u>4 Audits:</u> Issuers A, B, G, and H
Failure to sufficiently test the design and/or operating effectiveness of controls that the Firm selected for testing	<u>3 Audits:</u> Issuers A, C, and E
Failure to identify and test any controls that addressed the risks related to a particular account or assertion.	<u>3 Audits:</u> Issuers A, B, and D

Audit Deficiencies

A.1. Issuer A

In this audit of an issuer in the insurance industry, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- The Firm's procedures to test controls over the valuation of certain insurance-related assets, which consisted of deferred acquisition costs, and certain insurance-related liabilities, which consisted of various insurance reserves, were insufficient. Specifically –
 - The Firm selected for testing nine controls that related to the valuation of these insurance-related assets and liabilities. Each of

these controls operated in one or more of the issuer's segments and, collectively, they operated in most of the issuer's segments. These controls included reviews of assumptions and calculations, and/or comparisons of actual results to forecasts. The Firm's procedures to test these controls were insufficient, as follows –

- The Firm failed to sufficiently test the design and operating effectiveness of three of these controls. Specifically, the Firm's procedures to test these controls consisted of (1) inquiring of issuer personnel, (2) inspecting certain documents used in the performance of the controls, and (3) observing evidence that certain reviews had occurred. In addition, for one of these three controls, the Firm's procedures included determining whether there were explanations provided for all variances over the investigation threshold established for the control. Further, for another of these controls, the Firm's procedures included tracing certain of the assumptions subject to the reviews to underlying insurance contracts or to external sources. For all three of these controls, the Firm failed to sufficiently test whether the control was designed and operated at a level of precision that would prevent or detect material misstatements, in that the Firm's procedures did not include evaluating the appropriateness of the steps the control owners took in the performance of their reviews, including the criteria used by the control owners to identify matters for investigation and the steps involved in investigating and resolving those matters. (AS No. 5, paragraphs 42 and 44)
- The Firm failed to sufficiently test the operating effectiveness of the other six controls. Specifically, the Firm's procedures were limited to (1) inquiring of issuer personnel, (2) inspecting certain documents used in the performance of the controls, (3) determining whether there were explanations provided for all variances over the investigation threshold established for the control, and/or (4) observing evidence that certain reviews had occurred. The Firm failed to sufficiently test whether these controls operated at a level of

precision that would prevent or detect material misstatements, in that the Firm's procedures did not include evaluating whether variances exceeding the established thresholds were appropriately investigated and resolved. (AS No. 5, paragraph 44)

- The Firm failed to perform sufficient procedures to test controls over certain reports that the issuer used in the operation of four of the controls that are described in the preceding paragraph. Specifically –
 - The Firm failed to identify and test any controls over the accuracy and completeness of the reports used in the operation of two of these controls. (AS No. 5, paragraph 39)
 - For the other two controls, the Firm failed to test the operating effectiveness of the aspects of these controls that addressed the completeness of the reports used in the operation of these controls, or, in the alternative, test any other controls over the completeness of these reports. (AS No. 5, paragraph 44)
- The issuer used certain data to develop certain significant assumptions that it used to estimate the value of deferred acquisition costs and insurance reserves. For one segment, the Firm failed to identify and test any controls over the accuracy and completeness of the data. (AS No. 5, paragraph 39)
- For another segment, the Firm failed to identify and test any controls over the issuer's calculation of the amount of amortization of the deferred acquisition costs. (AS No. 5, paragraph 39)
- The issuer used certain inputs to estimate the fair value of a derivative liability and disclosed certain information related to these inputs in the notes to the financial statements. The Firm failed to identify and test any

controls over these inputs, and it also failed to substantively test these inputs. (AS No. 5, paragraph 39; AS No. 14, paragraph 30; AU 342, paragraph .11)

A.2. Issuer B

In this audit of an issuer in the financial services industry, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR, as the Firm's testing related to the valuation of the issuer's mortgage servicing rights ("MSRs") was insufficient. Specifically –

- At year end, the issuer recorded the value of substantially all of its MSRs using the lower of the amortized cost or the fair value, and, for this purpose, grouped the MSRs into categories based on certain risk characteristics related to the underlying loans. The Firm failed to perform sufficient testing related to the issuer's use of these categories in the assessment of the lower of amortized cost or fair value of the MSRs, as follows –
 - The Firm failed to identify and test any controls over the issuer's determination of the categories that it used to group the MSRs. (AS No. 5, paragraph 39)
 - The Firm failed to sufficiently test the appropriateness of the categories determined by the issuer. Specifically, the Firm failed to evaluate, other than through inquiry, the appropriateness of the specific risk characteristics that the issuer used to group the MSRs into the categories. (AS No. 14, paragraph 30)
- The Firm failed to perform sufficient substantive procedures to test the fair values that the issuer used to (1) assess the lower of amortized cost or fair value of certain of the MSRs described above and (2) establish the initial carrying values of certain MSRs acquired during the year. When testing the fair values of these MSRs, the Firm selected a sample of MSRs and evaluated the reasonableness of the issuer's estimated MSR values as well as the significant assumptions that the issuer used to determine the fair values. The Firm's substantive procedures focused on (1) comparing

the estimated MSR values and the issuer's assumptions for various sub-groups of loans to amounts for those values or assumptions, generally expressed as a range, that the Firm had developed using generic market information for loans of the same type or with the same interest rate as the sub-groups; and (2) considering certain differences. The Firm, however, failed to obtain evidence that the generic market information was relevant and precise enough to enable the Firm to identify potential material misstatements in the valuation of these MSRs. (AU 328, paragraphs .26, .28, and .31)

A.3. Issuer C

In this audit, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR –

- The Firm selected for testing various controls over the impairment analyses that the issuer performed to assess the valuation of goodwill, other intangible assets, and property and equipment. The controls included reviews of analyses, workbooks, and projections. The Firm's procedures to test the operating effectiveness of these controls were insufficient. Specifically, the Firm's procedures were limited to inquiring of issuer personnel, inspecting various documents used in the performance of the controls, and obtaining evidence of certain reviews. There was no evidence in the audit documentation, and no persuasive other evidence, that the Firm had tested the effectiveness of the steps the control owners took to perform their reviews. (AS No. 5, paragraph 44)
- The Firm identified a fraud risk related to the issuer's identification and disclosure of existing or potential debt covenant violations. The Firm selected for testing a control over the issuer's liquidity model, which the issuer used to assess the likelihood of a debt covenant violation. This control included management's review of the liquidity model, and the Firm concluded that this control addressed the accuracy and completeness of the data used in the model. The Firm's procedures to test this control were not sufficient. Specifically, the Firm failed to test the specific steps that the control owners performed to address the accuracy and completeness of the data used in the liquidity model or, in the alternative, test any other

controls over the accuracy and completeness of such data. (AS No. 5, paragraphs 42 and 44)

A.4. Issuer D

In this audit of an issuer in the financial services industry, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR, as its procedures to test controls over the issuer's allowance for loan losses ("ALL") were insufficient. Specifically –

- The issuer used projected cash flows calculated by a model in its determination of (1) a significant portion of the general component of the ALL and (2) the specific component of the ALL. The Firm failed to identify and test any controls over (1) the accuracy and completeness of certain significant loan and market data that the issuer used in the model and (2) certain adjustments that the issuer made to the model based upon its recent loan-loss and default experience. (AS No. 5, paragraph 39)
- The Firm identified and tested controls over (1) the loss-emergence factor used in the calculation of a portion of the general component of the ALL and (2) the qualitative portion of the general component of the ALL. Both of these controls involved management's review of related analyses, and the Firm concluded that these controls addressed the accuracy and completeness of the data used in the analyses. The Firm, however, failed to identify and test any specific steps that the control owners performed to address the accuracy and completeness of the data, or, in the alternative, test any other controls over the accuracy and completeness of the data. (AS No. 5, paragraphs 42 and 44)
- The Firm failed to identify and test any controls over certain calculations that the issuer performed using the projected cash flows described above and that were important to the issuer's determination of the specific component of the ALL. (AS No. 5, paragraph 39)

A.5. Issuer E

In this audit of an issuer in the financial services industry, the Firm failed in the following respects to obtain sufficient appropriate audit evidence to support its audit opinions on the financial statements and on the effectiveness of ICFR –

- During the year, the issuer sold certain mortgage loans and retained the MSR, which were initially recorded based on their fair values at the date of the loans' sale. The issuer used the fair values of the MSRs when calculating the gains on the sales of the loans that it recorded. At year end, the issuer recorded the value of its MSRs using the lower of the amortized cost or the fair value. The Firm failed to sufficiently test controls over the valuation of the MSRs at the date of the loans' sale and at year end, as follows –
 - The Firm selected for testing a control over the MSR fair values at the date of the related loans' sale that involved the issuer comparing its MSR values to a range of values that the issuer obtained from an external source. The Firm failed to sufficiently test whether the design of this control was appropriate. Specifically, the Firm failed to evaluate whether the values from the external source provided an appropriate basis for comparison to the issuer's values, given that many of these loan sales occurred after the periods to which the external source's values related. (AS No. 5, paragraph 42)
 - The Firm identified a fraud risk related to two of the assumptions that the issuer used to estimate the MSR fair values at year end. The Firm selected for testing a control over these assumptions that the Firm considered to be responsive to the fraud risk and that included an analysis of these assumptions and a review of that analysis. The Firm's procedures to test this control were insufficient. Specifically, the Firm's testing of the aspects of this control that related to these assumptions was limited to inquiring of issuer personnel and inspecting certain documents used in the performance of the review, without evaluating the appropriateness of the steps the control owner took to review the analysis, including the criteria used by the control owner to identify matters for

investigation and the steps involved in investigating and resolving those matters. (AS No. 5, paragraphs 42 and 44)

- The Firm failed to identify and test any controls over the accuracy and completeness of certain data that constituted a significant input to the model the issuer used to estimate the fair value of the MSRs at year end. (AS No. 5, paragraph 39)
- The Firm failed to sufficiently test controls over the valuation of one of the issuer's loan portfolios, which constituted a significant portion of the loans held for investment. Specifically, the Firm selected for testing three controls over the loan risk ratings, which were significant inputs to the issuer's estimate of the ALL for this portfolio. One of these controls provided little assurance over the risk ratings that were used during the year because the control operated over the loan risk ratings that the issuer had determined as of the prior year end. The Firm's testing of the other two controls was not sufficient, as follows –
 - The first control consisted of (1) the review of risk ratings for loans meeting certain criteria and (2) monitoring procedures designed to determine that all loans meeting the criteria were reviewed. The Firm's procedures to test this control were limited to inquiring of the control owners responsible for conducting the monitoring, reperforming the monitoring procedures, determining whether the monitoring procedures had occurred, and reading certain of the issuer's policies related to the review of risk ratings. The Firm did not perform any testing of the operation of the aspect of the control that consisted of the review of the loan risk ratings. (AS No. 5, paragraph 44)
 - The Firm's procedures to test the other control, which involved the review of changes to loan risk ratings for appropriateness and accurate recording, were limited to inquiring of the control owners, inspecting certain documents used in the performance of the review, and obtaining evidence that certain changes in loan risk ratings had been approved and accurately reflected in the loan system. The Firm failed to evaluate the review procedures that the control owners performed when assessing the appropriateness of

the changes to the loan risk ratings; therefore, the Firm failed to evaluate whether the control operated at a level of precision that would prevent or detect material misstatements. (AS No. 5, paragraphs 42 and 44)

- The Firm designed its substantive procedures to test the valuation of the loan portfolio described above – including sample sizes – based on a level of control reliance that was not supported due to the deficiencies in the Firm's testing of the controls that are discussed above. As a result, certain of the sample sizes the Firm used to test the valuation of these loans were too small to provide sufficient evidence. (AS No. 13, paragraphs 16, 18, and 37; AU 350, paragraphs .19, .23, and .23A)

A.6. Issuer F

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements. The issuer established a liability when it received certain funds from its customers. For funds that the issuer obtained in jurisdictions that it believed did not have regulations requiring escheatment of unclaimed funds, the issuer's policy was to recognize revenue in the amount of funds that were unclaimed and aged over 90 days, which the issuer believed represented a time period after which the probability of a customer claiming the funds was remote. The Firm identified a fraud risk related to the manual journal entry used to record this revenue. The Firm's procedures to test the issuer's recognition of this revenue, and related disclosures, were insufficient, as follows –

- The Firm's procedures to test the issuer's assertion that it had a legal basis to retain these unclaimed funds did not sufficiently respond to the risks presented, as they were limited to (1) inquiring of certain of the Firm's foreign affiliates regarding escheatment regulations in their countries, (2) inquiring of, and obtaining representations from, management, and (3) performing an online search for relevant laws and regulations in a sample of jurisdictions. (AS No. 13, paragraphs 8 and 13)
- The Firm failed to evaluate whether the issuer's financial statements contained the information related to the recognition of this revenue that

was essential for a fair presentation of the financial statements in conformity with GAAP. (AS No. 14, paragraph 31)

A.7. Issuer G

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test the valuation of goodwill for a reporting unit, which generated most of the issuer's revenue and to which a substantial portion of the issuer's goodwill was assigned, were insufficient. Specifically –

- The Firm failed to sufficiently test two of the significant inputs that the issuer used in its annual goodwill impairment test for this reporting unit, as follows –
 - One input was the issuer's cash-flow forecast for the reporting unit, which incorporated assumptions about the reporting unit's future revenue growth and future cost savings. The Firm's testing of the cash-flow forecast, which focused on the forecasted revenue growth rates and forecasted cost savings, was not sufficient. Specifically –
 - The forecasted revenue growth rates were higher than the issuer's growth rate in the most recent year and, for certain years, were higher than the growth projections that the Firm obtained for peer companies and for the reporting unit's industry. In addition, the reporting unit had not met its forecasts for revenue and margin rates for the preceding two years. The Firm, however, limited its procedures to evaluate the revenue growth assumptions underlying the cash-flow forecasts to inquiring of issuer personnel and comparing the reporting unit's revenue growth projections to peer company data, industry data, and general economic data, even though certain of these comparisons showed certain of the differences noted above. (AU 328, paragraphs .26, .28, .31, and .36)

- The issuer forecasted significant cost savings based on (1) a restructuring plan adopted at the beginning of the year and (2) the expected relocation of certain operations. The Firm limited its procedures to evaluate the assumptions underlying the forecasted cost savings to (1) testing the clerical accuracy of the calculation that the issuer used to estimate certain forecasted cost savings at the time of the adoption of the restructuring plan, (2) comparing the forecasted cost savings related to the expected relocation to a management-prepared presentation to the Board of Directors, and (3) performing a sensitivity analysis related to the forecasted cost savings. The Firm's procedures did not include evaluating the reasonableness of the assumptions the issuer used to forecast these cost savings. (AU 328, paragraphs .26, .28, and .36)
- The other input was the discount rate. The Firm failed to sufficiently evaluate the reasonableness of the issuer's decision not to include a company-specific risk premium in the discount rate. Specifically, the Firm failed to evaluate, beyond inquiry, the implications on this decision of factors that appeared to indicate a heightened risk associated with the issuer's cash-flow forecast, which are described in the paragraphs above. (AS No. 14, paragraph 3; AU 328, paragraphs .26, .28, and .36)
- The Firm failed to sufficiently evaluate the issuer's determination that it did not need to test goodwill for impairment between its annual tests. The issuer's determination was based upon the results of sensitivity analyses that it performed at various interim dates on the two key inputs described above. The Firm failed to evaluate, beyond inquiry, whether the determination not to perform an interim test of the valuation of goodwill was reasonable in light of events and circumstances during the year, including the issuer's quarterly operating losses, a decline in sales shipment volumes in the reporting unit's industry, significant downward revisions to the issuer's earnings forecasts, changes in the issuer's management, and the significant restructuring affecting this reporting unit that is noted above. (AS No. 14, paragraph 3; AU 342, paragraph .11)

A.8. Issuer H

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test the valuation of goodwill for one of the issuer's reporting units were insufficient. The goodwill for this reporting unit represented a significant portion of the issuer's total goodwill. The discount rate was a significant input to the issuer's annual goodwill impairment test for this reporting unit, and the company-specific risk premium, which the issuer had reduced significantly from the prior year, was a component of the discount rate. The Firm's evaluation of the reasonableness of the company-specific risk premium was insufficient in that the Firm failed to evaluate, beyond inquiry, the effect of factors that appeared to indicate a heightened risk associated with the issuer's cash-flow projections for this reporting unit. Specifically, (1) for the most recent year, the reporting unit's financial results were significantly below the results that the issuer had budgeted for the reporting unit; (2) the projected results for the reporting unit that were used in the impairment test were significantly higher than the reporting unit's results for the most recent year; and (3) the prices of the products the reporting unit produced were potentially volatile. (AS No. 14, paragraph 3; AU 328, paragraphs .26, .28, and .36)

A.9. Issuer I

In this audit of a manufacturer and marketer of consumer products, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. The Firm identified a fraud risk related to certain promotional discounts that the issuer recorded as reductions to revenue; the fraud risk was due, in part, to a history of errors in the data that the issuer used to estimate such discounts and the risk of manipulation of the related assumptions. The Firm selected for testing two controls over the promotional discounts. These controls involved (1) a review of a quarterly analysis of the timing of the promotional discounts, including historical activity, and (2) a review of monthly sales and promotional discount activity disaggregated by region, customer, and product type. The Firm's testing of these controls, however, was insufficient because the Firm failed to identify and test any controls over the accuracy and completeness of the data and reports used in the performance of these controls, other than a third control that the Firm determined was ineffective. (AS No. 5, paragraph 39)

A.10. Issuer J

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the effectiveness of ICFR. The Firm identified deficiencies in the controls over revenue that it had selected for testing, and it identified another control, which included reviews of disaggregated revenue-related data for the issuer's multiple business units, that it believed mitigated the effect of these deficiencies. The Firm, however, failed to sufficiently test this compensating control, in that it failed to test the operating effectiveness of controls over the accuracy and completeness of the data used in the operation of this control, and, as a result, it failed to appropriately evaluate the severity of the identified control deficiencies. (AS No. 5, paragraphs 44 and 68)

A.11. Issuer K

In this audit, the Firm failed to obtain sufficient appropriate audit evidence to support its audit opinion on the financial statements, as its procedures to test revenue and cost of sales for a significant portion of the issuer's business were insufficient. To test the revenue and cost of sales for this portion of the issuer's business, the Firm performed several substantive analytical procedures, using revenue and cost of sales data disaggregated by month and by product line. The Firm, however, failed to test the accuracy of certain of the disaggregated data that it used in the performance of these analytical procedures. (AU 329, paragraph .16)

B. Auditing Standards

Each deficiency described in Part I.A above could relate to several provisions of the standards that govern the conduct of audits. The paragraphs of the standards that are cited for each deficiency are those that most directly relate to the deficiency. The deficiencies also relate, however, to other paragraphs of those standards and to other auditing standards, including those concerning due professional care, responses to risk assessments, and audit evidence.

Many audit deficiencies involve a lack of due professional care. AU 230, *Due Professional Care in the Performance of Work*, paragraphs .02, .05, and .06, requires the independent auditor to plan and perform his or her work with due professional care and sets forth aspects of that requirement. AU 230, paragraphs .07 through .09, and AS No. 13, *The Auditor's Responses to the Risks of Material Misstatement*, paragraph 7, specify that due professional care requires the exercise of professional skepticism.

These standards state that professional skepticism is an attitude that includes a questioning mind and a critical assessment of the appropriateness and sufficiency of audit evidence.

AS No. 13, paragraphs 3, 5, and 8, requires the auditor to design and implement audit responses that address the risks of material misstatement. AS No. 15, *Audit Evidence*, paragraph 4, requires the auditor to plan and perform audit procedures to obtain sufficient appropriate audit evidence to provide a reasonable basis for the audit opinion. Sufficiency is the measure of the quantity of audit evidence, and the quantity needed is affected by the risk of material misstatement (in the audit of financial statements) or the risk associated with the control (in the audit of ICFR) and the quality of the audit evidence obtained. The appropriateness of evidence is measured by its quality; to be appropriate, evidence must be both relevant and reliable in providing support for the related conclusions.

The paragraphs of the standards that are described immediately above are not cited in Part I.A, unless those paragraphs are the most directly related to the relevant deficiency.

B.1. List of Specific Auditing Standards Referenced in Part I.A

The table below lists the specific auditing standards that are referenced in Part I.A of this report, cross-referenced to the issuer audits for which each standard is cited. For each auditing standard, the table also provides the number of distinct deficiencies for which the standard is cited for each of the relevant issuer audits. This information identifies only the number of times that the standard is referenced, regardless of whether the reference includes multiple paragraphs or relates to multiple financial statement accounts.

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
<i>AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements</i>	Issuer A	7
	Issuer B	1
	Issuer C	2
	Issuer D	3
	Issuer E	5
	Issuer I	1

PCAOB Auditing Standards	Audits	Number of Deficiencies per Audit
	Issuer J	1
AS No. 13, <i>The Auditor's Responses to the Risks of Material Misstatement</i>	Issuer E Issuer F	1 1
AS No. 14, <i>Evaluating Audit Results</i>	Issuer A Issuer B Issuer F Issuer G Issuer H	1 1 1 2 1
AU 328, <i>Auditing Fair Value Measurements and Disclosures</i>	Issuer B Issuer G Issuer H	1 3 1
AU 329, <i>Substantive Analytical Procedures</i>	Issuer K	1
AU 342, <i>Auditing Accounting Estimates</i>	Issuer A Issuer G	1 1
AU 350, <i>Audit Sampling</i>	Issuer E	1

B.2. Financial Statement Accounts or Auditing Areas Related to Identified Audit Deficiencies

The table below lists the financial statement accounts or auditing areas related to each deficiency included in Part I.A of this report and identifies the audits described in Part I.A where deficiencies relating to the respective areas were observed.³

³ Certain deficiencies that affect multiple accounts or areas, such as those related to scoping multi-location audits and those related to the evaluation of control deficiencies, are excluded from this table, but are included in appendix D.

	AS No. 5	AS No. 13	AS No. 14	AU 328	AU 329	AU 342	AU 350
Disclosure of existing or potential debt covenant violations	C						
Impairment of goodwill and intangible assets	C		G, H	G, H		G	
Insurance-related assets and insurance-related liabilities, including insurance reserves	A						
Loans, including ALL	D, E	E					E
Mortgage servicing rights	B, E		B	B			
Revenue, including accounts receivable, deferred revenue, and allowances	I, J	F	F		K		
Other	A		A			A	

B.3. Audit Deficiencies by Industry

The table below lists the industries⁴ of the issuers for which audit deficiencies were discussed in Part I.A of this report, along with the specific auditing standards related to the deficiencies and the number of issuer audits where those deficiencies were observed.⁵ Because an issuer audit may have deficiencies that relate to more than one standard, the total for each row should not be read as the total number of issuers.

⁴ The majority of industry sector data is based on Global Industry Classification Standard ("GICS") data obtained from Standard & Poor's ("S&P"). In instances where GICS for an issuer was not available from S&P, classifications were assigned based upon North American Industry Classification System data.

⁵ Where identifying the industry of the issuer may enhance the understanding of the description of a deficiency in Part I.A, industry information is also provided there, unless doing so would have the effect of making the issuer identifiable.

	AS No. 5	AS No. 13	AS No. 14	AU 328	AU 329	AU 342	AU 350
Consumer Discretionary	1						
Consumer Staples	1				1		
Financial Services	4	1	2	1		1	1
Industrials	1		1	1			
Information Technology		1	1				
Materials			1	1		1	

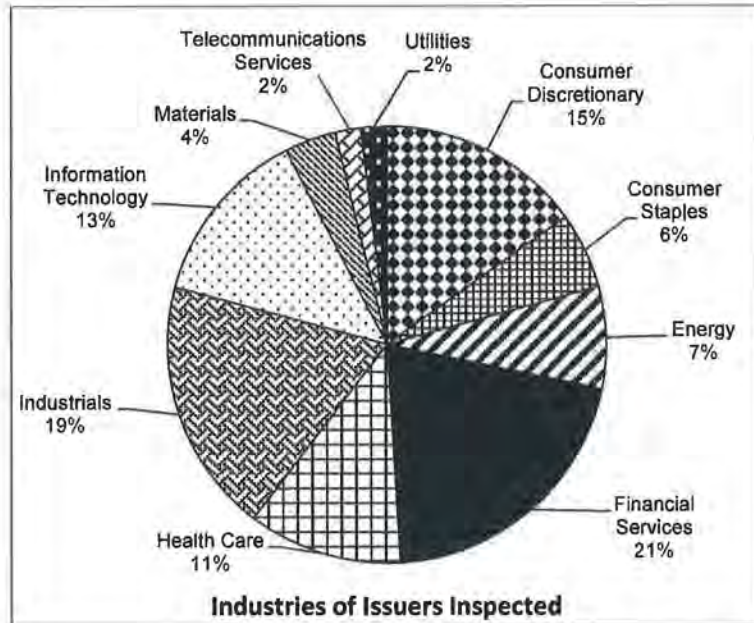
C. Data Related to the Issuer Audits Selected for Inspection⁶

C.1. Industries of Issuers Inspected

The chart below categorizes the 53 issuers whose audits were inspected in 2014, based on the issuer's industry.⁷

⁶ Where the audit work inspected related to an engagement in which the Firm played a role but was not the principal auditor, the industry and the revenue included in the tables and charts below are those of the entity for which an audit report was issued by the primary auditor. As discussed above, the inspection process included reviews of portions of 52 selected issuer audits completed by the Firm and the Firm's audit work on one other issuer audit engagement in which it played a role but was not the principal auditor.

⁷ See Footnote 4 for additional information on how industry sectors were classified.

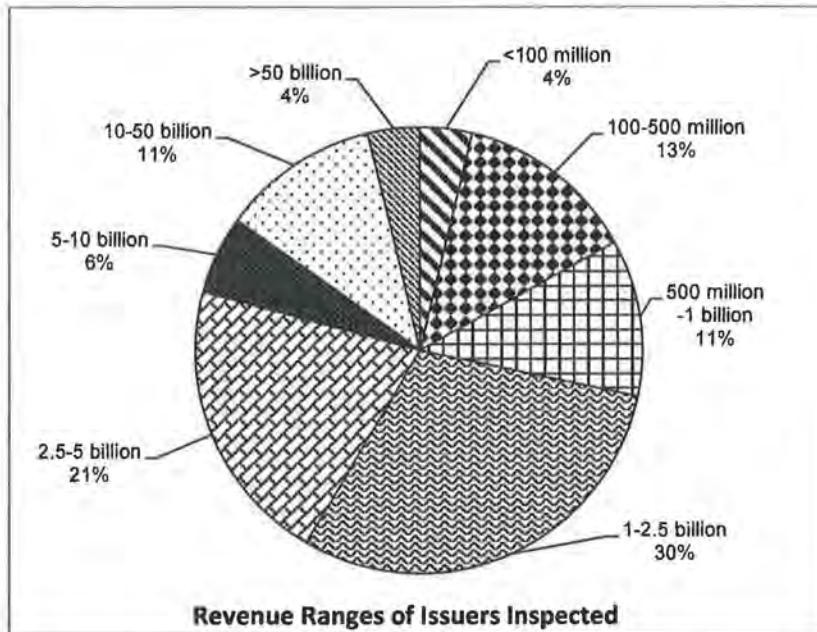


Industry	Number of Audits Inspected	Percentage
Consumer Discretionary	8	15%
Consumer Staples	3	6%
Energy	4	7%
Financial Services	11	21%
Health Care	6	11%
Industrials	10	19%
Information Technology	7	13%
Materials	2	4%
Telecommunications Services	1	2%
Utilities	1	2%

C.2. Revenue Ranges of Issuers Inspected

The chart below categorizes, based upon revenue, the 53 issuers whose audits were inspected in 2014.⁸ This presentation of revenue data is intended to provide information about the size of issuer audits that were inspected and is not indicative of whether the inspection included a review of the Firm's auditing of revenue in the issuer audits selected for review.

⁸ The revenue amounts reflected in the chart are for the issuers' fiscal year end that corresponds to the audit inspected by the PCAOB. The revenue amounts were obtained from S&P and reflect a standardized approach to presenting revenue amounts.



Revenue	Number of Audits Inspected	Percentage
<100 million	2	4%
100-500 million	7	13%
500 million -1 billion	6	11%
1-2.5 billion	16	30%
2.5-5 billion	11	21%
5-10 billion	3	6%
10-50 billion	6	11%
>50 billion	2	4%

D. Information Concerning PCAOB Inspections that is Generally Applicable to Annually Inspected Firms

Board inspections include reviews of certain portions of selected audit work performed by the inspected firm and reviews of certain aspects of the firm's quality control system. The inspections are designed to identify deficiencies in audit work and defects or potential defects in the firm's system of quality control related to the firm's audits. The focus on deficiencies, defects, and potential defects necessarily carries through to reports on inspections and, accordingly, Board inspection reports are not intended to serve as balanced report cards or overall rating tools. Further, the inclusion in an inspection report of certain deficiencies, defects, and potential defects should not be construed as an indication that the Board has made any determination about other aspects of the inspected firm's systems, policies, procedures, practices, or conduct not included within the report.

D.1. Reviews of Audit Work

Inspections include reviews of portions of selected audits of financial statements and, where applicable, audits of ICFR. For these audits, the inspection team selects certain portions of the audits for inspection, and it reviews the engagement team's work papers and interviews engagement personnel regarding those portions. If the inspection team identifies a potential issue that it is unable to resolve through discussion with the firm and any review of additional work papers or other documentation, the inspection team ordinarily provides the firm with a written comment form on the matter and the firm is allowed the opportunity to provide a written response to the comment form. If the response does not resolve the inspection team's concerns, the matter is considered a deficiency and is evaluated for inclusion in the inspection report.

The inspection team selects the audits, and the specific portions of those audits, that it will review, and the inspected firm is not allowed an opportunity to limit or influence the selections. Audit deficiencies that the inspection team may identify include a firm's failure to identify, or to address appropriately, financial statement misstatements, including failures to comply with disclosure requirements,⁹ as well as a firm's failure to perform, or to perform sufficiently, certain necessary audit procedures. An inspection of an annually inspected firm does not involve the review of all of the firm's audits, nor is it designed to identify every deficiency in the reviewed audits. Accordingly, a Board inspection report should not be understood to provide any assurance that a firm's audit work, or the relevant issuers' financial statements or reporting on ICFR, are free of any deficiencies not specifically described in an inspection report.

⁹ When it comes to the Board's attention that an issuer's financial statements appear not to present fairly, in a material respect, the financial position, results of operations, or cash flows of the issuer in conformity with the applicable financial reporting framework, the Board's practice is to report that information to the Securities and Exchange Commission ("SEC" or "the Commission"), which has jurisdiction to determine proper accounting in issuers' financial statements. Any description in this report of financial statement misstatements or failures to comply with SEC disclosure requirements should not be understood as an indication that the SEC has considered or made any determination regarding these issues unless otherwise expressly stated.

In some cases, the conclusion that a firm did not perform a procedure may be based on the absence of documentation and the absence of persuasive other evidence, even if the firm claimed to have performed the procedure. AS No. 3, *Audit Documentation*, provides that, in various circumstances including PCAOB inspections, a firm that has not adequately documented that it performed a procedure, obtained evidence, or reached an appropriate conclusion must demonstrate with persuasive other evidence that it did so, and that oral assertions and explanations alone do not constitute persuasive other evidence. In reaching its conclusions, an inspection team considers whether audit documentation or any other evidence that a firm might provide to the inspection team supports the firm's contention that it performed a procedure, obtained evidence, or reached an appropriate conclusion. In the case of every matter cited in the public portion of a final inspection report, the inspection team has carefully considered any contention by the firm that it did so but just did not document its work, and the inspection team has concluded that the available evidence does not support the contention that the firm sufficiently performed the necessary work.

Identified deficiencies in the audit work that exceed a significance threshold (which is described in Part I.A of the inspection report) are summarized in the public portion of the inspection report.¹⁰

The Board cautions against extrapolating from the results presented in the public portion of a report to broader conclusions about the frequency of deficiencies throughout the firm's practice. Individual audits and areas of inspection focus are most often selected on a risk-weighted basis and not randomly. Areas of focus vary among selected audits, but often involve audit work on the most difficult or inherently uncertain areas of financial statements. Thus, the audit work is generally selected for inspection based on factors that, in the inspection team's view, heighten the possibility that auditing

¹⁰ The discussion in this report of any deficiency observed in a particular audit reflects information reported to the Board by the inspection team and does not reflect any determination by the Board as to whether the Firm has engaged in any conduct for which it could be sanctioned through the Board's disciplinary process. In addition, any references in this report to violations or potential violations of law, rules, or professional standards are not a result of an adversarial adjudicative process and do not constitute conclusive findings for purposes of imposing legal liability.

deficiencies are present, rather than through a process intended to identify a representative sample.

D.2. Review of a Firm's Quality Control System

QC 20, *System of Quality Control for a CPA Firm's Accounting and Auditing Practice*, provides that an auditing firm has a responsibility to ensure that its personnel comply with the applicable professional standards. This standard specifies that a firm's system of quality control should encompass the following elements: (1) independence, integrity, and objectivity; (2) personnel management; (3) acceptance and continuance of issuer audit engagements; (4) engagement performance; and (5) monitoring.

The inspection team's assessment of a firm's quality control system is derived both from the results of its procedures specifically focused on the firm's quality control policies and procedures, and also from inferences that can be drawn from deficiencies in the performance of individual audits. Audit deficiencies, whether alone or when aggregated, may indicate areas where a firm's system has failed to provide reasonable assurance of quality in the performance of audits. Even deficiencies that do not result in an insufficiently supported audit opinion or a failure to obtain sufficient appropriate audit evidence to fulfill the objectives of its role in an audit may indicate a defect or potential defect in a firm's quality control system.¹¹ If identified deficiencies, when accumulated and evaluated, indicate defects or potential defects in the firm's system of quality control, the nonpublic portion of this report would include a discussion of those issues. When evaluating whether identified deficiencies in individual audits indicate a defect or potential defect in a firm's system of quality control, the inspection team considers the

¹¹ Not every audit deficiency suggests a defect or potential defect in a firm's quality control system, and this report does not discuss every audit deficiency the inspection team identified.

nature, significance, and frequency of deficiencies;¹² related firm methodology, guidance, and practices; and possible root causes.

Inspections also include a review of certain of the firm's practices, policies, and processes related to audit quality, which constitute a part of the firm's quality control system. The inspection team customizes the procedures it performs with respect to the firm's practices, policies, and processes related to audit quality, bearing in mind the firm's structure, procedures performed in prior inspections, past and current inspection observations, an assessment of risk related to each area, and other factors. The areas generally considered for review include (1) management structure and processes, including the tone at the top; (2) practices for partner management, including allocation of partner resources and partner evaluation, compensation, admission, and disciplinary actions; (3) policies and procedures for considering and addressing the risks involved in accepting and retaining issuer audit engagements, including the application of the firm's risk-rating system; (4) processes related to the firm's use of audit work that the firm's foreign affiliates perform on the foreign operations of the firm's U.S. issuer audits; and (5) the firm's processes for monitoring audit performance, including processes for identifying and assessing indicators of deficiencies in audit performance, independence policies and procedures, and processes for responding to defects or potential defects in quality control. A description of the procedures generally applied to these areas is below.

D.2.a. Review of Management Structure and Processes, Including the Tone at the Top

Procedures in this area are designed to focus on (1) how management is structured and operates the firm's business, and the implications that the management

¹² An evaluation of the frequency of a type of deficiency may include consideration of how often the inspection team reviewed audit work that presented the opportunity for similar deficiencies to occur. In some cases, even a type of deficiency that is observed infrequently in a particular inspection may, because of some combination of its nature, its significance, and the frequency with which it has been observed in previous inspections of the firm, be cause for concern about a quality control defect or potential defect.

structure and processes have on audit performance and (2) whether actions and communications by the firm's leadership – the tone at the top – demonstrate a commitment to audit quality. To assess this area, the inspection team may interview members of the firm's leadership and review significant management reports and documents, as well as information regarding financial metrics and other processes that the firm uses to plan and evaluate its business.

D.2.b. Review of Practices for Partner Management, Including Allocation of Partner Resources and Partner Evaluation, Compensation, Admission, and Disciplinary Actions

Procedures in this area are designed to focus on (1) whether the firm's processes related to partner evaluation, compensation, admission, termination, and disciplinary actions could be expected to encourage an appropriate emphasis on audit quality and technical competence, as distinct from marketing or other activities of the firm; (2) the firm's processes for allocating its partner resources; and (3) the accountability and responsibilities of the different levels of firm management with respect to partner management. The inspection team may interview members of the firm's management and review documentation related to certain of these topics. In addition, the inspection team's evaluation may include the results of interviews of audit partners regarding their responsibilities and allocation of time. Further, the inspection team may review a sample of partners' personnel files.

D.2.c. Review of Policies and Procedures for Considering and Addressing the Risks Involved in Accepting and Retaining Issuer Audit Engagements, Including the Application of the Firm's Risk-Rating System

The inspection team may consider the firm's documented policies and procedures in this area. In addition, the inspection team may select certain issuer audits to (1) evaluate compliance with the firm's policies and procedures for identifying and assessing the risks involved in accepting or continuing the issuer audit engagements and (2) observe whether the audit procedures were responsive to the risks identified during the firm's process.

D.2.d. Review of Processes Related to a Firm's Use of Audit Work that the Firm's Foreign Affiliates Perform on the Foreign Operations of the Firm's U.S. Issuer Audits

The inspection team may review the firm's policies and procedures related to its supervision and control of work performed by foreign affiliates on the firm's U.S. issuer audits, review available information relating to the most recent internal inspections of foreign affiliated firms, interview members of the firm's leadership, and review the U.S. engagement teams' supervision concerning, and procedures for control of, the audit work that the firm's foreign affiliates performed on a sample of audits.

D.2.e. Review of a Firm's Processes for Monitoring Audit Performance, Including Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance, Independence Policies and Procedures, and Processes for Responding to Defects or Potential Defects in Quality Control

D.2.e.i. Review of Processes for Identifying and Assessing Indicators of Deficiencies in Audit Performance

Procedures in this area are designed to identify and assess the monitoring processes that the firm uses to monitor audit quality for individual engagements and for the firm as a whole. The inspection team may interview members of the firm's management and review documents relating to the firm's identification and evaluation of, and response to, possible indicators of deficiencies in audit performance. In addition, the inspection team may review documents related to the design, operation, and evaluation of findings of the firm's internal inspection program, and may compare the results of its review of audit work to those from the internal inspection's review of the same audit work.

D.2.e.ii. Review of Response to Defects or Potential Defects in Quality Control

The inspection team may review steps the firm has taken to address possible quality control deficiencies and assess the design and effectiveness of the underlying processes. In addition, the inspection team may inspect audits of issuers whose audits had been reviewed during previous PCAOB inspections of the firm to ascertain whether the audit procedures in areas with previous deficiencies have improved.

D.2.e.iii. Review of Certain Other Policies and Procedures Related to Monitoring Audit Quality

The inspection team may assess policies, procedures, and guidance related to aspects of independence requirements and the firm's consultation processes, as well as the firm's compliance with these requirements and processes. In addition, the inspection team may review documents, including certain newly issued policies and procedures, and interview firm management to consider the firm's methods for developing audit policies, procedures, and methodologies, including internal guidance and training materials.

END OF PART I



PCAOB Release No. 104-2015-095
Inspection of Deloitte & Touche LLP
May 12, 2015
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PART II, PART III, APPENDIX A, AND APPENDIX B OF THIS REPORT ARE
NONPUBLIC AND ARE OMITTED FROM THIS PUBLIC DOCUMENT

APPENDIX C

RESPONSE OF THE FIRM TO DRAFT INSPECTION REPORT

Pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(a), the Firm provided a written response to a draft of this report. Pursuant to section 104(f) of the Act and PCAOB Rule 4007(b), the Firm's response, minus any portion granted confidential treatment, is attached hereto and made part of this final inspection report.¹³

¹³ . The Board does not make public any of a firm's comments that address a nonpublic portion of the report unless a firm specifically requests otherwise. In some cases, the result may be that none of a firm's response is made publicly available. In addition, pursuant to section 104(f) of the Act, 15 U.S.C. § 7214(f), and PCAOB Rule 4007(b), if a firm requests, and the Board grants, confidential treatment for any of the firm's comments on a draft report, the Board does not include those comments in the final report at all. The Board routinely grants confidential treatment, if requested, for any portion of a firm's response that addresses any point in the draft that the Board omits from, or any inaccurate statement in the draft that the Board corrects in, the final report.



Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

April 30, 2015

Mr. Christopher D. Mandalers
Senior Deputy Director
Division of Registration and Inspections
Public Company Accounting Oversight Board
1666 K Street NW
Washington, DC 20006

Re: Deloitte & Touche LLP – Response to Part I of Draft Report on 2014 Inspection

Dear Mr. Mandalers:

Deloitte & Touche LLP is pleased to submit this response to the draft Report on the 2014 Inspection of Deloitte & Touche LLP (the Draft Report) of the Public Company Accounting Oversight Board (the PCAOB or the Board). We believe that the PCAOB's inspection process serves an important role in the achievement of our shared objectives of improving audit quality and serving investors and the public interest. We are committed to continuing to work with the PCAOB to further strengthen trust in the integrity of the independent audit.

We have evaluated the matters identified by the Board's inspection team for each of the issuer audits described in Part I of the Draft Report and have taken actions as appropriate in accordance with PCAOB standards to comply with our professional responsibilities under AU 390, *Consideration of Omitted Procedures After the Report Date*, and AU 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*.

Executing high quality audits is our number one priority. We are confident that the investments we have made and are continuing to make in our audit processes, policies, and quality controls are resulting in significant enhancements to our audit quality.

Sincerely,

Cathy Engelbert
Chief Executive Officer
Deloitte LLP

Joe Ucuzoglu
Chairman and CEO
Deloitte & Touche LLP

APPENDIX D

AUDITING STANDARDS REFERENCED IN PART I

This appendix provides the text of the auditing standard paragraphs that are referenced in Part I.A of this report. Footnotes that are included in this Appendix, and any other Notes, are from the original auditing standards that are referenced. While this Appendix contains the specific portions of the relevant standards cited with respect to the deficiencies in Part I.A of this report, other portions of the standards (including those described in Part I.B of this report) may provide additional context, descriptions, related requirements, or explanations; the complete standards are available on the PCAOB's website at <http://pcaobus.org/STANDARDS/Pages/default.aspx>.

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
USING A TOP-DOWN APPROACH		
Selecting Controls to Test		
AS No. 5.39	The auditor should test those controls that are important to the auditor's conclusion about whether the company's controls sufficiently address the assessed risk of misstatement to each relevant assertion.	Issuers A, B, D, E, and I
TESTING CONTROLS		
Testing Design Effectiveness		
AS No. 5.42	<p>The auditor should test the design effectiveness of controls by determining whether the company's controls, if they are operated as prescribed by persons possessing the necessary authority and competence to perform the control effectively, satisfy the company's control objectives and can effectively prevent or detect errors or fraud that could result in material misstatements in the financial statements.</p> <p>Note: A smaller, less complex company might achieve its control objectives in a different manner from a larger, more complex organization. For example, a smaller, less complex company might have fewer employees in the accounting function, limiting opportunities to segregate duties and leading the company to implement alternative controls to achieve its control objectives. In such circumstances, the auditor should evaluate whether those alternative controls are effective.</p>	Issuers A, C, D, and E
Testing Operating Effectiveness		
AS No. 5.44	The auditor should test the operating effectiveness of a control by determining whether the control is operating as designed and whether the person performing the control	Issuers A, C, D, E, and J

AS No. 5, An Audit of Internal Control Over Financial Reporting That Is Integrated with An Audit of Financial Statements		
	<p>possesses the necessary authority and competence to perform the control effectively.</p> <p>Note: In some situations, particularly in smaller companies, a company might use a third party to provide assistance with certain financial reporting functions. When assessing the competence of personnel responsible for a company's financial reporting and associated controls, the auditor may take into account the combined competence of company personnel and other parties that assist with functions related to financial reporting.</p>	
EVALUATING IDENTIFIED DEFICIENCIES		
AS No. 5.68	<p>The auditor should evaluate the effect of compensating controls when determining whether a control deficiency or combination of deficiencies is a material weakness. To have a mitigating effect, the compensating control should operate at a level of precision that would prevent or detect a misstatement that could be material.</p>	Issuer J

AS No. 13, The Auditor's Responses to the Risks of Material Misstatement		
Responses Involving the Nature, Timing, and Extent of Audit Procedures		
AS No. 13.8	<p>The auditor should design and perform audit procedures in a manner that addresses the assessed risks of material misstatement for each relevant assertion of each significant account and disclosure.</p>	Issuer F
RESPONSES TO FRAUD RISKS		
AS No. 13.13	<p><i>Addressing Fraud Risks in the Audit of Financial Statements.</i> In the audit of financial statements, the auditor should perform substantive procedures, including tests of details, that are specifically responsive to the assessed fraud risks. If the auditor selects certain controls intended to address the assessed fraud risks for testing in accordance with paragraphs 16-17 of this standard, the auditor should perform tests of those controls.</p>	Issuer F
Testing Controls		
TESTING CONTROLS IN AN AUDIT OF FINANCIAL STATEMENTS		
AS No. 13.16	<p><i>Controls to be Tested.</i> If the auditor plans to assess control risk at less than the maximum by relying on</p>	Issuer E

AS No. 13, The Auditor's Responses to the Risks of Material Misstatement		
	controls, ^{12/} and the nature, timing, and extent of planned substantive procedures are based on that lower assessment, the auditor must obtain evidence that the controls selected for testing are designed effectively and operated effectively during the entire period of reliance . ^{13/} However, the auditor is not required to assess control risk at less than the maximum for <i>all</i> relevant assertions and, for a variety of reasons, the auditor may choose not to do so.	
<p>Footnotes to AS No. 13.16</p> <p>^{12/} Reliance on controls that is supported by sufficient and appropriate audit evidence allows the auditor to assess control risk at less than the maximum, which results in a lower assessed risk of material misstatement. In turn, this allows the auditor to modify the nature, timing, and extent of planned substantive procedures.</p> <p>^{13/} Terms defined in Appendix A, <i>Definitions</i>, are set in boldface type the first time they appear.</p>		
AS No. 13.18	<i>Evidence about the Effectiveness of Controls in the Audit of Financial Statements.</i> In designing and performing tests of controls for the audit of financial statements, the evidence necessary to support the auditor's control risk assessment depends on the degree of reliance the auditor plans to place on the effectiveness of a control. The auditor should obtain more persuasive audit evidence from tests of controls the greater the reliance the auditor places on the effectiveness of a control. The auditor also should obtain more persuasive evidence about the effectiveness of controls for each relevant assertion for which the audit approach consists primarily of tests of controls, including situations in which substantive procedures alone cannot provide sufficient appropriate audit evidence.	Issuer E
Substantive Procedures		
AS No. 13.37	As the assessed risk of material misstatement increases, the evidence from substantive procedures that the auditor should obtain also increases. The evidence provided by the auditor's substantive procedures depends upon the mix of the nature, timing, and extent of those procedures. Further, for an individual assertion, different combinations of the nature, timing, and extent of testing might provide sufficient appropriate evidence to respond to the assessed risk of material misstatement.	Issuer E

AS No. 14, Evaluating Audit Results		
Evaluating the Results of the Audit of Financial Statements		
AS No. 14.3	In forming an opinion on whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework, the auditor should take into account all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.	Issuers G and H
EVALUATING THE PRESENTATION OF THE FINANCIAL STATEMENTS, INCLUDING THE DISCLOSURES		
AS No. 14.30	<p>The auditor must evaluate whether the financial statements are presented fairly, in all material respects, in conformity with the applicable financial reporting framework.</p> <p>Note: AU sec. 411, <i>The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles</i>, establishes requirements for evaluating the presentation of the financial statements. Auditing Standard No. 6, <i>Evaluating Consistency of Financial Statements</i>, establishes requirements regarding evaluating the consistency of the accounting principles used in financial statements.</p> <p>Note: The auditor should look to the requirements of the Securities and Exchange Commission for the company under audit with respect to the accounting principles applicable to that company.</p>	Issuers A and B
AS No. 14.31	<p>As part of the evaluation of the presentation of the financial statements, the auditor should evaluate whether the financial statements contain the information essential for a fair presentation of the financial statements in conformity with the applicable financial reporting framework. Evaluation of the information disclosed in the financial statements includes consideration of the form, arrangement, and content of the financial statements (including the accompanying notes), encompassing matters such as the terminology used, the amount of detail given, the classification of items in the statements, and the bases of amounts set forth.</p> <p>Note: According to AU sec. 508, if the financial statements, including the accompanying notes, fail to disclose information that is required by the applicable financial reporting framework, the</p>	Issuer F

AS No. 14, Evaluating Audit Results		
	auditor should express a qualified or adverse opinion and should provide the information in the report, if practicable, unless its omission from the report is recognized as appropriate by a specific auditing standard. ^{18/}	
Footnote to AS No. 14.31		
^{18/} AU secs. 508.41-.44.		

AU 328, Auditing Fair Value Measurements and Disclosures		
Testing Management's Significant Assumptions, the Valuation Model, and the Underlying Data		
AU 328.26	<p>The auditor's understanding of the reliability of the process used by management to determine fair value is an important element in support of the resulting amounts and therefore affects the nature, timing, and extent of audit procedures. When testing the entity's fair value measurements and disclosures, the auditor evaluates whether:</p> <ul style="list-style-type: none"> a. Management's assumptions are reasonable and reflect, or are not inconsistent with, market information (see paragraph .06). b. The fair value measurement was determined using an appropriate model, if applicable. c. Management used relevant information that was reasonably available at the time. 	Issuers B, G, and H
AU 328.28	Where applicable, the auditor should evaluate whether the significant assumptions used by management in measuring fair value, taken individually and as a whole, provide a reasonable basis for the fair value measurements and disclosures in the entity's financial statements.	Issuers B, G, and H
AU 328.31	Assumptions ordinarily are supported by differing types of evidence from internal and external sources that provide objective support for the assumptions used. The auditor evaluates the source and reliability of evidence supporting management's assumptions, including consideration of the assumptions in light of historical and market information.	Issuers B and G
AU 328.36	To be reasonable, the assumptions on which the fair value measurements are based (for example, the discount rate used in calculating the present value of future cash flows), ^{fn 5} individually and taken as a whole, need to be realistic and consistent with:	Issuers G and H

AU 328, Auditing Fair Value Measurements and Disclosures		
	<ul style="list-style-type: none"> a. The general economic environment, the economic environment of the specific industry, and the entity's economic circumstances; b. Existing market information; c. The plans of the entity, including what management expects will be the outcome of specific objectives and strategies; d. Assumptions made in prior periods, if appropriate; e. Past experience of, or previous conditions experienced by, the entity to the extent currently applicable; f. Other matters relating to the financial statements, for example, assumptions used by management in accounting estimates for financial statement accounts other than those relating to fair value measurements and disclosures; and g. The risk associated with cash flows, if applicable, including the potential variability in the amount and timing of the cash flows and the related effect on the discount rate. <p>Where assumptions are reflective of management's intent and ability to carry out specific courses of action, the auditor considers whether they are consistent with the entity's plans and past experience.</p>	
<p><u>Footnote to AU 328.36</u></p> <p>^{fn 5} The auditor also should consider requirements of GAAP that may influence the selection of assumptions (see FASB Concepts Statement No. 7).</p>		

AU 329, Substantive Analytical Procedures		
Analytical Procedures Used as Substantive Tests		
Availability and Reliability of Data		
AU 329.16	<p>Before using the results obtained from substantive analytical procedures, the auditor should either test the design and operating effectiveness of controls over financial information used in the substantive analytical procedures or perform other procedures to support the completeness and accuracy of the underlying information. The auditor obtains assurance from analytical procedures based upon the consistency of the recorded amounts with expectations developed from data derived from other sources. The reliability of the data used to develop the expectations should be appropriate for the desired level of assurance from the</p>	Issuer K

	<p>analytical procedure. The auditor should assess the reliability of the data by considering the source of the data and the conditions under which it was gathered, as well as other knowledge the auditor may have about the data. The following factors influence the auditor's consideration of the reliability of data for purposes of achieving audit objectives:</p> <ul style="list-style-type: none"> • Whether the data was obtained from independent sources outside the entity or from sources within the entity • Whether sources within the entity were independent of those who are responsible for the amount being audited • Whether the data was developed under a reliable system with adequate controls • Whether the data was subjected to audit testing in the current or prior year • Whether the expectations were developed using data from a variety of sources 	
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AU 342, Auditing Accounting Estimates		
Evaluating Accounting Estimates		
Evaluating Reasonableness		
AU 342.11	<p>Review and test management's process. In many situations, the auditor assesses the reasonableness of an accounting estimate by performing procedures to test the process used by management to make the estimate. The following are procedures the auditor may consider performing when using this approach:</p> <ul style="list-style-type: none"> a. Identify whether there are controls over the preparation of accounting estimates and supporting data that may be useful in the evaluation. b. Identify the sources of data and factors that management used in forming the assumptions, and consider whether such data and factors are relevant, reliable, and sufficient for the purpose based on information gathered in other audit tests. c. Consider whether there are additional key factors or alternative assumptions about the factors. d. Evaluate whether the assumptions are consistent with each other, the supporting data, relevant historical data, and industry data. e. Analyze historical data used in developing the 	Issuers A and G

AU 342, Auditing Accounting Estimates		
	<p>assumptions to assess whether the data is comparable and consistent with data of the period under audit, and consider whether such data is sufficiently reliable for the purpose.</p> <p>f. Consider whether changes in the business or industry may cause other factors to become significant to the assumptions.</p> <p>g. Review available documentation of the assumptions used in developing the accounting estimates and inquire about any other plans, goals, and objectives of the entity, as well as consider their relationship to the assumptions.</p> <p>h. Consider using the work of a specialist regarding certain assumptions (section 336, Using the Work of a Specialist).</p> <p>i. Test the calculations used by management to translate the assumptions and key factors into the accounting estimate.</p>	

AU 350, Audit Sampling		
Sampling In Substantive Tests Of Details		
Planning Samples		
AU 350.19	<p>The second standard of field work states, "A sufficient understanding of the internal control structure is to be obtained to plan the audit and to determine the nature, timing, and extent of tests to be performed." After assessing and considering the levels of inherent and control risks, the auditor performs substantive tests to restrict detection risk to an acceptable level. As the assessed levels of inherent risk, control risk, and detection risk for other substantive procedures directed toward the same specific audit objective decreases, the auditor's allowable risk of incorrect acceptance for the substantive tests of details increases and, thus, the smaller the required sample size for the substantive tests of details. For example, if inherent and control risks are assessed at the maximum, and no other substantive tests directed toward the same specific audit objectives are performed, the auditor should allow for a low risk of incorrect acceptance for the substantive tests of details.^{fn 3} Thus, the auditor would select a larger sample size for the tests of details than if he allowed a higher risk of incorrect acceptance.</p>	Issuer E
<p><u>Footnote to AU 350.19</u></p> <p>^{fn 3} Some auditors prefer to think of risk levels in quantitative terms. For example, in the circumstances described, an auditor might think in terms of a 5 percent risk of incorrect acceptance for the substantive test of details. Risk levels used in sampling applications in other fields are not necessarily relevant in determining appropriate levels for applications in auditing because an audit includes many interrelated tests</p>		

AU 350, Audit Sampling		
and sources of evidence.		
AU 350.23	To determine the number of items to be selected in a sample for a particular substantive test of details, the auditor should take into account tolerable misstatement for the population; the allowable risk of incorrect acceptance (based on the assessments of inherent risk, control risk, and the detection risk related to the substantive analytical procedures or other relevant substantive tests); and the characteristics of the population, including the expected size and frequency of misstatements.	Issuer E
AU 350.23A	Table 1 of the Appendix describes the effects of the factors discussed in the preceding paragraph on sample sizes in a statistical or nonstatistical sampling approach. When circumstances are similar, the effect on sample size of those factors should be similar regardless of whether a statistical or nonstatistical approach is used. Thus, when a nonstatistical sampling approach is applied properly, the resulting sample size ordinarily will be comparable to, or larger than, the sample size resulting from an efficient and effectively designed statistical sample.	Issuer E

Enterprise Risk Management Committee Status Report

Audit Committee
June 2016



Executive Summary

Period Snapshot

- All Agencies are Currently at Various Stages of Testing and Documenting Risks & Controls
- Working on Annual Internal Controls Certifications and Summary Reports – To Be Presented at the November 2016 Audit Committee Meeting
- All Agencies Working on Closing Open Material Weakness / Significant Deficiencies
- ERM Committee Met During the Period to Discuss Significant Issues and MTA Organizational Changes
- Agencies Have Conducted a Review of Their Business Processes With Their Departments to Include an Assessment of Their Business Processes Objectives, Risks and Controls
- Agencies Continue to Document Their Vulnerability Assessments in the Governance Risk and Compliance (GRC) System

Summary of Control Activities

- 1,837 Total Business Processes
- 753 Total Significant Business Processes of which 443 Were Reviewed
- Approximately 4,012 Total Risks (all business processes)
- Approximately 6,208 Total Controls (all business processes)

Strategy/Internal Driven Risk Change

- Procurement Consolidation
- IT Transformation
- Treasury Transformation
- GRC Migration

External Driven Risk Change

- New Standards for Internal Controls in New York State Government – Office of the State Comptroller
- COSO 2013
- NYS Comptroller Guidelines

Year to Year Comparison

	June 2015	June 2016	Change (+/-)	Change (+/-)
Significant Business Processes	671	753	82	12.2%
Total Activities / Business Process	1,875	1,837	(38)	(2.0)%
Total Risks	3,919	4,012	93	2.4%
Total Controls	6,402	6,208	(194)	(3.0)%



Open Corrective Action Plans Status

	November 2015 Reported	Closed	New	June 2016 Open
TOTAL	16	7	-	9



Open Corrective Action Plans Status

Total Controls Vs. % of Material Weakness / Significant Deficiencies

Agency	Total Controls	Open Material Weakness / Significant Deficiencies June 2016	% Total Material Weakness / Significant Deficiencies to Total Controls
B&T	425	-	0.00%
MTA HQ	355	1	0.28%
LIRR	1,324	2	0.15%
MNR	626	6	0.96%
MTA Bus	159	-	0.00%
MTA CC	452	-	0.00%
NYCT	2,867	-	0.00%
Enterprise	6,208	9	0.14%



Material Weakness / Significant Deficiencies

Overall Risk Ranking	LIRR	MNR	MTA HQ	Total
Medium	1	-	1	2
High	1	1	-	2
Very High	-	5	-	5
TOTAL	2	6	1	9



Open Corrective Action Plans

ERM Risk Category	Very High	High	Medium	Total
Ineffectual Operations	1	1	2	4
Safety	4	-	-	4
Theft of Assets	-	1	-	1
Total	5	2	2	9



Metropolitan Transportation Authority Ethics and Compliance Program

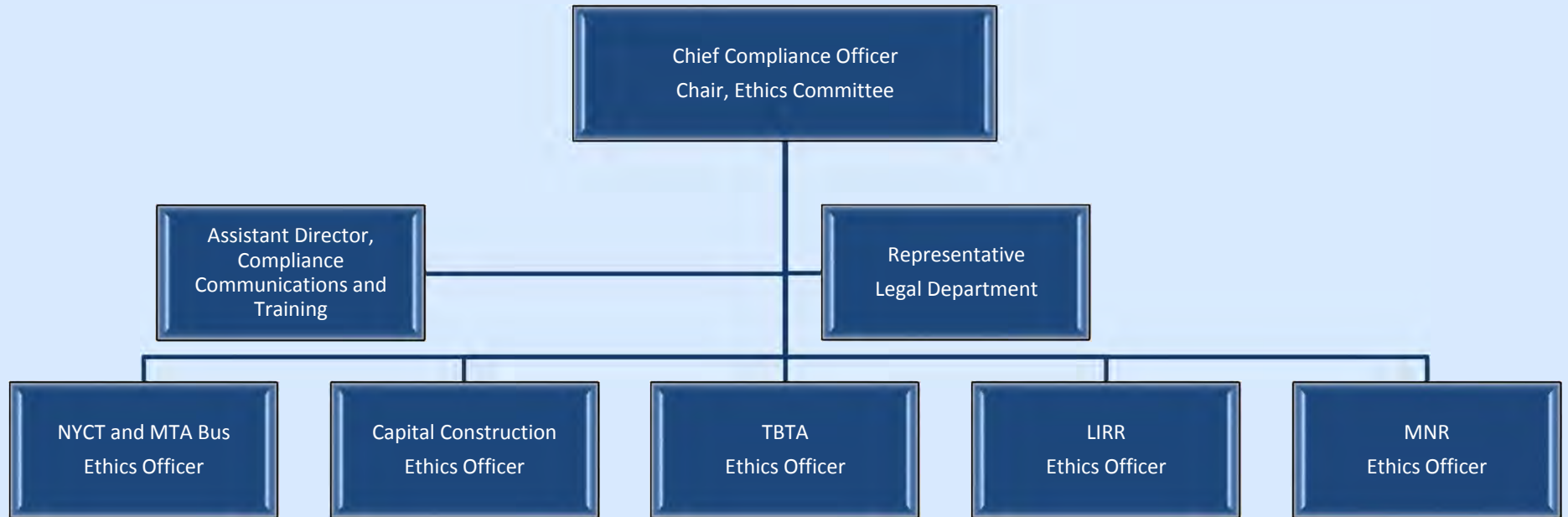
Report to the Audit Committee
June 22, 2016



Corporate Compliance: Strategic Alignments



Ethics Committee Organizational Structure

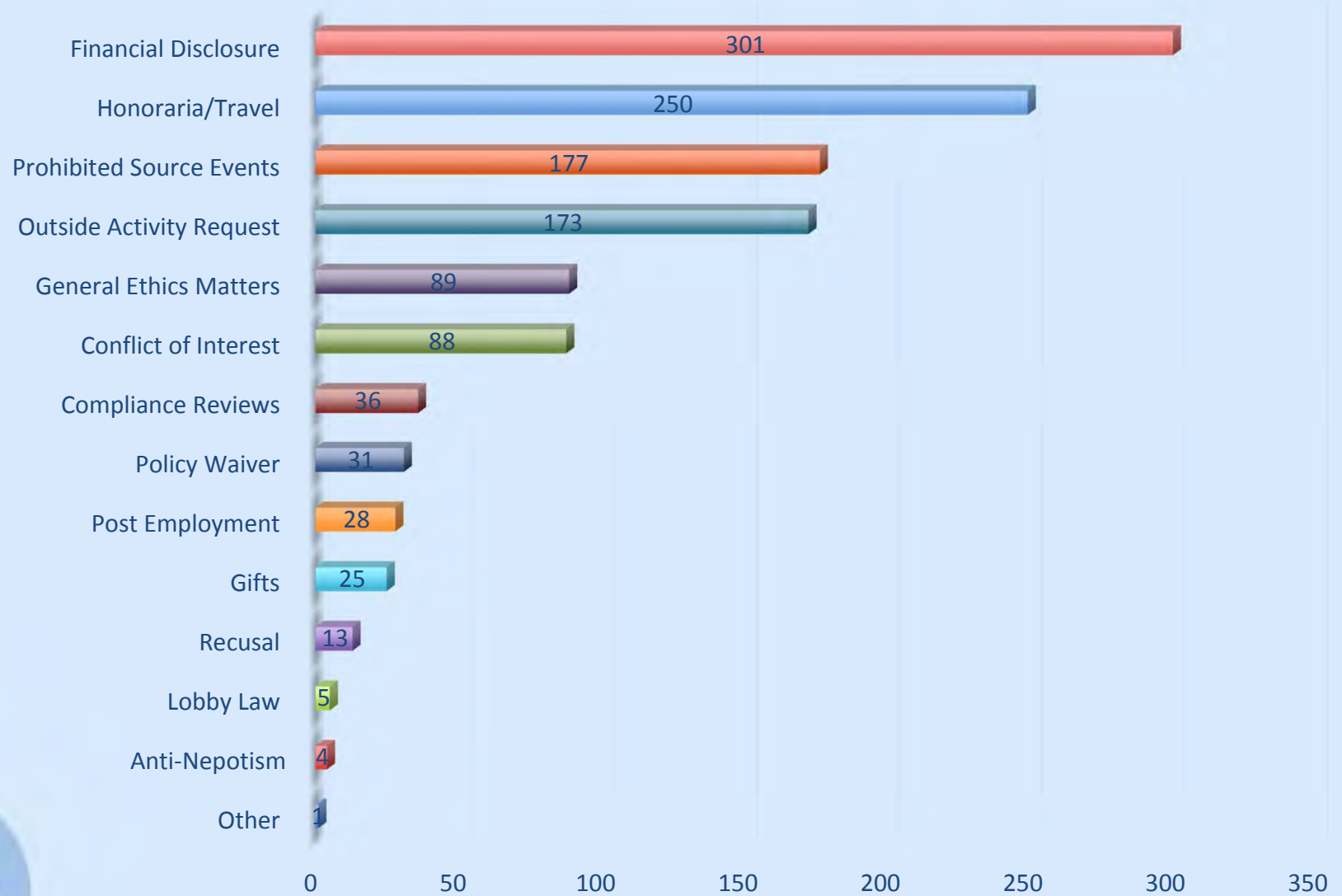


Ethics and Compliance Issues

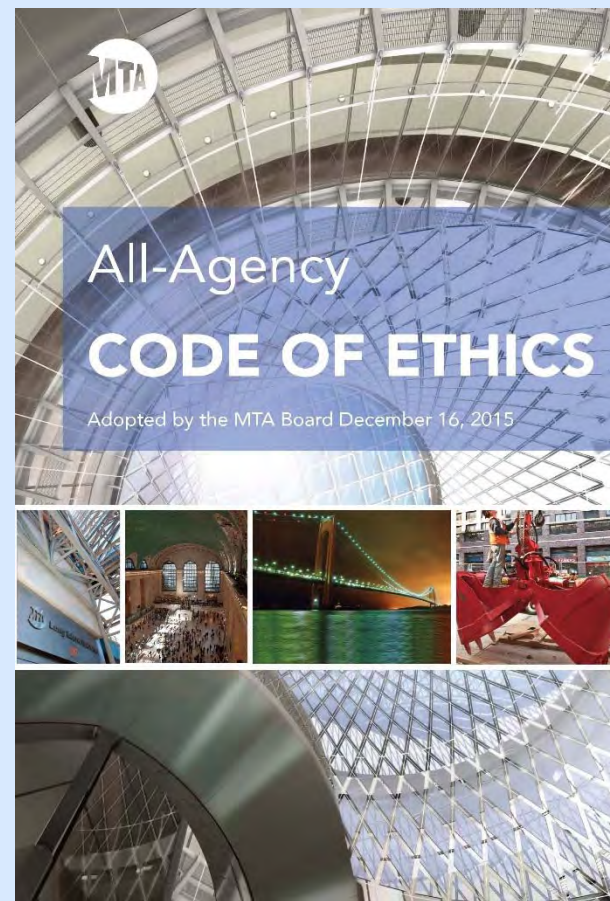
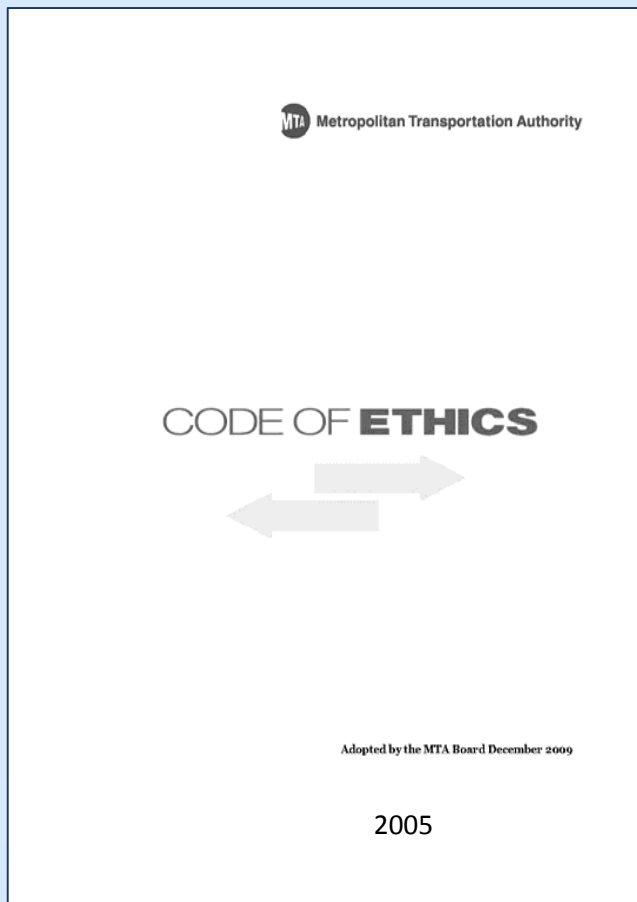
- We handled over 1,200 ethics or compliance issues between April 2015 and June 2016.
- This is a significant increase from the over 400 ethics or compliance issues we reported to the Audit Committee last year.
 - Increased awareness from training
 - Better record keeping
 - Greater integration of ethics and compliance into business processes
 - Increased reporting from the Agencies
- Many issues are received by Email, followed by Telephone Calls, Ethics/Compliance Helpline and In-person Visits



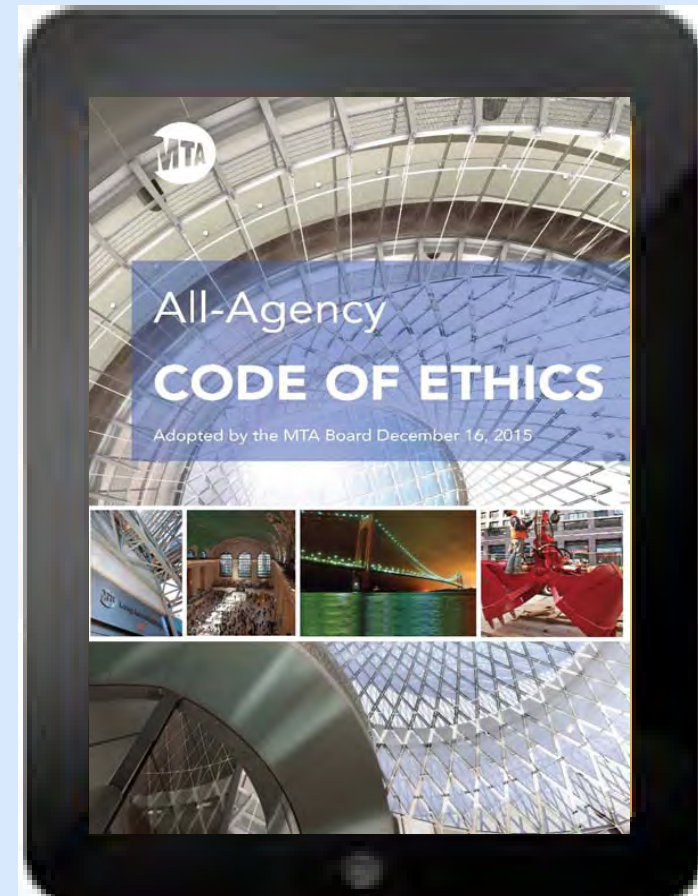
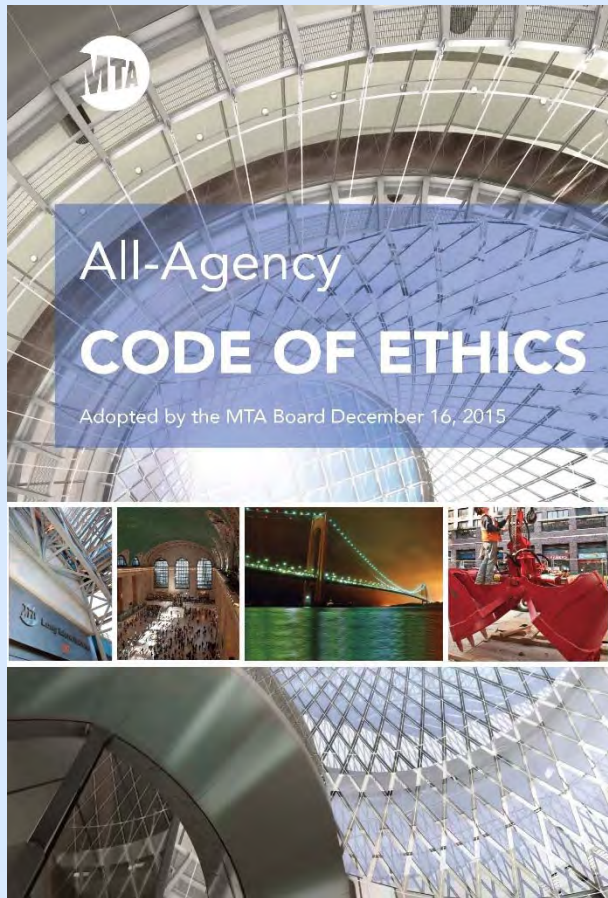
Ethics and Compliance Issues



Ethics and Compliance: New Code of Ethics 2005-2015



Ethics and Compliance: New Code of Ethics 2017



Ethics and Compliance: New Ethics and Compliance Insights

ETHICS & COMPLIANCE INSIGHTS



A message from MTA Corporate Compliance

Risks, Internal Controls...and You

If I buy stock in that upstart company, what are the odds I'll lose my money? If I decide to try skiing, how likely is it that I'll break a leg?

That's how we usually think of risk – as the “ifs” and outcomes of our personal choices. We manage those risks by weighing decisions, seeking advice, or simply developing prudent habits.

But is the concept of risk the same for a large organization like the MTA?

Clearly, the MTA confronts many layers of risk. Not only in the daily operation of our subways, buses, and railways, but in construction, purchasing, communications, safety...in every aspect of our business. And who is ultimately responsible for mitigating such complex, broadly distributed risks?

Surprise: You are!

If you thought otherwise, then you are not fully aware of the requirements of the New York State Internal Control Act and the guidelines issued by the MTA Board. It's time to learn more.

Adopted in its current form in 2011 and based on the COSO framework, the MTA Enterprise Risk Management and Internal Control Guidelines require the MTA to maintain a system of controls that identifies, monitors, and mitigates risk in its organization. It also calls for the MTA to inform every employee of the “generally applicable managerial policies and standards with which he or she is expected to comply...” and to emphasize that it is “the responsibility of management and employees to foster a system of effective internal controls.”

So there you have it! Each of us is responsible, within the context of our jobs, for “effective internal controls” to minimize risks to the MTA.

Tall order.

Fortunately, much of this is already entailed in performing our daily jobs in an effective, prudent manner. We follow policies and procedures, weigh options, and strive to make the best decisions. Providing a coherent framework for evaluating those decisions is the function of the MTA's eight-step Enterprise Risk Management/Internal Controls process.

Overseen by MTA Chief Compliance Officer Lamond W. Kearse, the process provides reasonable assurance that the MTA's internal control objectives will be reached in four key areas – strategy, operations, reporting, and compliance. The process consists of the following:

- ✓ Setting objectives – defining what we want to accomplish.
- ✓ Determining risks – identifying events, both internal and external, that might negatively affect and



Compliance Training Program

- Corporate Compliance manages mandated compliance training given to all MTA Employees.
- The goal is to educate employees on various relevant topics.
- Training is offered live or through live webinars.



Compliance Training Program

2016 Courses

1. JCOPE Comprehensive Ethics Training
2. Prevention of Violence in the Workplace
3. Right to Know
4. Cyber Security
5. Internal Controls
6. Reasonable Accommodation Series
7. Equal Employment Opportunity: Rights and Responsibilities
8. Sexual Harassment in the Workplace
9. Anti-Nepotism
10. Travel and Business Expenses
11. Whistleblower Protection
12. Computer Usage and Social Media
13. Project Sunlight
14. Governance Risk and Compliance



Policy Certifications

- Code of Ethics
- Travel and Business Expenses
- Anti-Nepotism Employment Procedures
- Computer and Social Media Usage
- Whistleblower Protection



Communications

- Availability:
 - Code was distributed to all MTA Employees
 - Code is posted on the MTA Intranet and Internet
 - The MTA All-Agency Code continues to be translated into Braille
 - Code is given to all new Employees
- Relevant:
 - The Code is maintained and updated as necessary
 - On-going discussions regarding modifications to the Code



Communications: MTA Today

One day each month dedicated to Ethics and Compliance Issues

- Provide Ethics guidance
- Utilizing entertaining videos to engage employee interest


January 6, 2016 Good Afternoon!

mta today

Tools Benefits/Programs Policies MTA Departments Corporate Info Agency Intranets

[Feedback](#)

A 2016 Makeover for Code of Ethics



Quickly, can you define a "prohibited source?" Can you identify an "apparent conflict of interest" or describe the MTA rules on post-employment?

These may seem like trivial questions, but as an MTA employee you really should know the answers. In fact, as an MTA employee, you must certify annually that you have read and are familiar with these and all the other rules in the MTA's All-Agency Code of Ethics.

A New Look and Quick-Reference Design

As you can see by [clicking here](#), our All-Agency Code of Ethics has been thoroughly redesigned for 2016. The bright new cover stands out on your desk or bookshelf. New design features let you navigate topics quickly and easily, while new call-outs highlight important concepts, rules, and provisions. In addition to the PDF link above, you can always click to an online copy of the new Code under the "Policies" heading on your agency's "MTA Today" intranet page. Printed copies will be mailed to all MTA employees later this year.

Important Updates and Revisions

NOMINATE NOW!

THE SUSAN L. KUPPERMAN AWARD FOR EXCELLENCE IN PUBLIC SERVICE

Notices

Check It Out: My MTA Portal
The BSC upgrade to PeopleSoft 9.2 is complete and the new "My MTA Portal" is now open for business. Go to <https://www.mymta.info>.

Health Club Deadline
The deadline for the winter health club promotion is Friday, January 15. See the November 30 issue of MTA Today for [details](#).

Quick Links

- [PeopleSoft 9.2 Upgrade](#)
- [Outlook Web Email](#)
- [Business Service Center](#)
- [Office of the Inspector General \(external\)](#)
- [MTA Today Archive](#)

06/14 Gifts for Dad

©2010-2016 Metropolitan Transportation Authority. [Site Notice](#)

Communications: E-mail Distributions

- Ethikos Magazine-Distributed to all senior management
- Tone at the Top-Distributed to all senior management



Communications: Memoranda 2016

- New Employee Package
 - Public Officers Law
 - Code of Ethics
- Holiday Gift-Employees
- Holiday Gift-Vendors
- Political Activity
- Honorarium/Outside Employment
- Specific Events
- Updated Information
- Financial Disclosure



Communications: Promote Use of the Ethics Helpline-Signage

ETHICS
What's that about?

- It's about speaking up when you know something's unethical.
- It's knowing and following our Code of Ethics.
- Mostly, it's about all the things that create a work environment that lets us all do the right thing.

Ask Questions. Get Answers.
MTA Corporate Compliance
888-U-ASK-MTA
(888-827-5682)
MTA Metropolitan Transportation Authority

Can You Report Ethics Violations Without Giving Your Name?

And is it true that anonymously reported violations will be investigated thoroughly?

The answer is YES!

MTA Corporate Compliance is here to answer your questions and to provide a work environment that lets us all do the right thing.

Ask Questions. Get Answers.
MTA Corporate Compliance
888-U-ASK-MTA
(888-827-5682)
MTA Metropolitan Transportation Authority

Is Keeping Quiet Good?

And is it true that as an MTA employee you are expected to keep quiet about things you know are unethical?

The answer is NO!

MTA Corporate Compliance is here to answer your questions and to provide a work environment that lets us all do the right thing.

Ask Questions. Get Answers.
MTA Corporate Compliance
888-U-ASK-MTA
(888-827-5682)
MTA Metropolitan Transportation Authority



Corporate Compliance: Coordination



Metropolitan Transportation Authority

MTA Audit Services

2016 AUDIT PLAN STATUS
June 22, 2016



2016 – Plan Summary

Financial/Operational/Technology

- Projects Completed	=	66
- Recommendations	=	154
- Savings/Cost Efficiencies	=	\$ 17.7 M

Contracts

- Projects Completed	=	67
- Pre-Award OH Reviews	=	40
- \$ Audited	=	\$ 353.0 M
- Questioned Costs	=	\$ 29.9 M

Total = \$ 47.6 Million



2016 - Highlights

- ☐ **Superstorm Sandy**
- ☐ **PeopleSoft Upgrade**
- ☐ **Financial Statements Reporting**
- ☐ **MWBE – DDCR Corrective Action Plan**
- ☐ **Transit Adjudication Bureau – New System**
- ☐ **Bridges & Tunnels Officer's Availability**
- ☐ **Capital Revolving Fund**



Superstorm Sandy Audits

- **Total Grant Expenditures = \$1 Billion**
- **Total Audited = \$222 Million**
- **Projects Completed = 60**
- **Recommendations = 172**
- **Total Cost Adjustments = \$ 56.6 M**



Looking Ahead

- ❑ **Complete the 2016 Audit Plan**
- ❑ **Continue to Support activities related to:**
 - **Enterprise Asset Management Project**
 - **PeopleSoft - 9.2 Upgrade**
 - **PeopleSoft Procure-to-Pay**
 - **PeopleSoft Pension Implementation**
- ❑ **Continue to coordinate audit activities with:**
 - **External Auditors**
 - **City/State Controller's Office**
 - **MTA Inspector General Office**
 - **MTA Chief Compliance Office**
- ❑ **Conduct the Yearly Internal Quality Assurance Review**



QUESTIONS?

