



Metropolitan Transportation Authority

Audit Committee Meeting

January 2017

Committee Members

J. Vitiello, Chair

C. Moerdler

J. Molloy

M. Pally

N. Zuckerman

Audit Committee Meeting
2 Broadway, 20th Floor Board Room
New York, NY 10004
Monday, 1/23/2017
2:45 - 3:45 PM ET

1. PUBLIC COMMENTS

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**MINUTES OF MEETING
AUDIT COMMITTEE OF THE BOARD
MONDAY, NOVEMBER 14, 2016 - 2:45 P.M.
RONAN BOARD ROOM – 20TH FLOOR
2 BROADWAY**

The following were present:

Honorable:

Neal Zuckerman
John Molloy

Susan Metzger
Andrew Albert

Mitchell Pally
Fernando Ferrer

M. Fucilli - MTA
P. Kane - MTA
N. Din - MTA
D. Taveras- MTA

R. Foran - MTA
L. Kearse - MTA
M. Hellman - NYCTA

M. Fritz - Deloitte
G. Koslow - Deloitte
C. Hickman - Deloitte
J. Young - Deloitte

Neal Zuckerman presided over the meeting on behalf of Chair James Vitiello.

1. PUBLIC COMMENTS PERIOD

There were no public speakers.

2. APPROVAL OF MINUTES

The minutes of the September 26, 2016 Audit Committee meeting were approved.

3. AUDIT COMMITTEE WORK PLAN

There were no changes to the work plan. The agenda for the next meeting in January will include: the review of the 3rd Quarter 2016 Financial Statements; the Pension Audits, the Information Technology Report; the 2016 Audit Plan Status and 2017 Audit Plan; and DDCR's performance update.

4. AUDIT APPROACH PLAN

Mike Fritz (Deloitte) first introduced himself to the new members of the Committee as the Lead Partner on this engagement and Greg Koslow, Chris Hickman and John Young as the senior members of the audit team. He then briefed the Committee on Deloitte's audit plan and explained in some details what they plan to do to deal with the "significant risk area" and "key areas of focus" presented in the "2016 MTA Audit Service Plan" document that was previously provided to the Committee. He said the audit of the MTA Consolidated Financial Statements and the agencies' financial statements would be done in accordance with GAAS and the standards applicable to financial audits contained in Government Auditing Standards. He also said a "Single Audit Report" will be issued on all MTA federally- and state-funded expenditures. Additionally, he said Deloitte will be looking at, among other items, the adoption of GASB standards, fair value accounting, capital assets, pension disclosures and the accuracy of recorded fare and toll revenues. For the 2016 audit, he indicated Greg Koslow would be responsible for MTA HQ, MTA Business Service Center, the Single Audits and FMTAC; Chris Hickman for MTA Bus, NYC Transit and SIRTOA; and John Young for LIRR, MNR and Bridges & Tunnels. He said specialists would be utilized for journal entry profiling, valuation of investments and actuarial calculations. Mike also noted Deloitte's continuous

commitment to quality and cited the result of a recent peer review that gave Deloitte a “clean opinion.” Lastly, he mentioned the number of audit reports that would be issued in early in the year and that the audited 2016 Financial Statements for MTA and the agencies would be issued in April.

5. ENTERPRISE RISK MANAGEMENT AND INTERNAL CONTROL GUIDELINES

Lamond Kearse (MTA Chief Compliance Officer) stated that the MTA ERM and Internal Control Guidelines that were established pursuant to Public Authority Law 2931 required some revision to conform with the recent changes to the standards set by the Commission of Sponsoring Organizations of the Treadway Commission and the standards established by the U.S. Government Accountability Office. He presented the proposed revision to the MTA guidelines and requested the Committee’s approval.

A motion was made and seconded to accept the revision.

6. ENTERPRISE RISK MANAGEMENT UPDATE

Lamond briefed the Committee on the ERM Committee Status Report and talked about the summary of ERM Committee activities during the year and explained the “Control Activities, Strategy and Internal/External Driven Risk Change” topics that were presented in the report. He cited the number of personnel involved in the ERM Program and the total activities/business processes, risks and controls in each agency. He presented a year-to-year comparison of total risks and controls, noting an increase of 772 in total risk and a decrease of 62 in controls over the past year. In response to a prior Committee inquiry, Lamond presented a graph showing the categories and levels of risk related to the “Open Material/Significant Deficiencies” cited in the prior report. Lamond also highlighted the top risks for each agency and MTA-wide. During the discussions on “material weakness,” Member Ferrer asked for specifics as to the nature and area of the weakness. Lamond said the Committee will be provided the requested information.

7. COMPLIANCE WITH THE REQUIREMENTS OF THE INTERNAL CONTROL ACT

Lamond reported that, as noted in the materials in the Committee book, the MTA and its agencies fully complied with the Internal Control Act and have effective controls to mitigate the risks identified during the risk assessment process.

8. OPEN AUDIT RECOMMENDATIONS

Lamond stated that, in compliance with a Committee requirement to report audit recommendations that remained open 6 months or more past their original implementation dates, a list, totaling 10 recommendations, was compiled and provided to the Committee. Acting Chair Zuckerman requested the Committee to take a moment to read the list since they were seeing it the first time. Member Ferrer asked why a recommendation involving “Signal Systems” remained open specially that it was the major concern before. Mark Hellman of Subways indicated that a reorganization in Signals is taking place and guidelines are being re-visited and that effort was taking time. There were other issues raised about the other recommendations on the list. Acting Chair Zuckerman asked that this item be scheduled for an update and discussion in the January meeting.

9. REVIEW OF THE AUDIT COMMITTEE CHARTER

Lamond reported that there were changes to the Charter that were reviewed and approved by the Board in June 2016 and that he is recommending no further changes at this time. Acting Chair Zuckerman asked what the nature of the changes were and Lamond said they pertained to additional reporting requirements on ethics and risk issues. The Auditor General commented the change also reflected the “best practices” that other audit committees follow.

10. ANNUAL AUDIT COMMITTEE ACTIVITY REPORT

Acting Chair Zuckerman presented the proposed report to the Board reflecting the activities of the Audit Committee during the 12-month period ended July 2016. He requested for a Committee discussion and approval of the report.

A motion was made and seconded to approve the report.

11. DDCR PERFORMANCE MEASURES UPDATE

Naeem Dim (DDCR Deputy Director, Policy Compliance) provided the update on behalf of Chief Diversity Officer Michael Garner. Naeem introduced Doreen Taveras (Assistant Director, WBE, Contract Compliance) who he said was instrumental in the successful implementation of the B2G system. He referred to DDCR’s material in the Committee book in discussing DDCR’s accomplishments to date, which he said include: the full implementation of all 10 MTA IG recommendations; the close-out of 1,109 inactive contracts; the increased number of site visits performed; and the successful implementation of the New York State Contract System (B2GNow). Naeem acknowledged the help the Compliance Office and Audit Services provided to DDCR in achieving the accomplishments. There were discussions about the capability of the B2G system to cross-check M/W/BE non-conforming contractors with other state agencies, the “time saved” and controls added by the system and the pre-B2G contract data that have been downloaded into the system. Acting Chair Zuckerman commented that much has been done since the last update and that DDCR should continue the progress.

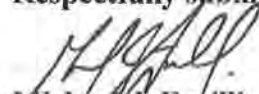
12. EXECUTIVE SESSION

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

13. MOTION TO ADJOURN

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

Respectfully submitted,


Michael J. Fucilli
Auditor General

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

January 2017

Quarterly Financial Statements – 3 rd Quarter 2016	External Auditor/CFOs
Pension Audits	External Auditor
2016 Audit Plan Status Report	Auditor General
2017 Audit Plan	Auditor General
Information Technology Report	Chief Information Officer
DDCR Performance Measures	Chief Diversity Officer

April 2017

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

June 2017

Quarterly Financial Statements – 1 st Quarter 2017	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 2017

Quarterly Financial Statements – 2 nd Quarter 2017	External Auditor/CFOs
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November 2017

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

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

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.

JUNE 2017

Quarterly Financial Statements – 1st Quarter 2017

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 2017.

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 2017

Quarterly Financial Statements - 2nd Quarter 2017

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 2017.

NOVEMBER 2017

MTA Enterprise Risk Management Update 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. The MTA Chief Compliance Officer will also 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 2017. 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. The review will also show if the Committee's performance in 2017 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 2017 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.

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Review Report

Consolidated Interim Financial Statements as of and
for the Nine-Month Period Ended September 30, 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 September 30, 2016, and the related consolidated interim statements of revenues, expenses and changes in net position and consolidated cash flows for the nine-month periods ended September 30, 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. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

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 117, the Schedule of the MTA's Proportionate Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans on page 118, the Schedule of the MTA's Contributions for All Pension Plans on pages 119-120, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 124 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.

January 23, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015 AND
FOR PERIODS ENDED SEPTEMBER 30, 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 September 30, 2016 and December 31, 2015 and for the nine-month periods ended September 30, 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 September 30, 2016 and December 31, 2015 and for the nine-month periods ended September 30, 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

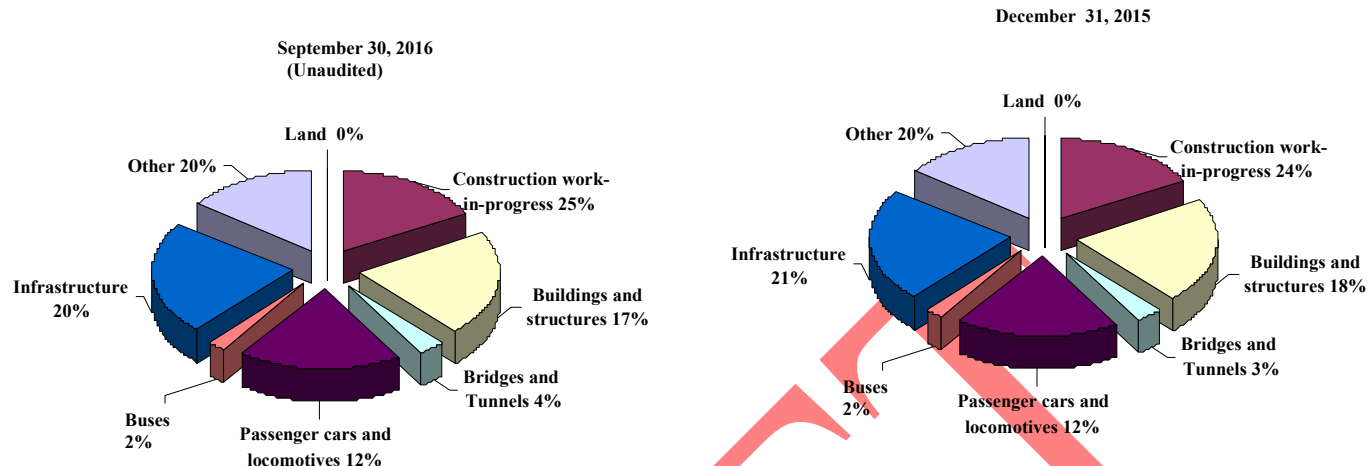
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

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.

	September 30, 2016	December 31, 2015	Increase
(In millions)	(Unaudited)		
Capital assets — net (see Note 6)	\$ 63,455	\$ 61,388	\$ 2,067
Other assets	12,140	9,153	2,987
Deferred outflows of resources	2,675	2,140	535
Total assets and deferred outflows of resources	<u>\$ 78,270</u>	<u>\$ 72,681</u>	<u>\$ 5,589</u>

Capital Assets, Net



Significant Changes in Assets and Deferred Outflows of Resources Include:

September 30, 2016 versus December 31, 2015

- Net capital assets increased at September 30, 2016 by \$2,067 or 3.4%. This increase is attributable to net increases in other capital assets of \$1,347, construction work-in-progress of \$1,238, infrastructure for \$700, buildings and structures for \$234, buses for \$218, passenger cars and locomotives for \$92, bridges and tunnels for \$42, and land for \$2. Those increases were offset by a net increase in accumulated depreciation of \$1,806. 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 \$2,987 or 32.6%. The major items contributing to this change include:
 - An increase in investments of \$2,130 or 33.7%, derived from:

- An increase in restricted investments of \$2,444, due primarily to higher debt service funds and an increase in unspent proceeds from the issuances of Transportation Revenue Bonds and Bond Anticipation Notes in the first nine months of 2016.
- A decrease in capital lease related investments of \$99, due primarily to the termination of MTA Bridges and Tunnels sale-leaseback agreement of subway cars in August 2016.
- A decrease in unrestricted investments of \$215, due to the use of funds for capital projects.
- An increase in current and non-current net receivables of \$942 or 58.4%, derived mainly from:
 - An increase in due from State and regional mass transit taxes of \$892 due to the approval of the New York State 2016-2017 budget in March 2016.
 - An increase in Other Subsidies and State and local operating assistance of \$117.
 - An increase in Federal and State grants for capital projects of \$91.
 - A decrease in Station maintenance of \$21.
 - A decrease in New York State service contract bonds of \$36.
 - A decrease in other various receivables of \$101 mainly due to the receipt of reinsurance recoveries related to Tropical Storm Sandy.
- A decrease in other current and non-current assets of \$85 or 7.0%, derived from:
 - A decrease in cash of \$150 from net cash flow activities.
 - An increase in various other assets of \$65.

Deferred outflows of resources increased by \$535 or 25.0% primarily due to a \$94 increase in the fair value of derivative instruments. In addition, deferred outflows for unamortized losses on refundings increased by \$307, and deferred outflows related to pension increased by \$134.

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

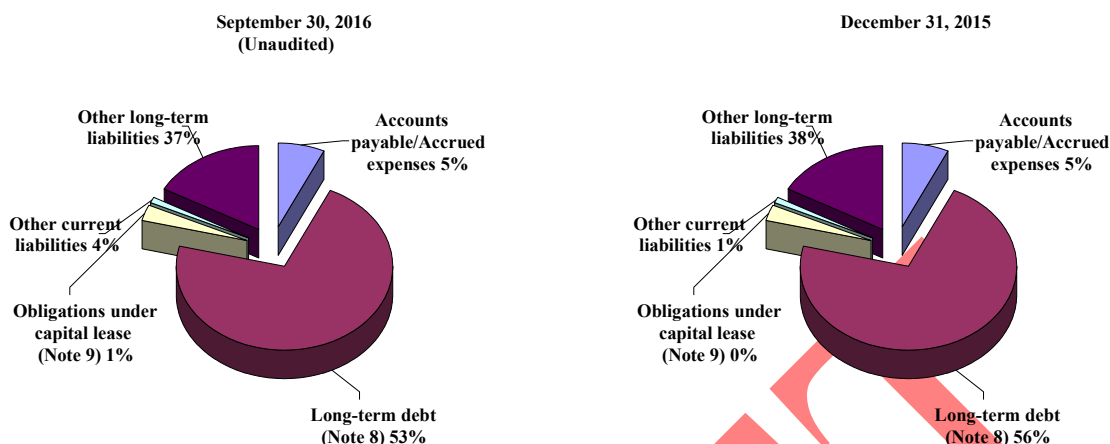
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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.

	September 30, 2016	December 31, 2015	Increase/ (Decrease)
(In millions)	(Unaudited)		
Current liabilities	\$ 6,596	\$ 6,465	\$ 131
Non-current liabilities	64,943	59,891	5,052
Deferred inflows of resources	<u>489</u>	<u>492</u>	<u>(3)</u>
Total liabilities and deferred inflows of resources	<u>\$ 72,028</u>	<u>\$ 66,848</u>	<u>\$ 5,180</u>

Total Liabilities



Significant Changes in Liabilities and Deferred Inflows of Resources Include:

September 30, 2016 versus December 31, 2015

Current liabilities increased by \$131 or 2.0%. The major items contributing to this change include:

- An increase in accrued expenses of \$474 or 16.7%, due to:
 - A net increase in accrued interest of \$370 due to new bonds issued in 2016.
 - A net increase in capital accruals and other accrued expenses of \$65.
 - A net increase in accrued salaries, wages, vacation payroll taxes of \$29 due to timing of payments.
 - An increase in other various accrued expenses of \$10.
- A decrease in other various current liabilities of \$343 or 9.5%, primarily due to:
 - A decrease in the current portion of long-term debt of \$443 or 17.1%, primarily from debt service payments made during the nine months of 2016.
 - A decrease in derivative fuel hedge liability of \$39 or 90.7% due to change in market value.
 - An increase in unearned revenue of \$73 or 13.0%, largely due to increases in MTA New York City Transit for school and elderly fare subsidies, unused fare cards and advertising revenue.
 - An increase in accounts payable of \$59 or 15.0%, due to timing.
 - An increase in other current liabilities of \$7 or 20.0%.

Non-current liabilities increased by \$5,052 or 8.4%. The major items contributing to this increase include:

- An increase in the non-current portion of long-term debt of \$3,595 or 10.4%. The increases are primarily due to the issuances of Transportation Revenue Bonds Series 2016A, Series 2016B, Series 2016C, Transportation Revenue Bonds Bond Anticipation Notes Series 2016A, Dedicated Tax Fund Bonds Series 2016A and Series 2016B, DTF Bond Anticipation Notes Series 2016A, MTA Hudson Rail Yards Trust Obligation for \$1,057 and MTA Bridges and Tunnels General Revenue Bonds Series 2016A (See Note 8).

The increase was offset by retirements and debt payments as of September 30, 2016.

- An increase in postemployment benefits other than pension liability (“OPEB”) of \$1,176 or 8.7%, resulting from actuarial calculations as required by GASB Statement No. 45 (See Note 5).
- A net increase in derivative liabilities of \$93 or 17.4%, primarily due to changes in fair market value.
- An increase in estimated liability arising from injuries to persons (Note 11) of \$255 or 10.5%, due to a revised calculation of the workers’ compensation reserve for MTA New York City Transit.
- A net decrease in other various non-current liabilities of \$67 or 5.7%, primarily resulting from obligation under capital leases.

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

(In millions)	September 2016 (Unaudited)	December 2015	Increase/ (Decrease)
Net investment in capital assets	\$ 24,690	\$ 23,788	\$ 902
Restricted for debt service	1,485	487	998
Restricted for claims	214	142	72
Restricted for other purposes	918	1,051	(133)
Unrestricted	<u>(21,065)</u>	<u>(19,635)</u>	<u>(1,430)</u>
Total Net Position	<u>\$ 6,242</u>	<u>\$ 5,833</u>	<u>\$ 409</u>

Significant Changes in Net Position Include:

September 30, 2016 versus December 31, 2015

At September 30, 2016, total net position increased by \$409 or 7.0%, when compared with December 31, 2015. This change is a result of net non-operating revenues of \$4,465 and appropriations, grants and other receipts externally restricted for capital projects of \$1,520 offset by operating losses of \$5,576.

The net investment in capital assets increased by \$902 or 3.8% due to an increase of \$2,067 in net capital assets placed into service, which was offset by an increase of \$1,165 of related debt. Funds restricted for debt service, claims and other purposes increased by \$937 or 55.8% in the aggregate, mainly due scheduled debt service payments, while unrestricted net position decreased by \$1,430 or 7.3%.

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

(In millions)	Nine-Month Period Ended		Increase/ (Decrease)
	September 30, 2016 (Unaudited)	September 30, 2015 (Unaudited)	
Operating revenues			
Passenger and tolls	\$ 5,905	\$ 5,747	\$ 158
Other	<u>440</u>	<u>454</u>	<u>(14)</u>
Total operating revenues	<u>6,345</u>	<u>6,201</u>	<u>144</u>
Non-operating revenues			
Grants, appropriations and taxes	4,945	4,880	65
Other	<u>623</u>	<u>571</u>	<u>52</u>
Total non-operating revenues	<u>5,568</u>	<u>5,451</u>	<u>117</u>
Total revenues	<u>11,913</u>	<u>11,652</u>	<u>261</u>
Operating expenses			
Salaries and wages	4,183	4,047	136
Retirement and other employee benefits	2,223	2,339	(116)
Postemployment benefits other than pensions	1,610	1,995	(385)
Depreciation	1,818	1,719	99
Other expenses	<u>2,085</u>	<u>2,225</u>	<u>(140)</u>
Operating expenses	<u>11,919</u>	<u>12,325</u>	<u>(406)</u>
Net expenses related to asset impairment	<u>2</u>	<u>3</u>	<u>(1)</u>
Total operating expenses	<u>11,921</u>	<u>12,328</u>	<u>(407)</u>
Non-operating expenses			
Interest on long-term debt	1,100	1,058	42
Change in fair value of derivative financial instruments (Note 8)	(1)	(1)	-
Other net non-operating expenses	<u>4</u>	<u>4</u>	<u>-</u>
Total non-operating expenses	<u>1,103</u>	<u>1,061</u>	<u>42</u>
Total expenses	<u>13,024</u>	<u>13,389</u>	<u>(365)</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>1,520</u>	<u>1,467</u>	<u>53</u>
Change in net position	409	(270)	679
Net position, beginning of period	<u>5,833</u>	<u>13,282</u>	<u>(7,449)</u>
Net position, end of period	<u>\$ 6,242</u>	<u>\$ 13,012</u>	<u>\$ (6,770)</u>

Revenues and Expenses, by Major Source:

Period ended September 30, 2016 versus 2015

- Total operating revenues increased by \$144 or 2.3%.
 - Fare and toll revenue increased by \$158 primarily due to higher subway ridership and an increase in vehicle crossings for the period ended September 30, 2016, when compared to the period ended September 30, 2015.
 - Other operating revenues decreased by \$14 due to lower advertising revenues collected on behalf of all agencies.
- Total non-operating revenues increased by \$117 or 2.1%.
 - Total grants, appropriations, and taxes were higher by \$65 for the period ended September 30, 2016.
 - Tax supported subsidies from New York State increased by \$217, due to the approval of the New York State budget in March 2016. This resulted in increases in Operating Assistance of \$104, MTA Aid Trust Account of \$15, Mass Transportation Trust Fund of \$72, and Payroll Mobility Tax of \$28. Offsetting these increases was a total \$2 decrease in subsidy for Service Contract Bond.
 - Tax supported subsidies from New York City and from MTA service areas decreased by \$152 due to a decrease in Urban Tax of \$169, offset by an increase in Mortgage Recording Tax of \$17.
 - Other non-operating revenues increased by \$52. There was an increase in subsidies from New York City of \$41 for MTA Bus and MTA Staten Island Railway, and other non-operating revenue of \$13. Offsetting these increases was a decrease in subsidy from the Connecticut Department of Transportation for the MTA Metro-North Railroad of \$2.
- Labor costs decreased by \$365 or 4.4%. The major changes within this category are:
 - Retirement and employee benefits decreased by \$116 primarily due to lower pension expenses from GASB Statement No. 68 contributions and amortization of deferred outflows of resources. Offsetting the decrease was an increase in Health and Welfare expenses due to increased rates for health and welfare plans.
 - Salaries, wages and overtime increased by \$136 due largely to increases in MTA New York City Transit.
 - Postemployment benefits other than pensions decreased by \$385, based on changes in the actuarial estimates.
- Non-labor operating costs decreased by \$42 or 1.1%. The variance was due to:
 - Increase in depreciation of \$99 due to placing additional facilities, track work and new buses and subway cars into service.
 - Increase in maintenance and other contracts by \$58 and paratransit service contracts by \$4.

- Increase in material and supplies by \$20, mainly due to ongoing maintenance and repairs for transit and commuter systems.
- Decrease in electric power by \$65 and fuel by \$43 due to lower prices in 2016.
- Decrease in insurance by \$67 due to the recording of earned premium by FMTAC from OCIP Workers Compensation and General Liability Deductible Reimbursement policy in 2016.
- Decrease in claims arising from injuries to persons of \$37 based on most recent actuarial valuations.
- Net decrease in other business expenses of \$10.
- Decrease in asset impairment expenses of \$1 when compared to the same period in 2015.
- Appropriations, grants and other receipts externally restricted for capital projects increased by \$53 or 3.6%, mainly due to timing in the availability of Federal and State grants for capital projects.

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

Economic Conditions

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

Preliminary MTA system-wide utilization through the third quarter of 2016 increased relative to 2015, with ridership up by 3.9 million trips (0.2%). Subway ridership improved by 4.2 million, while MTA New York City Transit bus ridership declined by 3.8 million trips; increases took place at all other MTA Agencies. The modest improvement mostly reflects year-over-year gains during the first quarter, which totaled 17.3 million trips (2.7%) and were the result of winter weather conditions that adversely affected 2015 ridership to a greater degree than 2016 ridership was affected. The second quarter, however, saw lower ridership compared with 2015, down by 7.5 million trips (1.1%). During the third quarter, ridership was marginally lower, down 5.9 million trips (0.9%), reflecting 3.6 million (0.8%) fewer trips on Subway and 2.6 million (1.6%) fewer trips on MTA New York City Transit buses. MTA Metro-North Railroad ridership was marginally lower, down 0.2 million (0.7%) while MTA Long Island Rail Road improved by 0.2 million (1.0%) and MTA Bus ridership was favorable by 0.2 million (0.6%). Vehicle traffic at MTA Bridges and Tunnels facilities increased by 9.4 million crossings (4.2%) through the third 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 third quarter was higher in 2016 than in 2015 by 87.2 thousand jobs (2.1%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-three 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 2.9% in the third 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, exports, private inventory investment, federal government spending and nonresidential fixed investment that were partly offset by negative contributions from residential fixed investment and state and local government spending; imports, which are a subtraction to Gross Domestic Product (“GDP”), increased. The acceleration in RGDP growth, over the second quarter’s revised 1.4% growth rate reflected an acceleration in exports, upturns in private inventory investment and federal government spending, and a smaller decrease in state and local government spending. These were partly offset by a smaller increase in personal consumption expenditures, and a larger increase in imports.

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 third quarter of 2016, with the metropolitan area index increasing 1.0% while the national index increased 1.1%, when compared with the third quarter of 2015. A 7.3% fall in the regional price of energy products, along with a 7.8% national decline, significantly inhibited overall inflation. In the metropolitan area, the CPI-U exclusive of energy products increased by 1.6%; nationally, inflation exclusive of energy prices increased 1.9%. Consistent with the fall in overall energy prices, the spot price for New York Harbor conventional gasoline fell by 15.6% from an average price of \$1.65 (whole dollars) per gallon to an average of \$1.39 (whole dollars) per gallon between the third 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 November 2, 2016 policy release, the labor market has continued to strengthen and growth in economic activity has picked up from the modest pace seen in the first half of this year. While the unemployment rate has barely changed in recent months, job gains have been solid. Household spending has been rising moderately but business fixed investment has remained soft. Inflation, while increasing somewhat, remains below the FOMC’s 2% longer-run objective, partially reflecting earlier declines in energy prices and non-energy imports. Market-based measures of inflation compensation have moved up but remain low, and most survey-based measures of longer-term inflation expectations have hardly changed over the past few months. Consistent with its statutory mandate, the FOMC seeks to foster maximum employment and price stability. The FOMC expects that with gradual adjustments in the stance of monetary policy, economic activity will expand at a moderate pace and labor market indicators will strengthen. Inflation is expected to remain low in the near term, in part because of earlier declines in energy prices, but is expected to rise to 2% over the medium term as the transitory effects of past declines in energy and import prices dissipate and the labor markets strengthens further. Against this backdrop, the FOMC has left the target range unchanged 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. With the exception of the second quarter of 2016, when Urban Tax receipts surged, receipts have been mostly flat. Mortgage Recording Tax collections for the third quarter of 2016 were lower than the third quarter of 2015 by \$3.7 (3.2%); receipts in the third quarter of 2016 were \$0.1

(0.1%) lower than second quarter receipts. Despite the gradual overall recovery of MRT receipts that has occurred since 2012, average monthly receipts during the third quarter remain \$26.1 (41.1%) 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 through the third quarter of 2016 were lower by \$80.5 (11.0%). Quarterly receipts of Urban Taxes in the third quarter of 2016 totaled \$192.9, and the year-to-date monthly average was \$1.5 (2.1%) lower 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 nine months of 2016 totaled 231.0 million vehicles, which was 9.4 million crossings or 4.2% higher than the comparable period in 2015. The primary reason for the increase was generally favorable weather this year compared to last year, continued modest improvements in the regional economy and gas prices that have remained relatively low. There was also one additional day in 2016 due to leap year. The higher traffic volume, along with the toll increase implemented on March 22, 2015, pushed toll revenue up to \$1,405.6 through September, which was \$62.9 greater than last year at this time.

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 September 30, 2016 was 85.7% compared to 84.8% as of 2015. The average weekday market shares were 87.3% and 86.5% for the third quarter September 30, 2016 and 2015, respectively.

MTA New York City Transit - Total revenue from fares were \$3,293 for the nine months ended September 30, 2016, an increase of \$69 or 2.1% compared to the nine months ended September 30, 2015.

MTA Long Island Rail Road – Total operating revenues increased by \$17.3 or 3.1% for the first nine months of 2016 compared to the first nine months of 2015.

MTA Metro-North Railroad – During the first nine months of 2016, operating revenue increased by \$9.5 or 1.7% compared to the first nine months of 2015. During the same period of time, operating expenses decreased by \$6.6 or 0.6%. In addition, net position decreased by \$43.4 or 1.2% compared to December 31, 2015 due to non-operating revenues of \$509.7 offset by operating losses of \$553.1. During the first nine months of 2015, net position increased by \$46.0 or 1.2% compared to December 31, 2014 due to non-operating revenues of \$603.9 offset by operating losses of \$557.9.

Year-to-date 2016 fare revenue and ridership increased by 1.8% and 0.4%, 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 September 30, 2016 increased by 5.3% compared to September 30, 2015, from \$325.0 to \$342.2.

Capital Programs

At September 30, 2016, \$2,925 had been committed and \$478 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, and \$24,539 had been committed and \$16,291 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$24,000 had been committed and \$23,183 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 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 \$15,820 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; \$5,140 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,949 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$321 relates to Planning and Customer Service; \$376 relates to MTA Bus Company initiatives; and \$2,850 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities. On May 23, 2016, the CPRB deemed approved the revised 2015-2019 Capital Programs for the Transit and Commuter systems as submitted. The revised 2015-2019 MTA Bridges and Tunnels Capital Program, was approved by the MTA Board on April 20, 2016.

The combined funding sources for the revised 2015–2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, 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, \$6,875 in Federal Funds, \$2,492 from City Capital Funds, \$1,846 in pay-as-you-go (PAYGO) capital, \$600 from asset sale/leases, and \$562 from Other Sources.

At September 30, 2016, \$2,925 had been committed and \$478 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program.

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 MTA NEW YORK CITY TRANSIT portions of the 2010-2014 Capital Programs, and a change in the funding plan. On September 3, 2014, the CPRB deemed approved the amended 2010-2014 Capital Programs for the Transit and Commuter systems as submitted.

As last amended by the MTA Board in 2014, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program provided for \$34,801 in capital expenditures. By September 30, 2016, the 2010-2014 MTA Capital Programs budget increased by \$91 primarily due to additional work scope funded through additional grants. Of the \$34,892 now provided in capital expenditures, \$11,644 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; \$3,898 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; \$221 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, \$2,111 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 \$1,538 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 September 30, 2016, \$24,539 had been committed and \$16,291 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 September 30, 2016, the 2005-2009 MTA Capital Programs budget increased by \$787 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 \$24,504 now provided in capital expenditures, \$11,609 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; \$3,758 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$168 relates to certain interagency projects; \$7,689 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 \$1,319 from other sources.

At September 30 2016, \$24,000 had been committed and \$23,183 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The MTA’s Variable Rate Debt Portfolio

During the period ended September 30, 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 September 30, 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 in 2016 and by \$12 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 lower than was projected in the November Plan. Further, in 2015, \$104 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 of such funds would be invested, with the remaining \$70 balance used to address the combined effect of two of the above-described changes: the \$35 due to the change in the commuter rail overhead recovery and the \$36 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 projections have improved since the February Plan. The July Plan is forecasting year-end cash balances of \$200 in 2016, \$28 in 2017, \$68 in 2018 and \$7 in 2019, with a projected cash deficit of \$371 in 2020. It includes funding for all of the programs captured in the February Plan and also provides increased support for the capital program. In addition, the July Plan funds projects that will improve the customer experience, including additional service and service support. The Plan also funds important safety and security initiatives as well as investments in maintenance and operations.

The November Financial Plan (the “November Plan”)

The November Financial Plan (Plan) was presented for information purposes to the Board on November 16 and approved by the Board at its December 14 meeting. The November Plan captures the major assumptions that were first identified in the July Plan and also reflects favorable re-estimates of \$507 million over the plan period. The net favorable change is from lower projected costs for debt service, electricity and health& welfare. Projected revenue from passengers, tolls, PMT and MTA Aid are also favorable; but they are partially offset by lower real estate transaction tax receipts.

The Plan assumes fare and toll increases of 4% in 2017 and 2019. The 2017 increase is being changed from a 4% yield to a 4% price increase, saving customers \$94 million over the plan period. Some \$229 million of the \$756 million unspecified expense reduction target in the July Plan have been identified in November. The November Plan retains \$566 million in debt service savings to support the capital program. The Plan accelerates an additional \$80 million in Committed to Capital Contribution by four years, saving \$20 million in debt service over the plan period. The 2016 General Reserve of \$145 million will be used

to reduce the unfunded liability of the LIRR Additional Pension Plan, saving \$16 million per year starting in 2018. The November Plan provides for an additional \$395 million over the plan period for maintenance and operations (\$163 million), improvements to the customer experience (\$160 million, mainly \$149 million for Open Road Tolling), and service and service support (\$72 million). All together, these changes, re-estimates and recommendations result in a net improvement to MTA's financial forecast over the plan period and a reduction in the 2020 deficit. More specifically, the Plan projects ending cash balances of \$260 million in 2016, \$23 million in 2017, \$76 million in 2018, and \$32 million in 2019 with a projected cash deficit of \$319 million in 2020.

Tropical Storm Sandy Update

The total allocation of emergency relief funding from the FTA to MTA in connection with Superstorm Sandy to date is \$5.83 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, \$886, \$684.5, \$344 and \$787.6 respectively for repair/local priority resiliency; and three grants for competitive resiliency totaling \$77.9. As of September 30, 2016, MTA has drawn down a total of \$1.1 billion 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 \$2.85 billion of FTA allocated and appropriated emergency relief funding in Federal Fiscal Years 2016 and 2017.

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. MTA New York City Transit and the Doctors' Council signed an agreement on June 8, 2016. It runs from November 1, 2010 through May 31, 2018. The

agreement is consistent with the bargaining pattern. The Doctor's Council represents 17 physicians and Deputy Medical Directors. The contract is pending Board approval.

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).

DRAFT

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENT OF NET POSITION AS OF SEPTEMBER 30, 2016

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

(\$ In millions)

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash (Note 3)	\$ 304	\$ 454
Unrestricted investments (Note 3)	3,659	3,928
Restricted investments (Note 3)	3,944	1,519
Restricted investments held under capital lease obligations (Notes 3 and 9)	93	3
Receivables:		
Station maintenance, operation, and use assessments	100	121
State and regional mass transit taxes	1,045	153
Mortgage Recording Tax receivable	45	40
State and local operating assistance	147	13
Other receivable from New York City and New York State	232	249
Due from Build America Bonds	4	1
Capital project receivable from federal and state government	228	137
Other	210	241
Less allowance for doubtful accounts	(26)	(24)
Total receivables — net	1,985	931
Materials and supplies	581	582
Prepaid expenses and other current assets (Note 2)	172	173
Total current assets	10,738	7,590
NON-CURRENT ASSETS:		
Capital assets (Note 6):		
Land and construction work-in-progress	15,969	14,729
Other capital assets (net of accumulated depreciation)	47,486	46,659
Unrestricted investments (Note 3)	111	57
Restricted investments (Note 3)	376	357
Restricted investments held under capital lease obligations (Notes 3 and 9)	271	460
Other non-current receivables	420	496
Receivable from New York State	151	187
Other non-current assets	73	6
Total non-current assets	64,857	62,951
TOTAL ASSETS	75,595	70,541
DEFERRED OUTFLOWS OF RESOURCES:		
Accumulated decreases in fair value of derivative instruments (Note 8)	620	526
Loss on debt refunding	888	581
Deferred outflows related to pensions (Note 4)	1,167	1,033
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,675	2,140
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 78,270	\$ 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 SEPTEMBER 30, 2016

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

(\$ In millions)

	September 2016 (Unaudited)	December 31, 2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 452	\$ 393
Accrued expenses:		
Interest	580	210
Salaries, wages and payroll taxes	267	256
Vacation and sick pay benefits	898	880
Current portion — retirement and death benefits	39	15
Current portion — estimated liability from injuries to persons (Note 11)	430	444
Capital accruals	342	479
Other	762	560
Total accrued expenses	3,318	2,844
Current portion — long-term debt (Note 8)	2,144	2,587
Current portion — obligations under capital lease (Note 9)	18	9
Current portion — pollution remediation projects (Note 13)	24	26
Derivative fuel hedge liability (Note 15)	4	43
Unearned revenues	636	563
Total current liabilities	6,596	6,465
NON-CURRENT LIABILITIES:		
Net pension liability (Note 4)	7,704	7,704
Estimated liability arising from injuries to persons (Note 11)	2,694	2,439
Post employment benefits other than pensions (Note 5)	14,736	13,560
Long-term debt (Note 8)	38,078	34,483
Obligations under capital leases (Note 9)	395	510
Pollution remediation projects (Note 13)	75	74
Contract retainage payable	322	281
Derivative liabilities (Note 8)	518	433
Derivative liabilities with off market elements (Note 8)	108	100
Other long-term liabilities	313	307
Total non-current liabilities	64,943	59,891
Total liabilities	71,539	66,356
DEFERRED INFLOWS OF RESOURCES:		
Gain on debt refunding	30	32
Deferred Inflows related to pensions (Note 4)	459	460
TOTAL DEFERRED INFLOWS OF RESOURCES	489	492
NET POSITION:		
Net investment in capital assets	24,690	23,788
Restricted for debt service	1,485	487
Restricted for claims	214	142
Restricted for other purposes (Note 2)	918	1,051
Unrestricted	(21,065)	(19,635)
Total net position	6,242	5,833
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 78,270	\$ 72,681

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

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

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(\$ In millions)

	September 30, 2016 (Unaudited)	September 30, 2015
OPERATING REVENUES:		
Fare revenue	\$ 4,500	\$ 4,404
Vehicle toll revenue	1,405	1,343
Rents, freight, and other revenue	440	454
Total operating revenues	6,345	6,201
OPERATING EXPENSES:		
Salaries and wages	4,183	4,047
Retirement and other employee benefits	2,223	2,339
Postemployment benefits other than pensions (Note 5)	1,610	1,995
Electric power	308	373
Fuel	91	134
Insurance	(31)	36
Claims	214	251
Paratransit service contracts	288	284
Maintenance and other operating contracts	419	361
Professional service contracts	235	234
Pollution remediation projects (Note 13)	6	4
Materials and supplies	426	406
Depreciation	1,818	1,719
Other	129	142
Total operating expenses	11,919	12,325
Net expenses related to asset impairment (Note 7)	2	3
OPERATING LOSS	(5,576)	(6,127)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	469	397
Metropolitan Mass Transportation Operating Assistance subsidies	1,668	1,564
Payroll Mobility Tax subsidies	1,222	1,194
MTA Aid Trust Account subsidies	226	211
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	342	325
Urban Tax subsidies	590	759
Other subsidies:		
New York State Service Contract subsidy	5	7
Operating Assistance - 18-B program	376	376
Build America Bond subsidy	47	47
Total grants, appropriations and taxes	\$ 4,945	\$ 4,880

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

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

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(\$ In millions)

	September 30, 2016	September 30, 2015
	(Unaudited)	
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 89	\$ 91
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(4)
Interest on long-term debt	(1,100)	(1,058)
Station maintenance, operation and use assessments	121	120
Operating subsidies recoverable from NYC	370	329
Other net non-operating expenses	43	31
Change in fair value of derivative financial instruments (Note 8)	1	1
Net non-operating revenues	<u>4,465</u>	<u>3,440</u>
LOSS BEFORE APPROPRIATIONS	(1,111)	(1,737)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,520</u>	<u>1,467</u>
CHANGE IN NET POSITION	409	(270)
NET POSITION— Beginning of period	<u>5,833</u>	<u>13,282</u>
NET POSITION — End of period	<u>\$ 6,242</u>	<u>\$ 13,012</u>

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

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(\$ In millions)

	September 30, 2016	September 30, 2015
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 6,174	\$ 6,032
Rents and other receipts	279	270
Payroll and related fringe benefits	(6,829)	(6,418)
Other operating expenses	<u>(2,113)</u>	<u>(2,312)</u>
Net cash used by operating activities	<u>(2,489)</u>	<u>(2,428)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	4,362	4,433
Operating subsidies from CDOT	92	101
Subsidies paid to Dutchess, Orange, and Rockland Counties	<u>(6)</u>	<u>(5)</u>
Net cash provided by noncapital financing activities	<u>4,448</u>	<u>4,529</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	5,704	3,219
MTA Bridges and Tunnels bond proceeds	642	814
MTA bonds refunded/reissued	(2,604)	(1,249)
MTA Bridges and Tunnels bonds refunded/reissued	(288)	(610)
MTA anticipation notes proceeds	1,419	2,847
MTA anticipation notes redeemed	(1,643)	(2,394)
MTA credit facility refunded	-	(300)
Capital lease payments and terminations	(1)	(1)
Grants and appropriations	1,425	1,441
Payment for capital assets	(3,688)	(3,208)
Debt service payments	<u>(999)</u>	<u>(1,069)</u>
Net cash used by capital and related financing activities	<u>(33)</u>	<u>(510)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(8,648)	(5,632)
Sales or maturities of long-term securities	6,008	4,052
Net purchases of short-term securities	539	127
Earnings on investments	<u>25</u>	<u>15</u>
Net cash used by investing activities	<u>(2,076)</u>	<u>(1,438)</u>
NET (DECREASE)/INCREASE IN CASH	(150)	153
CASH — Beginning of period	<u>454</u>	<u>311</u>
CASH — End of period	<u>\$ 304</u>	<u>\$ 464</u>

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

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2016 AND 2015

(\$ In millions)

	September 30, 2016	September 30, 2015
	(Unaudited)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (5,576)	\$ (6,127)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,818	1,719
Loss on asset impairment related expenses and recovery	-	3
Net increase in payables, accrued expenses, and other liabilities	1,159	1,962
Net decrease (increase) in receivables	39	(34)
Net increase in materials and supplies and prepaid expenses	71	49
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (2,489)</u>	<u>\$ (2,428)</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Noncash investing activities:		
Interest expense includes amortization of net (premium) / discount	\$ 761	\$ 131
Interest expense which was capitalized	38	34
Total Noncash investing activities	<u>799</u>	<u>165</u>
Noncash capital and related financing activities:		
Capital assets related liabilities	342	\$ 486
Capital leases related liabilities	413	504
Total Noncash capital and related financing activities	<u>755</u>	<u>990</u>
TOTAL NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,554</u>	<u>\$ 1,155</u>

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

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METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

**NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS
AS OF SEPTEMBER 30, 2016 AND DECEMBER 31, 2015 AND
FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 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 September 30, 2016 and 2015 totaled \$4.9 billion and \$4.9 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 MTA 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 —

For the September 30, 2016 reporting period, the MTA adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which requires additional disclosures related to the hierarchy of valuation inputs and valuation techniques. GASB Statement No. 72 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. GASB Statement No. 72 requires that the MTA use valuation techniques that are either a market approach, a cost approach, or an income approach. This Statement also establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included in Level 1, that are observable for assets or liabilities, either directly or indirectly. Level 3 inputs are unobservable inputs. The adoption of GASB Statement No. 72 resulted in a decrease of \$17 in the fair value of the derivative liability instruments as of December 31, 2015. The MTA has determined that this was not a material impact to restate the December 31, 2015 financial statements. Certain changes were also made to the footnotes to the consolidated interim financial statements including additional disclosures related to the hierarchy of valuation inputs and valuation techniques.

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 inter-period 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 that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement No. 67 or for pensions that are within the scope of Statement No. 68 are effective for fiscal years beginning after June 15, 2015.

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, and 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 certain criteria. 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. 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 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 MTA has determined that GASB Statement No. 76 had no impact on its financial position, results of operations, and cash flows.

The MTA has 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. No additional disclosures are required.

The MTA has 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 MTA has determined that GASB Statement No. 78 had no impact on its financial position, results of operations, and cash flows.

The MTA has 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—an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations ("AROs"). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. This Statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The best estimate should include probability weighting of all potential outcomes, when such information is available or can be obtained at reasonable cost. If probability weighting is not feasible at reasonable cost, the most likely amount should be used. This Statement requires that a deferred outflow of resources associated with an ARO be measured at the amount of the corresponding liability upon initial measurement. This Statement requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually. In addition, it requires a government to evaluate all relevant factors at least annually to determine whether the effects of one or more of the factors are expected to significantly change the estimated asset retirement outlays. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

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 — Effective for the period ended September 30, 2016, the MTA adopted GASB Statement No. 72, *Fair Value Measurement and Application*, which addresses accounting and financial reporting issues related to fair value measurements. Under the Statement, investment assets and liabilities are to be measured at fair value, which is described as the “price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.” Fair Value assumes that the transaction will occur in the MTA’s principal (or most advantageous) market. GASB Statement No. 72 requires a government to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value.

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

Investments expected to be utilized within a year of September 30th or December 31st have been classified as current assets in the consolidated interim financial statements.

Investments are recorded on the consolidated interim statement of net position at fair value, except for commercial paper, certificates of deposit, and repurchase agreements, which are recorded at amortized cost or contract 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 September 30, 2016 and December 31, 2015.

Investment derivative contracts are reported at fair value using the income approach.

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 September 30, 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 September 30, 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 September 30, 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), SIRTOA 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 MTA 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.

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 MTA for the full costs of the free/reduced fare program for students (the Student Fare Program). Beginning in 1996, the State and NYC each began paying \$45 per annum to the MTA toward the cost of the program. In 2009, the State reduced its \$45 reimbursement to \$6.3. Beginning in 2010, the State increased its annual commitment to \$25.3 while NYC's annual commitment remained at \$45. These commitments have been met by both the State and NYC for 2015. In addition, NYC prepaid \$30 of the 2016 total year amount of \$45 in 2016 with the remaining \$15 for 2016 to be paid in December 2016.

Prior to April 1995, The City was obligated to reimburse the MTA 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 MTA 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 MTA 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 MTA received approximately \$4.1 and \$4.1 for the nine months ended September 30, 2016 and 2015, respectively for the reimbursement of transit police costs.

MTAHQ bills MTA Metro-North Railroad through its consolidated services for MTA police costs in the New Haven line of which MTA Metro-North Railroad recovers approximately 65% from Connecticut Department of Transportation. The amounts billed for the periods ended September 30, 2016 and 2015 were \$15.6 and \$10.3, respectively. The amounts recovered for the periods ended September 30, 2016 and 2015 were approximately \$10.1 and \$6.7, 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 \$150.0 and \$159.0 for the periods ended September 30, 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 September 30, 2016, the balance of the assets in this program was \$116.5.

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

On March 1, 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, 2016, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2016, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 per occurrence deductible, subject to an annual \$75 aggregate deductible. The total All Risk program annual limit is \$800 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 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 per occurrence coverage noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$200 of fully collateralized storm surge coverage for losses from storm surges that surpass specified trigger levels in the New York Harbor or Long Island Sound and

are associated with named storms that occur at any point in the three-year period from July 31, 2013 to July 30, 2016. The expanded protection is reinsured by MetroCat Re Ltd., a Bermuda special purpose insurer independent from MTA and formed to provide FMTAC with capital markets-based property reinsurance. The MetroCat Re reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is available for storm surge losses only after amounts available under the \$800 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 in 2016, \$140 in 2017 and \$160 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 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 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 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 and less than the \$120 TRIPRA trigger up to a maximum recovery of \$120 for any occurrence and in the annual aggregate during 2016, or 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$140 TRIPRA trigger up to a maximum recovery of \$140 for any occurrence and in the annual aggregate during 2017 or 100% of any “certified” terrorism loss which exceeds \$5 and less than the \$160 TRIPRA trigger up to a maximum recovery of \$160 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 in 2016, \$182.75 in 2017 and \$193.5 in 2018. Recovery under the terrorism policy is subject to a deductible of \$25 per occurrence and \$75 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 future losses in that policy year are subject to a deductible of \$7.5. 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.

The GASB has not issued guidance on how to account for pension liabilities and related deferrals for interim financial reporting. The MTA has elected to record as pension expense the applicable first nine months of 2015 employer contributions made to the pension plans subsequent to the measurement of the net pension liability, which were recorded as deferred outflows for the year-ended December 31, 2015. In turn, any contributions made in the first nine months of 2016 were recorded as deferred outflows.

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

3. CASH AND INVESTMENTS

Cash - 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. The bank balance consists of the following at September 30, 2016 and December 31, 2015 (in millions):

	September 30, 2016 (Unaudited)	December 31, 2015
FDIC insured or collateralized deposits	\$ 176	\$ 168
Uninsured and not collateralized	71	231
Total Bank Balance	<u>\$ 247</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.

Investments - 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.

The MTA categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The MTA had the following recurring fair value measurements as of September 30, 2016 and December 31, 2015 (in millions):

Investments by fair value level	September 30, 2016	Fair Value Measurements		December 31, 2015	Fair Value Measurements	
	(Unaudited)	Level 1 (Unaudited)	Level 2 (Unaudited)		Level 1	Level 2
Debt Securities:						
U.S. treasury securities	\$ 4,408	\$ 4,408	\$ -	\$ 3,007	\$ 3,007	\$ -
U.S. government agency	697	175	523	870	45	825
Commercial paper	2,206	-	2,206	1,551	-	1,551
Asset-backed securities	27	27	-	27	27	-
Commercial mortgage-backed securities	35	35	-	45	45	-
Foreign bonds	14	14	-	11	11	-
Corporate bonds	154	154	-	153	153	-
Tax Benefit Lease Investments:						
U.S. treasury securities	180	180	-	174	174	-
U.S. government agency	103	-	103	95	-	95
Repurchase agreements	486	486	-	172	172	-
Money Market Funds	6	-	6	82	-	82
Total debt securities	8,316	5,479	2,838	6,187	3,634	2,553
Equity securities	20	20	-	19	19	-
Total investments by fair value level	8,336	\$ 5,499	\$ 2,838	6,206	\$ 3,653	\$ 2,553
Other	118			118		
Total Investments	\$ 8,454			\$ 6,324		

Investments classified as Level 1 of the fair value hierarchy, totaling \$5,499 and \$3,653 as of September 30, 2016 and December 31, 2015, respectively, are valued using quoted prices in active markets. 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.

U.S. Government agency securities totaling \$626 and \$920, commercial paper totaling \$2,206 and \$1,551, and money market instruments totaling \$6 and \$82, as of September 30, 2016 and December 31, 2015, respectively, classified in Level 2 of the fair value hierarchy, are valued using matrix pricing techniques maintained by a third party pricing service. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices and indices. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from a third party pricing service or our custodian bank.

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

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 0.40% and 0.51% for the nine months ended September 30, 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 September 30, 2016 and December 31, 2015 (in millions):

	September 30, 2016 (Unaudited)	December 31, 2015
Construction or acquisition of capital assets	\$ 4,379	\$ 3,230
Funds received from affiliated agencies for investment	430	605
Debt service	1,559	488
Payment of claims	601	735
Restricted for capital leases	364	464
Other	398	527
	<u>7,731</u>	<u>6,049</u>
Unrestricted funds	1,027	729
Total cash and investments	<u>\$ 8,758</u>	<u>\$ 6,778</u>

Credit Risk — At September 30, 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	September 30, 2016 (Unaudited)	Percent of Portfolio	December 31, 2015	Percent of Portfolio
A-1+	\$ 523	6 %	\$ 739	12 %
A-1	2,206	27	1,551	25
AAA	92	1	112	2
AA+	40	1	40	1
AA	29	0	27	0
A	95	1	91	2
BB	50	1	-	-
BBB	22	0	51	1
Not rated	580	7	180	3
U.S. Government	<u>4,681</u>	56	<u>3,322</u>	<u>54</u>
Total	8,318	100 %	6,113	100 %
Equities and capital leases	<u>136</u>		<u>211</u>	
Total investment	<u>\$ 8,454</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	September 30, 2016 (Unaudited)		December 31, 2015	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)
U.S. Treasuries	\$ 4,408	4.71	\$ 3,007	4.55
Federal Agencies	699	2.69	708	0.02
Other Agencies	-	-	162	3.34
Tax benefits lease investments	281	6.89	269	9.66
Repurchase agreement	486	-	172	-
Certificate of deposits	6	-	6	-
Commercial paper	2,206	-	1,551	-
Asset-backed securities ⁽¹⁾	27	0.97	27	0.99
Commercial mortgage-backed securities ⁽¹⁾	35	2.65	45	1.87
Foreign bonds ⁽¹⁾	14	0.01	11	0.01
Corporates ⁽¹⁾	<u>154</u>	<u>2.56</u>	<u>153</u>	<u>2.96</u>
Total fair value	8,316		6,111	
Modified duration		3.02		2.90
Equities ⁽¹⁾	<u>20</u>		<u>19</u>	
Total	8,336		6,130	
Investments with no duration reported	<u>118</u>		<u>194</u>	
Total investments	<u>\$ 8,454</u>		<u>\$ 6,324</u>	

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

MTA is a public benefit corporation established under the New York Public Authorities Law. MTA's Treasury Division is responsible for the investment management of the funds of the 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) (MTA Bridges and Tunnels);
- 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.

- | | |
|--------|--|
| 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.

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, 57/25 Plan 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 (whole dollars).

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 June 30.

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	\$ 1,602,159	\$ 782,852	\$ 819,307	\$ 3,331,464	\$ 2,265,293	\$ 1,066,171

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

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

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

	Current		
	1% Decrease (6.0%)	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:

	Current Discount		
	1% Decrease (3.5%)	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		
	Current Discount		
	1% Decrease (6.0%)	Rate (7.0%)	1% Increase (8.0%)
	(in thousands)		
NYCERS	\$ 6,602,050	\$ 4,773,787	\$ 3,075,494

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

	Proportionate Share of the Net Pension Liability		
	Current Discount		
	1% Decrease (6.5%)	Rate (7.5%)	1% Increase (8.5%)
	(in thousands)		
NYSLERS	\$ 65,107	\$ 9,768	\$ (36,952)

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

For the period ended September 30, 2016 and year ended December 31, 2015, the MTA recognized pension expense related to each pension plan as follows (in \$ thousands):

Pension Plan	September 30, 2016	December 31, 2015
	(Unaudited)	
Additional Plan	\$ 87,435	\$ 77,482
MaBSTOA Plan	163,158	134,139
MNR Cash Balance plan	-	1
MTA Defined Benefit Plan	176,190	188,621
NYCERS	534,572	451,016
NYSLERS	11,843	8,774
Total	\$ 973,198	\$ 860,033

For the period ended September 30, 2016 and year ended December 31, 2015, the MTA reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in \$ thousands):

For the Period Ended September 30, 2016 (Unaudited)	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
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	142,531	-	212,171	-	-	-	249,188	-
Total	\$ 157,337	\$ -	\$ 247,020	\$ 1,329	\$ -	\$ 8	\$ 342,630	\$ 13,395

**For the Period Ended
September 30, 2016**

	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	446,386	-	15,792	-	1,066,068	-
Total	\$ 401,857	\$ 444,367	\$ 17,802	\$ 265	\$ 1,166,647	\$ 459,364

**For the Year Ended
December 31, 2015**

	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

**For the Year Ended
December 31, 2015**

	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	\$ 335,698	\$ 444,367	\$ 17,802	\$ 265	\$ 1,033,187	\$ 459,364

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

\$1,066.1 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 ending December 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2015 will be recognized as pension expense as follows:

	<u>Additional Plan</u>	<u>MaBSTOA Plan</u>	<u>MNR Cash Balance plan</u>	<u>MTA Defined Benefit Plan</u>	<u>NYCERS</u>	<u>NYSLERS</u>	<u>Total</u>
	(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 into an OPEB Trust ("Trust") allocated between MTA Headquarters and MTA New York City Transit and funded an additional \$50 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 24 months prior to the beginning of the 2016 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, 2016)

	MTA New York City Transit	MTA Long Island Rail Road	MTA Metro-North Railroad	MTA Bridges & Tunnels	MTAHQ	MTA Long Island Bus *	MTA Staten Island Railway	MTA Bus Company	Total
Active Members									
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
Retirees									
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	30,967	5,432	3,803	1,316	515	830	95	1,686	44,644
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, Vesteers (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vesteers are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vesteers based on age at valuation date.

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

The following table shows the elements of the MTA's annual OPEB cost for the year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the periods ended September 30, 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)	September 30, 2016 (Unaudited)	December 31, 2015
Annual required contribution ("ARC")	\$ 2,180.5	\$ 2,673.8
Interest on net OPEB obligation	356.0	422.3
Adjustment to ARC	<u>(926.7)</u>	<u>(1,098.9)</u>
OPEB cost	1,609.8	1,997.2
Payments made	<u>(434.1)</u>	<u>(503.4)</u>
Increase in net OPEB obligation	1,175.7	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>\$ 14,735.8</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 September 30, 2016 (in millions):

	Balance December 31, 2014	Additions	Deletions	Balance December 31, 2015	Additions (Unaudited)	Deletions (Unaudited)	Balance September 30, 2016 (Unaudited)
Capital assets not being depreciated:							
Land	\$ 199	\$ 9	\$ -	\$ 208	\$ 2	\$ -	\$ 210
Construction work-in-progress	11,998	4,969	2,446	14,521	4,019	2,781	15,759
Total capital assets not being depreciated	12,197	4,978	2,446	14,729	4,021	2,781	15,969
Capital assets being depreciated:							
Buildings and structures	16,773	558	91	17,240	234	-	17,474
Bridges and tunnels	2,527	144	-	2,671	42	-	2,713
Equipment:	-	-	-	-	-	-	-
Passenger cars and locomotives	13,800	216	60	13,956	95	3	14,048
Buses	2,717	492	-	3,209	218	-	3,427
Infrastructure	20,292	719	173	20,838	700	-	21,538
Other	18,227	814	478	18,563	1,355	8	19,910
Total capital assets being depreciated	74,336	2,943	802	76,477	2,644	11	79,110
Less accumulated depreciation:							
Buildings and structures	5,804	474	4	6,274	348	-	6,622
Bridges and tunnels	496	24	-	520	20	-	540
Equipment:	-	-	-	-	-	-	-
Passenger cars and locomotives	6,072	454	57	6,469	315	3	6,781
Buses	1,559	238	(4)	1,801	166	-	1,967
Infrastructure	7,501	647	16	8,132	472	-	8,604
Other	6,041	607	26	6,622	497	9	7,110
Total accumulated depreciation	27,473	2,444	99	29,818	1,818	12	31,624
Total capital assets being depreciated — net	46,863	499	703	46,659	826	(1)	47,486
Capital assets — net	\$ 59,060	\$ 5,477	\$ 3,149	\$ 61,388	\$ 4,847	\$ 2,780	\$ 63,455

Interest capitalized in conjunction with the construction of capital assets for the periods ended September 30, 2016 and December 31, 2015 was \$37.6 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 September 30, 2016 and December 31, 2015, these securities, which are not included in these financial statements, totaled \$116.9 and \$99.6, respectively, and had a market value of \$72.3 and \$87.8, respectively.

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 September 30, 2016 and 2015 are \$726 and \$723, respectively, of which \$1 and \$0 were incurred during the periods ended September 30, 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 \$393 and \$468 as of September 30, 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 September 30, 2016 and 2015, MTA received \$335 and \$188, 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, the total allocation of emergency relief funding from the FTA to MTA in connection with Superstorm Sandy is \$5.83 billion, including \$1.599 billion allocated on September 22, 2014, through a competitive resiliency program, and \$432 in additional repair and recovery funding allocated on June 29, 2016. The June 2016 Federal Register notice of additional repair and recovery funds also permitted the MTA to request a one-time reallocation of a portion of its total competitive resiliency and locally prioritized allocations from resiliency to repair. On December 1, 2016, the FTA approved MTA's request to reallocate \$335 from resiliency to cover repair needs; the total allocation of emergency relief funding is unchanged. 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 pertain to MTA Metro-North Railroad. On February 3, 2015, an MTA Metro-North Railroad Harlem Line train struck an automobile in a highway-rail grade crossing between the Valhalla and Hawthorne stations. For the periods ended September 30, 2016 and 2015, asset impairment expenses were \$1 and \$3, respectively.

8. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2015	Issued (Unaudited)	Retired (Unaudited)	September 30, 2016 (Unaudited)
MTA:					
Transportation Revenue Bonds					
1.37%–6.68% due through 2056	\$ 31,240	\$ 20,728	\$ 2,467	\$ 1,472	\$ 21,723
Bond Anticipation Notes					
2.0% due through 2018	3,400	1,700	1,400	1,640	1,460
State Service Contract Bonds					
4.125%–5.70% due through 2031	2,395	218	-	73	145
Dedicated Tax Fund Bonds					
2.05%–5.00% due through 2040	10,046	4,857	1,168	862	5,163
Certificates of Participation					
5.30%–5.625% due through 2030	807	71	-	-	71
	47,888	27,574	5,035	4,047	28,562
Net unamortized bond discount and premium		564	699	18	1,245
	47,888	28,138	5,734	4,065	29,807
TBTA:					
General Revenue Bonds					
1.83%–5.85% due through 2050	12,387	6,750	541	293	6,998
Subordinate Revenue Bonds					
2.39%–5.34% due through 2032	3,958	1,584	-	34	1,550
	16,345	8,334	541	327	8,548
Net unamortized bond premium		598	106	26	678
	16,345	8,932	647	353	9,226
MTA Hudson Rail Yards Trust:					
MTA Hudson Rail Yards Trust Obligations					
1.88%–2.65% due through 2056	1,057	-	1,057	-	1,057
Net unamortized bond premium		-	132	-	132
	1,057	-	1,189	-	1,189
Total	\$ 65,290	\$ 37,070	\$ 7,570	\$ 4,418	\$ 40,222
Current portion		<u>\$ 2,587</u>			<u>\$ 2,144</u>
Long-term portion		<u>\$ 34,483</u>			<u>\$ 38,078</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
	43,753	25,767	4,763	2,956	27,574
Unamortized bond premium		419	314	169	564
	43,753	26,186	5,077	3,125	28,138
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	-
	17,102	8,396	290	352	8,334
Unamortized bond premium		561	54	17	598
	17,102	8,957	344	369	8,932
Total	\$ 60,855	\$ 35,143	\$ 5,421	\$ 3,494	\$ 37,070
Current portion		\$ 983			\$ 2,587
Long-term portion		\$ 34,160			\$ 34,483

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 \$782.520 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 May 9, 2016, MTA effectuated a mandatory tender and remarketed \$50.0 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 will remain in Term Rate Mode as Floating Rate Tender Notes with a purchase date of June 1, 2019.

On June 30, 2016, MTA issued \$673.990 of MTA Transportation Revenue Refunding Bonds, Series 2016B. The proceeds from the transaction were used to refund \$341.610 of Transportation Revenue Bonds, Series 2007A; \$250.500 of Transportation Revenue Bonds, Series 2007B; and \$165.645 of Transportation Revenue Bonds, Series 2008A. The Series 2016B bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2037.

On July 28, 2016, MTA issued \$863.860 of MTA Transportation Revenue Refunding Bonds, Series 2016C, to retire the MTA Transportation Revenue Bonds Anticipation Notes, Subseries 2015B-1, which were issued by MTA for transit and commuter projects, and to refinance \$84.370 of MTA Transportation Revenue Bonds, Series 2007B and \$263.885 of MTA Transportation Revenue Bonds, Series 2008A. The Series 2016C bonds were issued as \$534.200 Transportation Revenue Bonds, Subseries 2016C-1; \$56.120 Transportation Revenue Bonds, Subseries 2016C-2a and \$273.540 Transportation Revenue Bonds, Subseries 2016C-2b. The Subseries 2016C-1 and Subseries 2016C-2a bonds were both issued as tax-exempt fixed-rate bonds with final maturities of November 15, 2039 and November 15, 2038, respectively. The Subseries 2016C-2b bonds were issued as tax-exempt mandatory tender bonds with a mandatory purchase date (defined as the purchase date of February 15, 2020, the optional purchase date which is no earlier than February 15, 2020, and the mode change date which shall not be prior to the earliest possible optional purchase date) and a final maturity date of November 15, 2034.

On September 20, 2016, the MTA received a \$146.5 advance from the Federal Railroad Administration under a \$957.1 financing agreement entered on May 5, 2015 with the United States, represented by the Secretary of Transportation, acting through the Federal Railroad Administrator, to finance costs incurred by the MTA in connection with the installation of the federally required Positive Train Control Systems on its commuter rail tracks. Security for repayment of the advance is through Transportation Revenue Bonds.

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 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.

On June 28, 2016, MTA issued \$700 of Dedicated Tax Fund 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 June 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 \$145. 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.

On May 26, 2016, MTA issued \$588.3 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 \$500.0 and to refund \$109.5 of Dedicated Tax Fund Bonds, Series 2009A and \$82.6 of Dedicated Tax Fund Bonds, Series 2009B. The Series 2016B bonds were issued as \$413.4 Dedicated Tax Fund Green Bonds, Subseries 2016B-1 and \$174.9 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.

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 MTA Bridges and Tunnels General Revenue Bonds, Series 2006A;

\$78.490 MTA Bridges and Tunnels General Revenue Bonds, Series 2007A; \$31.925 MTA Bridges and Tunnels General Revenue Bonds, Series 2008B; \$26.150 MTA Bridges and Tunnels General Revenue Bonds, Series 2008C; \$5.040 MTA Bridges and Tunnels General Revenue Bonds, Series 2009A; \$34.990 MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2011A; \$11.665 MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2012A; \$4.970 MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2013C; and \$1.505 MTA Bridges and Tunnels 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.

MTA Hudson Rail Yards Trust Obligations — The MTA Hudson Rail Yards Trust Obligations, Series 2016A ("Series 2016A Obligations") were executed and delivered on September 22, 2016 by Wells Fargo Bank National Association, as Trustee ("Trustee"), to (i) retire the outstanding Transportation Revenue Bond Anticipation Notes, Series 2016A of the MTA, which were issued to provide interim financing of approved capital program transit and commuter projects, (ii) finance approved capital program transit and commuter projects of the affiliates and subsidiaries of the MTA, (iii) fund an Interest Reserve Requirement in an amount equal to one-sixth (1/6) of the greatest amount of Interest Components (as hereinafter defined) in the current or any future year, (iv) fund a portion of the Capitalized Interest Fund requirement, and (v) finance certain costs of issuance.

Pursuant to the Financing Agreement (as hereinafter defined), the MTA has agreed to pay to, or for the benefit of, the Trustee the "MTA Financing Agreement Amount," consisting of principal and interest components. The Series 2016A Obligations evidence the interest of the Owners thereof in such MTA Financing Agreement Amount payable by the MTA pursuant to the Financing Agreement. The principal amount of the Series 2016A Obligations represent the principal components of the MTA Financing Agreement Amount ("Principal Components") and the interest represent the interest components of the MTA Financing Agreement Amount ("Interest Components"). The Series 2016A Obligations (and the related Principal Components and Interest Components) are special limited obligations payable solely from the Trust Estate established under the MTA Hudson Rail Yards Trust Agreement, dated as of September 1, 2016 ("Trust Agreement"), by and between the MTA and the Trustee.

The Trust Estate consists principally of (i) the regularly scheduled rent, delinquent rent or prepaid rent ("Monthly Ground Rent") to be paid by Ground Lease Tenants (the tenants under the Western Rail Yard Original Ground Lease and each Severed Parcel Ground Lease of the Eastern Rail Yard) of certain parcels being developed on and above the Eastern Rail Yard and Western Rail Yard portions of the John D. Caemmerer West Side Yards ("Hudson Rail Yards") currently operated by The Long Island Rail Road Company ("LIRR"), (ii) monthly scheduled transfers from the Capitalized Interest Fund during the limited period that the Monthly Ground Rent is abated under the applicable Ground Lease, (iii) payments made by the Ground Lease Tenants if they elect to exercise their option to purchase the fee interest in such parcels ("Fee Purchase Payments"), (iv) Interest Reserve Advances and Direct Cost Rent Credit Payments (collectively "Contingent Support Payments") made by the MTA, (v) rights of the MTA to exercise certain remedies under the Ground Leases and (vi) rights of the Trustee to exercise certain remedies under the Ground Leases and the Fee Mortgages.

Pursuant to the Interagency Financing Agreement, dated as of September 1, 2016 ("Financing Agreement"), by and among the MTA, New York City Transit Authority, Manhattan and Bronx Surface

Transit Operating Authority, LIRR, Metro-North Commuter Railroad Company, and MTA Bus Company (collectively, the “Related Transportation Entities”), and the Trustee, the MTA has agreed to pay to the Trustee the MTA Financing Agreement Amount with moneys provided by the Financing Agreement Payments (which are principally the revenues within the Trust Estate) and Interest Reserve Advances. The MTA has established a deposit account with Wells Fargo Bank, National Association, as depository (“Depository”), and the MTA will direct all Ground Lease Tenants to make Monthly Ground Rent and Fee Purchase Payments (payments made by the Ground Lease Tenants if they elect to exercise their option to purchase the fee interest in such parcels) directly to the Depository, which deposits will be transferred daily to the Trustee. In addition, in the event the MTA elects to exercise certain Authority Cure Rights upon the occurrence of a Ground Lease Payment Event of Default or is required to make certain Direct Cost Rent Credit Payments, the MTA will make all payments relating to defaulted and future Monthly Ground Rent directly to the Depository.

Refer to Note 9 for further information on Leases.

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 \$55,497 compared with issuances totaling approximately \$33,149. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

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

At September 30, 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)	September 30, 2016 (Unaudited)	December 31, 2015
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 208	\$ 219
Commuter Facilities Revenue Bonds	214	230
Transit and Commuter Facilities Service Contract Bonds	65	128
Dedicated Tax Fund Bonds	80	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>\$ 1,459</u>	<u>\$ 1,835</u>

For the nine months ended September 30, 2016, MTA refunding transactions decreased aggregate debt service payments by \$578 and provided an economic gain of \$448. During the nine months ended September 30, 2015, MTA refunding transactions decreased aggregate debt service payments by \$231 and provided an economic gain of \$167. For the nine months ended September 30, 2016 and 2015, the accounting loss on bond refundings totaled \$399 and \$44, respectively.

Unamortized losses related to bond refundings were as follows:

(In millions)	December 31, 2014		December 31, 2015		September 30, 2016	
		Net increase/ (decrease)		Net increase/ (decrease)		
(Unaudited)						
MTA:						
Transportation Revenue Bonds	\$ 267	\$ 68	\$ 335	\$ 182	\$ 517	
State Service Contract Bonds	(2)	(3)	(5)	(1)	(6)	
Dedicated Tax Fund Bonds	108	(7)	101	117	218	
	373	58	431	298	729	
TBTA:						
General Revenue Bonds	127	(11)	116	18	134	
Subordinate Revenue Bonds	35	(1)	34	(9)	25	
	162	(12)	150	9	159	
Total	\$ 535	\$ 46	\$ 581	\$ 307	\$ 888	

Debt Service Payments — Future principal and interest debt service payments at September 30, 2016 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal (Unaudited)	Interest	Principal (Unaudited)	Interest	Principal (Unaudited)	Interest
2016	\$ 1,934	\$ 1,463	\$ 210	\$ 184	\$ 2,144	\$ 1,647
2017	1,639	1,352	291	373	1,930	1,725
2018	742	1,305	325	359	1,067	1,664
2019	740	1,260	338	345	1,078	1,605
2020	682	1,218	343	329	1,025	1,547
2021-2025	4,400	5,479	1,847	1,402	6,247	6,881
2026-2030	5,492	3,934	2,285	924	7,777	4,858
2031-2035	5,520	2,871	1,634	485	7,154	3,356
2036-2040	5,272	1,443	963	198	6,235	1,641
2041-2045	1,729	393	234	51	1,963	444
2046-2050	477	166	78	10	555	176
Thereafter	992	58			992	58
	<u>\$ 29,619</u>	<u>\$ 20,942</u>	<u>\$ 8,548</u>	<u>\$ 4,660</u>	<u>\$ 38,167</u>	<u>\$ 25,602</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 September 30, 2016 and December 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 Revent	2001B	N	State Street	LOC	9/28/2018
MTA Bridges and Tunnels General Revent	2001C	N	Bank of Tokyo Mitsubishi	SBPA	8/17/2018
MTA Bridges and Tunnels General Revent	2002F	Y	Helaba	SBPA	11/1/2018
MTA Bridges and Tunnels General Revent	2003B-1	N	PNC Bank	LOC	1/26/2018
MTA Bridges and Tunnels General Revent	2003B-3	N	Wells Fargo	LOC	1/26/2018
MTA Bridges and Tunnels General Revent	2005A	Y	TD Bank	LOC	1/28/2020
MTA Bridges and Tunnels General Revent	2005B-2	Y	Wells Fargo	LOC	1/26/2018
MTA Bridges and Tunnels General Revent	2005B-3	Y	Bank of Tokyo Mitsubishi	LOC	6/29/2018

Derivative Instruments — Fair value for the swaps is calculated in accordance with GASB Statement No. 72, utilizing the income approach and Level 2 inputs. It incorporates the mid-market valuation, nonperformance risk of either MTA/MTA Bridges and Tunnels or the counterparty, as well as bid/offer. 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.

The fair value balances and notional amounts of derivative instruments outstanding at September 30, 2016 and December 31, 2015, 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**Summary Information**

(in \$ millions)

(in \$ millions)						As of September 30, 2016	
Bond Resolution Credit	Underlying Bond Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	Notional Amount	Fair Value
(Unaudited)							
Investment Swaps							
2 Broadway Certificate of Participation	2004A	Libor Fixed Payer	N/a	N/a	4/1/2016	\$ 70.500	\$ (5.399)
Cashflow Hedges							
MTA Bridges and Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	192.200	(47.270)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	576.600	(141.810)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Dollar Offset	4/1/2016	23.230	(4.803)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	Libor Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	55.800	(4.003)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	331.020	(71.968)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(88.998)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	400.000	(102.086)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	357.850	(117.606)
MTA Bridges and Tunnels Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	155.815	(20.346)
MTA Bridges and Tunnels Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	46.555	(21.482)
Total						\$ 2,409.570	\$ (625.771)

Derivative Instruments**Summary Information**

(in \$ millions)

(in \$ millions)						As of December 31, 2015	
Bond Resolution Credit	Underlying Bond Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	Notional Amount	Fair Value
Investment Swaps							
2 Broadway Certificate of Participation	2004A	Libor Fixed Payer	N/a	N/a	8/10/2004	\$ 84.675	\$ (6.177)
Cashflow Hedges							
MTA Bridges and Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	193.100	(37.154)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	579.300	(111.462)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	1/1/2011	23.520	(4.283)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	Libor Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	76.150	(8.055)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	331.020	(61.257)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(79.045)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	400.000	(88.624)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	357.850	(99.160)
MTA Bridges and Tunnels Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	1/1/2011	169.070	(20.055)
MTA Bridges and Tunnels Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	1/1/2011	35.835	(17.245)
Total						\$ 2,450.520	\$ (532.518)

	Changes In Fair Value		Fair Value at September 30, 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	\$ (94.031)	Debt	\$ (620.372)	\$ 2,339.070
Investment hedges:					
Pay-fixed interest rate swaps	Unrealized investment loss	0.778	Debt	(5.399)	70.500

For the nine-month period ended September 30, 2016, the MTA recorded \$0.778 as an unrealized gain related to the change in fair market value of certain investment swaps that are not accounted for as hedging derivatives.

For the nine-month period ended September 30, 2016, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

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 and MTA Bridges and Tunnels have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA and MTA Bridges and Tunnels 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.

Terms and Fair Values. The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels are reflected in the following tables (as of September 30, 2016).

Metropolitan Transportation Authority						
Related Bonds	Notional Amount as of 9/30/16	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 9/30/16 (unaudited)
TRB 2002D-2	\$200.000	01/01/07	11/01/32	Pay 4.45%; receive 69% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	\$ (88.998)
TRB 2005D & 2005E	300.000	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	UBS AG (A+ / A1 / A+)	(76.564)
TRB 2005E	100.000	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	AIG Financial Products ¹ (A- / Baa1 / BBB+)	(25.522)
TRB 2012G	357.850	11/15/12	11/01/32	Pay 3.563%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(117.606)
DTF 2008A	331.020	03/24/05	11/01/31	Pay 3.3156%; receive 67% 1M LIBOR	Bank of New York Mellon (AA- / Aa2 / AA)	(71.968)
Total	\$1,288.870					\$ (380.658)

¹Guarantor: American International Group, Inc., parent of AIG Financial Products.

MTA Bridges and Tunnels						
Related Bonds	Notional Amount as of 9/30/16	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 9/30/16 (unaudited)
TBTA 2002F & 2003B-2	\$192.200	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	Citibank, N.A. (A / A1 / A+)	\$ (47.270)
TBTA 2005B-2	192.200	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(47.270)
TBTA 2005B-3	192.200	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	BNP Paribas North America (A / A1 / A+)	(47.270)
TBTA 2005B-4	192.200	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	UBS AG (A+ / A1 / A+)	(47.270)
TBTA 2000ABCD	55.800	01/01/01	01/01/19	Pay 6.08%; receive SIFMA – 15 bp ¹	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(4.003)
TRB 2002G-1 & 2011B, TBTA 2005A, COPs 2004A	148.050 ^{2,3}	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	U.S. Bank N.A. (AA- / A1 / AA)	(26.015) ^{2,3}
TRB 2002G-1 & 2011B, TBTA 2005A, COPs 2004A	148.050 ^{2,3}	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	Wells Fargo Bank, N.A. (AA- / Aa2 / AA)	(26.015) ^{2,3}
Total	\$1,120.700					\$ (245.113)

¹In accordance with a swaption entered into on August 12, 1998, TBTA received an upfront option premium of \$22.740 which is being amortized over the life of the swap agreement.

²Portions of the transactions are accounted for as an investment derivative, with an aggregate notional amount of \$70.500 and aggregate fair value of (\$5.399).

³Pursuant to an Interagency Agreement (following novations from UBS in April 2016), MTA New York City Transit is responsible for 68.7%, MTA is responsible for 21.0%, and TBTA is responsible for 10.3% of the transaction.

LIBOR: London Interbank Offered Rate

SIFMA: Securities Industry and Financial Markets Association Index

TRB: Transportation Revenue Bonds

DTF: Dedicated Tax Fund Bonds

2 Broadway Certificates of Participation Swaps and April Novations

On April 21, 2016, the MTA, MTA Bridges and Tunnels, and MTA New York City Transit entered into a series of transactions in order to consolidate and novate swaps originally executed with UBS. The original trades related to the Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities).

These transactions were consolidated and novated among two new counterparties: U.S. Bank National Association and Wells Fargo Bank, N.A. As part of the transaction, MTA and NYCTA assigned their positions to MTA Bridges and Tunnels and the Ambac Assurance Corporation swap insurance policies were terminated. As a result, MTA Bridges and Tunnels is the sole MTA Agency on two identical transactions (combined notional of \$296.1). MTA, MTA Bridges and Tunnels, and NYCTA have entered into an Interagency Agreement whereby MTA and NYCTA will reimburse MTA Bridges and Tunnels for payments made under the swaps, in order to ensure that each Agency continues to be responsible for swap payments in an amount based on the proportions of the original transactions. As part of the novations, the structure was modified to eliminate a 'lesser of/bond rate' option on the floating rate, move a fixed spread from the floating leg to the fixed leg, and lower the all-in rate payable by MTA Bridges and Tunnels.

Risks Associated with the Swap Agreements

From MTA's and MTA Bridges and Tunnels' perspective, the following risks are generally associated with swap agreements:

Credit Risk. The risk that a counterparty becomes insolvent or is otherwise not able to perform its financial obligations. To mitigate the exposure to credit risk, the swap agreements include collateral provisions in the event of downgrades to the swap counterparties' credit ratings. Generally, MTA and MTA Bridges and Tunnels' swap agreements contain netting provisions under which transactions executed with a single counterparty are netted to determine collateral amounts. Collateral may be posted with a third-party custodian in the form of cash, U.S. Treasury securities, or certain Federal agency securities. MTA and MTA Bridges and Tunnels require its counterparties to fully collateralize if ratings fall below certain levels (in general, at the Baa1/BBB+ or Baa2/BBB levels), with partial posting requirements at higher rating levels (details on collateral posting discussed further under "Collateralization/Contingencies"). As of September 30, 2016, all of the valuations were in liability positions to MTA and MTA Bridges and Tunnels; accordingly, no collateral was posted by any of the counterparties.

The following table shows, as of September 30, 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. The notional amount totals below include all swaps.

Counterparty	S&P	Moody's	Fitch	Notional Amount (in thousands) (Unaudited)	% of Total Notional Amount (Unaudited)
JPMorgan Chase Bank, NA	A+	Aa3	AA-	\$805,850	33.44%
UBS AG	A+	A1	A+	492,200	20.43
The Bank of New York Mellon	AA-	Aa2	AA	331,020	13.74
Citibank, N.A.	A	A1	A+	192,200	7.98
BNP Paribas North America, Inc.	A	A1	A+	192,200	7.98
U.S. Bank National Association	AA-	A1	AA	148,050	6.14
Wells Fargo Bank, N.A.	AA-	Aa2	AA	148,050	6.14
AIG Financial Products Corp.	A-	Baa1	BBB+	100,000	4.15
Total				\$2,409,570	100.00%

Interest Rate Risk. MTA and MTA Bridges and Tunnels are exposed to interest rate risk on the interest rate swaps. On the pay-fixed, receive variable interest rate swaps, as LIBOR or SIFMA (as applicable) decreases, MTA and MTA Bridges and Tunnels' net payments on the swaps increase.

Basis Risk. The risk that the variable rate of interest paid by the counterparty under the swap and the variable interest rate paid by MTA or MTA Bridges and Tunnels 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 or MTA Bridges and Tunnels 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 or MTA Bridges and Tunnels.

Termination Risk. The risk that a swap agreement will be terminated and MTA or MTA Bridges and Tunnels will be required to make a swap 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.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA and MTA Bridges and Tunnels 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. MTA and MTA Bridges and Tunnels are subject to termination risk if its credit ratings fall below certain specified thresholds or if MTA/MTA Bridges and Tunnels commits a specified event of default or other specified event of termination. If, at the time of termination, a swap is in a liability position to MTA or MTA Bridges and Tunnels, a termination payment would be owed by MTA or MTA Bridges and Tunnels to the counterparty, subject to applicable netting arrangements.

The following tables set forth the Additional Termination Events for MTA/MTA Bridges and Tunnels and its counterparties.

MTA Transportation Revenue		
Counterparty Name	MTA	Counterparty
AIG Financial Products Corp., JPMorgan Chase Bank, NA; UBS AG	Below Baa3 (Moody's) or BBB- (S&P)*	Below Baa3 (Moody's) or BBB- (S&P)*

*Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Dedicated Tax Fund		
Counterparty Name	MTA	Counterparty
Bank of New York Mellon	Below BBB (S&P) or BBB (Fitch)*	Below A3 (Moody's) or A- (S&P)**

*Note: Equivalent Moody's rating is replacement for S&P or Fitch.

**Note: Equivalent Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Senior Lien		
Counterparty Name	MTA Bridges and Tunnels	Counterparty
BNP Paribas North America, Inc.; Citibank, N.A.; JPMorgan Chase Bank, NA; UBS AG	Below Baa2 (Moody's) or BBB (S&P)*	Below Baa1 (Moody's) or BBB+ (S&P)*

**Note: Equivalent Fitch rating is replacement for Moody's or S&P.*

MTA Bridges and Tunnels Subordinate Lien		
Counterparty Name	MTA Bridges and Tunnels	Counterparty
JPMorgan Chase Bank, NA	Swap Insurer below A3 (Moody's) and A- (S&P); and MTA Bridges and Tunnels Senior Lien rating below Baa3 (Moody's) and BBB- (S&P)	Below Baa2 (Moody's) or BBB (S&P)
U.S. Bank National Association; Wells Fargo Bank, N.A.	Below Baa2 (Moody's) or BBB (S&P)*	Below Baa2 (Moody's) or BBB (S&P)**

**Note: Equivalent Fitch rating is replacement for Moody's or S&P. If not below Investment Grade, MTA Bridges and Tunnels may cure such termination Event by posting collateral at a Zero threshold.*

***Note: Equivalent Fitch rating is replacement for Moody's or S&P.*

MTA and MTA Bridges and Tunnels' ISDA Master Agreements provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement. 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 amounts so that a single sum will be owed by, or owed to, the non-defaulting party.

Rollover Risk. The risk that the swap agreement matures or may be terminated prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA or MTA Bridges and Tunnels 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. 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 U.S. Bank/Wells Fargo and Citibank, N.A.)	November 1, 2035	January 1, 2030 (U.S. Bank/Wells Fargo) January 1, 2032 (Citibank)
MTA Transportation Revenue Variable Rate Bonds, Series 2011B (swaps with U.S. Bank/Wells Fargo)	November 1, 2041	January 1, 2030

Collateralization/Contingencies. Under the majority of the swap agreements, MTA and/or MTA Bridges and Tunnels is required to post collateral in the event its credit rating falls below certain specified levels. The collateral posted is to be in the form of cash, U.S. Treasury securities, or certain Federal agency securities, based on the valuations of the swap agreements in liability positions and net of the effect of applicable netting arrangements. If MTA and/or MTA Bridges and Tunnels do not post collateral, the swap(s) may be terminated by the counterparty(ies).

As of September 30, 2016, the aggregate mid-market valuation of the MTA's swaps subject to collateral posting agreements was (\$324.634); as of this date, the MTA was not subject to collateral posting based on its credit ratings (see further details below).

As of September 30, 2016, the aggregate mid-market valuation of MTA Bridges and Tunnels' swaps subject to collateral posting agreements was (\$245.544) million; as of this date, MTA Bridges and Tunnels was not subject to collateral posting based on its credit ratings (see further details below).

The following tables set forth the ratings criteria and threshold amounts applicable to MTA/MTA Bridges and Tunnels and its counterparties.

MTA Transportation Revenue		
Counterparty	MTA Collateral Thresholds (based on highest rating)	Counterparty Collateral Thresholds (based on highest rating)
AIG Financial Products Corp.; JPMorgan Chase Bank, NA; UBS AG	Baa1/BBB+: \$10 million Baa2/BBB & below: Zero	Baa1/BBB+: \$10 million Baa2/BBB & below: Zero

Note: Based on Moody's and S&P ratings. In all cases except JPMorgan counterparty thresholds, Fitch rating is replacement for either Moody's or S&P, at which point threshold is based on lowest rating.

MTA Dedicated Tax Fund		
Counterparty	MTA Collateral Thresholds	Counterparty Collateral Thresholds (based on highest rating)
Bank of New York Mellon	N/A – MTA does not post collateral	Aa3/AA-: \$10 million A1/A+: \$5 million A2/A: \$2 million A3/A-: \$1 million Baa1/BBB+ & below: Zero

Note: counterparty thresholds based on Moody's and S&P ratings. Fitch rating is replacement for either Moody's or S&P.

MTA Bridges and Tunnels Senior Lien		
Counterparty	MTA Bridges and Tunnels Collateral Thresholds (based on highest rating)	Counterparty Collateral Thresholds (based on highest rating)
BNP Paribas North America, Inc.; Citibank, N.A.; JPMorgan Chase Bank, NA; UBS AG	Baa1/BBB+: \$30 million Baa2/BBB: \$15 million Baa3/BBB- & below: Zero	A3/A-: \$10 million Baa1/BBB+ & below: Zero

Note: MTA Bridges and Tunnels thresholds based on Moody's, S&P, and Fitch ratings. Counterparty thresholds based on Moody's and S&P ratings; Fitch rating is replacement for Moody's or S&P.

MTA Bridges and Tunnels Subordinate Lien		
Counterparty	MTA Bridges and Tunnels Collateral Thresholds (based on lowest rating)	Counterparty Collateral Thresholds (based on lowest rating)
JPMorgan Chase Bank, NA	N/A – MTA Bridges and Tunnels does not post collateral	\$1,000,000
U.S. Bank National Association; Wells Fargo Bank, N.A.	Baa3/BBB- & below: Zero (note: only applicable as cure for Termination Event)	Aa3/AA-: \$15 million A1/A+ to A3/A-: \$5 million Baa1/BBB+ & below: Zero

Note: thresholds based on Moody's and S&P ratings. Fitch rating is replacement for Moody's or S&P.

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

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

MTA (in millions) (Unaudited)				
Period Ended September 30	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
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 September 30	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, which was exercised in August 2016.

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 was 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 since then MTA has provided short-term U.S. Treasury debt obligations as replacement collateral. As of September 30, 2016, the market value of total collateral funds was \$37.0.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 29, 2003. From time to time, additional collateral has been required to be added such that the total market value of the securities being held as additional collateral are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under the lease. As of September 30, 2016, the market value of total collateral funds was \$52.2.

MTA Hudson Rail Yards Ground Leases – In the 1980's, the MTA developed a portion of the Hudson Rail Yards as a storage yard, car wash and repair facility for the Long Island Railroad Company ("LIRR") rail cars entering Manhattan. It was anticipated that, eventually, the air rights above the Hudson Rail Yards

would be developed to meet the evolving needs for high-quality commercial, retail, residential and public space in Manhattan. The Hudson Rail Yards is a rectangular area of approximately 26-acres bounded by 10th Avenue on the east, 12th Avenue on the west, 30th Street on the south and 33rd Street on the North. The Hudson Rail Yards is divided into the Eastern Rail Yards (“ERY”) and the Western Rail Yards (“WRY”). In 2008, the MTA selected a development team led by the Related Companies, L.P to develop a commercial, residential and retail development on the ERY and the WRY.

To undertake the development of the Hudson Rail Yards, the MTA entered into 99-year ground leases (“Balance Leases”) for the airspace above a limiting plane above the tracks (from 31st to 33rd Streets) and the area where there are no rail tracks (from 30th to 31st Streets) within the boundary of the Hudson Rail Yards (“Ground Leased Property”). The Balance Leases do not encumber the railroad tracks, which will continue to be used for transportation purposes.

- The following ground leases, each with a 99-year term (beginning December 3, 2012), entered into between the MTA, as landlord, and a special purpose entity controlled by Related-Oxford, as Ground Lease tenants, all of which Ground Leases demise the Eastern Rail Yards (“ERY”) and were severed from the ERY Balance Lease, dated as of April 10, 2013:
 - o the Ground Lease demising the Tower A Severed Parcel, also known as 30 Hudson Yards.
 - o the Ground Lease demising the Tower D Severed Parcel, also known as 15 Hudson Yards.
 - o the Ground Lease demising the Tower E Severed Parcel, also known as 35 Hudson Yards.
 - o the Ground Lease demising the Retail Podium Severed Parcel.
 - o the Ground Lease demising the Retail Pavilion Parcel, and
- the 99-year West Side Rail Yard (“WRY”) Balance Lease (beginning December 3, 2013) between the MTA and a special purpose entity controlled by Related-Oxford demising the WRY and the Severed Parcel Leases to be entered into upon the creation of Severed Parcels that may be severed from the WRY, at the option of the applicable Ground Lease Tenant, upon satisfaction of certain conditions, in order to construct improvements thereon in accordance with the terms of the applicable Severed Parcel Lease.

Both the ERY and WRY Ground Leases were pledged as security for the Series 2016A Hudson Yards Trust Obligations.

The MTA has also entered into the following ground leases which do not provide a source of payment or security for the Series 2016A Hudson Yards Trust Obligations:

- the now-terminated ground lease demising Tower C, also known as 10 Hudson Yards, as to which the Ground Lease tenant closed on its exercise of its Fee Conversion Option on August 1, 2016 for which MTA received \$120 million.
- The ground lease demising the Culture Shed, which does not pay any Monthly Ground Rent, and
- The ground lease demising the Open Space Severed Parcel which does not pay any Monthly Ground Rent.

The Severed Parcel Ground Leases required Ground Lease Tenants, at their sole cost and expense, to construct the Long Island Railroad Roof (“LIRR Roof”) over the Long Island Railroad tracks in the Hudson Rail Yards, which LIRR Roof will serve as the foundation for substantial portions of the buildings and other improvements being constructed pursuant to each Severed Parcel Ground Lease. Each Ground

Lease tenant has the option to purchase fee title to the Ground Leased Property at any time following completion of construction of the building on the Ground Leased Property.

The MTA has classified the ERY and WRY Ground Leases as operating leases. If at the inception of the ground leases, the leases meet one or more of the following four criteria, the lease should be classified as a capital lease. Otherwise, it should be classified as an operating lease. The ERY and WRY Ground Leases did not meet one or more of the following criteria:

- a. The lease transfers ownership of the property to the lessee by the end of the lease term.
- b. The lease contains a bargain purchase option.
- c. The lease term is equal to 75 percent or more of the estimated economic life of the leased property.
- d. The present value at the beginning of the lease term of the minimum lease payments, equals or exceeds 90 percent of the excess of the fair value of the leased property to the lessor at the inception of the lease over any related investment tax credit retained by and expected to be realized by the lessor.

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 September 30, 2016, certificates of participation outstanding totaled \$70.5. (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 \$33.3 and \$45.0 for the periods ended September 30, 2016 and 2015 respectively.

At September 30, 2016, the future minimum lease payments under non-cancelable leases are as follows (in millions):

Years	Operating (Unaudited)	Capital (Unaudited)
2016	\$ 42	\$ 14
2017	61	22
2018	61	22
2019	61	24
2020	59	32
2021–2025	221	154
2026–2030	284	104
2031–2035	290	540
2036–2040	243	126
2041–2045	243	133
Thereafter	492	257
Future minimum lease payments	<u>\$ 2,057</u>	<u>1,428</u>
Amount representing interest		<u>(1,015)</u>
Total present value of capital lease obligations		413
Less current present value of capital lease obligations		<u>18</u>
Noncurrent present value of capital lease obligations		<u>\$ 395</u>

Capital Leases Schedule
For the Period Ended September 30, 2016
(in millions)

Description	December 31, 2015	Increase (Unaudited)	Decrease (Unaudited)	September 30, 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	1	-	39
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	<u>\$ 519</u>	<u>\$ 2</u>	<u>\$ 108</u>	<u>\$ 413</u>
Current Portion Obligations under Capital Lease	<u>9</u>			<u>18</u>
Long Term Portion Obligations under Capital Lease	<u>\$ 510</u>			<u>\$ 395</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 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-paragraph is equal to a net present value as of January 1, 2010 (calculated based on each applicable payment) of the product of that sub-paragraph’s percentage of the total gross square footage of permissible development on all six air space sub-parcels multiplied by \$80.

11. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the period ended September 30, 2016 and year ended December 31, 2015 is presented below (in millions):

	September 30, 2016 (Unaudited)	December 31, 2015
Balance — beginning of year	\$ 2,883	\$ 2,509
Activity during the year:		
Current year claims and changes in estimates	617	763
Claims paid	<u>(376)</u>	<u>(389)</u>
Balance — end of year	3,124	2,883
Less current portion	<u>(430)</u>	<u>(444)</u>
Long-term liability	<u>\$ 2,694</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 there have been some questioned costs in recent years, ultimate repayments required of the MTA have been infrequent.

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 \$6 and \$4 for the periods ended September 30, 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 September 30, 2016 and December 31, 2015 were as follows:

	September 30, 2016 (Unaudited)	December 31, 2015
Balance at beginning of year	\$ 100	\$ 99
Activity during the year:		
Current year expenses/changes in estimates	5	21
Current year payments	(6)	(20)
Balance at end of year	99	100
Less current portion	(24)	(26)
Long-term liability	<u>\$ 75</u>	<u>\$ 74</u>

14. CURRENT AND NON-CURRENT LIABILITIES

Changes in the activity of current and non-current liabilities for the periods ended September 30, 2016 and December 31, 2015 are presented below:

	Balance December 31, 2014	Additions	Reductions	Balance December 31, 2015	Additions	Reductions	Balance September 30, 2016 (Unaudited)
					(Unaudited)		(Unaudited)
Current liabilities:							
Accounts payable	\$ 437	\$ -	\$ (44.00)	\$ 393	\$ 59	\$ -	\$ 452
Interest	211	-	(1)	210	370	-	580
Salaries, wages and payroll taxes	374	-	(118)	256	11	-	267
Vacation and sick pay benefits	838	42	-	880	18	-	898
Current portion — retirement and death benefits	384	-	(369)	15	24	-	39
Capital accrual	533	-	(54)	479	-	(137)	342
Other accrued expenses	503	57	-	560	202	-	762
Unearned revenues	514	-	49	563	73	-	636
Total current liabilities	<u>\$ 3,794</u>	<u>\$ 42</u>	<u>\$ (480)</u>	<u>\$ 3,356</u>	<u>\$ 757</u>	<u>\$ (137)</u>	<u>\$ 3,976</u>
Non-current liabilities:							
Contract retainage payable	\$ 296	\$ -	\$ (15)	\$ 281	\$ 41	\$ -	\$ 322
Other long-term liabilities	302	5	-	307	6	-	313
Total non-current liabilities	<u>\$ 598</u>	<u>\$ 5</u>	<u>\$ (15)</u>	<u>\$ 588</u>	<u>\$ 47</u>	<u>\$ -</u>	<u>\$ 635</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	Bank of America Merrill Lynch	Bank of America Merrill Lynch	JPM - Ventures Energy Corp	JPM - Ventures Energy Corp	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch
Trade Date	10/29/2014	11/25/2014	12/23/2014	1/29/2015	2/26/2015	3/25/2015	4/29/2015	5/28/2015
Effective Date	10/1/2015	11/1/2015	12/1/2015	1/1/2016	2/1/2016	3/1/2016	4/1/2016	5/1/2016
Termination Date	9/30/2016	10/31/2016	11/30/2016	12/31/2016	1/31/2017	2/28/2017	3/30/2017	4/30/2017
Price/Gal	\$2.5510	\$2.3950	\$2.0340	\$1.8095	\$2.0520	\$1.9195	\$2.0855	\$1.9970
Original Notional Quantity	7,487,723	7,029,766	5,970,231	5,253,199	6,017,839	5,629,297	5,957,391	5,831,540
Counterparty	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	Bank of America Merrill Lynch	J. Aron & Company	Bank of America Merrill Lynch	J. Aron & Company	J. Aron & Company
Trade Date	6/30/2015	7/30/2015	8/27/2015	9/28/2015	10/29/2015	11/24/2015	12/17/2015	1/27/2016
Effective Date	6/1/2016	7/1/2016	8/1/2016	9/1/2016	2/1/2016	11/1/2016	12/1/2016	1/1/2017
Termination Date	5/31/2017	6/30/2017	7/31/2017	8/31/2017	9/30/2017	10/31/2017	11/30/2017	12/31/2017
Price/Gal	\$2.0130	\$1.8145	\$1.6600	\$1.6950	\$1.7100	\$1.6515	\$1.4825	\$1.2760
Original Notional Quantity	5,882,999	5,298,402	4,847,240	5,130,241	5,631,317	4,863,189	4,266,180	3,745,930
Counterparty	JPM - Ventures Energy Corp	Macquarie Energy LLC	Macquarie Energy LLC	Macquarie Energy LLC	J. Aron & Company	J. Aron & Company	Macquarie Energy LLC	J. Aron & Company
Trade Date	2/23/2016	3/29/2016	4/28/2016	5/26/2016	6/30/2016	7/28/2016	8/24/2016	9/22/2016
Effective Date	2/1/2017	3/1/2017	4/1/2017	5/1/2017	6/1/2017	7/1/2017	8/1/2017	9/1/2017
Termination Date	1/31/2018	2/28/2018	3/31/2018	4/30/2018	5/30/2018	6/30/2018	7/31/2018	8/31/2018
Price/Gal	\$1.3100	\$1.3820	\$1.5535	\$1.6225	\$1.6515	\$1.5020	\$1.6350	\$1.5975
Original Notional Quantity	3,845,749	3,926,350	4,527,533	4,728,640	4,813,146	4,498,206	4,780,987	4,671,339

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 September 30, 2016, the total outstanding notional value of the ULSD contracts was 54.0 million gallons with a negative fair market value of \$4. The valuation of each trade was based on discounting future net cash flows to a single current amount (the income approach) using observable commodity futures prices (Level 2 inputs).

16. CONDENSED COMPONENT UNIT INFORMATION

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

September 30, 2016 (Unaudited)	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
Current assets	\$ 9,041	\$ 186	\$ 199	\$ 584	\$ 721	\$ 7	\$ 10,738
Capital assets	8,685	4,522	5,613	39,565	5,071	(1)	63,455
Other Assets	11,166	5	-	1	129	(9,899)	1,402
Intercompany receivables	442	68	87	1,387	462	(2,446)	-
Deferred outflows of resources	1,475	125	196	1,080	384	(585)	2,675
Total assets and deferred outflows of resources	\$ 30,809	\$ 4,906	\$ 6,095	\$ 42,617	\$ 6,767	\$ (12,924)	\$ 78,270
Current liabilities	\$ 3,620	\$ 240	\$ 208	\$ 1,755	\$ 786	\$ (13)	\$ 6,596
Non-current liabilities	33,081	942	1,991	19,305	10,126	(502)	64,943
Intercompany payables	2,049	68	21	76	217	(2,431)	-
Deferred inflows of resources	43	-	-	893	48	(495)	489
Total liabilities and deferred inflows of resources	\$ 38,793	\$ 1,250	\$ 2,220	\$ 22,029	\$ 11,177	\$ (3,441)	\$ 72,028
Net investment in capital assets	\$ (25,682)	\$ 4,508	\$ 5,613	\$ 39,373	\$ 913	\$ (35)	\$ 24,690
Restricted	2,224	-	-	-	815	(422)	2,617
Unrestricted	15,474	(852)	(1,738)	(18,785)	(6,138)	(9,026)	(21,065)
Total net position	\$ (7,984)	\$ 3,656	\$ 3,875	\$ 20,588	\$ (4,410)	\$ (9,483)	\$ 6,242
For the period ended September 30, 2016 (Unaudited)							
Fare revenue	\$ 166	\$ 510	\$ 532	\$ 3,293	\$ -	\$ (1)	\$ 4,500
Vehicle toll revenue	-	-	-	-	1,405	-	1,405
Rents, freight and other revenue	63	45	42	312	23	(45)	440
Total operating revenue	229	555	574	3,605	1,428	(46)	6,345
Total labor expenses	880	682	844	5,408	229	(27)	8,016
Total non-labor expenses	213	251	257	1,258	157	(49)	2,087
Depreciation	66	175	252	1,240	84	1	1,818
Total operating expenses	1,159	1,108	1,353	7,906	470	(75)	11,921
Operating (deficit) surplus	(930)	(553)	(779)	(4,301)	958	29	(5,576)
Subsidies and grants	299	89	-	237	6	252	883
Tax revenue	3,954	-	-	2,027	-	(1,464)	4,517
Interagency subsidy	576	242	478	199	-	(1,495)	-
Interest expense	(845)	-	-	(7)	(244)	(4)	(1,100)
Other	(1,825)	(1)	-	-	1	1,990	165
Total non-operating revenues (expenses)	2,159	330	478	2,456	(237)	(721)	4,465
Loss before appropriations	1,229	(223)	(301)	(1,845)	721	(692)	(1,111)
Appropriations, grants and other receipts externally restricted for capital projects	(252)	180	347	1,130	(575)	690	1,520
Change in net position	977	(43)	46	(715)	146	(2)	409
Net position, beginning of period	(8,961)	3,699	3,829	21,303	(4,556)	(9,481)	5,833
Restatement of beginning net position	-	-	-	-	-	-	-
Net position, end of period	\$ (7,984)	\$ 3,656	\$ 3,875	\$ 20,588	\$ (4,410)	\$ (9,483)	\$ 6,242
For the period ended September 30, 2016 (Unaudited)							
Net cash (used in) / provided by operating activities	\$ (859)	\$ (335)	\$ (496)	\$ (1,942)	\$ 1,155	\$ (12)	(2,489)
Net cash provided by / (used in) non-capital financing activities	4,047	334	505	2,538	(562)	(2,414)	4,448
Net cash (used in) / provided by capital and related financing activities	(1,386)	(2)	(6)	(769)	(295)	2,425	(33)
Net cash (used in) / provided by investing activities	(1,945)	-	-	165	(297)	1	(2,076)
Cash at beginning of period	358	15	6	62	13	-	454
Cash at end of period	\$ 215	\$ 12	\$ 9	\$ 54	\$ 14	\$ -	\$ 304

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 September 30, 2015 (Unaudited)							
Fare revenue	\$ 162	\$ 500	\$ 518	\$ 3,224	\$ -	\$ -	\$ 4,404
Vehicle toll revenue	-	-	-	-	1,343	-	1,343
Rents, freight and other revenue	57	45	39	328	23	(38)	454
Total operating revenue	219	545	557	3,552	1,366	(38)	6,201
Total labor expenses	855	667	801	5,610	227	221	8,381
Total non-labor expenses	258	266	305	1,241	128	30	2,228
Depreciation	62	170	240	1,163	82	2	1,719
Total operating expenses	1,175	1,103	1,346	8,014	437	253	12,328
Operating (deficit) surplus	(956)	(558)	(789)	(4,462)	929	(291)	(6,127)
Subsidies and grants	298	91	-	237	6	(202)	430
Tax revenue	3,717	-	-	2,231	-	(1,498)	4,450
Interagency subsidy	587	347	405	201	-	(1,540)	-
Interest expense	(811)	-	-	(8)	(260)	21	(1,058)
Other	(1,895)	-	-	2	-	2,461	568
Total non-operating revenues (expenses)	1,896	438	405	2,663	(254)	(758)	4,390
Loss before appropriations	940	(120)	(384)	(1,799)	675	(1,049)	(1,737)
Appropriations, grants and other receipts externally restricted for capital projects	(477)	166	335	1,221	(587)	809	1,467
Change in net position	463	46	(49)	(578)	88	(240)	(270)
Net position, beginning of the year	(8,052)	3,888	5,168	26,140	(4,485)	(9,377)	13,282
Restatement of beginning net position	-	-	-	-	-	-	-
Net position, end of year	\$ (7,589)	\$ 3,934	\$ 5,119	\$ 25,562	\$ (4,397)	\$ (9,617)	\$ 13,012
For the period ended September 30, 2015 (Unaudited)							
Net cash (used in) / provided by operating activities	\$ (690)	\$ (403)	\$ (489)	\$ (1,911)	\$ 1,064	\$ 1	(2,428)
Net cash provided by / (used in) non-capital financing activities	4,097	449	449	2,683	(553)	(2,596)	4,529
Net cash (used in) / provided by capital and related financing activities	(2,153)	(37)	39	(599)	(407)	2,647	(510)
Net cash (used in) / provided by investing activities	(1,107)	-	-	(173)	(106)	(52)	(1,438)
Cash at beginning of year	222	14	6	55	14	-	311
Cash at end of year	\$ 369	\$ 23	\$ 5	\$ 55	\$ 12	\$ -	\$ 464

17. SUBSEQUENT EVENTS

On October 3, 2016, MTA effectuated a mandatory tender and remarketed \$43.460 of MTA Dedicated Tax Fund Refunding Bonds, Subseries 2008B-3b because its current interest rate period was set to expire by its terms. The Subseries 2008B-3b bonds were converted to tax-exempt fixed rate bonds with a final maturity of November 15, 2030.

On Oct 3, 2016, MTA effectuated a mandatory tender and purchase and remarketing of \$43 of Dedicated Tax Fund Refunding Bonds Subseries 2008B-3b for the purpose of modifying certain terms and provisions of the subseries 2008B-3b and to convert the bonds from a Term Rate Mode to a Fixed Rate Mode.

On October 26, 2016, MTA issued \$645.655 of MTA Transportation Revenue Refunding Bonds, Series 2016D. The proceeds from the transaction were used to refund: \$287.170 of Transportation Revenue Bonds, Series 2006A; \$217.890 of Transportation Revenue Bonds, Series 2006B; \$17.335 of Transportation Revenue Bonds, Series 2008C; \$181.875 of Transportation Revenue Bonds, Series 2002B; \$21.850 of Transportation Revenue Bonds, Series 2012D; and \$70.500 of 2 Broadway Certificates of Participation 2004A. The Series 2016D bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2035.

On October 26, 2016, MTA executed a 2,956,573 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.6240/gallon. The hedge covers the period from October 2017 through September 2018.

On November 1, 2016, MTA effectuated a mandatory tender and remarketed: \$75.000 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2012G-3; and \$56.890 of MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002G-1h because their current interest rate periods were set to expire by their terms.

On November 1, 2016, MTA effectuated a mandatory tender of \$27.000 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4a; \$37.500 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4b; and \$45.200 of Triborough Bridge and Tunnel Authority General Revenue Variable Rate Refunding Bonds, Subseries 2005B-4e because their current interest rate periods were set to expire by their terms.

On November 22, 2016, MTA executed a 2,927,330 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.6670/gallon. The hedge covers the period from November 2017 through October 2018.

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 September 30, 2015 and September 30, 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)	\$ (17,618)	\$ (295,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 35,282	\$ 43,594	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (100,000)
Covered Payroll	\$ 693,900	\$ 671,600	\$ 582,081	\$ 575,989	\$ 579,696	\$ 591,073	\$ 569,383	\$ 562,241	\$ 519,680	\$ 498,039
Contributions as a % of Covered Payroll	30.97%	33.71%	40.28%	39.74%	32.16%	33.94%	35.88%	35.91%	34.49%	52.13%
Metro-North Cash Balance Plan*										
Actuarially Determined Contribution	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	14	-	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ (14)	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,664	\$ 2,080	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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)	\$ 52,006	\$ (59,736)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,620,635	\$ 1,395,336	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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
(A Component Unit of the State of New York)

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:

	<u>Additional Plan</u>	<u>MaBSTOA Plan</u>	<u>MNR Cash Balance Plan</u>	<u>MTA Defined Benefit Plan</u>	<u>NYCERS Plan</u>	<u>NYSLERS Plan</u>
Valuation Dates	January 1, 2014	January 1, 2014	January 1, 2014	January 1, 2014	June 30, 2013	April 1, 2013
Measurement Date	December 31, 2014	December 31, 2014	December 31, 2014	December 31, 2014	June 30, 2015	March 31, 2015
Actuarial cost method	Entry Age Normal Cost	Frozen Initial Liability (FIL)	Unit Credit	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
Amortization method	Period specified in current valuation report (closed 19 year period beginning January 1, 2014) with level dollar payments.	For FIL bases, period specified in current valuation 30-year level dollar. 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
(A Component Unit of the State of New York)

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 SEPTEMBER 30, 2016**

(\$ in millions)

(Unaudited)

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	\$ 4,499	\$ 4,500	\$ 1
Vehicle toll revenue	1,406	1,405	(1)
Other operating revenue	502	440	(62)
Total revenue	<u>6,407</u>	<u>6,345</u>	<u>(62)</u>
OPERATING EXPENSES:			
Labor:			
Payroll	3,602	3,606	4
Overtime	569	577	8
Health and welfare	863	869	6
Pensions	955	958	3
Other fringe benefits	680	670	(10)
Postemployment benefits	1,626	1,610	(16)
Reimbursable overhead	(262)	(274)	(12)
Total labor expenses	<u>8,033</u>	<u>8,016</u>	<u>(17)</u>
Non-labor:			
Electric power	308	308	-
Fuel	91	91	-
Insurance	(31)	(31)	-
Claims	214	214	-
Paratransit service contracts	288	288	-
Maintenance and other	458	419	(39)
Professional service contract	262	235	(27)
Pollution remediation project costs	6	6	-
Materials and supplies	426	426	-
Other business expenses	130	129	(1)
Total non-labor expenses	<u>2,152</u>	<u>2,085</u>	<u>(67)</u>
Depreciation	<u>1,818</u>	<u>1,818</u>	<u>-</u>
Other Expenses Adjustment	<u>(101)</u>	<u>0</u>	<u>101</u>
Net expenses related to asset impairment	<u>-</u>	<u>2</u>	<u>2</u>
Total operating expenses	<u>11,902</u>	<u>11,921</u>	<u>19</u>
NET OPERATING LOSS	<u>\$ (5,495)</u>	<u>\$ (5,576)</u>	<u>\$ (81)</u>

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION

SCHEDULE OF CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED SEPTEMBER 30, 2016

(\$ in millions)

(Unaudited)

	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Accrued Subsidies				
Mass transportation operating assistance	\$ 1,668	\$ 1,668	\$ -	
Mass transit trust fund subsidies	469	469	-	
Mortgage recording tax 1 and 2	342	342	-	
MRT transfer	-	(4)	(4)	{1}
Urban tax	590	590	-	
State and local operating assistance	340	376	36	{1}
Station maintenance	121	121	-	
Connecticut Department of Transportation (CDOT)	88	89	1	{1}
Subsidy from New York City for MTA Bus and SIRTOA	379	370	(9)	{1}
NYS Grant for debt service	-	5	5	{3}
Build American Bonds Subsidy	-	47	47	{1}
Change in fair value of derivative financial instruments (Note 7)	-	1	1	{2}
Mobility tax	1,510	1,448	(62)	{1}
Other non-operating income	-	43	43	{2}
Total accrued subsidies	5,507	5,565	58	
Net operating deficit before subsidies and debt service	(5,495)	(5,576)	(81)	
Debt Service	(1,870)	(1,100)	770	
Conversion to Cash basis: Depreciation	1,818	-	(1,818)	
Conversion to Cash basis: OPEB Obligation	1,195	-	(1,195)	
Conversion to Cash basis: GASB 68 pension adjustment	258	-	(258)	
Conversion to Cash basis: Pollution & Remediation	6	-	(6)	
Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects	\$ 1,419	\$ (1,111)	\$ (2,530)	

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

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

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

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

SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE PERIOD ENDED SEPTEMBER 30, 2016
(\$ in millions)
(Unaudited)

Financial Plan Actual Operating Loss at September 30, 2016	<u>\$ (5,495)</u>
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The Financial Plan Actual Includes:

Lower other operating revenues	(17)
Higher other operating expense adjustments	(101)

The Audited Financial Statements Includes:

Lower OPEB expense based on the most recent actuarial calculations	16
Higher labor expense primarily from overtime and reimbursable overhead	(8)
Higher non-labor expense	19
Higher asset impairment expense	(2)
Intercompany eliminations and other adjustments	12

Total Operating Reconciling Items

(81)

Unaudited Financial Statement Operating Loss	<u>\$ (5,576)</u>
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Financial Plan Actual Surplus after Subsidies and Debt Service at June 30, 2016	<u>\$ 1,419</u>
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The Financial Plan Actual Includes:

Debt Service Bond Principal Payments	770
Adjustments for non-cash liabilities:	
Depreciation	(1,818)
Unfunded OPEB Expense	(1,195)
Unfunded GASB 68 Pension adjustment	(258)
Unfunded Pollution Remediation Expense	<u>(6)</u>
	<u>(3,277)</u>

The Audited Financial Statements Includes:

Higher subsidies and other non-operating revenues	58
Total Operating Reconciling Items	<u>(81)</u>

Financial Statements Loss Before Appropriations	<u>\$ (1,111)</u>
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**MTA
EMPLOYEE BENEFIT PLANS
FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2015 AND 2014**

**MANAGEMENT'S REVIEW
AUDIT COMMITTEE MEETING
JANUARY 23, 2017**



MTA BENEFIT PLANS FINANCIAL STATEMENTS

(\$'s in Thousands)

#	BENEFIT PLAN NAME	TYPE	EMPLOYEES COVERED	TOTAL NET ASSETS	TOTAL MEMBERSHIP
1	MTA DEFINED BENEFIT PENSION PLAN	Defined Benefit Pension Plan	Covers certain LIRR non-represented and represented employees hired after December 31, 1987, MNCRR non-represented and certain represented employees, MTA Police, SIRTOA non-represented and represented employees, certain employees of MTA Bus and certain employees of the former LI Bus hired prior to January 23, 1983.	\$3,074,477	29,955
2	MANHATTAN and BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN	Defined Benefit Pension Plan	MaBSTOA employees of the Transit Authority who are specifically excluded from NYCERS.	\$2,292,315	15,083
3	LONG ISLAND RAILROAD COMPANY PLAN FOR ADDITIONAL PENSIONS	Defined Benefit Pension Plan	Long Island Railroad employees hired effective July 1, 1971 and prior to January 1, 1988.	\$726,198	6,154
4	METRO NORTH COMMUTER RAILROAD COMPANY CASH BALANCE PLAN	Defined Benefit Pension Plan	Metro North Railroad employees hired prior to June, 1983	\$612	48
5	MTA DEFERRED COMPENSATION PROGRAM	Defined Contribution Plans - (401K & 457)	All MTA non-represented employees and most represented employees.	\$5,060,583	401K = 48,922 457 = 38,078
6	MTA RETIREE WELFARE BENEFITS PLAN (OPEB PLAN)	Retiree Benefits Welfare Plan	The MTA Group's retired employees and their eligible spouses and dependents.	\$297,548	112,160



MTA BENEFIT PLANS FINANCIAL STATEMENTS

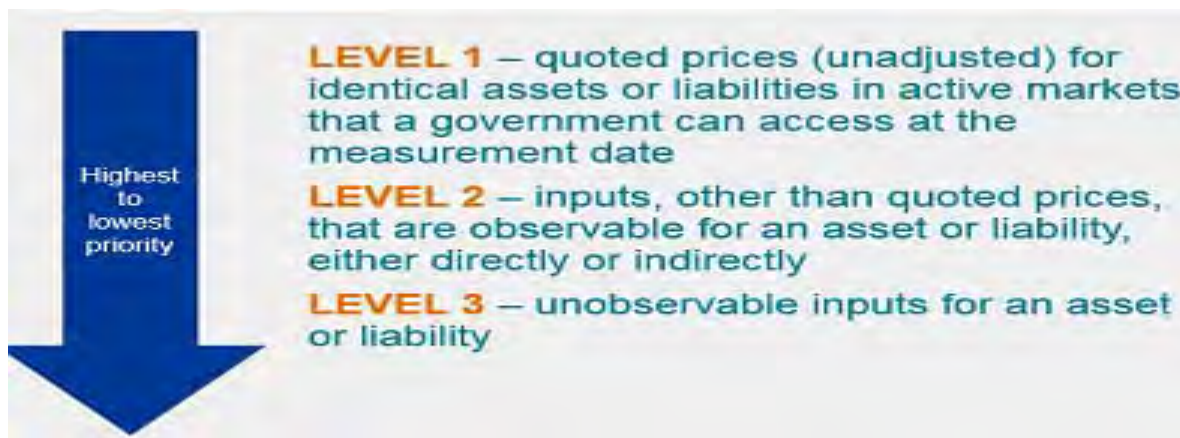
- The MTA's Benefit Plans Financial Statements are prepared in conformity with Generally Accepted Accounting Principles in the United States (GAAP) using accounting standards established by the Government Accounting Standards Board (GASB). They include 4 sections as follows:
 1. Managements' Discussion & Analysis
 2. The basic Financial Statements which include:
 - The Statement of Plan Net Position
 - The Statement of Changes in Net Position
 3. The Notes to the Financial Statements
 4. Required Supplementary Information (RSI)



NEW GASB ACCOUNTING STANDARD FOR FISCAL YEAR 2015 – GASB 72

GASB 72 FAIR VALUE MEASUREMENT & REPORTING

- ☐ Disclosure of the level of Fair Value hierarchy of investments
- ☐ Disclosure of the Fair Value measurement and valuation techniques
- ☐ For pension plan alternative investments additional disclosures on Net Asset Value reporting:
 - ☐ Unfunded Commitments
 - ☐ Redemption frequency
 - ☐ Redemption notice period



MTA PENSION PLANS

Single Employer & Multi-Employer

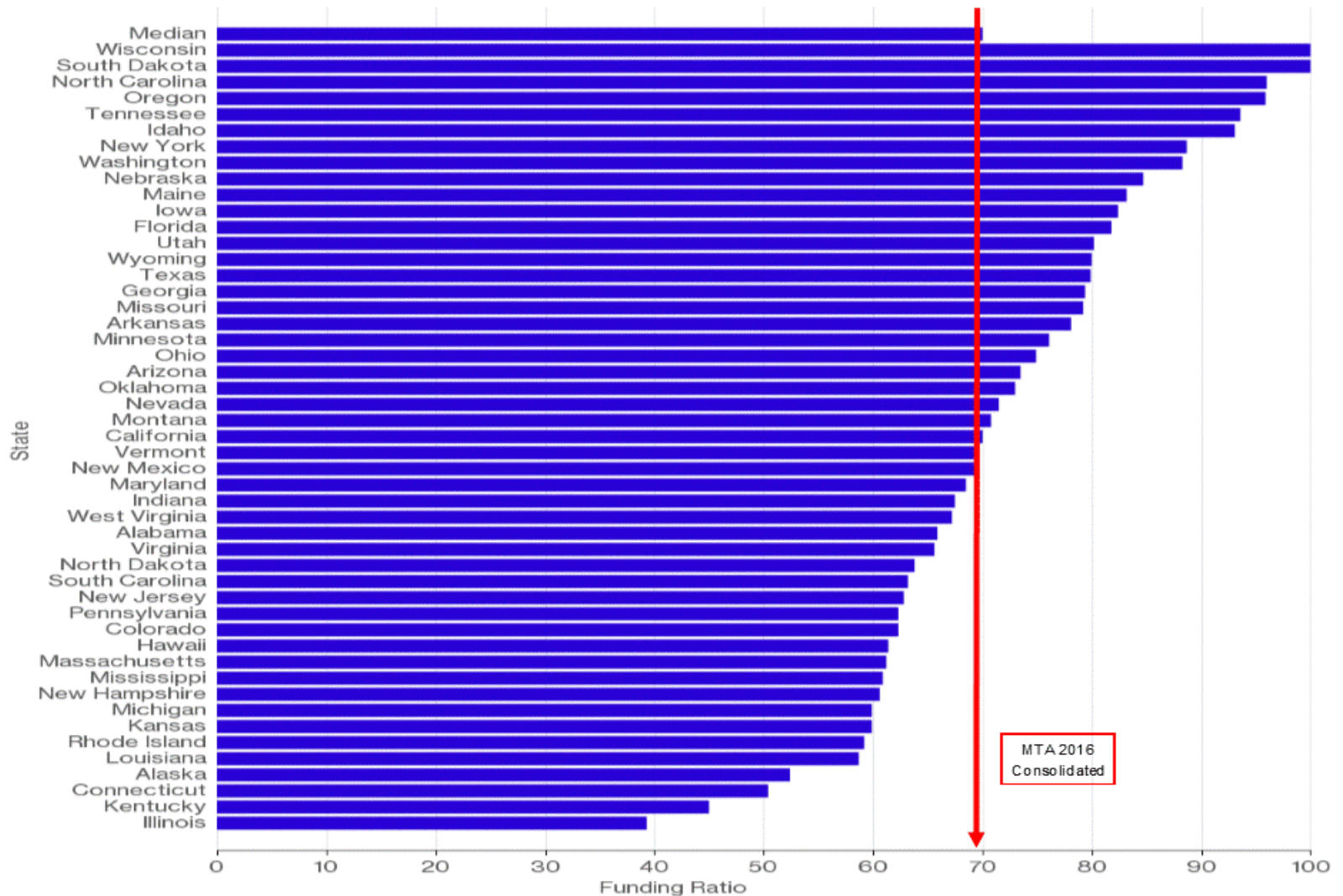
(\$'s in Thousands)	Balances as of December 31, 2016				
	Total Pension Liability	Plan Net Assets	Net Pension Liability	Funded Ratio	FY15/FY16 Contributions
PENSION PLAN					
<u>Single Employer</u>					
1 MTADB PLAN (MTA Group)	(4,364,946)	3,074,477	(1,290,469)	70.44%	221,694
2 MABSTOA Plan	(3,391,989)	2,292,316	(1,099,673)	67.58%	214,881
3 LIRR Add'l Plan	(1,555,922)	726,198	(829,724)	46.67% *	100,000
4 MNCRR Cash Balance Plan	(634)	612	(22)	96.53%	-
	\$ (9,313,491)	\$ 6,093,603	\$ (3,219,888)	65.43%	\$ 536,575
<u>Multi-Employer- Cost Sharing</u>					
5 NYSLERS - MTA % = 0.30%	(521,275)	472,718	(48,557)	90.68%	12,980
6 NYCERS - MTA % = 23.5%	(18,756,609)	13,048,556	(5,708,053)	69.57%	790,646
	\$ (19,277,884)	\$ 13,521,274	\$ (5,756,610)	70.14%	\$ 803,626
TOTAL MTA CONSOLIDATED	\$ (28,591,375)	\$ 19,614,877	\$ (8,976,498)	68.60%	\$ 1,340,201

*** Note: In 2016 \$70 million was contributed to the LIRR Additional Plan, increasing the funded ratio to approximately 51.2%. The 2017 Budget assumes a \$145 million contribution from 2016 General Reserves. This will increase the funded ratio to approximately 60.5%.**



STATE PENSION PLAN FUNDING RATIOS

■ U.S. State 2014 Pension Funding Ratios



Bloomberg



Metropolitan Transportation Authority Deferred Compensation Program

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

METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

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INDEPENDENT AUDITORS' REPORT

To the Committee of the
Metropolitan Transportation Authority Deferred Compensation Program

Report on the Financial Statements

We have audited the accompanying statements of Plans' net position of the Metropolitan Transportation Authority Deferred Compensation Program, comprised of the Deferred Compensation Plans for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates and the Thrift Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates, (collectively the "Plans") as of December 31, 2015 and 2014, and the related statements of changes in Plans' net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plans' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 21 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 23, 2017

METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 AND 2014

The Deferred Compensation Program is comprised of the Deferred Compensation Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (the "457 Plan") and the Thrift Plan for Employees of the Metropolitan Transportation Authority, its Subsidiaries and Affiliates (the "401(k) Plan"), collectively known as the "Plans" and the "Metropolitan Transportation Authority Deferred Compensation Plans". This management's discussion and analysis of the Plans' financial performance provides an overview of the Plans' financial activities for the years ended December 31, 2015 and 2014. It is meant to assist the reader in understanding the Plans' financial statements by providing an overall review of the financial activities during the year and the effects of significant changes. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with the Plans' financial statements which begin on page 22.

OVERVIEW OF BASIC FINANCIAL STATEMENTS

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

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

The financial statements are prepared in accordance with Governmental Accounting Standards Board ("GASB") Pronouncements.

Financial Highlights

As a result of various Deferred Compensation Program changes, expanding participant eligibility through collective bargaining, a strong educational program and greater participant satisfaction, the Deferred Compensation Program has continued to grow. The assets of the 457 Plan exceeded its liabilities by \$2.136 billion and the assets of the 401(k) plan exceeded its liabilities by \$2.924 billion as of December 31,

2015. This net position restricted for benefits is held in trust for distribution to the Plans participants and/or beneficiaries.

The assets of the 457 Plan exceeded its liabilities by \$2.010 billion and the assets of the 401(k) plan exceeded its liabilities by \$2.756 billion as of December 31, 2014. This net position restricted for benefits is held in trust for distribution to the Plans participants and/or beneficiaries.

During 2015, the net positions held in trust for the 457 Plan and the 401(k) Plan increased by \$125.826 million and \$168.576 million, respectively, due primarily to net investment income and employer and employee contributions to the plans. This was offset by distributions to participants and plan expenses.

During 2014, the net positions held in trust for the 457 Plan and the 401(k) Plan increased by \$195.532 million and \$265.160 million, respectively, due primarily to net investment income and employer and employee contributions to the plans. This was offset by distributions to participants and plan expenses.

Deductions from the Plans' net position consist primarily of distributions to participant and transfers to other plans, and plan expenses in the amounts of \$94.964 million and \$93.712 million for the 457 Plan and \$135.371 million and \$119.848 million for the 401(k) Plan for the year ended December 31, 2015 and 2014, respectively.

DRAFT

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

457 Plan

				Amount of Change		Percentage Change	
	2015	2014	2013	(2015 - 2014)	(2014 - 2013)	(2015 - 2014)	(2014 - 2013)
ASSETS:							
Investments at fair value:	\$ 2,069,184	\$ 1,949,962	1,759,129	\$ 119,222	\$ 190,833	6.1%	10.8%
Participant loans receivable	67,361	60,849	55,740	6,512	5,109	10.7	7.2
Total assets	2,136,545	2,010,811	1,814,869	125,734	195,942	6.3	10.8
LIABILITIES:							
Administrative expense reimbursement	375	66	57	309	9	468.2	15.8
Total liabilities	375	66	57	309	9	468.2	15.8
TOTAL NET POSITION RESTRICTED FOR BENEFITS							
	\$ 2,136,170	\$ 2,010,745	\$ 1,814,812	\$ 125,425	\$ 195,933	6.2%	10.8%

401K Plan

				Amount of Change		Percentage Change	
	2015	2014	2013	(2015 - 2014)	(2014 - 2013)	(2015 - 2014)	(2014 - 2013)
ASSETS:							
Investments at fair value:	\$ 2,794,983	\$ 2,637,807	\$ 2,379,654	\$ 157,176	\$ 258,153	6.0%	10.8%
Participant loans receivable	129,902	118,639	111,081	11,263	7,558	9.5	6.8
Total assets	2,924,885	2,756,446	2,490,735	168,439	265,711	6.1	10.7
LIABILITIES:							
Administrative expense reimbursement	472	66	58	406	8	615.2	13.8
Total liabilities	472	66	58	406	8	615.2	13.8
TOTAL NET POSITION RESTRICTED FOR BENEFITS							
	\$ 2,924,413	\$ 2,756,380	\$ 2,490,677	\$ 168,033	\$ 265,703	6.1%	10.7%

**For the Years Ended December 31,
(\$ In Thousands)**

457 Plan

				Amount of Change		Percentag
	2015	2014	2013	(2015 - 2014)	(2014 - 2013)	(2015 - 2014)
ADDITIONS:						
Investment income:	\$ 36,997	\$ 84,328	\$ 211,663	\$ (47,331)	\$ (127,335)	(56.1)%
Contributions and additional deposits	181,031	202,375	141,077	(21,344)	61,298	10.6
Loan repayments - interest	2,762	2,541	2,267	221	274	8.7
Total additions	220,790	289,244	355,007	(68,454)	(65,763)	(23.7)
DEDUCTIONS:						
Distribution to participants	47,642	42,368	37,327	5,274	5,041	12.5
Transfers to other plans	43,881	47,317	36,761	(3,436)	10,556	(7.3)
Net participant loan activity	1,778	1,850	1,315	(72)	535	(3.9)
Other	2,064	1,776	790	288	986	16.2
	95,365	93,311	76,193	2,054	17,118	2.2
Increase in net position	125,425	195,933	278,814	(70,508)	(82,881)	(36.0)
TOTAL NET POSITION RESTRICTED FOR BENEFITS						
Beginning of year	2,010,745	1,814,812	1,535,998	195,933	278,814	10.8
End of year	\$ 2,136,170	\$ 2,010,745	\$ 1,814,812	\$ 125,425	\$ 278,814	6.2 %

401K Plan

				Amount of Change		Percentag
	2015	2014	2013	(2015 - 2014)	(2014 - 2013)	(2015 - 2014)
ADDITIONS:						
Investment income:	\$ 49,879	\$ 118,282	\$ 303,221	\$ (68,403)	\$ (184,939)	(57.8)%
Contributions and additional deposits	248,732	261,753	182,497	(13,021)	79,256	5.0
Loan repayments - interest	5,336	4,973	4,552	363	421	7.3
Total additions	303,947	385,008	490,270	(81,061)	(105,262)	21.1
DEDUCTIONS:						
Distribution to participants	58,729	49,663	45,739	9,066	3,924	18.3
Transfers to other plans	71,819	64,409	61,783	7,410	2,626	11.5
Net participant loan activity	2,548	2,254	1,872	294	382	13.1
Other	2,818	2,979	1,571	(161)	1,408	(5.4)
	135,914	119,305	110,965	16,609	8,340	13.9
Increase in net position	168,033	265,703	379,305	(97,670)	(113,602)	36.8
TOTAL NET POSITION RESTRICTED FOR BENEFITS						
Beginning of year	2,756,380	2,490,677	2,111,372	265,703	379,305	10.7
End of year	\$ 2,924,413	\$ 2,756,380	\$ 2,490,677	\$ 168,033	\$ 379,305	6.1 %

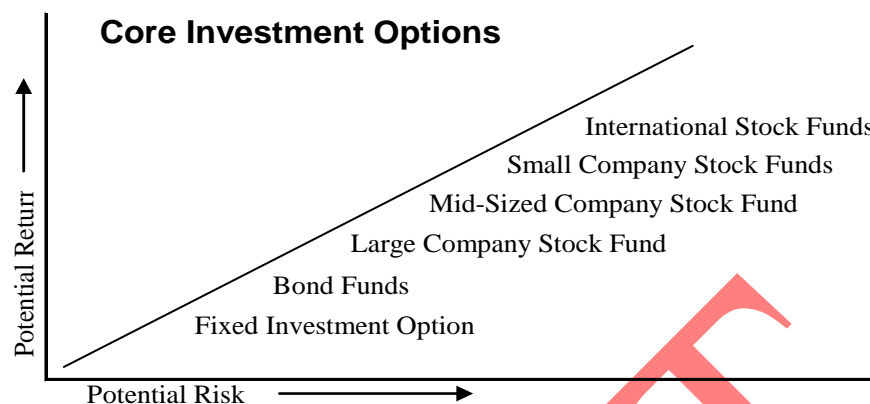
Investment Options

The MTA Plans offer ten (10) Target-Year Lifecycle Funds, which provide a diversified mix of certain of the Plans' investment options and allow a participant to choose the fund closest to their anticipated withdrawal date. The Target-Year Lifecycle Funds are designed to provide an asset allocation strategy appropriate for an individual's risk and return preferences in a single fund through a diversified portfolio of the Plans' domestic stock funds, international stock funds and fixed income funds. Some components are not offered to participants outside of the Target-Year Lifecycle Funds. Allocations are automatically rebalanced to their targets on a quarterly basis.

<u>Fund Name</u>	<u>Asset Class</u>	<u>Portfolio Allocations</u>
MTA Target-Year Lifecycle 2015 Fund	Large Cap 12% Mid Cap 2% Small Cap 2% International 16% Market Bonds 18% Stable Value 38% DIH Allocation 12%	MTA Large Cap Core Index Fund 6% MTA Large Cap Value Portfolio 3% MTA Large Cap Growth Portfolio 3% MTA Mid Cap Core Portfolio 2% MTA Small Cap Core Portfolio 2% MTA International Portfolio 16% MTA Fixed Income Portfolio 18% MTA Stable Value Fund 38% MTA Diversified Inflation Hedge 12%
MTA Target-Year Lifecycle 2020 Fund	Large Cap 16% Mid Cap 2% Small Cap 2% International 20% Market Bonds 21% Stable Value 29% DIH Allocation 10%	MTA Large Cap Core Index Fund 8% MTA Large Cap Value Portfolio 4% MTA Large Cap Growth Portfolio 4% MTA Mid Cap Core Portfolio 2% MTA Small Cap Core Portfolio 2% MTA International Portfolio 20% MTA Fixed Income Portfolio 21% MTA Stable Value Fund 29% MTA Diversified Inflation Hedge 10%
MTA Target-Year Lifecycle 2025 Fund	Large Cap 21% Mid Cap 3% Small Cap 3% International 26% Market Bonds 22% Stable Value 15% DIH Allocation 10%	MTA Large Cap Core Index Fund 13% MTA Large Cap Value Portfolio 4% MTA Large Cap Growth Portfolio 4% MTA Mid Cap Core Portfolio 3% MTA Small Cap Core Portfolio 3% MTA International Portfolio 26% MTA Fixed Income Portfolio 22% MTA Stable Value Fund 15% MTA Diversified Inflation Hedge 10%
MTA Target-Year Lifecycle 2030 Fund	Large Cap 21% Mid Cap 4% Small Cap 4% International 29% Market Bonds 25% Stable Value 7% DIH Allocation 10%	MTA Large Cap Core Index Fund 13% MTA Large Cap Value Portfolio 4% MTA Large Cap Growth Portfolio 4% MTA Mid Cap Core Portfolio 4% MTA Small Cap Core Portfolio 4% MTA International Portfolio 29% MTA Fixed Income Portfolio 25% MTA Stable Value Fund 7% MTA Diversified Inflation Hedge 10%

Fund Name	Asset Class	Portfolio Allocations
MTA Target-Year Lifecycle 2035 Fund	Large Cap 22% Mid Cap 5% Small Cap 5% International 32% Market Bonds 26% DIH Allocation 10%	MTA Large Cap Core Index Fund 12% MTA Large Cap Value Portfolio 5% MTA Large Cap Growth Portfolio 5% MTA Mid Cap Core Portfolio 5% MTA Small Cap Core Portfolio 5% MTA International Portfolio 32% MTA Fixed Income Portfolio 26% MTA Diversified Inflation Hedge 10%
MTA Target-Year Lifecycle 2040 Fund	Large Cap 25% Mid Cap 7% Small Cap 7% International 38% Market Bonds 13% DIH Allocation 10%	MTA Large Cap Core Index Fund 11% MTA Large Cap Value Portfolio 7% MTA Large Cap Growth Portfolio 7% MTA Mid Cap Core Portfolio 7% MTA Small Cap Core Portfolio 7% MTA International Portfolio 38% MTA Fixed Income Portfolio 13% MTA Diversified Inflation Hedge 10%
MTA Target-Year Lifecycle 2045 Fund	Large Cap 27% Mid Cap 8% Small Cap 8% International 42% Market Bonds 5% DIH Allocation 10%	MTA Large Cap Core Index Fund 11% MTA Large Cap Value Portfolio 8% MTA Large Cap Growth Portfolio 8% MTA Mid Cap Core Portfolio 8% MTA Small Cap Core Portfolio 8% MTA International Portfolio 42% MTA Fixed Income Portfolio 5% MTA Diversified Inflation Hedge 10%
MTA Target-Year Lifecycle 2050 Fund	Large Cap 27% Mid Cap 8% Small Cap 8% International 42% Market Bonds 5% DIH Allocation 10%	MTA Large Cap Core Index Fund 9% MTA Large Cap Value Portfolio 9% MTA Large Cap Growth Portfolio 9% MTA Mid Cap Core Portfolio 8% MTA Small Cap Core Portfolio 8% MTA International Portfolio 42% MTA Fixed Income Portfolio 5% MTA Diversified Inflation Hedge 10%
MTA Target-Year Lifecycle 2055 Fund	Large Cap 27% Mid Cap 8% Small Cap 8% International 42% Market Bonds 5% DIH Allocation 10%	MTA Large Cap Core Index Fund 9% MTA Large Cap Value Portfolio 9% MTA Large Cap Growth Portfolio 9% MTA Mid Cap Core Portfolio 8% MTA Small Cap Core Portfolio 8% MTA International Portfolio 42% MTA Fixed Income Portfolio 5% MTA Diversified Inflation Hedge 10%
MTA Income Fund	Large Cap 8% Mid Cap 1% Small Cap 1% International 10% Market Bonds 12% Stable Value 51% DIH Allocation 17%	MTA Large Cap Core Index Fund 4% MTA Large Cap Value Portfolio 2% MTA Large Cap Growth Portfolio 2% MTA Mid Cap Core Portfolio 1% MTA Small Cap Core Portfolio 1% MTA International Portfolio 10% MTA Fixed Income Portfolio 12% MTA Stable Value Fund 51% MTA Diversified Inflation Hedge 17%

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



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

International Equity Funds

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

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

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

Small-Cap Equity Funds

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

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

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

Mid-Cap Equity Funds

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

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

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

Large-Cap Equity Funds

MTA Large Cap Value Portfolio – (Value) The Portfolio invests wholly in the T. Rowe Price Institutional Large Cap Value Fund. The investment seeks to provide long-term capital appreciation by investing in common stocks believed to be undervalued. In taking a value approach to investment selection, the fund will normally invest at least 80% of its net assets in securities of large-cap companies the portfolio manager regards as undervalued. The fund defines a large-cap company as one whose market capitalization is larger than the median market capitalization of companies in the Russell 1000 Value Index or larger than the three year average median market capitalization of companies in the index as of December 31 of the three preceding years.

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

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

Fixed Income Funds

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

MTA Fixed Income Portfolio – The Portfolio is managed by three complementary, but independent managers. The balances in the investments are rebalanced regularly to maintain the 34%/33%/33% split. By employing three managers, this portfolio offers improved diversification compared to having a single investment manager. The underlying investments are:

1. **TCW Core Plus Fund** – This separate account is sub-advised by Metropolitan West Asset Management, LLC. TCW Core Plus Fund seeks to outperform the broad market by applying specialized management expertise to and allocating capital among US government, corporate, high yield and mortgage-backed sectors. In addition, exposure to international and emerging markets fixed income assets are opportunistically incorporated into portfolio positioning. The strategy seeks to outperform the Barclays Aggregate Bond Index.
2. **Loomis Sayles Core Plus Fixed Income Fund** – The funds seeks high total investment return through a combination of current income and capital appreciation and to outperform its benchmark, the Barclays US Aggregate Bond Index denominated in US dollars.
3. **Wellington World Bond Portfolio** – The fund is sub-advised by Wellington Management Company, LLP. The objective of the World Bond approach is to generate consistent total returns over a full market cycle. World Bond investment process is designed to allocate capital to high quality sovereign countries while simultaneously identifying opportunistic investment ideas across a wide range of diversified fixed income strategies, and to transparently manage portfolio risk.

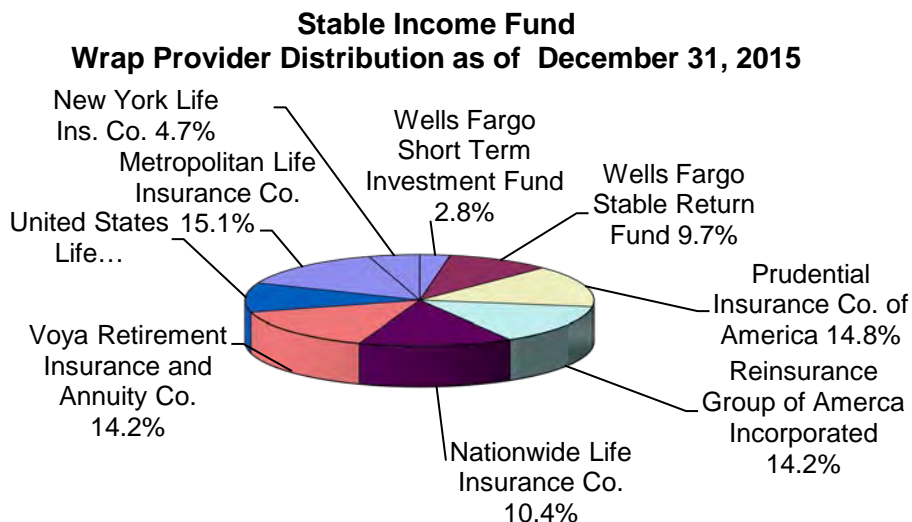
Stable Value Option

MTA Stable Value Fund – The fund seeks to provide safety of principal and a stable credited rate of interest, while generating competitive returns over time compared to other comparable investments. The fund is managed by Galliard Capital Management and is primarily comprised of investment contracts issued by financial institutions and other eligible stable value investments. All contract issuers and securities utilized in the portfolio are rated investment grade by one of the Nationally Recognized Statistical Rating Organizations at time of purchase. The types of investment contracts in which the Fund may invest include Guaranteed Investment Contracts (“GICs”), Synthetic GICs, and Separate Account GICs. These types of investment contracts seek to provide participants with safety of principal and accrued interest as well as a stable crediting rate.

GICs are direct obligations of insurance companies which generally provide fixed rates of interest (net of the insurer’s fees) over set periods of time. A GIC has no associated portfolio of underlying securities and is simply an obligation of the issuer to repay principal and pay a stated rate of return. Synthetic GICs are designed to facilitate the preservation of investment principal by providing for valuation at the contract’s book value. There are two key components in a Synthetic GIC’s structure: (1) underlying securities which are held and owned by the Fund on behalf of investors, and (2) contracts issued by a bank or insurance company which, under normal circumstances, permit Fund investors to make withdrawals at book value. Separate Account GICs are issued by insurance companies, and like the structure of Synthetic GICs, are backed by underlying securities. Unlike Synthetic GICs, however, the underlying securities of Separate Account GICs are owned and held by the issuing insurance company. These underlying securities are; however, segregated from insurance company general account assets.

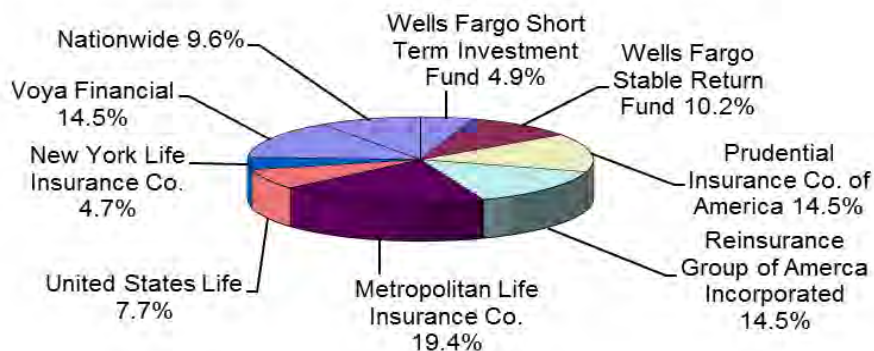
Each of these types of investment contracts are designed to be benefit responsive, allowing participants to transact at book value (principal plus accrued interest) without reference to the price fluctuations of the underlying fixed income securities.

The following chart shows the underlying investments of the MTA Stable Value Fund as of December 31, 2015 and 2014.



*The Wells Fargo Stable Return Fund G and Wells Fargo/BlackRock STIF are not a part of the wrapped portfolio.

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



*The Wells Fargo Stable Return Fund G and Wells Fargo/BlackRock STIF are not a part of the wrapped portfolio.

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

Performance Summary

Year ended December 31, 2015

Stable Value

	3 Months	1 Year	3 Years	5 Years	7 Years
MTA Stable Value	.5%	1.9%	2.1%	2.4%	2.9%
Galliard 5YrCMT+50bps	.4%	1.8%	1.9%	1.8%	2.0%

Fixed Income

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA Aggregate Bond Index Fund	-0.5%	0.6%	1.4%	3.2%	4.1%
Barclays U.S. Aggregate	-0.6%	0.6%	1.4%	3.3%	4.1%
Loomis Sayles Core Plus Bond	-0.6%	NA	NA	NA	NA
Barclays U.S. Aggregate	-0.6%	0.6%	1.4%	3.3%	4.1%
TCW MetWest Core Plus Fixed Income	-0.4%	NA	NA	NA	NA
Barclays U.S. Aggregate	-0.6%	0.6%	1.4%	3.3%	4.1%
Wellington World Bond Fund	-0.7%	NA	NA	NA	NA
Barclays U.S. Aggregate	-0.6%	0.6%	1.4%	3.3%	4.1%

Domestic Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
Vanguard Institutional Index Fund Institutional Plus	7.1%	1.4%	15.1%	12.6%	14.8%
S&P 500	7.0%	1.4%	15.1%	12.6%	14.8%
T Rowe Price Large Cap Value Fund (Prudential Separate Account)	7.8%	-3.2%	NA	NA	NA
Russell 1000 Value	5.6%	-3.8%	13.1%	11.3%	13.0%
Jennison Large Cap Growth (Prudential Separate Account)	8.3%	10.9%	18.6%	14.3%	17.5%
Russell 1000 Growth	7.3%	5.7%	16.8%	13.5%	17.1%
SSgA S&P 400 Mid Cap Index	2.6%	-2.2%	12.7%	10.6%	16.3%
S&P 400 MidCap	2.6%	-2.2%	12.8%	10.7%	16.4%
Vanguard Selected Value Fund Investor	3.4%	-3.8%	13.3%	11.0%	15.5%
Russell Midcap Value	3.1%	-4.8%	13.4%	11.3%	16.2%
Frontier Mid Cap Growth (Prudential Separate Account)	2.1%	3.0%	15.3%	11.6%	16.2%
Russell Midcap Growth	4.1%	-0.2%	14.9%	11.5%	18.0%
SSgA Russell 2000 Index	3.6%	-4.4%	11.6%	9.1%	13.9%
Russell 2000	3.6%	-4.4%	11.7%	9.2%	14.0%
Denver Small Cap Value (Separate Account)	1.6%	-7.3%	NA	NA	NA
Russell 2000 Value	2.9%	-7.5%	9.1%	7.7%	11.7%
Conestoga Small Cap Growth (Separate Account)	8.7%	7.6%	NA	NA	NA
Russell 2000 Growth	4.3%	-1.4%	14.3%	10.7%	16.3%

Performance Summary

Year ended December 31, 2015 (continued)

International Equity

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA MSCI ACWI ex-U.S. IMI Index	3.0%	-4.5%	1.7%	NA	NA
MSCI AC World ex U.S. Net	3.5%	-4.6%	2.0%	1.3%	8.1%
William Blair Institutional International Growth Fund	4.8%	0.1%	5.0%	4.4%	11.4%
MSCI AC World ex U.S. Growth Net WHT	5.0%	-1.3%	3.5%	2.1%	8.4%
Target International Equity Portfolio Q	4.2%	1.9%	4.6%	NA	NA
MSCI AC World ex U.S. Value Net WHT	1.4%	-10.1%	-0.6%	-0.1%	6.5%
MSCI EAFE Value NET WHT	2.7%	-5.7%	3.1%	2.5%	6.7%

Diversified Inflation

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA Real Asset	-1.9%	-14.1%	-6.8%	-2.8%	NA
SSgA Custom Real Asset Index	-1.9%	-14.1%	-6.7%	-2.7%	NA

Lifecycle

	3 Months	1 Year	3 Years	5 Years	7 Years
MTA Income	1.0%	1.0%	2.3%	3.5%	4.7%
MTA Income Composite Index	0.7%	0.3%	2.0%	3.4%	4.4%
MTA 2015	1.6%	1.0%	3.4%	4.3%	7.2%
MTA 2015 Composite Index	1.2%	-0.01%	3.1%	4.1%	6.2%
MTA 2020	2.1%	1.0%	4.2%	4.9%	7.9%
MTA 2020 Composite Index	1.6%	-0.4%	3.7%	4.5%	6.9%
MTA 2025	2.7%	0.9%	5.5%	5.7%	8.9%
MTA 2025 Composite Index	2.1%	-0.8%	4.9%	5.3%	8.1%
MTA 2030	2.9%	0.8%	5.9%	5.9%	9.4%
MTA 2030 Composite Index	2.3%	-1.0%	5.2%	5.5%	9.4%
MTA 2035	3.1%	0.7%	6.4%	6.3%	10.0%
MTA 2035 Composite Index	2.5%	-1.3%	5.6%	5.8%	9.2%
MTA 2040	3.9%	1.0%	8.1%	7.0%	11.1%
MTA 2040 Composite Index	3.2%	-1.5%	7.1%	6.5%	10.4%
MTA 2045	4.4%	0.9%	9.1%	7.4%	11.9%
MTA 2045 Composite Index	3.8%	-2.1%	8.0%	6.9%	11.4%
MTA 2050	4.4%	0.8%	9.4%	7.6%	12.2%
MTA 2050 Composite Index	4.0%	-2.2%	8.2%	7.0%	11.6%
MTA 2055¹	NA	NA	NA	NA	NA
MTA 2055 Composite Index	NA	NA	NA	NA	NA

¹ The MTA 2055 Fund was added to the Program on December 16, 2015.

Performance Summary

Year ended December 31, 2014

Stable Value

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

Domestic Fixed

	3 Months	1 Year	3 Years	5 Years	7 Years
SSgA Aggregate Bond Index Fund	1.8%	6.0%	2.6%	4.4%	4.8%
Barclays Capital U.S. Aggregate	1.8%	6.0%	2.7%	4.5%	4.8%
SSgA U.S. Inflation Protected Bond Index Fund	0.0%	3.5%	.3%	4.0%	4.1%
Barclays Capital U.S. TIPS	0.0%	3.6%	.4%	4.1%	4.2%
Prudential Core Plus (Separate Account)	2.0%	5.1%	4.7%	4.7%	5.8%
Barclays Capital U.S. Aggregate	1.8%	6.0%	2.7%	4.5%	4.8%
Vanguard Institutional Index Fund Institutional Plus	4.9%	13.7%	20.4%	15.5%	7.3%
S&P 500	4.9%	13.7%	20.4%	15.5%	7.3%
T Rowe Price Institutional Large-Cap Value Fund	4.4%	13.1%	21.3%	14.9%	7.3%
Russell 1000 Value	5.0%	13.5%	20.9%	15.4%	6.4%
Jennison Large Cap Growth (Prudential Separate Account)	2.9%	10.1%	20.6%	14.4%	8.6%
Russell 1000 Growth	4.8%	13.0%	20.3%	15.8%	8.4%
SSgA S&P400 MidCap Index	6.4%	9.7%	19.9%	16.5%	9.4%
S&P 400 MidCap	6.3%	9.8%	20.0%	16.5%	9.5%
Vanguard Selected Value Fund Investor	2.9%	6.4%	20.3%	16.0%	9.1%
Russell Midcap Value	6.1%	14.7%	22.0%	17.4%	9.1%
Frontier Mid Cap Growth (Prudential Separate Account)	6.8%	11.3%	20.6%	15.6%	8.6%
Russell Midcap Growth	5.8%	11.9%	20.7%	16.9%	8.6%
SSgA Russell 2000 Index	9.8%	4.9%	19.2%	15.5%	8.1%
Russell 2000	9.7%	4.9%	19.2%	15.5%	8.2%
Denver Small Cap Value (Separate Account)	10.7%	6.8%	NA	NA	NA
Westcore Small Cap Value Dividend Fund Inst	10.9%	6.6%	17.0%	15.2%	7.4%
Russell 2000 Value	9.4%	4.2%	18.3%	14.3%	7.6%
Conestoga Small Cap Growth (Separate Account)	9.5%	-7.9%	NA	NA	NA
Conestoga Small Cap Fund	9.7%	-8.0%	15.1%	16.8%	9.1%
Russell 2000 Growth	10.1%	5.6%	20.1%	15.7%	8.7%

Performance Summary

Year ended December 31, 2014 (continued)

International Equity

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

Lifecycle

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

The table below summarizes the Plans' investments by category at December 31, 2015:

FUND INVESTMENT SUMMARY

Investment at Contract and NAV Values	457		401k	
	Distribution		Distribution	
Target-Year Lifecycle Funds	\$318,524,684	15.39%	\$476,611,941	17.05%
International Equity Funds	105,779,549	5.11	154,481,314	5.53
Small-Cap Equity Funds	94,927,646	4.59	132,230,414	4.73
Mid-Cap Equity Funds	156,530,472	7.57	201,497,979	7.21
Large-Cap Equity Funds	498,720,278	24.10	715,264,509	25.59
Bond Funds	86,716,130	4.19	126,838,507	4.54
Stable Income Fund	805,593,393	38.93	984,627,394	35.23
Self-Directed Investment Option	2,391,986	0.12	3,430,742	0.12
Total Investments	\$2,069,184,138	100%	\$2,794,982,800	100%

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

FUND INVESTMENT SUMMARY

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

At December 31, 2015, the investment option holding the largest portion of participants' funds in both the 457 and 401(k) Plans was the Stable Income Funds with 38.93% and 35.23% of invested funds, respectively. This was followed by the Large-Cap Equity Funds with 24.10% and 25.59% of invested 457 and 401(k) funds, respectively.

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

Economic Factors

Market Overview and Outlook – 2015

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

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

Macro Themes

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

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

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

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt issues in developed markets, and a collapse in energy and mineral prices. The main emerging markets, Brazil, Russia, India and China, defined as the “BRICs” all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential.

United States

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

Equity

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

Large Cap stocks were barely positive, with the S&P 500 and Russell 1000 indices posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large Cap energy stocks fell by 21.1% for the year while Mid Cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the United States, active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

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

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

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

International Developed

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

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In United States dollars, all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the US, equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from United States to European Equities. In Asia, most developed markets continue to experience very weak performance in United States dollar terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

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

Emerging Markets

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

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

("EMLI") fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

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

Commodities

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

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

Contact Information

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

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**METROPOLITAN TRANSPORTATION AUTHORITY
DEFERRED COMPENSATION PROGRAM**

**STATEMENTS OF PLANS NET POSITION
AS OF DECEMBER 31, 2015 AND DECEMBER 31, 2014
(\$ In THOUSANDS)**

	2015		2014	
	457	401K	457	401K
ASSETS:				
Investments at contract value	\$ 861,989	\$ 1,064,401	\$ 826,879	\$ 1,016,656
Investments at net asset value	1,207,195	1,730,582	1,123,083	1,621,151
Total investments	2,069,184	2,794,983	1,949,962	2,637,807
Other plan investments:				
Participant loans receivable	67,361	129,902	60,849	118,639
Total other plan investments	67,361	129,902	60,849	118,639
Total assets	2,136,545	2,924,885	2,010,811	2,756,446
LIABILITIES:				
Administrative expense reimbursement	375	472	66	66
Total liabilities	375	472	66	66
TOTAL NET POSITION				
RESTRICTED FOR BENEFITS	<u>\$ 2,136,170</u>	<u>\$ 2,924,413</u>	<u>\$ 2,010,745</u>	<u>\$ 2,756,380</u>

See notes to financial statements.

**METROPOLITAN TRANSPORTATION AUTHORITY
DEFERRED COMPENSATION PROGRAM**

**STATEMENTS OF CHANGES IN PLANS NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014**

(\$ In THOUSANDS)

	2015		2014	
	457	401K	457	401K
ADDITIONS:				
Investment income:				
Net appreciation in fair value of investments	\$ 36,997	\$ 49,879	\$ 84,328	\$ 118,282
Total investment income	36,997	49,879	84,328	118,282
Contributions:				
Employee contributions, net	175,952	226,386	197,250	240,181
Participant rollovers	5,079	17,471	5,125	17,705
Employer contributions	-	4,875	-	3,867
Total contributions	181,031	248,732	202,375	261,753
Other additions:				
Loan repayments - interest	2,762	5,336	2,541	4,973
Total additions	220,790	303,947	289,244	385,008
DEDUCTIONS:				
Distribution to participants	47,642	58,729	42,368	49,663
Transfers to other plans	43,881	71,819	47,317	64,409
Net loan initiations/repayments	(116)	(201)	(73)	(207)
Loan defaults/offsets	1,894	2,749	1,923	2,461
Loan fees transfers to other plans	247	518	225	490
Other deductions	1,442	1,828	1,485	2,423
Administrative expense	375	472	66	66
Total deductions	95,365	135,914	93,311	119,305
Increase in net position	125,425	168,033	195,933	265,703
TOTAL NET POSITION				
RESTRICTED FOR BENEFITS				
Beginning of year	2,010,745	2,756,380	1,814,812	2,490,677
End of year	\$ 2,136,170	\$ 2,924,413	\$ 2,010,745	\$ 2,756,380

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY DEFERRED COMPENSATION PROGRAM

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

(Dollars in thousands)

1. PLANS BACKGROUND AND DESCRIPTION

Description – The Deferred Compensation Program consists of two defined contribution plans that provide benefits based solely on the amounts 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, cover the costs of administering the Deferred Compensation Program.

In 1984, the MTA established the 457 Plan to provide benefits competitive with private industry. Only managerial employees were permitted to participate in the Plan and investment options were limited to five funds: a Guaranteed Interest Fund, a Common Stock Fund, a Money Market Fund, a Managed Fund, and a Stock Index Fund. Pursuant to Internal Revenue Code ("Code") Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive benefit of the participants and their beneficiaries. Participation in the 457 Plan is now available to non-represented employees and, after collective bargaining, most represented employees. All amounts of compensation deferred under the 457 Plan, and all income attributable to such compensation, less expenses and fees, are held in trust for the exclusive benefit of the participants and their beneficiaries. Accordingly, the 457 Plan is not reflected on the MTA's consolidated statements of net position.

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For financial reporting purposes, The MTA adheres to accounting principles generally accepted in the United States of America. The MTA Deferred Compensation Program applies all applicable pronouncements of the Governmental Accounting Standards Board (“GASB”).

New Accounting Standards Adopted – The Plans adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the Funds to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plans’ financial statements as a result of the implementation of GASB 72. Certain changes were also made to the footnotes to the financial statements including additional disclosures related to the hierarchy of valuation inputs and valuation techniques.

Recent Accounting Pronouncements —

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

The Plans have completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Plans have determined that GASB Statement No. 76 had no impact on Plans financial statements

The Plans have completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for

financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

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

The Plans have not completed the process of evaluating the impact of Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, 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 No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 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 employee (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. Earlier application is encouraged.

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

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

3. INVESTMENTS

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

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

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

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

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

Such investment vehicles also should:

- Have sufficient assets under management so that the MTA account is not more than 10% of total strategy assets; strategy is defined as assets in all vehicles (separate accounts, collective trusts and mutual funds),
- Be well diversified,
- Have a minimum of three years of verifiable investment performance information,
- Have acceptable volatility in line with investment philosophy and process,
- Have the liquidity and/or marketability to pay benefit amounts to participants due under the terms of the Program, and
- Have a reasonable expense ratio.

Concentration of Credit Risk - Individual investments held by the Plans that represent 5.0% or more of the Plans' net position available for benefits at December 31, 2015 and 2014 are as follows:

Investment at contract value – December 31, 2015	457 Value	401(k) Value
MTA Stable Value Fund	\$805,593,393	\$984,627,394
Investment at NAV – December 31, 2015	457 Value	401(k) Value
MTA Large-Cap Growth Portfolio	\$228,173,059	\$319,854,420
MTA Large-Cap Core Index Fund	212,164,917	308,799,014
MTA Mid-Cap Core Portfolio	113,520,739	152,803,898
Investment at contract value – December 31, 2014	457 Value	401(k) Value
MTA Stable Value fund	\$771,831,770	\$938,061,758
Investment at NAV – December 31, 2014	457 Value	401(k) Value
MTA Large-Cap Growth Portfolio	\$198,135,976	\$280,594,085
MTA Large-Cap Core Index Fund	202,602,344	303,910,990
MTA Mid-Cap Core Portfolio	113,926,899	151,858,747

The following table shows the contract and NAV values of investment in the various investment options at December 31, 2015 and 2014

Investments at Contract and NAV Values at December 31, 2015

<u>Target-Year Lifecycle Funds</u>	<u>457 Value</u>	<u>401k Value</u>
MTA Target-Year Lifecycle 2015 Fund	\$ 44,493,225	\$62,596,459
MTA Target-Year Lifecycle 2020 Fund	31,701,586	43,876,804
MTA Target-Year Lifecycle 2025 Fund	74,885,902	115,481,365
MTA Target-Year Lifecycle 2030 Fund	24,716,722	40,601,292
MTA Target-Year Lifecycle 2035 Fund	52,410,891	85,149,529
MTA Target-Year Lifecycle 2040 Fund	13,328,970	20,399,118
MTA Target-Year Lifecycle 2045 Fund	28,087,895	46,319,157
MTA Target-Year Lifecycle 2050 Fund	14,888,447	16,890,681
MTA Target-Year Lifecycle 2055 Fund	27,804	6,624
MTA Income Fund	33,983,242	45,290,912
 <u>International Equity Funds</u>		
MTA International Portfolio	95,442,289	141,216,984
MTA International Index Fund	10,337,260	13,264,330
 <u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	66,531,555	99,416,057
MTA Small Cap Core Index	28,396,091	32,814,357
 <u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	113,520,739	152,803,898
MTA Mid Cap Core Index Fund	43,009,733	48,694,081
 <u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	212,164,017	308,799,014
MTA Large Cap Growth Portfolio	228,173,059	319,854,420
MTA Large Cap Value Portfolio	58,383,202	86,611,075
 <u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	73,243,932	110,850,879
MTA Bond Aggregate Index Fund	13,472,198	15,987,628
 <u>Fixed Investment Option</u>		
MTA Stable Value Fund	805,593,393	984,627,394
 <u>Self-Directed Investment Account</u>		
	2,391,986	3,430,742
 Total	\$ 2,069,184,138	\$ 2,794,982,800

Investments at Contract and NAV Values at December 31, 2014

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

The following tables show the interest and/or dividends earned on investments and net appreciation/ (depreciation) for the years ended December 31, 2015 and 2014.

457 Investments at December 31, 2015

<u>Target-Year Lifecycle Funds</u>	<u>Cash Earnings</u>	<u>Appreciation/Depreciation In Fair Market Value - Net</u>
MTA Target-Year Lifecycle 2010 Fund		(\$14,244)
MTA Target-Year Lifecycle 2015 Fund	\$2	480,156
MTA Target-Year Lifecycle 2020 Fund	-	261,402
MTA Target-Year Lifecycle 2025 Fund	-	596,181
MTA Target-Year Lifecycle 2030 Fund	-	134,993
MTA Target-Year Lifecycle 2035 Fund	-	312,228
		86,426
MTA Target-Year Lifecycle 2040 Fund	45	
MTA Target-Year Lifecycle 2045 Fund	-	234,658
MTA Target-Year Lifecycle 2050 Fund	6	89,305
MTA Target-Year Lifecycle 2055 Fund	-	416
MTA Income Fund	(21)	324,408
<u>International Equity Funds</u>		
MTA International Portfolio	(14)	381,162
MTA International Index Fund	-	(616,930)
<u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	(3)	28,327
MTA Small Cap Core Index	-	(1,255,518)
<u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	(4)	(513,021)
MTA Mid Cap Core Index Fund	-	(1,130,066)
<u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	(3)	3,150,685
MTA Large Cap Growth Portfolio	(6)	21,671,008
MTA Large Cap Value Portfolio	(2)	(1,709,687)
<u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	43	(556,142)
MTA Bond Aggregate Index Fund	-	45,065
<u>Fixed Investment Option</u>		
MTA Stable Value Fund	70	15,044,409
<u>Self-Directed Investment Account</u>	-	(48,528)
Total	\$113	\$36,996,693

457 Investments at December 31, 2014

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

401(k) Investments at December 31, 2015

	<u>Cash Earnings</u>	<u>Appreciation/Depreciation in Fair Market Value - Net</u>
<u>Target-Year Lifecycle Funds</u>		
MTA Target-Year Lifecycle 2010 Fund	\$ -	(\$17,298)
MTA Target-Year Lifecycle 2015 Fund	-	661,014
MTA Target-Year Lifecycle 2020 Fund	-	377,238
MTA Target-Year Lifecycle 2025 Fund	3	914,637
MTA Target-Year Lifecycle 2030 Fund	-	267,156
MTA Target-Year Lifecycle 2035 Fund	-	557,705
MTA Target-Year Lifecycle 2040 Fund	-	140,509
MTA Target-Year Lifecycle 2045 Fund	-	360,969
MTA Target-Year Lifecycle 2050 Fund	-	89,310
MTA Target-Year Lifecycle 2055 Fund	-	27
MTA Income Fund	1	446,354
<u>International Equity Funds</u>		
MTA International Portfolio	(27)	377,593
MTA International Index Fund	-	(721,280)
<u>Small-Cap Equity Funds</u>		
MTA Small Cap Core Portfolio	(49)	(32,359)
MTA Small Cap Core Index	-	(1,556,907)
<u>Mid-Cap Equity Funds</u>		
MTA Mid Cap Core Portfolio	(60)	(665,103)
MTA Mid Cap Core Index Fund	-	(1,192,480)
<u>Large-Cap Equity Funds</u>		
MTA Large Cap Core Index Fund	(101)	4,535,707
MTA Large Cap Growth Portfolio	(107)	30,585,709
MTA Large Cap Value Portfolio	(62)	(2,683,389)
<u>Bond Funds</u>		
MTA Bond Core Plus Portfolio	(103)	(831,452)
MTA Bond Aggregate Index Fund	-	46,064
<u>Fixed Investment Option</u>		
MTA Stable Value Fund	(2,136)	18,308,257
<u>Self-Directed Investment Account</u>	-	(85,689)
Total	(\$2,641)	\$49,882,292

401(k) Investments at December 31, 2014

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

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

At December 31, 2015, the following credit quality rating has been assigned by a nationally recognized rating organization to the Fixed Income Portfolio of the Plans:

<u>Quality Rating</u>	<u>457</u>	<u>457</u> Percentage of Fixed Income <u>Portfolio</u>	<u>401(k)</u>	<u>401(k)</u> Percentage of Fixed Income <u>Portfolio</u>
AAA	\$ 469,727,691	43.63%	\$ 612,834,150	43.94%
AA	63,380,137	5.89%	80,671,205	5.78%
A	144,495,317	13.42%	185,659,267	13.31%
BBB	116,889,017	10.86%	152,170,862	10.91%
BB	10,162,966	0.94%	14,873,718	1.07%
Below BB	<u>3,497,356</u>	<u>0.32%</u>	<u>4,863,554</u>	<u>0.35%</u>
Credit Risk Debt Securities	808,152,484	75.06%	1,051,072,756	75.36%
U.S. Government Bonds	<u>268,525,761</u>	<u>24.94%</u>	<u>343,612,997</u>	<u>24.64%</u>
Total fixed income securities	1,076,678,245	<u>100.00%</u>	1,394,685,753	<u>100.00%</u>
Other securities not rated - equity, international funds and corporate bonds	<u>992,505,893</u>		<u>1,400,297,047</u>	
	<u>\$ 2,069,184,138</u>		<u>\$ 2,794,982,800</u>	

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

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

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

2015

<u>Investment Type</u>	<u>457</u>	<u>401(k)</u>	<u>Total</u>	<u>Duration</u>
Stable Value Fund	\$ 746,246,539	\$ 919,240,506	\$ 1,665,487,045	2.91 *
Loomis Sayles	24,170,497	36,580,790	60,751,287	6.74
TCW Group	24,902,937	37,689,299	62,592,236	4.97
SSgA BC Aggregate Fund	13,472,198	15,987,628	29,459,826	5.69
SSgA Real Asset Fund	35,121,160	36,580,790	71,701,950	3.84
Wellington World Bond Fund	<u>24,170,497</u>	<u>52,083,487</u>	<u>76,253,984</u>	7.60
Total Fixed Income				
Portfolio Modified Duration	868,083,828	1,098,162,500	1,966,246,328	
Investment with no duration reported	<u>1,201,100,310</u>	<u>1,696,820,300</u>	<u>2,897,920,610</u>	
Total investments	<u>\$ 2,069,184,138</u>	<u>\$ 2,794,982,800</u>	<u>\$ 4,864,166,938</u>	

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

2014

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

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

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

2015	457	401(k)	Total
Currency	Holdings in U.S. Dollars	Holdings in U.S. Dollars	Holdings in U.S. Dollars
Australian Dollar	\$ 8,430,411	\$ 12,689,482	\$ 21,119,893
Bermudian Dollar	1,391	1,673	3,064
Brazil Cruzeiro Real	1,009,692	1,509,808	2,519,500
British Pound Sterling	35,032,603	52,780,871	87,813,474
Canadian Dollar	9,374,858	14,010,627	23,385,485
Chilean Peso	28,627	36,412	65,039
Chinese Yuan Renminbi	(451,209)	(701,617)	(1,152,826)
Colombian Peso	29,729	36,486	66,215
Czech Krone	143,862	219,955	363,817
Danish Krone	4,841,981	7,351,495	12,193,476
Egyptian Pound	5,337	6,940	12,277
Euro	48,951,105	73,573,524	122,524,629
Hong Kong Dollar	8,712,557	13,064,287	21,776,844
Hungarian Forint	14,020	19,774	33,794
Indian Rupee	1,647,704	2,457,190	4,104,894
Indonesia Rupiah	282,416	416,379	698,795
Israeli Shekel	1,030,436	1,550,257	2,580,693
Japanese Yen	39,847,052	60,061,720	99,908,772
Malaysian Ringgit	198,440	283,765	482,205
Mexican Peso	3,703,747	5,632,936	9,336,683
Moroccan Dirham	326	491	817
New Zealand Dollar	1,721,989	2,640,247	4,362,236
Norwegian Krone	3,138,391	4,762,057	7,900,448
Panamanian Balboa	8,346	10,038	18,384
Peruvian Nuevo Sol	8,782	10,692	19,474
Philippine Peso	637,023	958,871	1,595,894
Polish Zloty	783,320	1,191,763	1,975,083
Qatar Riyal	20,280	26,374	46,654
Russian Ruble	3,202	4,164	7,366
Singapore Dollar	1,272,760	1,895,486	3,168,246
South African Rand	1,751,658	2,628,060	4,379,718
South Korean Won	1,698,329	2,486,961	4,185,290
Swedish Krona	6,669,738	10,088,802	16,758,540
Swiss Franc	11,149,261	16,747,359	27,896,620
New Taiwan Dollar	1,498,041	2,212,870	3,710,911
Thai Baht	262,231	387,339	649,570
Turkish Lira	480,527	712,243	1,192,770
United Arab Emirates Dirham	155,571	232,462	388,033
Uruguayan Pesos	5,564	6,692	12,256
Total	<u>\$ 194,100,098</u>	<u>\$ 292,004,935</u>	<u>\$ 486,105,032</u>

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

In year 2015, the MTA Deferred Compensation Program adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

**Investments measured at Contract and NAV values
(In thousands)**

	2015			
	December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
457 Plan				
Equity Securities:				
Comingled large-cap equity funds	\$ 315,376	\$ -	Daily	None
Large-cap equity mutual fund	243,865	-	Daily	None
Comingled mid-cap equity funds	105,817	-	Daily	None
Mid-cap equity mutual fund	62,807	-	Daily	None
Comingled small-cap equity funds	107,020	-	Daily	None
Comingled international equity fund	10,337	-	Daily	None
International equity mutual funds	178,836	-	Daily	None
Total equity securities	1,024,058	-		
Debt Securities				
Comingled debt funds	145,624	-	Daily	None
Total debt securities	145,624	-		
Real assets				
Comingled real asset equity fund	35,121	-	Daily	None
Total real assets	35,121	-		
Other:				
Self direct investment option	2,392	-	Daily	None
Total other	2,392	-		
Total investments measured at the NAV	1,207,195	-		
Investments measured at Contract Value	861,989	-		
Total investments	\$ 2,069,184	\$ -		

**Investments measured at Contract and NAV values
(In thousands)**

	2015			
	December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
401k Plan				
Equity Securities:				
Comingled large-cap equity funds	\$ 449,853	\$ -	Daily	None
Large-cap equity mutual fund	357,245	-	Daily	None
Comingled mid-cap equity funds	134,303	-	Daily	None
Mid-cap equity mutual fund	85,609	-	Daily	None
Comingled small-cap equity funds	150,644	-	Daily	None
Comingled international equity fund	13,264	-	Daily	None
International equity mutual funds	267,887	-	Daily	None
Total equity securities	1,458,805	-		
Debt Securities				
Comingled debt funds	216,263	-	Daily	None
Total debt securities	216,263	-		
Real assets				
Comingled real asset equity fund	52,083	-	Daily	None
Total real assets	52,083	-		
Other:				
Self direct investment option	3,431	-	Daily	None
Total other	3,431	-		
Total investments measured at the NAV	1,730,582	-		
Investments measured at Contract Value	1,064,401	-		
Total investments	\$ 2,794,983	\$ -		

**Investments measured at Contract and NAV values
(In thousands)**

457 Plan

Equity Securities:

Comingled large-cap equity funds	\$ 284,243	\$ -	Daily	None
Large-cap equity mutual fund	230,330	-	Daily	None
Comingled mid-cap equity funds	104,385	-	Daily	None
Mid-cap equity mutual fund	66,000	-	Daily	None
Comingled small-cap equity fund	106,023	-	Daily	None
Comingled international equity fund	9,287	-	Daily	None
International equity mutual funds	141,970	-	Daily	None

Total equity securities

942,238 -

Debt Securities

Comingled debt funds	178,810	-	Daily	None
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Total debt securities

178,810 -

Other:

Self direct investment option

2,035 - Daily None

Total other

2,035 -

Total investments measured at the NAV

1,123,083 -

Investments measured at Contract Value

826,879 -

Total investments

\$ 1,949,962 \$ -

2014

December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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**Investments measured at Contract and NAV values
(In thousands)**

401k Plan

Equity Securities:

Comingled large-cap equity funds	\$ 409,166	\$ -	Daily	None
Large-cap equity mutual fund	346,621	-	Daily	None
Comingled mid-cap equity funds	133,494	-	Daily	None
Mid-cap equity mutual fund	89,700	-	Daily	None
Comingled small-cap equity fund	30,028	-	Daily	None
Small-cap equity separate accounts	121,686	-	Daily	None
Comingled international equity fund	12,035	-	Daily	None
International equity mutual funds	208,666	-	Daily	None

Total equity securities

1,351,396 -

Debt Securities

Comingled debt funds	267,033	-	Daily	None
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Total debt securities

267,033 -

Other:

Self direct investment option

2,722 - Daily None

Total other

2,722 -

Total investments measured at the NAV

1,621,151 -

Investments measured at Contract Value

1,016,656 -

Total investments

\$ 2,637,807 \$ -

2014

December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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Comingled Funds - The fair values of the investments of this type have been determined using the NAV per share of the investments. The comingled equity funds are comprised of large cap, mid-cap, small-cap and international funds that invest in core indices across all industries, growth and value respectively. The comingled debt funds are comprised of corporate, treasuries and international fixed income securities.

Real Assets – The fund represents an optimal solution for an inflation hedging strategy and incorporates a diversified multi asset class approach. The fund strategic weights which are rebalanced monthly are as follows: 25% Bloomberg Roll Select Commodity Index; 25% Standard and Poor's (r) Global LargerMidCap Commodity & Resources Index; 10% Standard and Poor's Global Infrastructure Equity Index; 15% Dow Jones US Select REIT Index and 25% Barclays US TIPS Index. The fair values of the investments of this type have been determined using the NAV per share of the investments.

Self-Direct Brokerage Accounts – The Deferred Compensation program allows participants the option to invest up to twenty (20) percent of their account in over 500 mutual fund families comprising of more than 15,000 individual mutual funds. All investments under this option are in mutual funds and are measured at the respective fund NAVs.

4. CONTRIBUTIONS

Matching Contributions - MTA Bus, on behalf of certain MTA Bus employees, MTA Metro-North Railroad on behalf of certain MNR employees who opted-out of participation in the MTA Defined Benefit Pension Plan and MTA on behalf of certain represented MTA Business Service Center employees, 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 contributions vest as follows:

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

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

Years of Service	Vested Percentage
Less than 5	0%
5 or more	100%

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

MTA Headquarters – Commanding Officers - For each plan year, the MTA shall make contributions to the Account of each eligible MTA Police Department Commanding Officers Association Benevolent Association member in the amounts required by the collective bargaining agreement ("CBA") and subject to the contribution limits set forth in the CBA. These contributions shall be made monthly and shall be considered MTA Police contributions. Members are immediately 100% vested in these employer contributions.

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

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

Additional Deposits (Incoming Rollover or Transfers) - Participants in the Deferred Compensation Program are eligible to roll over both their before-tax and after-tax assets from other eligible retirement plans into the 401(k) and 457 Plans.

Status - As of December 31, 2015 and 2014, 34.3% and 34.3% of the eligible employees were enrolled in the 457 Plan and 48.17% and 46.5% of the eligible employees were enrolled in the 401(k) Plan, respectively. There are 30,293 and 29,592 active participants in the 457 Plan and 40,990 and 38,619 active participants in the 401(k) Plan. The average account balance in the 457 Plan is \$54,319 and \$53,449 and in the 401(k) Plan is \$57,058 and \$57,943 in 2015 and 2014, respectively.

5. DISTRIBUTIONS

In-Service Withdrawals - A 457 Plan participant who experiences an unforeseeable emergency (as defined by the Code) may apply for a withdrawal. A 401(k) Plan participant who experiences an immediate and heavy financial need (as defined by the Code) may apply for a withdrawal by filing a hardship application. Distributions are subject to applicable taxes and penalties.

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

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

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

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

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

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

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

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

Rollovers or Transfers Out of the Plans - If a participant chooses to transfer or roll over his or her Deferred Compensation account, or a portion thereof, it must be to an eligible retirement plan (401(a), 457,

401(k), 403(b) or rollover IRA). 457 Plan and 401(k) Plan participants are eligible to roll over or transfer their account balance(s) upon severance from service.

6. LOANS

The MTA Deferred Compensation Program offers participants the opportunity to borrow from either one or both Plans simultaneously. The MTA Plans permit one loan from the 457 Plan and up to two loans from the 401(k) Plan. However, participants are limited to a total of two loans. Thus, as a participant of both the 401(k) and the 457 Plans, a participant can have either two 401(k) loans or the combination of a 401(k) loan and a 457 loan. The MTA offers two types of loans: the first is a "General Purpose Loan", which is a five year loan and can be for any purpose. The second is a "Residential Loan", which is a loan for a primary residence and is a 20-year loan. For the Residential Loan, a signed contract to purchase the residence is necessary. Loan re-payment is made through payroll deduction. If a participant with an outstanding loan leaves the employment of the MTA, the participant may request to make coupon payments.

The minimum loan amount is \$1,000. The maximum amount of an approved loan may not exceed the lesser of: (i) 50 percent of the participant's 457 or 401(k) Plan account balance; or (ii) \$50,000 less the combined balance of all outstanding loans that a participant may have under the Program. All loans are subject to interest at prime rate plus 1 percent. A loan origination fee of \$75.00 is deducted from the approved loan amount. Active MTA employee participants may not borrow from amounts attributable to Metro-North contributions, MTA Police contributions, MTA Police COA contributions, BSC Matching Contributions and Roth Elective Deferrals. The net loans outstanding for the 457 plan is \$67.36 million and \$60.85 million at December 31, 2015 and 2014, respectively, and for the 401(k) plan was \$129.90 million and \$118.64 million at December 31, 2015 and 2014, respectively.

7. ADDITIONAL PLAN INFORMATION

Participation - Eligible employees are allowed to participate in the 401(k) Plan and/or the 457 Plan upon employment with the MTA and its affiliates or subsidiaries. The record-keeper/trustee maintains a website, along with a telephone voice response system, or participants may use paper enrollment forms, for Program activities. Participants may make or suspend deferrals; may increase or decrease, in multiples of 1 percent, the percentage of wages to be deferred or any whole dollar amount; may change the investment option of future deferrals or initiate account transfers between investment options in multiples of 1 percent or any dollar amount. There is no restriction on the number of times a participant may change the amount of future deferrals. An employee participating in both the 457 Plan and 401(k) Plan who wishes to make any changes must do so independently for each Plan. An employee who has severed service from the MTA may rejoin the 457 Plan, the 401(k) Plan, or both and become an active participant after returning to service to the MTA by following the procedures set forth above.

Excessive Trading Policy - MTA has an Excessive Trading policy in place for the Plans. This policy monitors trading activity in investment options, utilizing criteria such as frequency of trades, dollar amount of the trades, and number of buys and sells performed by the participant. Activity exceeding established thresholds can be deemed excessive trading. The Excessive Trading policy defines excessive trading as one or more trades into and out of the same investment option within a rolling 30-day period when each trade is over \$25,000. Automatic or system-driven transactions are not considered excessive trading. This includes contributions or loan repayments by payroll deductions, re-mapping transactions, hardship withdrawals, regularly scheduled or periodic distributions or periodic rebalancing through a systematic rebalancing program that is not initiated by the Program.

Maximum Deferrals - A participant in the 457 Plan could have deferred up to \$18,000 and \$17,500 plus an additional \$6,000 and \$5,500 for participants age 50 and over in calendar years 2015 and 2014, respectively. However, under certain circumstances, a participant may double the annual maximum contribution during each of the last three years prior to reaching his or her designated "Normal Retirement Age" ("Retirement Catch-Up Amount") if less than the maximum was deferred during earlier years. Alternatively, participants age 50 and over could have deferred an additional \$18,000 and \$17,500 in 2015 and 2014, irrespective of prior contributions ("Age 50 Catch-Up"). Participants may not make both the

Retirement Catch-Up and the Age 50 Catch-Up to the 457 Plan in the same year.

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

Membership – As of December 31, 2015 and 2014, the Plans' membership with balances consisted of:

2015	457	401(k)
Active employees	30,293	40,990
Terminated/Inactive employees	<u>7,822</u>	<u>7,617</u>
Total active and inactive members	<u>38,115</u>	<u>48,607</u>
Vested employees	38,115	48,453

2014	457	401(k)
Active employees	29,592	38,619
Terminated/Inactive employees	<u>6,867</u>	<u>7,208</u>
Total active and inactive members	<u>36,459</u>	<u>45,827</u>
Vested employees	36,459	45,547

Maintenance of Accounts - For both the 457 Plan and the 401(k) Plan, the record-keeper establishes an account for each participant to which any amounts deferred, transferred or distributed under the Plans are credited or charged, including, as specified in the Participation Agreement or any amendment thereto, any increase or decrease in the value of the investment options. The Plans are not responsible for any decrease in the value of a participant's account.

Plans' Funding and Expense Payment - The MTA Deferred Compensation Program charges participants' quarterly administrative fees. These fees cover participant directed activities, communications, and administrative expenses. They also cover the cost of the Program's third party administrator, the investment advisor, outside legal counsel, in-house legal counsel and staff salaries and benefits.

8. TRUSTEE AND OTHER PROFESSIONAL SERVICES

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

9. SUBSEQUENT EVENTS

On June 9, 2016, the Deferred Compensation Committee approved allowing retired and separated employees to take a new loan from their vested account in the 401(k) Plan, subject to the general loan rules. To allow participants to initiate a new loan after separation from service, the Committee amended the 401(k) Plan.

* * * * *

Metro-North Commuter Railroad Company Cash Balance Plan

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

1/4/17

METRO-NORTH COMMUTER RAILROAD COMPANY CASH BALANCE PLAN

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Metro-North Commuter Railroad Company Cash Balance Plan (the "Plan") as of December 31, 2015 and 2014, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan net position as of December 31, 2015 and 2014, and the respective changes in Plan net position for the

years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6, Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - Schedule I on page 22, Schedule of Employer Contributions - Schedule II on pages 23 through 24, and Schedule of Investment Returns- Schedule III on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 23, 2017

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) DECEMBER 31, 2015 AND 2014

This narrative discussion and analysis of the Metro-North Commuter Railroad Company Cash Balance Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2015 and 2014. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the past two years and the effects of significant changes, as well as a comparison with the prior year's activities and results. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements which begin on page 7.

Overview of Basic Financial Statements

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

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

Financial Highlights

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

FINANCIAL ANALYSIS

Fiduciary Net Position

December 31, 2015, 2014, and 2013

(Dollars in thousands)

	2015	2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Cash	\$ 3	\$ -	\$ -	\$ 3	\$ -
Investments, at fair value	606	695	745	(89)	(50)
Accrued interest	3	3	5	-	(2)
Receivable from MNCR	-	21	3	(21)	18
Receivable from investment securities sold	<u>10</u>	<u>-</u>	<u>-</u>	<u>10</u>	<u>-</u>
Total assets	<u>622</u>	<u>719</u>	<u>753</u>	<u>(97)</u>	<u>(34)</u>
Payable for investment securities purchased	<u>10</u>	<u>-</u>	<u>2</u>	<u>10</u>	<u>(2)</u>
Total liabilities	<u>10</u>	<u>-</u>	<u>2</u>	<u>10</u>	<u>(2)</u>
Net position - restricted for pension benefits	<u>\$ 612</u>	<u>\$ 719</u>	<u>\$ 751</u>	<u>\$ (107)</u>	<u>\$ (32)</u>

CHANGES IN FIDUCIARY NET POSITION

MNCR's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately \$2.977 million to the trust fund in 1989. As participants retire, distributions from the Plan have been made by the Trustee. MNCR anticipated that no further contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded accrued liabilities were paid to the Plan in several subsequent years. Per the January 1, 2014 actuarial valuation, the unfunded accrued liability was \$18 thousand which included administrative fees reimbursable to the Plan from MNCR. The full amount was paid to the Plan in 2015. Per the January 1, 2015 valuation, the actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2015. Per the January 1, 2016 valuation, the unfunded accrued liability was \$22 thousand and will be paid to the Plan in 2016.

Changes in Fiduciary Net Position For the Years Ended December 31, 2015, 2014 and 2013 (Dollars in thousands)

	2015	2014	2013	Increase/(Decrease)	
				2015-2014	2014-2013
Additions:					
Net investment income/(loss)	\$ 6	\$ 42	\$ (12)	\$ (36)	\$ 54
Employer contributions	-	14	-	(14)	14
Other	7	-	-	7	-
Total additions	<u>13</u>	<u>56</u>	<u>(12)</u>	<u>(43)</u>	<u>68</u>
Deductions:					
Benefits paid to participants	113	88	115	25	(27)
Other	<u>7</u>	<u>-</u>	<u>-</u>	<u>7</u>	<u>-</u>
Total deductions	<u>120</u>	<u>88</u>	<u>115</u>	<u>32</u>	<u>(27)</u>
Net decrease	<u>(107)</u>	<u>(32)</u>	<u>(127)</u>	<u>(75)</u>	<u>95</u>
Net position-restricted for pension benefits:					
Beginning of year	<u>719</u>	<u>751</u>	<u>878</u>	<u>(32)</u>	<u>(127)</u>
End of year	<u>\$ 612</u>	<u>\$ 719</u>	<u>\$ 751</u>	<u>\$ (107)</u>	<u>\$ (32)</u>

The Plan is a closed plan and has 7 active members as of January 1, 2016. Investments are primarily in bonds and asset backed securities to minimize exposure to market fluctuations.

This net position is held in trust for the payment of future benefits to members and beneficiaries.

Changes to the Plan's net position are affected by the investment activity in the portfolio as well as the benefit payments made to participants.

Decreases in investment income in 2015 was due to losses on investment activity particularly in corporate bond and U.S. Treasury holdings of \$9 thousand versus gains in these same securities of \$15 thousand in 2014 and losses of \$23 thousand in 2013. Increases in the benefits paid to plan participants in 2015 was due to 6 retirees taking lump sum distributions of \$42 thousand versus 3 retirees taking lump

sum distributions of \$14 thousand in 2014 and 9 retirees taking lump sum distributions of \$39 thousand for 2013.

INVESTMENTS

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

Investment Summary (Dollars in thousands)

Type of Investment	Fair Value	Allocation	Current Year Return
December 31, 2015			
U.S. government & agency securities	\$ 346	57.1 %	2.6 %
Corporate bonds & asset backed securities	225	37.0 %	4.2 %
U.S. Treasury Bills	22	3.6 %	0.0 %
Short-term investments	2	0.4 %	0.1 %
Other bonds & fixed income securities	<u>11</u>	<u>1.9 %</u>	<u>4.9 %</u>
Total	<u>\$ 606</u>	<u>100.0 %</u>	<u>3.1 %</u>
December 31, 2014			
U.S. government & agency securities	\$ 286	41.1 %	2.4 %
Corporate bonds & asset backed securities	297	42.7 %	4.1 %
U.S. Treasury Bills	95	13.7 %	0.0 %
Short-term investments	10	1.4 %	0.1 %
Other bonds & fixed income securities	<u>7</u>	<u>1.1 %</u>	<u>5.1 %</u>
Total	<u>\$ 695</u>	<u>100.0 %</u>	<u>2.8 %</u>
December 31, 2013			
U.S. government & agency securities	\$ 329	44.2 %	3.3 %
Corporate bonds & asset backed securities	291	39.1 %	4.2 %
U.S. Treasury Bills	110	14.8 %	0.0 %
Short-term investments	7	1.0 %	0.1 %
Other bonds & fixed income securities	<u>8</u>	<u>0.9 %</u>	<u>5.6 %</u>
Total	<u>\$ 745</u>	<u>100.0 %</u>	<u>3.1 %</u>

Contact Information

This financial report is designed to provide a general overview of the Metro-North Commuter Railroad Company Cash Balance Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Controller, Metro-North Commuter Railroad, 420 Lexington Ave, Suite 250, New York, NY 10170.

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

STATEMENTS OF FIDUCIARY NET POSITION AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS:		
Cash	\$ 2,872	\$ -
Investments, at fair value:		
U.S. government & agency securities	346,033	285,775
Corporate bonds & asset backed securities	224,509	296,665
U.S. Treasury Bills	22,000	95,000
Other bonds & fixed income securities	11,264	7,514
Short-term investments	<u>2,341</u>	<u>10,010</u>
Total investments	<u>606,147</u>	<u>694,964</u>
Accrued interest	3,412	3,683
Receivable from investment securities sold	9,981	-
Receivable from MNCR	<u>-</u>	<u>20,728</u>
Total assets	<u>622,412</u>	<u>719,375</u>
LIABILITIES:		
Payable for investment securities purchased	<u>(9,962)</u>	<u>(272)</u>
Total liabilities	<u>(9,962)</u>	<u>(272)</u>
NET POSITION - restricted for pension benefits	<u>\$ 612,450</u>	<u>\$ 719,103</u>

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
ADDITIONS:		
Investment income/(loss):		
Interest	\$ 17,285	\$ 19,360
Net depreciation/appreciation in fair value of investments	<u>(11,251)</u>	<u>21,686</u>
Total investment income/(loss)	6,034	41,046
Contributions:		
Employer	-	14,124
Other	<u>6,741</u>	<u>263</u>
Total additions	<u>12,775</u>	<u>55,433</u>
DEDUCTIONS:		
Benefits paid to participants	(112,655)	(87,735)
Other	<u>(6,773)</u>	<u>(29)</u>
Total deductions	<u>(119,428)</u>	<u>(87,764)</u>
NET DECREASE	(106,653)	(32,331)
NET POSITION - restricted for pension benefits		
Beginning of year	<u>719,103</u>	<u>751,434</u>
End of year	<u>\$ 612,450</u>	<u>\$ 719,103</u>

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY CASH BALANCE PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

1. PLAN DESCRIPTION

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

General

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

Plan Administration

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

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

Benefits Provided

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

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

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

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

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

Membership

Membership of the Plan consisted of the following at January 1, 2016, the date of the latest actuarial valuation:

Active Plan Members	7
Retirees and beneficiaries receiving benefits	27
Vested formerly active members not yet receiving benefits	14
Total	<u>48</u>

Contributions

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

MNCR's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately \$2.977 million to the trust fund in 1989. As participants retire, distributions from the Plan have been made by the Trustee. MNCR anticipated that no further contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded pension liabilities were paid to the Plan in several subsequent years. Per the January 1, 2014 actuarial valuation, the unfunded pension liability was \$18 thousand which included administrative fees reimbursable to the Plan from MNCR. The full amount was paid to the Plan in 2015. Per the January 1, 2015 valuation, the actuarial value of assets exceeded the actuarial total pension liability and as a result no payment was required for 2015. Per the January 1, 2016 valuation, the unfunded total pension liability was \$22 thousand and will be paid to the Plan in 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include the determination of the fair market value of investments, the actuarial determined contribution and the total pension liability.

Investment Valuation and Income Recognition

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

Benefits

Benefits are recognized when paid.

Administrative Expenses

The administrative expenses of the Plan are paid by MNCR. Administrative expenses were \$16,718 and \$16,216 for the years ended December 31, 2015 and 2014, respectively.

Federal Income Tax Status

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

New Accounting Standards

The Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the Funds to use valuation techniques which are appropriate under the circumstances and are a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plan's financial statements as a result of the implementation of GASB 72.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement

results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period 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 that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

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

The Plan has completed the process of evaluating the impact of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. The objective of this statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes as well as related Note disclosures. It will improve financial reporting by enhancing comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The Plan has determined that GASB Statement No. 79 had no impact on its fiduciary net position.

The Plan 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 improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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.

Subsequent Events

As of January 23, 2017, there were no materially significant subsequent events.

3. INVESTMENTS

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

The investment management firm is required to maintain a diversified portfolio. All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all state and federal statutes governing the investment of retirement funds. Securities managers must be registered advisors under the Investment Advisors Act of 1940. The investment managers must comply with the risk management guidelines per the Investment Management Agreement.

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

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

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

GASB 72 Disclosure

In fiscal year 2015, the Plan adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurements as of December 31, 2015 and December 31, 2014:

GASB 72 Disclosure (in thousands)

	2015			
	Level 1	Level 2	Level 3	Total
INVESTMENTS - fair value level				
Debt securities:				
U.S government agency	\$ 191	\$ 155	\$ -	\$ 346
Corporate bonds	-	204	-	204
U.S treasury securities	22	-	-	22
Commerical mortgage-backed securities	-	21	-	21
Other bonds	-	11	-	11
Total debt securities	213	391	-	604
Total investments by fair value level	213	391	-	604
INVESTMENTS- measured at the net asset value (NAV)				
Short-term other				2
Total investments measured at the NAV				2
Total investments by fair value level	\$ 213	\$ 391	\$ -	\$ 606

	2014			
	Level 1	Level 2	Level 3	Total
INVESTMENTS - fair value level				
Debt securities:				
U.S government agency	\$ 195	\$ 91	\$ -	\$ 286
Corporate bonds	-	278	-	278
U.S treasury securities	95	-	-	95
Commerical mortgage-backed securities	-	19	-	19
Other bonds	-	7	-	7
Total debt securities	290	395	-	685
Total investments by fair value level	290	395	-	685
INVESTMENTS- measured at the net asset value (NAV)				
Short-term other				10
Total investments measured at the NAV				10
Total investments by fair value level	\$ 290	\$ 395	\$ -	\$ 695

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the market place; many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

Money-Weighted Rate of Return

For the years ended December 31, 2015 and December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for the Plan was 0.93% and 5.96%, respectively.

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Net (depreciation)/appreciation in Fair Value of Investments as Determined by Quoted Market Prices

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

	Year Ended December 31,	
	2015	2014
U.S. government & agency securities	\$ (2,209)	\$ 15,602
Corporate bonds & asset backed securities	(8,792)	5,358
Other bonds & fixed income securities	(250)	727
	<u>\$ (11,251)</u>	<u>\$ 21,686</u>

Credit Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2015 and December 31, 2014, respectively, are as follows:

December 31, 2015		
Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$ 9,431	1.56%
AA+	4,994	0.82
AA	5,042	0.83
A+	4,965	0.82
A	18,169	3.00
AA-	6,284	1.04
A-	50,078	8.26
BBB+	64,587	10.66
BBB	40,651	6.71
BBB-	16,034	2.65
NR	<u>17,879</u>	<u>2.95</u>
Total credit risk debt securities	238,114	
U.S. government & agency securities*	<u>368,033</u>	<u>60.72</u>
Total investment portfolio	<u>\$ 606,147</u>	<u>100.00%</u>

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

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

Custodial Credit Risk

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

Interest Rate Risk

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

December 31, 2015	Fair	Percentage of	Duration
Investment Type	Value	Portfolio	(Years)
U.S. government & agency securities	\$ 346,033	57.09%	5.96
Corporate bonds & asset backed securities	224,509	37.04	5.54
U.S. treasury bills	22,000	3.63	0.02
Other Bonds & fixed income securities	11,264	1.86	7.26
Short-term investments	<u>2,341</u>	<u>0.39</u>	<u>0.00</u>
Total investment	<u>\$ 606,147</u>	<u>100.00%</u>	
Portfolio average duration			<u>5.59</u>

December 31, 2014	Fair	Percentage of	Duration
Investment Type	Value	Portfolio	(Years)
U.S. government & agency securities	\$ 285,775	41.12%	5.17
Corporate bonds & asset backed securities	296,665	42.69	5.89
U.S. treasury bills	95,000	13.67	0.03
Other Bonds & fixed income securities	7,514	1.08	9.06
Short-term investments	<u>10,010</u>	<u>1.44</u>	<u>0.00</u>
Total investment	<u>\$ 694,964</u>	<u>100.00%</u>	
Portfolio average duration			<u>4.74</u>

Foreign Currency Risk

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

4. NET PENSION LIABILITY

The components of the net pension liability of the Employer at December 31, 2015 and 2014, for the Plan, were as follows:

	2015	2014
Total pension liability	\$ 634,297	\$ 710,000
Plans fiduciary net position	<u>612,450</u>	<u>698,375</u>
Employer's net pension liability	<u>\$ 21,847</u>	<u>\$ 11,625</u>
Plans fiduciary net position as a percentage of	96.56%	98.36%

The total pension liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions below.

Discount Rate

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

	2015	2014
Discount rate	4.00%	4.5%
Long-term expected rate of return net of investment expense	4.00%	4.5%
Municipal Bond Rate	N/A	N/A

Other Key Actuarial Methods and Assumptions for the years ended December 31, 2015 and December 31, 2014 were as follows:

The actuarial assumptions that determined the total pension liability as of December 31, 2015 and 2014 were based on the results of an actuarial experience study for the period January 1, 2006 - December 31, 2011.

	2015	2014
Valuation date:	January 1, 2016	January 1, 2014
Measurement date:	December 31, 2015	December 31, 2014
Actuarial cost method:	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Asset valuation method:	Market Value of Plan Asset	Market Value of Plan Asset
Projected salary increases:	N/A	N/A
COLAs:	N/A	N/A
Interest:	4.0% per annum, compounded annually	4.5% per annum, compounded annually
Benefit escalator:	3.0% per annum, compounded annually	3.0% per annum, compounded annually
Provision for Expenses:	None assumed from Plan assets	None assumed from Plan assets

Termination: Rates vary by age. Illustrative rates shown below are for years 2015 and 2014:

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

Retirement: Rates vary by age. Illustrative rates shown below are for years 2015 and 2014:

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

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

Post-termination: 95% of the rates from the RP-2000 Healthy Annuitant Mortality Table for Males with blue collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant Mortality Table for Females, both projected on a generational basis using Scale AA.

Form of Payment for Cash Balance Account: For active participants, lump sum at decrement. For terminated vested participants, lump sum on the valuation date. This is based on the majority of participants electing a lump sum upon retirement.

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

Changes in Actuarial Assumptions Since Prior Valuation: The interest rate assumption was lowered from 4.5% to 4.0 %.

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2015 and 2013.

Class	Asset	Index	Target Allocation	2015	2013
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Core Fixed Income	Barclays Aggregate	100.00%	1.68%	2.19%
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Sensitivity Analysis

The following presents the net pension liability of the Metro-North Commuter Railroad Company Cash Balance Plan as of December 31 2015 and 2014 respectively.

Net pension liability as of December 31, 2015 calculated using the discount rate of 4.00%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.00%) or percentage point higher (5.00%) than the current rate.

December 31 2015	1% Decrease 3.00%	Current Discount Rate 4.00%	1% Increase 5.00%
Net Pension Liability	\$60,689	\$21,847	\$(12,361)

Net pension liability as of December 31 2014, calculated using the discount rate of 4.50%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.50%) or percentage point higher (5.50%) than the current rate.

December 31 2014	1% Decrease 3.50%	Current Discount Rate 4.50%	1% Increase 5.50%
Net Pension Liability	\$48,625	\$11,625	\$(20,375)

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule I

Required Supplementary Information (Unaudited)

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

	2015	2014
Total Pension Liability:		
Service Cost	\$ -	\$ -
Interest	29	32
Changes of benefit terms	-	-
Difference between expected and actual experience	-	-
Changes of economic/demographic (gains) or losses	(10)	-
Changes of assumptions	18	-
Benefit payments	<u>(113)</u>	<u>(88)</u>
Net change in total pension liability	(76)	(56)
Total pension liability - beginning	<u>710</u>	<u>766</u>
Total pension liability - ending (a)	<u><u>\$ 634</u></u>	<u><u>\$ 710</u></u>
Fiduciary Net Position:		
Employer contributions	\$ 18	\$ -
Member contributions	-	-
Net investment income	6	41
Benefit payments	(113)	(88)
Administrative expenses	<u>3</u>	<u>(3)</u>
Net change in plan fiduciary net position	(86)	(50)
Fiduciary net position - beginning	<u>698</u>	<u>748</u>
Fiduciary net position - ending (b)	<u>612</u>	<u>698</u>
Net pension liability - ending (a)-(b)	<u><u>\$ 22</u></u>	<u><u>\$ 12</u></u>
 Fiduciary net position as a percentage of the total pension liability	 96.56%	 98.36%
 Covered payroll	 \$ 995	 \$ 2,080
 Net pension liability as a percentage of covered payroll	 <u>2.20%</u>	 <u>0.56%</u>

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

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule II

Required Supplementary Information (Unaudited)
Schedule of Employer Contributions

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2006	\$ 13,010	\$ 13,010	\$ -	\$ 7,925,225	0.16%
2007	9,666	9,666	-	6,842,884	0.14%
2008	13,683	13,683	-	6,798,416	0.20%
2009	330	330	-	5,936,288	0.01%
2010	1,837	11,875	(10,038)	4,496,148	0.26%
2011	-	-	-	-	N/A
2012	-	-	-	-	N/A
2013	-	-	-	-	N/A
2014	4,977	14,124	(9,147)	2,080,077	0.68%
2015	-	-	-	-	N/A

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

Schedule II (continued)

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

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used in the January 1, 2016 valuation.

Valuation Timing	Actuarially determined contributions calculated as of December 31 for the fiscal year.
Actuarial Cost Method	Entry Age Normal
Amortization Method	One-year amortization of the unfunded liability, if any.
Asset Valuation Method	Actuarial value equals market value.
Inflation	2.30%
Salary Increases	N/A
Investment Rate of Return	4.00%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule III

Required Supplementary Information (Unaudited)

Schedule of Investment Returns

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

<u>Fiscal Year Ending December 31</u>	<u>Net Money-Weighted Rate of Return</u>
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	5.96%
2015	0.93%

Metropolitan Transportation
Authority Retiree Welfare
Benefits Plan
("Other Postemployment
Benefits Plan" or "OPEB Plan")

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

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POST EMPLOYMENT BENEFITS PLAN

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of the
Metropolitan Transportation Authority Retiree Welfare Benefits Plan

Report on the Financial Statements

We have audited the accompanying statement of plan net position of the Metropolitan Transportation Authority Retiree Welfare Benefits Plan (the "Plan") as of December 31, 2015 and 2014, and the related statement of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11, the Schedule of Funding Progress on page 32, and the Schedule of Employer Contributions on page 33 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 23, 2017

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

The purpose of the Metropolitan Transportation Authority ("MTA") Retiree Welfare Benefits Plan ("Other Postemployment Benefits Plan" or "OPEB Plan" or the "Plan") and the related Trust Fund is to provide a vehicle for the MTA organization to set aside funds to assist it in providing health and other welfare benefits to eligible retirees and their beneficiaries. The Plan and the Trust Agreement are exempt from federal income taxation under Section 115(1) of the Code. The MTA is not required by law or contractual agreement to provide funding for the Plan, other than the "pay-as-you-go" cost of providing current benefits to current eligible retirees, spouses and dependents ("Pay-Go").

This management's discussion and analysis of the Plan's financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2015 and 2014. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the year and the effects of significant changes. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with, the Plan's financial statements which begin on page 12.

Overview of Basic Financial Statements

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

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

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Financial Highlights

Plan net position is held in trust for the payment of future benefits to members and beneficiaries. The assets of the Plan exceeded its liabilities by \$297.5 million, \$303.2 million, and \$299.7 million as of December 31, 2015, 2014, and 2013, respectively. The decrease in 2015 is primarily a result of net depreciation on fair value of investments held and investment fees charged to the Plan. The increase in 2014 is primarily a result of net appreciation in investment values less investment fees charged to the plan.

Plan Net Position December 31, 2015, 2014, and 2013 (Dollars in thousands)

				Amount of Change		Percentage Change	
	2015	2014	2013	(2015 - 2014)	(2014 - 2013)	(2015 - 2014)	(2014 - 2013)
ASSETS							
Cash	\$ 9,668	\$ 102,320	\$ 199,513	\$ (92,652)	\$ (97,193)	(90.6)%	(48.7)%
Commitment to purchase	-	7,500	-	(7,500)	7,500	(100.0)	100.0
Investments	288,115	193,367	100,231	94,748	93,136	49.0	92.9
Receivables and other assets	1	2	2	(1)	-	(50.0)	-
TOTAL ASSETS	297,784	303,189	299,746	(5,405)	3,443	(1.8)	1.1
LIABILITIES							
Benefits payable and accrued expenses	236	-	-	236	-	100	-
TOTAL LIABILITIES	236	-	-	236	-	100	-
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS							
	\$ 297,548	\$ 303,189	\$ 299,746	\$ (5,641)	\$ 3,443	(1.9)%	1.1%

Changes in Plan Net Position
For the Years Ended December 31, 2015, 2014, and 2013
(Dollars in thousands)

				Amount of Change		Percentage Change	
	2015	2014	2013	(2015 - 2014)	(2014 - 2013)	(2015 - 2014)%	(2014 - 2013)%
ADDITIONS							
Net realized and unrealized (losses) or gains	\$ (4,758)	\$ 3,950	\$ (409)	\$ (8,708)	\$ 4,359	(220.5)%	(1065.8)%
Less:							
Investment expenses	883	507	97	376	410	74.2	422.7
Net investment (loss)/income	(5,641)	3,443	(506)	(9,084)	3,949	(263.8)	(780.4)
Add:							
Employer contributions	503,371	483,700	505,500	19,671	(21,800)	4.1	(4.3)
Total additions	497,730	487,143	504,994	10,587	(17,851)	2.2	(3.5)
DEDUCTIONS							
Benefit payments	503,371	483,700	455,500	19,671	28,200	4.1	6.2
Total deductions	503,371	483,700	455,500	19,671	28,200	4.1	6.2
Net (decrease)/increase in Plan net position	(5,641)	3,443	49,494	(9,084)	(46,051)	(263.8)	(93.0)
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS							
Beginning of year	303,189	299,746	250,252	3,443	49,494	1.1	19.8
End of year	\$ 297,548	\$ 303,189	\$ 299,746	\$ (5,641)	\$ 3,443	1.9 %	1.1 %

The Plan's net position held in trust decreased by \$5.6 million during 2015, and increased by \$3.4 million, during 2014. In 2015, the Plan's net depreciation on fair value of investments was \$4.8 million and the investment fees were \$0.8 million. In 2014, the Plan's net appreciation on fair value of investments was \$3.9 million which was offset by investment fees of \$0.5 million.

Investments — The table below summarizes the Plan’s investment allocations.

December 31, 2015 (Dollars in thousands)	Fair Value	Allocation
Type of Investments		
Investment measured at the NAV	\$ 288,115	100.00 %
	<u>\$ 288,115</u>	<u>100.00 %</u>

December 31, 2014 (Dollars in thousands)	Fair Value	Allocation
Type of Investments		
Investment measured at the NAV	\$ 193,367	100.00 %
	<u>\$ 193,367</u>	<u>100.00 %</u>

Overview of Actuarial Information

GASB 43 requires employers with more than 200 employees or beneficiaries receiving benefits to perform periodic actuarial valuations at least biennially to determine annual accounting costs and liabilities.

The following is a summary of information from the January 1, 2014, the most recent OPEB actuarial valuation and from the January 1, 2012 for the Plan (\$ in millions):

	<u>2014</u>	<u>2012</u>
Actuarial value of assets	\$ 300	\$ 246
Actuarial accrued liability	(18,472)	(20,188)
Unfunded actuarial accrued liability	<u>\$ (18,172)</u>	<u>\$ (19,942)</u>

Actuarial Value of Assets

The actuarial value of assets (which is equal to the Plan’s net position) as of January 1, 2014, the date of the most recent OPEB actuarial valuation, was \$299.7 million.

Actuarial Accrued Liability

The actuarial accrued liability (“AAL”) as of January 1, 2014, the date of the most recent OPEB actuarial valuation, was \$18.5 billion determined under the Entry Age (“EA”) Normal Actuarial Cost Method.

Unfunded AAL

The decrease in the Unfunded AAL of \$1.7 billion from \$19.9 billion as of the January 1, 2012 actuarial valuation to \$18.2 billion as of the January 1, 2014 actuarial valuation was the result of changes in actuarial assumptions, primarily due to significant reductions in the per capita costs for represented members of New York City Transit and MTA Bus Company. The MTA determines the amount of its annual employer contributions on the annual Pay-Go, adjusted by prepayments and trust asset usages, which are determined through its normal budgetary process.

Economic Factors

Market Overview and Outlook – 2015

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

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

Macro Themes

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

The macro picture was framed by tepid global growth in 2015, with the likelihood that sub-optimal economic performance would continue into 2016 and 2017. Developed markets look to remain weak, with Gross Domestic Product ("GDP") growth not breaking through the 3% level in the United States, Europe, or Japan in 2016 or 2017 according to both the International Monetary Fund ("IMF") and World Bank. Inflation remains non-existent across the developed markets while currency depreciation in emerging markets have led to spikes in inflation. The United States is in an environment where interest rates will likely rise over the next two years; Europe and Japan are in a decidedly different place. Weak demand and low inflation in Europe and Japan have led to further central bank intervention and easing. In emerging markets, central banks have moved to increase interest rates in order to tame both inflation and capital outflows. Ultimately, United States

interest rate increases will continue to result in a strengthening United States Dollar, potentially impacting the United States manufacturing and exporting sectors and likely restraining the Fed from increasing rates too quickly. Costs of a rising dollar and interest rates may be partially offset by cheaper natural resources and energy costs.

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

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt issues in developed markets, and a collapse in energy and mineral prices. The main emerging markets, Brazil, Russia, India and China, defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential.

United States

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

Equity

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

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

stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

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

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

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

International Developed

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

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In US dollars, all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the United States, equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from United States to European Equities. In Asia, most developed markets continue to experience very weak performance in United States dollar terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

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

Emerging Markets

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

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

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

Commodities

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

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

Contact Information

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

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METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

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

	2015	2014
ASSETS:		
Cash and investments	\$ 297,783	\$ 303,187
Interest receivable	<u>1</u>	<u>2</u>
Total assets	<u>297,784</u>	<u>303,189</u>
LIABILITIES:		
Benefits payable and accrued expenses	<u>236</u>	<u>-</u>
Total liabilities	<u>236</u>	<u>-</u>
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS	<u>\$ 297,548</u>	<u>\$ 303,189</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In thousands)

	2015	2014
ADDITIONS:		
Net realized and unrealized (losses) or gains	\$ (4,758)	\$ 3,950
Less:		
Investment expenses	883	507
Net investment (loss) or income	<u>(5,641)</u>	<u>3,443</u>
Add:		
Employer contributions	<u>503,371</u>	<u>483,700</u>
Total additions	<u>497,730</u>	<u>487,143</u>
DEDUCTIONS:		
Benefit Payments	<u>503,371</u>	<u>483,700</u>
Total deductions	<u>503,371</u>	<u>483,700</u>
Net (decrease)/increase in Plan net position	(5,641)	3,443
PLAN NET POSITION HELD IN TRUST FOR OTHER POSTEMPLOYMENT BENEFITS:		
Beginning of year	<u>303,189</u>	<u>299,746</u>
End of year	<u>\$ 297,548</u>	<u>\$ 303,189</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

1. BACKGROUND AND ORGANIZATION

The Metropolitan Transportation Authority (“MTA”) Retiree Welfare Benefits Plan (“Other Postemployment Benefits Plan” or “OPEB Plan” or the (“Plan”) and the related Trust Fund was established effective January 1, 2009 for the exclusive benefit of The MTA Group’s retired employees and their eligible spouses and dependents, to fund some of the OPEB benefits provided in accordance with The MTA’s various collective bargaining agreements and MTA policies. The MTA Group is comprised of the following current and former agencies:

- MTA New York City Transit
- MTA Long Island Rail Road
- MTA Metro-North Railroad
- MTA Bridges and Tunnels
- MTA Headquarters (“MTAHQ”)
- MTA Long Island Bus
- MTA Staten Island Railway
- MTA Bus Company
- MTA Capital Construction

The Trust is tax exempt in accordance with Section 115 of the Internal Revenue Code. The Plan is classified as a single employer plan for Governmental Accounting Standards Board (“GASB”) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* (“GASB 43”) purposes.

The MTA is not required by law or contractual agreement to provide funding for the Plan, other than the “pay-as-you-go” amount necessary to provide the current benefits to current eligible retirees, spouses and dependents (Pay-Go).

GASB 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* prescribes uniform financial reporting standards for other postemployment benefits (“OPEB”) plans of all state and local governments. OPEB refers to postemployment benefits other than pension benefits and includes postemployment healthcare benefits which are covered under The MTA OPEB plan.

GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (“GASB 45”) requires state and local government’s financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that

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

The MTA has implemented GASB 45. This Statement establishes the standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and to what extent progress is being made in funding the plan.

During 2012, MTA contributed \$250 million into the Trust. In addition, \$50 million was contributed during 2013. There were no contributions to the OPEB Trust by the MTA during 2015 and 2014. Under GASB 45, the discount rate is based on the assets in a trust, the assets of the employer or a blend of the two based on the anticipated funding levels of the employer. For the 2014 valuation, the discount rate reflects a blend of Trust assets and employer assets. The assumed return on Trust assets is 6.5% whereas the assumed return on employer assets is 3.25% resulting in a discount rate under GASB 45 of 3.50%, which is slightly lower than the discount rate of 3.75% used in the prior valuation. This decrease is primarily due to the decrease in Treasury yields and thus, returns on employer assets since the prior valuation.

2. PLAN DESCRIPTION, ELIGIBILITY AND MEMBERSHIP INFORMATION

The benefits provided by the MTA Group include medical, pharmacy, dental, vision, life insurance and a Medicare supplemental plan. The different types of benefits provided vary by agency and relevant collective bargaining agreements. Benefits are provided upon retirement. "Retirement" is defined by the applicable pension plan. Certain agencies provide benefits to certain former employees if separated from service within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Defined Benefit Pension Plan ("MTADBPP"), the MTA Long Island Rail Road Plan for Additional Pensions, the Metro-North Cash Balance Plan, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") Pension Plan, the New York City Employees' Retirement System ("NYCERS") and the New York State and Local Employees' Retirement System ("NYSLERS").

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

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

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed with a valuation date of January 1, 2014. The total number of plan participants as of January 1, 2014 receiving retirement benefits was approximately 45 thousand.

Plan Eligibility — Generally, to qualify for benefits under the Plan, a former employee of The MTA must:

- have retired, be receiving a pension, and have at least 10 years of credited service as a member of NYCERS, NYSLERS, the MTADBPP or the MaBSTOA Pension Plan and have attained a minimum age requirement (unless within 5 years of commencing retirement for certain members); provided, however, a represented retired employee may be eligible only pursuant to the relevant collective bargaining agreement.
- Surviving Spouse and Other Dependents:
 - (i) Lifetime coverage is provided to the surviving spouse or domestic partner and surviving dependent children to age 26 of retired managers and certain non-represented retired employees.
 - (ii) Represented retired employees must follow the guidelines of their collective bargaining agreements regarding continued health coverage for a surviving spouse or domestic partner and surviving dependents. For represented employees of New York City Transit and Staten Island Railway retiring on or after May 21, 2014 for TWU Local 100, September 24, 2014 for ATU Local 726, October 29, 2014 for ATU Local 1056, March, 2015 for TCU and December 16, 2015 for UTU and ATDA, surviving spouse coverage continues until spouse is eligible for Medicare.
 - (iii) Lifetime coverage is provided to the surviving spouse or domestic partner and surviving dependents of retired uniform members of the MTA Police Department.
 - (iv) Lifetime coverage is provided to the surviving spouse or domestic partner and surviving dependent children to age 26 of uniformed members of the MTA Police Department whose death was sustained while in performance of duty.

Plan Membership — As permitted under GASB 43, the Plan has elected to use January 1, 2014, as the date of the OPEB actuarial valuation. The Plan's combined membership consisted of the following at January 1, 2014, the date of the most recent OPEB actuarial valuation:

	January 1, 2014	January 1, 2012
Actives	67,516	65,730
Inactives	-	-
Deferreds	-	276
Retirees	<u>44,644</u>	<u>46,686</u>
Total number of participating employees	<u>112,160</u>	<u>112,692</u>

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The Plan's financial statements are prepared on the accrual basis of accounting under which deductions are recorded when the liability is incurred and revenues are recognized in the accounting period in which they are earned. Employer contributions are recognized when paid in accordance with the terms of the Plan. Additions to the Plan consist of employer contributions and net investment income. Investment purchases and sales are recorded as of trade date.

The financial statements have been prepared in accordance with the accounting principles generally accepted in the United States of America, as prescribed by Government Accounting Standards Board ("GASB").

Recent Accounting Pronouncements —

The Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the Plans to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plan's financial statements as a result of the implementation of GASB 72. Certain changes were also made to the footnotes to the financial statements including additional disclosures related to the hierarchy of valuation inputs and valuation techniques.

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

The scope of Statement No. 74 includes OPEB plans—defined benefit and defined contribution—administered through trusts that meet the following criteria: 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable. 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms. 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined

benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria. The requirements of this Statement are effective for fiscal years beginning after June 15, 2016.

The Plan has completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Plan has determined that GASB Statement No. 76 had no impact on the Plan financial statements.

The Plan has completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

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

Investments — The Plan’s investments are those which are held in the Trust. Investments are reported on the statement of plan net position at fair value based on quoted market prices or amortized costs. Investment income, including changes in the fair value of investments, is reported in changes in plan net position during the reporting period.

Benefit Payments — The Plan Sponsor makes direct payments of insurance premiums for healthcare benefits to OPEB Plan members or beneficiaries. Payments made directly to the insurers by the Plan Sponsor which bypass the trust are treated as additions and deductions from the Plan’s net position.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents balance as of December 31, 2015 and 2014 represents securities in the Plan's portfolio, held in the Trust, that mature within three months. The Plan held \$9,667,982 and \$102,320,000 in money market accounts as of December 31, 2015 and 2014, respectively.

Investment Objective — The Plan's investments are those which are held in the Trust. The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

Investment Guidelines — The Committee of the MTA Retiree Welfare Benefits Plan is in the process of creating investment guidelines with the Plan's investment advisor ("NEPC") that will address and execute investment management agreements with professional investment management firms to manage the assets of the Plan.

Credit Risk — At December 31, 2015 and 2014 the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2015		2014	
	Fair Value	Percentage of Fixed Income Portfolio	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 10,970,160	7.36 %	\$ 7,693,047	6.07 %
AA	5,428,577	3.64	(3,085,579)	(2.43)
AA-	-	-	16,736,246	13.20
A	11,997,959	8.05	3,243,344	2.56
A-	-	-	10,270,392	8.10
BAA	27,073,431	18.16	20,160,411	15.91
BBB	19,101,184	12.81	8,813,679	6.95
BB	5,921,796	3.97	1,082,786	0.86
B	2,766,567	1.86	1,885,629	1.49
CCC	1,315,704	0.88	562,656	0.44
Not Rated	5,321,828	3.57	31,885,576	25.15
Credit risk debt securities	89,897,206	60.30	99,248,187	78.30
U.S. Government bonds	59,177,974	39.70	27,513,249	21.70
Total fixed income securities	149,075,180	<u>100.00 %</u>	126,761,436	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>139,039,907</u>		<u>66,606,117</u>	
Total investments	<u>\$ 288,115,087</u>		<u>\$ 193,367,553</u>	

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

Investment Fund	2015		2014	
	Fair Value	Duration	Fair Value	Duration
Allianz Structured Alpha	\$ 16,438,421	0.13	\$ 7,832,010	0.25
Baird Aggregate Bond Fund	25,073,279	5.68	-	-
Bridgewater Alpha Pure Markets Fund	12,354,534	7.87	11,541,815	(2.05)
Bridgewater All Weather Fund	33,663,358	6.84	26,402,145	9.37
GAM Unconstrained Bond Fund	15,059,609	0.93	-	-
Pimco All Asset Fund	27,073,431	2.57	20,160,411	2.77
Pimco Total Return Fund	-	-	16,736,246	4.87
Pimco Unconstrained Bond Fund	-	-	10,270,392	(0.06)
Wellington Diversified Inflation Hedge Fund	11,704,663	7.56	8,592,287	5.71
Wellington Emerging Local Debt Fund	12,971,010	5.06	-	-
Wellington Opportunistic Investment Fund	24,699,599	1.69	15,857,417	4.66
	179,037,904		117,392,723	
Portfolio modified duration		4.61		4.13
Investments with no duration reported	109,077,183		75,974,830	
Total investments	\$ 288,115,087		\$ 193,367,553	

Custodial Credit Risk — For investments, custodial credit risk is the risk that in the event of the failure of the Trustee Bank, the Plan will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured and are not registered in the name of the Trust.

The Plan manages custodial credit risk by limiting its investments to highly rated institutions and requiring high quality collateral be held by the Trustee Bank in the name of the Trust.

Concentration of Credit Risk — The Plan places no limit on the amount the Trust may invest in any one issuer of a single issue. Individual investments held by the Plan that represents 5.0% or more of the Plan's net assets available for benefits at December 31, 2015 and 2014 is as follows:

Issuer	2015		2014	
	% of Total Investments	of Total Investments	% of Total Investments	of Total Investments
Artisan Global Opportunities Fund	13 %	\$ 38,699,341	9 %	\$ 26,668,954
Dreyfus Global Stock Fund	12	35,392,022	8	22,892,026
Hexavest World Equity Fund	12	34,605,721	-	-
Bridgewater All Weather Fund	11	33,663,358	8	26,402,145
PIMCO All Asset Fund	9	27,073,431	7	20,160,411
Wellington Trust	8	24,699,599	5	15,857,417
Baird Aggregate Bond Fund	8	25,073,279	-	-
Allianz Structured Alpha	6	16,818,520	-	-
GAM Unconstrained Bond Fund	5	15,059,609	-	-
PIMCO Total Return Fund	-	-	6	16,736,246

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. In addition, the Plan has investments in foreign stocks and/or bonds denominated in foreign currencies. The Plan's foreign currency exposures as of December 31, 2015 and 2014 is as follows :

Foreign Currency Holdings in US \$	December 31, 2015	December 31, 2014
Argentine Peso	\$ 29,944	\$ -
Australian Dollar	3,980,839	4,245,106
Brazilian Cruzeiro Real	539,298	4,484,382
Bulgarian Lev	(24,095)	-
Canadian Dollar	5,054,099	1,417,372
Chilean Peso	653,998	(61,662)
Columbian Peso	1,198,127	846,575
Chinese Yuan Renminbi	1,294,108	684,416
Czech Republic Koruna	331,763	50,401
Danish Krone	3,083,641	528,623
Egyptian Pound	25,268	-
Euro	14,848,633	12,441,800
Great Britain Pound Sterling	13,355,281	9,518,105
Hong Kong Dollar	6,113,236	2,150,511
Hungarian Forint	216,074	543,293
Indian Rupee	1,829,338	1,622,468
Indonesia Rupiah	817,157	1,403,915
Israeli Shekel	333,912	528,871
Japanese Yen	17,811,601	(1,554,444)
Malaysian Ringgit	832,451	1,276,683
Mauritian Rupee	-	41,229
Mexican New Peso	2,265,402	3,293,036
Moroccan Dirham	-	2,016
New Zealand Dollar	(147,163)	(79,711)
Nigerian Naira	-	84,626
Norwegian Krone	664,666	149,676
Peruvian Nuevo Sol	415,248	185,101
Philippine Peso	95,986	107,874
Polish Zloty	1,285,296	1,361,707
Qatar Riyal	2,002	-
Romanian Leu	288,356	301,758
Russian Federation Rouble	733,984	1,453,384
Singapore Dollar	1,271,179	699,649
South African Rand	1,143,104	1,367,411
South Korean Won	2,952,107	(1,300,222)
Swedish Krona	2,979,638	1,477,282
Swiss Franc	5,941,121	879,672
Taiwanese New Dollar	2,232,503	1,241,140
Thai Baht	611,407	771,637
Turkish Lira	472,362	1,206,481
UAE Dirham	1,507	6,195
Uruguayan Peso	90,636	42,165
Venezuelan Bolivar	-	(16,736)
Other	1,220,197	-
Total	\$ 96,844,211	\$ 53,401,785

In year 2015, the MTA Retiree Welfare Benefits Plan adopted GASB Statement No. 72 (“GASB 72”), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. For the years ended December 31, 2015 and 2014, the Plan reported all of its investments at Net Asset Value (“NAV”) and thus fair value leveling measurement was not required.

Investments measured at NAV

	December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Comingled international equity funds	\$ 34,605,722	\$ -	Daily	None
International equity mutual funds	74,091,363	-	Daily, monthly	None
Total equity investments measured at the NAV	108,697,084	-		
Debt Securities				
Comingled debt funds	53,103,898	-	Daily, monthly, quarterly	None
Total debt investments measured at the NAV	53,103,898	-		
Absolute return:				
Directional	16,818,520	-	Monthly	3-60 days
Global macro	12,354,534	-	Monthly	3-30 days
Global tactical asset allocation	51,773,030	-	Daily, monthly	3-30 days
Risk parity	33,663,358	-	Monthly	3-30 days
Total absolute return measured at the NAV	114,609,442	-		
Real assets				N/A
Comingled commodities fund	11,704,663	-	Not eligible	N/A
Total real assets measured at the NAV	11,704,663	-		
Total investments measured at the NAV	\$ 288,115,087	\$ -		

Investments measured at NAV

	December 31, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Comingled international equity funds	\$ 17,045,136	\$ -	Daily	None
International equity mutual funds	49,560,980	-	Daily, monthly	None
Total equity investments measured at the NAV	66,606,116	-		
Debt Securities				
Comingled debt funds	36,194,255	-	Daily, monthly, quarterly	None
Total debt investments measured at the NAV	36,194,255	-		
Absolute return:				
Directional	8,013,107	-	Monthly	3-60 days
Global macro	11,541,815	-	Monthly	3-30 days
Global tactical asset allocation	36,017,828	-	Daily, monthly	3-30 days
Risk parity	26,402,145	-	Monthly	3-30 days
Total absolute return measured at the NAV	81,974,895	-		
Real assets				N/A
Comingled commodities fund	8,592,287	-	Not eligible	N/A
Total real assets measured at the NAV	8,592,287	-		
Total investments measured at the NAV	\$ 193,367,553	\$ -		

5. FUNDED STATUS AND FUNDING PROGRESS — OPEB PLAN

The funded status of the Plan as of the most recent OPEB actuarial valuation date is as follows (dollar amounts in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) — Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
January 1, 2014	\$ 299,747	\$ 18,471,642	\$ 18,171,895	1.6 %	\$ 4,669,807	389.1 %

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedule of employer contributions presents trend information about the amounts contributed to the Plan by employers in comparison to the annual required contribution (“ARC”), an amount that is actuarially determined in accordance with the parameters of GASB 43. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover costs under the actuarial assumptions and methods utilized for each year.

Projections of benefits for financial reporting purposes are based on the substantive OPEB plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The MTA may not be obligated to provide the same types or levels of benefits to retirees in the future.

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

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the years ended December 31, 2015 and 2014 is as follows:

Year Ended	Annual OPEB Cost	% of Annual Cost Contributed	Net OPEB Obligation
(In Thousands)			
December 31, 2015	\$ 1,997,180	25.2 %	\$ 13,560,121

Year Ended	Annual OPEB Cost	% of Annual Cost Contributed	Net OPEB Obligation
(In Thousands)			
December 31, 2014	\$ 2,522,880	19.2%	\$ 12,066,311

Actuarial Cost, Amortization Methods and Assumptions — For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the “FIL Cost Method”) cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year closed period. As of the last valuation date the remaining amortization period 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 Annual Required Contribution (“ARC”) is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

Valuation Date — The valuation date is the date that all participant and other pertinent information is collected and liabilities are measured. This date may not be more than 24 months prior to the beginning of the fiscal year. The valuation date for this valuation is January 1, 2014, which is 12 months prior to the beginning of the 2015 fiscal year.

Inflation Rate — 2.5% per annum compounded annually.

Discount Rate — GASB 45 provides guidance to employers in selecting the discount rate. The discount rate should be based on the estimated long-term investment yield on the investments that are expected to be used to finance the benefits. If there are no plan assets, assets of the employer should be used to derive the discount rate. This would most likely result in a lower discount rate and thus, liabilities significantly higher than if the benefits are prefunded. In recognition of the decrease in short-term investment yields partially offset by the establishment of a trust, the discount rate for this valuation has been lowered from 3.75% to 3.50%.

Healthcare Reform — The 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 2015 and 2014.

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

Valuation date	January 1, 2014	January 1, 2012
Actuarial cost method	Frozen Initial Liability	Frozen Initial Liability
Discount rate	3.50%	3.75%
Price inflation	2.5% per annum, compounded annually	2.5% per annum, compounded annually
Per-Capita retiree contributions	*	*
Amortization method	Frozen Initial Liability	Frozen Initial Liability
Amortization period	14 years	15 years
Period closed or open	Closed	Closed

* In general, all coverages are paid for by the MTA. However, MTAHQ members who 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 2006 report, as well as an updated 2014 report, from the Department of Civil Service of the State of New York regarding recommended actuarial assumptions used for New York State/SUNY's GASB 45 Valuation sent to all participating employers, it stated that the Empire Plan of NYSHIP is community-rated for all participating employers. We believe that the actual experience of the MTA will have little or no impact on the actual premium and, that it is reasonable to use the premium rates without age adjustments as the per capita claims cost.

The medical and pharmacy benefits provided to TWU Local 100, ATU 1056 and ATU 726 represented Transit members, represented MTA Bus Company members and represented SIRTOA members are self-insured as well as some Pre-NYSHIP Transit members. For these benefits we developed per capita claims cost assumptions that vary by age, gender and benefit type. The per capita costs assumptions reflect medical and pharmacy claims information, including the EGWP plan 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 Annual Required Contribution ("ARC"). Furthermore, actual contributions made (equal to the amount of claims paid in a year if the plan is not funded) will not be reduced by the amount of any subsidy payments received. Accordingly, the 2014 valuation excludes any RDS payments expected to be received by the MTA and its agencies.

Health Care Cost Trend — The healthcare trend assumption is based on the Society of Actuaries-Getzen Model version 2014 utilizing the baseline assumptions included in the model, except real GDP of 1.8% and inflation of 2.5% for medical and pharmacy benefits. Additional adjustments apply based on percentage of costs associated with administrative expenses, aging factors potential excise taxes due to healthcare reform, and other healthcare reform provisions, separately for NYSHIP and non-NYSHIP benefits. These assumptions are combined with long-term assumptions for dental and vision benefits (4%) plus Medicare Part B reimbursements (4.5%). The NYSHIP trend reflects actual increases in premiums through 2015. This trend also reflects dental and vision benefits plus Medicare Part B reimbursements. The non-NYSHIP trend is applied directly for represented employees of MTA NYC Transit, SIRTOA and MTA Bus Company. Note, due to the Excise Tax, the non-NYSHIP trends for MTA Bus and New York City Transit differ. The following lists illustrative rates for the NYSHIP and non-NYSHIP trend assumptions for the MTA New York City Transit and MTA Bus Company (amounts are in percentages).

Health Care Cost Trend Rates

Fiscal Year	NYSHIP		Transit and SIRT OA		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	5.6	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 as at January 1, 2014

	MTA New York City Transit	MTA Long Island Rail Road	MTA Metro-North Rail Road	MTA Bridges & Tunnels	MTAHQ	MTA Long Island Bus *	MTA Staten Island Railway	MTA Bus Company	Total
Active Members									
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	-	14	11.7	13.8
Retirees									
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	30,967	5,432	3,803	1,316	515	830	95	1,686	44,644
Average Age of Retiree	71.9	67.6	74.0	68.9	65.2	67.6	63.9	69.8	71.2
Total Number with Dental	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 No. with Supplement	25,442	1,747	-	910	-	459	22	1,454	30,034
Average Monthly Supplement Amount (Excluding Part B Premium)	\$ 33	\$ 218	\$ -	\$ 207	\$ -	N/A	\$ 238	\$ 25	\$ 49
Total No. 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 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, MTA Bus Company and Staten Island Railway, 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 are assumed to elect family coverage upon retirement and 65% of male and 35% of female eligible members participating in self-insured programs administered by New York City Transit are assumed to cover a dependent. No children are assumed. Actual coverage elections for current retirees are used. If a current retiree’s only dependent is a child, eligibility is assumed for an additional 7 years from the valuation date.

Demographic Assumptions:

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

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

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

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

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

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

6. TRUSTEE, CUSTODIAL, AND OTHER PROFESSIONAL SERVICES

The Plan and the Trust are administered by the MTA, including the day-to-day administration of the health insurance program. JP Morgan Chase, the trustee and custodian of the Trust makes payments to health insurers and to welfare funds for retiree benefits, and reimbursements of retiree Medicare Part B premiums, as directed by the MTA. The MTA is advised by NEPC with respect to the investment of Plan assets.

7. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 23, 2017.

* * * * *

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REQUIRED SUPPLEMENTARY INFORMATION

METROPOLITAN TRANSPORTATION AUTHORITY OTHER POSTEMPLOYMENT BENEFITS PLAN

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

(In thousands)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrual Liability (AAL) {b}	Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}	Funded Ratio {a} / {b}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 2015	January 1, 2014	\$ 299,747	\$ 18,471,642	\$ 18,171,895	1.6 %	\$ 4,669,807	389.1 %
December 31, 2014	January 1, 2012	246,009	20,187,800	19,941,791	1.2	4,360,578	457.3
December 31, 2013	January 1, 2012	246,009	20,187,800	19,941,791	1.2	4,360,578	457.3
December 31, 2012	January 1, 2010	-	17,763,604	17,763,604	-	4,600,303	386.1

**METROPOLITAN TRANSPORTATION AUTHORITY
OTHER POSTEMPLOYMENT BENEFITS PLAN**

SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

(In thousands)

Fiscal Years Ended	Annual Required Contribution	Percentage Contributed
December 31, 2015	\$ 2,673,781	18.8 %
December 31, 2014	3,092,900	15.6
December 31, 2013	2,842,893	17.8
December 31, 2012	2,647,527	25.3

The Long Island Rail Road Company Plan for Additional Pensions

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

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**THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS**

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INDEPENDENT AUDITORS' REPORT

To the Participants and Administrator of
The Long Island Rail Road Company Plan
for Additional Pensions:

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the The Long Island Rail Road Company Plan for Additional Pensions (the "Additional Plan") as of December 31, 2015 and 2014, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Additional Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Schedule of Changes in the Employers' Net Pension Liability and Related Ratios—Schedule I on page 36; Schedule of Employer Contributions—Schedule II on page 37; and Schedule of Investment Returns—Schedule III on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 23, 2017

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 AND 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction—This management's discussion and analysis ("MD&A") of The Long Island Rail Road Company Plan for Additional Pensions (the "Additional Plan") financial performance for the years ended December 31, 2015 and 2014, provides an overview of the Additional Plan's financial activities. It is meant to assist the reader in understanding the Additional Plan's financial statements by providing an overview of the financial activities and the effects of significant changes, as well as a comparison with the prior year's activities and results. This discussion and analysis is intended to be read in conjunction with the Additional Plan document as well as the Additional Plan's financial statements. Additionally, an analysis of major economic factors and industry decisions that have contributed to significant changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are extracted from the Additional Plan's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America.

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

- *The Statements of Plan Net Position*—Presents the financial position of the Additional Plan at year-end. It indicates the assets available for payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.
- *The Statements of Changes in Plan Net Position*—Presents the results of activities during the year. All changes affecting the assets and liabilities of the Additional Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.
- *The Notes to Financial Statements*—Provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes present information about the Additional Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.
- *Required Supplementary Information*—As required by the Governmental Accounting Standards Board ("GASB"), is presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with GASB Pronouncements.

Financial Highlights

December 31, 2015 versus December 31, 2014

The assets of the Additional Plan exceeded its liabilities by \$726 million and \$783 million as of December 31, 2015 and 2014, respectively. Plan net position is held in trust for the payment of future benefits to members and pensioners.

The Additional Plan's net position held in trust decreased by \$57 million during 2015, representing a decrease of 8% over 2014. The decrease in 2015 was primarily due to \$157 million paid out for pension benefit payments and only \$101 million received in employer and employee contributions.

Investments at December 31, 2015, were \$720 million representing a decrease of \$64 million from 2014. The decrease is reflective of higher pension benefit payouts compared to lower employer contributions during 2015.

Payables for investments purchased at December 31, 2015, amounted to \$4 million. Investments are purchased on a trade-date settlement basis and that generate timing differences in settlement dates, similar to receivables for investments sold discussed earlier.

December 31, 2014 versus December 31, 2013

The assets of the Additional Plan exceeded its liabilities by \$783 million and \$511 million as of December 31, 2014 and 2013, respectively. Plan net position is held in trust for the payment of future benefits to members and pensioners.

The Additional Plan's net position held in trust increased by \$272 million during 2014, representing an increase of 53% over 2013. The increase in 2014 was primarily due to \$295 million for additional employer contributions from the Company's parent company, Metropolitan Authority ("MTA") as an infusion towards improving the funding for the Plan's unfunded pension liability.

Investments at December 31, 2014, were \$784 million representing an increase of \$273million from 2013. The increase is reflexive of the additional contributions invested in the portfolio during 2014.

Payables for investments purchased at December 31, 2014, amounted to \$31 million. Investments are purchased on a trade-date settlement basis and that generate timing differences in settlement dates, similar to receivables for investments sold discussed earlier.

**Financial Analysis Plan
Net Position
As of December 31, 2015, 2014 and 2013
(Amounts in thousands)**

	2015	2014	2013	Amount of Change 2015–2014	Increase/(Decrease) % Change 2015–2014	Amount of Change 2014–2013	% Change 2014–2013
Cash	\$ 9,466	\$ 1,411	\$ 3,670	\$ 8,055	571%	\$ (2,259)	-62%
Investments, at fair value	720,150	783,939	511,423	(63,789)	-8%	272,516	53%
Receivables	<u>259</u>	<u>29,372</u>	<u>7,993</u>	<u>(29,113)</u>	<u>-99%</u>	<u>21,379</u>	<u>267 %</u>
Total assets	<u>729,875</u>	<u>814,722</u>	<u>523,086</u>	<u>(84,847)</u>	<u>-10%</u>	<u>291,636</u>	<u>56 %</u>
Additional plan payable	-	578	578	(578)	-100%	-	-
Due to broker for securities purchased	<u>3,677</u>	<u>31,292</u>	<u>11,755</u>	<u>(27,615)</u>	<u>-88%</u>	<u>19,537</u>	<u>166 %</u>
Total liabilities	<u>3,677</u>	<u>31,870</u>	<u>12,333</u>	<u>(28,193)</u>	<u>-88%</u>	<u>19,537</u>	<u>158 %</u>
Plan net position held in trust for pension benefits	<u>\$ 726,198</u>	<u>\$ 782,852</u>	<u>\$ 510,753</u>	<u>\$ (56,654)</u>	<u>-7%</u>	<u>\$ 272,099</u>	<u>53 %</u>

CHANGES IN PLAN NET POSITION

December 31, 2015 versus December 31, 2014

At the end of 2015, the net investment income amounted to \$1 million. This represents a decrease of 98% over the prior year, due mainly to the lower interest rates still prevailing in the market place, an increase in investment expenses and the depreciation in the investment portfolio in 2015.

Employer and employee contributions for the year ended December 31, 2015, totaled \$101 million, which represents a 75% decrease from 2014. This decrease was the result of lower employer contributions primarily due to MTA not contributing additional monies into the pension plan in 2015.

Benefit payments for the year ended December 31, 2015, totaled \$157 million, which was consistent with 2014.

December 31, 2014 versus December 31, 2013

At the end of 2014, the net investment income amounted to \$21 million. This represents a decrease of 62% over the prior year, due mainly to the lower interest rates still prevailing in the market place, an increase in investment expenses and the depreciation in the investment portfolio in 2014.

Employer and employee contributions for the year ended December 31, 2014, totaled \$409 million, which represents a 104% increase from 2013. This increase was the result of the additional \$215 million in employer contributions the MTA infused into the plan in 2014, compared to the \$80 million infused in 2013. Actual plan experience on key actuarial assumptions, which are not in line with the actuary's expectations, may require a higher level of employer contributions or result in further under funding in future years.

Benefit payments for the year ended December 31, 2014, totaled \$157 million, which was consistent with 2014.

Changes in Plan Net Position
For the Years Ended December 31, 2015, 2014 and 2013
(Amounts in thousands)

	2015	2014	2013	Amount of Change 2015–2014	Increase/(decrease) % Change 2015–2014	Amount of Change 2014–2013	% Change 2014–2013
Additions:							
Net investment gain	\$ 527	\$ 21,231	\$ 56,098	\$ (20,704)	-98%	\$ (34,867)	-62%
Employer contributions	100,000	407,513	199,336	(307,513)	-75%	208,177	104%
Employee contributions	<u>1,108</u>	<u>1,304</u>	<u>1,243</u>	<u>(196)</u>	<u>-15%</u>	<u>61</u>	<u>5 %</u>
Total additions	<u>101,635</u>	<u>430,048</u>	<u>256,677</u>	<u>(328,413)</u>	<u>-76%</u>	<u>173,371</u>	<u>68 %</u>
Deductions:							
Benefits paid directly to participants	157,071	156,974	157,464	97	0%	(490)	0%
Administrative expenses	678	975	462	(297)	-30%	513	111 %
Other	<u>540</u>	<u>-</u>	<u>-</u>	<u>540</u>	<u>100 %</u>	<u>-</u>	<u>-</u>
Total deductions	<u>158,289</u>	<u>157,949</u>	<u>157,926</u>	<u>340</u>	<u>0 %</u>	<u>23</u>	<u>0 %</u>
Net increase	(56,654)	272,099	98,751	<u>\$ (328,753)</u>	<u>-121%</u>	<u>\$ 173,348</u>	<u>176%</u>
Net assets held in trust for pension benefits:							
Beginning of year	<u>782,852</u>	<u>510,753</u>	<u>412,002</u>				
End of year	<u>\$ 726,198</u>	<u>\$ 782,852</u>	<u>\$ 510,753</u>				

Investments—The table below summarizes the Additional Plan’s investment allocation:

Investment Summary
(Dollars in thousands)

Type of Investments	Fair Value	Allocation
December 31, 2015		
Commingled funds	\$ 197,306	27.40 %
Common Stock	122,723	17.04 %
Strategic property fund	50,635	7.03 %
Mutual funds	122,557	17.02 %
Corporate bonds and debentures	25,826	3.59 %
Collective short-term investments	21,559	2.99 %
Limited partnership	161,213	22.39 %
Mortgage backed securities	5,489	0.76 %
Commercial mortgage backed securities	2,030	0.28 %
U.S. government securities	7,484	1.04 %
Foreign government bonds	122	0.02 %
American Depositary Receipts	479	0.07 %
Asset backed securities	840	0.12 %
Real Estate Investment Trust	1,111	0.15 %
Preferred stock	<u>776</u>	<u>0.11 %</u>
	<u>\$ 720,150</u>	<u>100.00 %</u>
December 31, 2014		
Commingled funds	\$ 245,126	31.27 %
Common Stock	127,190	16.22 %
Strategic property fund	50,278	6.41 %
Mutual funds	162,019	20.67 %
Corporate bonds and debentures	15,715	2.00 %
Collective short-term investments	58,092	7.41 %
Limited partnership	115,192	14.69 %
Mortgage backed securities	464	0.06 %
Commercial mortgage backed securities	473	0.06 %
U.S. government securities	3,670	0.47 %
Foreign government bonds	1,704	0.22 %
American Depositary Receipts	904	0.12 %
Asset backed securities	257	0.03 %
Collateralized mortgage obligations	861	0.11 %
Real Estate Investment Trust	932	0.12 %
Preferred stock	<u>1,062</u>	<u>0.14 %</u>
	<u>\$ 783,939</u>	<u>100.00 %</u>

The composite 2015 return for the fund was -1.47% as opposed to the 2014 return of 3.9%. The Additional Plan’s investment assets were commingled for investment purposes into the MTA Master Trust and the MTA DB’s Board of Managers of Pension oversee investment allocations and returns, effective October 2, 2006.

ECONOMIC FACTORS AND INDUSTRY DECISIONS

Market Overview and Outlook – 2015

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

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

Macro Themes

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

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

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery countries, such as in Greece, Portugal, Italy, and Spain, are

likely to continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt issues in developed markets, and a collapse in energy and mineral prices. The main emerging markets, Brazil, Russia, India and China, defined as the “BRICs” all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential.

United States

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

Equity

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

Large Cap stocks were barely positive, with the S&P 500 and Russell 1000 indices posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large Cap energy stocks fell by 21.1% for the year while Mid Cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the United States, active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

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

100 bps for the year. The underweight to Treasuries further eroded performance for many investors in their bond portfolios.

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

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

International Developed

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

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In United States dollars, all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the US, equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from United States to European Equities. In Asia, most developed markets continue to experience very weak performance in United States dollar terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

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

Emerging Markets

- Terrible year in Emerging Markets (United States dollar returns)
- Weighed by capital outflows and commodity sell-off
- Major markets of Indonesia, Brazil, South Africa, Turkey, Malaysia, Thailand at least 20% lower

- Only Hungary and Russia posted positive returns
- Local Currency Bonds significantly down; hard currency bonds modestly positive
- No end in sight for volatility and macro risks remain elevated

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

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

Commodities

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

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

CONTACT INFORMATION

This financial report is designed to provide a general overview of the Long Island Rail Road Company for Additional Pensions’ finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Controller, Long Island Rail Road, 146-01 Archer Avenue, Jamaica, New York 11435-4380.

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

STATEMENTS OF PLAN NET POSITION AS OF DECEMBER 31, 2015 AND 2014 (Amounts in thousands)

	2015	2014
ASSETS:		
Cash	\$ 9,466	\$ 1,411
Investments:		
Investments measured at fair value level	168,213	174,398
Investments measured at NAV	551,937	609,541
Total investments	720,150	783,939
Receivables:		
Participant and union contributions	27	258
Due from broker for securities sold	-	28,727
Accrued interest and dividends	232	378
Other assets	-	9
Total receivables	259	29,372
Total assets	729,875	814,722
LIABILITIES:		
Additional plan payable	-	578
Due to broker for securities purchased	3,677	31,292
Total liabilities	3,677	31,870
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS	\$726,198	\$782,852

See notes to financial statements.

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Amounts in thousands)

	2015	2014
ADDITIONS:		
Investment income:		
Net realized and unrealized (losses) or gains	\$ (920)	\$ 14,090
Interest income	1,378	1,086
Dividend income	6,661	6,977
Other income	-	75
	<u>7,119</u>	<u>22,228</u>
Total investment gain	7,119	22,228
Less investment expenses	<u>(6,592)</u>	<u>(997)</u>
Total Net investment gain	<u>527</u>	<u>21,231</u>
Contributions:		
Employer	100,000	407,513
Participant and union	<u>1,108</u>	<u>1,304</u>
Total contributions	<u>101,108</u>	<u>408,817</u>
Total additions	<u>101,635</u>	<u>430,048</u>
DEDUCTIONS:		
Benefits paid to participants	157,071	156,974
Administrative expenses	678	975
Other	<u>540</u>	<u>-</u>
Total deductions	<u>158,289</u>	<u>157,949</u>
NET (DECREASE)/INCREASE	(56,654)	272,099
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>782,852</u>	<u>510,753</u>
End of year	<u>\$726,198</u>	<u>\$782,852</u>

See notes to financial statements.

THE LONG ISLAND RAIL ROAD COMPANY PLAN FOR ADDITIONAL PENSIONS

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (Dollars in thousands)

1. PLAN DESCRIPTION

The Long Island Rail Road Company Plan for Additional Pensions (the “Additional Plan”) is a defined benefit plan administered by the Board of Pension Managers. The following brief description of the Additional Plan is provided for general information purposes only. Participants should refer to the Additional Plan document for more complete information.

General—Effective July 1, 1971, The Long Island Rail Road Company (the “Company”) adopted two fully integrated defined benefit pension plans, The Long Island Rail Road Company Pension Plan (the “Plan”) and the Additional Plan. These plans cover employees hired before January 1, 1988. Effective January 1, 1989, the Plan was amended to limit the accrual of credited service time and determination of average earnings through December 31, 1988. All pension plan benefits were frozen as of that date by virtue of a Plan amendment. All benefit accruals subsequent to that date are provided under the Additional Plan, which was amended to provide for accruals on and after January 1, 1989. The Additional Plan benefits are now the total benefit that would have been paid previously from the sum of the two plans reduced by any portion of benefits that a participant received from the frozen pension plan benefits. The total benefits payable to participants have not been changed. These financial statements do not include any amounts related to the Plan, as all Plan assets were transferred into the MTA Defined Benefit Pension Plan, effective October 2, 2006.

Both of the Company’s pension plans are governmental plans and, accordingly, are not subject to funding and other requirements of the Employee Retirement Income Security Act of 1974 (“ERISA”).

The Metropolitan Transportation Authority Defined Benefit Pension Plan and The Long Island Rail Road Company Plan for Additional Pensions comprise the Metropolitan Transportation Authority’s Master Trust. The MTA Master Trust is governed by the Board of Pension Managers (the “Board”). The Board has contracted with JP Morgan Chase, as the Trustee for the Trust, and has provided the Master Trust Investment Guidelines to the respective Trustee. These guidelines provide the specific goals and objectives of the Trust as well as the allowable investments permitted under the Trust. Under the Investment Guidelines, the Trustee is permitted to invest in commingled funds on behalf of the Master Trust.

The total asset allocation of the Master Trust is 82.71% for the Metropolitan Transportation Authority Defined Benefit Pension Plan and 17.29% for the Long Island Rail Road Company Plan for Additional Pensions for the year ended December 31, 2015.

Pension Benefits—All full-time employees who were hired before January 1, 1988, are eligible for Additional Plan membership. At January 1, 2016, the most recent valuation date, the Additional Plan's membership consisted of the following:

	January 1 2016	January 1 2015
Active plan members	216	282
Retirees and beneficiaries receiving benefits	5,900	5,985
Vested formerly active members not yet receiving benefits	<u>38</u>	<u>53</u>
Total	<u>6,154</u>	<u>6,320</u>

An employee who retires under the Additional Plan, either: (a) after completing at least 20 years of credited service, or (b) after both attaining age 65 while in service and completing at least five years of credited service, or in the case of those who were active employees on January 1, 1988, after completing at least 10 years of credited service, is entitled to an annual retirement benefit, payable monthly for life. Payments commence to an employee referred to in: (a) only after attaining age 50, or (b) only after attaining age 65.

Benefit and contribution provisions, which are based on the point in time at which participants last entered qualifying service and their length of credited service, are established by, and may only be amended by the Company, subject to the obligations of the Company under its collective bargaining agreements. The Company's Board of Directors must approve all amendments. The Additional Plan has both contributory and non-contributory requirements, with retirement ages varying from 50 to 65 depending upon a participant's length of credited service. Pension benefits payable to age 65, where eligible, are calculated as 2% of the employee's applicable final average earnings for each year of qualifying service up to 25 years plus 1.5% of applicable final average earnings for each year of qualifying service in excess of 25 years. For pension benefits payable at and after age 65, regardless of whether benefits commenced before or after the employee attained age 65, benefits are calculated in the same manner as pension benefits payable prior to age 65 except that the amount so determined is reduced by a percentage of the employee's annuity (not including any supplemental annuity) value at age 65 under the Federal Railroad Retirement Act.

The reduction of pension benefits for amounts payable under the Federal Railroad Retirement Act is as follows:

- (i) 25% for an employee who had 20 years credited service prior to July 1, 1974,
- (ii) 50% for any other employee first employed before July 1, 1974, and
- (iii) 100% for any employee first employed on or after July 1, 1974

Beginning in 1999, for all represented employees who were hired between July 1, 1974, and December 31, 1987, who were employees after January 1, 1999, and were not retired when their collective bargaining agreement was ratified and approved by MTA Board after that date, the offset of Railroad Retirement Benefits is reduced to 50% (under the Additional Plan). For all management employees who were hired between July 1, 1974, and December 31, 1987, and who were employees on September 30, 1999, the offset of Railroad Retirement Benefits was reduced to 50% (under the Additional Plan).

For participants, the Additional Plan has both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978, are not required to contribute.

Participants who entered qualifying service on or after July 1, 1978, are required to contribute 3% of their wages to the Additional Plan. The Company contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due.

Death and Disability Benefits—Participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Additional Plan receive a disability benefit. Disability pension benefits are calculated based on the participant's qualifying service and a percentage of final average compensation reduced by the full amount of benefit under the Federal Railroad Retirement Act.

Survivorship benefits are paid to the participant's spouse when a survivorship option is elected or when an active participant has not divested his or her spouse of benefits. The survivorship benefit is payable at the time of death or when the vested participant would have attained an eligible age. The amount payable is in the form of an annuity. A lump sum death benefit no greater than \$5,000 is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recent Accounting Pronouncements—The Additional Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the Funds to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plans' financial statements as a result of the implementation of GASB 72. Certain changes were also made to the footnotes to the financial statements including additional disclosures related to the hierarchy of valuation inputs and valuation techniques.

The Additional Plan has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The 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 should be applied simultaneously with the provisions of GASB Statement No. 68 and are effective for fiscal years beginning after June 15, 2016.

The Additional Plan has completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Additional Plan has determined that GASB Statement No. 76 had no impact on Plans financial statements

The Additional Plan has completed the process of evaluating the impact of Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is permitted. The Additional Plan has determined that GASB Statement No. 78 had no impact on its financial position.

The Additional Plan has completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting

if it meets all of the applicable criteria established in this Statement. The specific criteria address: (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity, and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement 31, as amended. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. Earlier application is encouraged. The Additional Plan has determined that GASB Statement No. 79 had no impact on its financial statements.

The Additional has have not completed the process of evaluating the impact of Statement No. 82, Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, 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 No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 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 employee (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's Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include fair market value of investments, the annual required contribution and the Net Pension liability.

Payment of Benefits—Benefits are recorded when paid.

Investment and Administrative Expenses—Investment and administrative expenses are paid by the Additional Plan assets and accordingly are reflected in the accompanying financial statements.

Income Tax Status—The Additional Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) of the Internal Revenue Code. Accordingly, the Additional Plan is tax-exempt and is not subject to the provisions of ERISA.

3. CASH AND INVESTMENTS

Investment Objective—The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

Investment Guidelines—The Board of Managers of Pension executes investment management agreements with professional investment management firms to manage the assets of the Additional Plan. The fund managers must adhere to guidelines that have been established to limit exposure to risk.

All Securities managers shall be registered advisors under the Investment Advisors Act of 1940.

Fixed Income Managers—Investment managers may not purchase inverse floating rate bonds, structured notes, commodities, securities on margin, sell short, lend securities, invest in private placements (other than 144A Privates), real estate investments, and oil, gas and mineral exploration investments without the written consent of the Board of Managers. The fixed-income portion of the Additional Plan's assets shall be invested in marketable, fixed income securities. The following are acceptable:

- a. Commercial Paper, Eurodollar Commercial Paper and Variable Rate Notes rated P-1 by Moody's Investors Service, A1 by Standard and Poor's, or F1 by Fitch Ratings.
- b. Certificates of Deposit and Bankers Acceptances of institutions whose long-term debt is rate Baa or better by Moody's Investors Service or equivalent by Standard & Poor's.
- c. United States Treasury Bonds, Notes and Bills.
- d. Marketable corporate debt, Yankee Bonds, Eurodollar bonds, non-agency mortgage-backed securities, asset-backed securities and taxable municipal securities. Eighty-five percent at market value must be rated the equivalent of Baa3 or better by Moody's Investors Service or Standard & Poor's or Fitch Ratings ("investment grade securities"). Up to 15% market value at time of purchase may be invested in below investment grade securities. The average portfolio quality must be Baa1 or better. In case of split ratings, the highest rating applies.

If any of the parameters described above are not met as a result of credit downgrades, the fund manager shall have a reasonable period of time, not to exceed 90 days, to bring the portfolio into compliance with the foregoing investment guidelines.

- e. A minimum of 90% at market value must be invested in securities denominated in U.S. dollars. Up to 10% at market value may be invested in securities denominated in foreign currency.
- f. Collateralized Mortgage Obligations ("CMO's") backed by pools of agency or non-agency mortgages including those that are re-constructed in their original proportions from the same pool

(such as IO's/PO's, and floater/inverse floaters). Companion tranches and support tranches are limited to 3% of the book value of the portfolio.

- g. Non-convertible preferred stock.
- h. Managers may not hold more than 5% at book value and 10% at market value of the portfolios in any one issuer's securities other than direct or moral obligations of the U.S. Government.
- i. Unrated securities other than those issued by the U.S. Government or its Agencies and Instrumentalities may not be purchased without the prior consent of the Board of Managers.

Domestic Equities Managers—The Domestic equities investment manager may not purchase commodities, securities on margin, sell short, lend securities, invest in private placements, real estate investments, oil, gas and mineral exploration investments, and nominally public issues without the written consent of the Board of Managers. The manager may purchase Rule 144A securities provided such securities are judged by the manager to be liquid and don't in the aggregate exceed 10% of the market value of the portfolio. The manager shall also be able to purchase securities if such securities are convertible into publicly traded equities.

- a. Managers' cash positions are not to exceed 10%. It is the responsibility of the manager to contact the Board of Managers to obtain authorization if and when it becomes clear that a cash position of more than 10% is warranted.
- b. No single sector shall constitute more than 35% of the market value of the portfolio.
- c. Investment in all classes of equity securities of any one issuer must be limited to 7.5% of the portfolio at the time of purchase and 10% of the market value of the portfolio.
- d. The maximum total fund investment in any one company shall not exceed 5% of that company's outstanding voting stock or more than 5% in value of all outstanding shares of all classes of stock of the issuer.
- e. The manager may invest up to a total of 10% of the market value of the portfolio in American Depository Receipts ("ADR's"), non-convertible preferred stock, and warrants when attractive opportunities exist.

Non-US Equities Managers—The Non-US equities investment manager may not purchase commodities, securities on margin, sell short, lend securities, invest in private placements, commingled funds (except STIF funds), real estate investments, oil, gas and mineral exploration investments, and nominally public issues without the written consent of the Board of Managers.

- a. Managers' cash positions are not to exceed 10%. It is the responsibility of the manager to contact the Board of Managers to obtain authorization if and when it becomes clear that a cash position of more than 10% is warranted.
- b. No single industry group shall constitute more than 30% of the market value of the portfolio, or 1 1/2 times its comparable representation in EAFE, whichever is larger, without prior approval from the Board of Managers.
- c. Investment in any one stock, in all classes of equity securities, must be limited to 5% of the book value and 10% of the market value of the portfolio.

- d. The maximum total fund investment in any one company shall not exceed 2% of the company's outstanding voting stock or more than 2% in the value of all outstanding shares of all classes of stock of the issuer (assuming all conversions have been made by the Plans).
- e. Investments in EAFE and Non-EAFE markets are permissible. The maximum exposure to Non-EAFE cannot exceed 10%.
- f. The manager shall use its own judgment in placing securities transactions with brokerage firms. In general, it should deal with financially sound firms capable of giving a good combination of price, commission and service.
- g. The manager may invest up to a total of 10% of the market value of the portfolio in ADR's, preferred stock, warrants and convertible securities when attractive opportunities exist.

Exceptions:

- The Board of Managers, in recognition of the benefits of commingled funds as investment vehicles (i.e., the ability to diversify more extensively than in a small, direct investment account and the lower costs which can be associated with these funds) may, from time to time, allow investment in such funds. The Board recognizes that it cannot give specific policy directives to a fund whose policies are already established; therefore, the Board is relying on the investment consultant to assess and monitor the investment policies of any funds used by the Trust to ascertain whether they are appropriate.
- The Additional Plan requires that any exceptions taken to investment policy and guideline statements be submitted in writing pending approval by the Board of Managers. The Board must explicitly authorize each exception in writing. Failure to notify the Board and obtain written authorization will result in the investing manager being liable for any corresponding loss to the investment fund.
- The index fund manager has the Board's approval to utilize securities lending and futures contracts (for the specific reason of equalizing cash deposits with Lehman Aggregate futures contracts) in the management of the index fund.
- The domestic equity manager who has the Board's approval to invest in collective investment vehicles may invest more than 7.5% of the assets subject to such manager's discretionary in collective investment vehicles of any one issuer.
- The fixed income manager who has the Board's approval to invest in collective investment vehicles may invest more than 5% of the assets subject to such manager's discretionary authority in collective investment vehicles of any issuer.

Investment Valuation—Investments primarily include money market funds, equity securities, United States government securities, corporate bonds and debentures, asset backed securities, mortgage and commercial backed securities, mutual and commingled funds. All investments are registered with securities held by the trustee under a grantor trust, in the name of the Additional Plan. The values of Additional Plan investments are adjusted to fair value as of the last business day of each month based on quoted market prices, except for certain cash equivalents, which are stated at cost and approximate market value. Purchases and sales of securities are recorded on a trade-date basis.

Income Recognition—Gains or losses from investment transactions are recognized on a trade date basis. Such investment gains or losses are determined using the average cost method. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis.

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

The financial markets, both domestically and internationally, have demonstrated significant volatility on a daily basis, which affects the valuation of investments. The Plan utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and with acceptable levels of risk.

In year 2015, the MTA Defined Benefit Pension Plan adopted GASB Statement No. 72 (“GASB 72”), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements

Certain changes were also made to the footnotes to the financial statements including the additional disclosures for years 2015 and 2014 respectively, related to the hierarchy of valuation inputs and valuation techniques.

Investments measured by fair value level				
(In thousands)				
	2015			
		Quoted Price in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	December 31, 2015	Level 1	Level 2	Level 3
Equity Securities:				
Separate account large-cap equity funds	\$ 60,588,679	60,588,679		
Separate account small-cap equity funds	65,833,177	65,833,177		
Total equity investments	126,421,856	126,421,856		
Debt Securities				
Separate account debt funds	41,790,996		41,790,996	-
Total debt investments	41,790,996		41,790,996	-
Total investments by fair value	\$ 168,212,852	126,421,856	41,790,996	-

Investments measured at NAV				
(In thousands)				
		2015		
	December 31,	Unfunded	Redemption	Redemption
	2015	Commitments	Frequency	Notice Period
Equity Securities:				
Comingled international equity funds	\$ 64,379,929	\$ -	Daily	None
Comingled emerging market equity funds	19,182,836	-	Daily, monthly	None
Total equity investments measured at the NAV	83,562,765	-		
Debt Securities				
Comingled debt funds	58,851,574		Daily, monthly, quarterly	None
Total debt investments measured at the NAV	58,851,574	-		
Absolute return:				
Directional	17,710,333		Monthly	3-60 days
Direct lending	22,167,568	5,365,338	Bi-annually	60 plus days
Credit long	10,506,231		Quarterly	3-30 days
Credit long/short	13,431,991		Quarterly	3-60 days
Equity long/short	10,306,155		Quarterly	3-60 days
Event driven	23,890,851	392,155	Quarterly, Bi-annually	60-120 days
Global macro	17,090,514		Monthly	3-30 days
Global tactical asset allocation	54,738,789		Daily, monthly	3-30 days
Market neutral	94,146		Quarterly	3-60 days
Multistrategy	8,229,940		Quarterly	3-60 days
Risk parity	81,470,531		Monthly	3-30 days
Total absolute return measured at the NAV	259,637,051	5,757,493		
Private equity - private equity partnerships	36,744,163	14,881,627	Not eligible	N/A
Real assets				
Comingled commodities fund	16,468,969		Not eligible	N/A
Comingled real estate funds	66,676,860		Not eligible	N/A
Energy	6,214,143	10,102,396	Not eligible	N/A
Infrastructure	1,827,034	4,609,713	Not eligible	N/A
Total real assets measured at the NAV	91,187,006	14,712,110		
Short term investments measured at the NAV	21,954,938			
Total investments measured at the NAV	\$ 551,937,496	\$ 35,351,229		

Investments measured by fair value level				
(In thousands)				
		2014		
		Quoted Price in	Significant Other	Significant
	December 31,	Active Markets for	Observable Inputs	Unobservable Inputs
	2014	Identical Assets	Level 2	Level 3
		Level 1		
Equity Securities:				
Separate account large-cap equity funds	\$ 65,155,192	65,155,192	-	-
Separate account small-cap equity funds	66,276,710	66,276,710	-	-
Total equity investments	131,431,903	131,431,903	-	-
Debt Securities				
Separate account debt funds	42,966,638	-	42,966,638	-
Total debt investments	42,966,638	-	42,966,638	-
Total investments by fair value	\$ 174,398,541	131,431,903	42,966,638	-

Investments measured at NAV				
(In thousands)				
		2014		
	December 31,	Unfunded	Redemption	Redemption
	2014	Commitments	Frequency	Notice Period
Equity Securities:				
Comingled international equity funds	\$ 60,973,216	\$ -	Daily	None
Comingled emerging market equity funds	23,383,639	-	Daily, monthly	None
Total equity investments measured at the NAV	84,356,854	-		
Debt Securities				
Comingled debt funds	64,406,396		Daily, monthly, quarterly	None
Total debt investments measured at the NAV	64,406,396	-		
Absolute return:				
Directional	22,052,830		Monthly	3-60 days
Direct lending	16,238,111	7,582,273	Bi-annually	60 plus days
Credit long	11,880,050		Quarterly	3-30 days
Equity long/short	8,204,081		Quarterly	3-60 days
Event driven	34,448,801	444,330	Quarterly, Bi-annually	60-120 days
Global macro	17,861,772		Monthly	3-30 days
Global tactical asset allocation	67,851,694		Daily, monthly	3-30 days
Market neutral	333,952		Quarterly	3-60 days
Multistrategy	18,242,364		Quarterly	3-60 days
Risk parity	88,103,406		Monthly	3-30 days
Total absolute return measured at the NAV	285,217,061	8,026,604		
Private equity - private equity partnerships	36,784,092	20,777,385	Not eligible	N/A
Real assets				N/A
Comingled commodities fund	16,759,566		Not eligible	N/A
Comingled real estate funds	57,931,933		Not eligible	N/A
Energy	5,552,576	13,791,322	Not eligible	N/A
Total real assets measured at the NAV	80,244,075	13,791,322		
Short term investments measured at the NAV	58,533,576			
Total investments measured at the NAV	\$ 609,542,053	\$ 42,595,310		

Concentration of Credit Risk—Individual investments held by the Additional Plan that represent 5% or more of the Additional Plan's net assets available for benefits at December 31, 2015 and 2014, are as follows:

(Amounts in thousands)

	December 31,	
	2015	2014
Investments at fair value as determined by quoted market prices:		
JPMCB Strategic Property Fund	<u>\$50,637</u>	<u>\$43,940</u>

Credit Risk—The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2015 and 2014:

(Amount in thousands)	2015		2014	
Quality Rating—S&P	Fair Value	Percentage of Fixed Income Portfolio	Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 24,725	13.13 %	\$ 25,836	10.39 %
AA	13,000	6.90	10,760	4.33
A	15,286	8.12	21,265	8.55
BBB	38,023	20.19	34,910	14.04
BB	13,963	7.42	25,693	10.33
B	14,148	7.51	17,555	7.06
CCC	1,648	0.88	6,749	2.71
Not rated	<u>13,740</u>	<u>7.30</u>	<u>70,365</u>	<u>28.30</u>
Total credit risk debt securities	134,533	71.45	213,133	85.72
U.S. Government bonds*	<u>53,751</u>	<u>28.55</u>	<u>35,465</u>	<u>14.28</u>
Total Fixed Income Securities	<u>\$ 188,284</u>	<u>100.00 %</u>	<u>\$ 248,598</u>	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>531,866</u>		<u>535,341</u>	
Total investments	<u>\$ 720,150</u>		<u>\$ 783,939</u>	

* U.S. Treasury Bonds, Notes and Treasury-inflation protected securities are obligations of the U.S. government or explicitly guaranteed by the U.S. government and therefore not considered to have a credit risk.

Custodial Credit Risk—Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk is the risk that, in the event of a failure of the counterparty, the Additional Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Additional Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the Additional Plan's name.

Consistent with the Additional Plan's trust custodial administration agreement, the investments are held by the Additional Plan's custodian and registered in the Additional Plan's name.

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

The lengths of investment maturities (in years), as of December 31, 2015 and 2014 are as follows:

(Amounts in thousands) Investment Type	2015		2014	
	Fair Value	Duration	Fair Value	Duration
Chase	\$ 41,791	11.46	\$ 90,054	4.24
PIMCO	0	-	37,020	2.77
Wellington Emerging Debt	14,019	5.06	19,716	4.22
Bridgewater All Weather Fund	28,336	7.87	32,973	9.37
Wellington Opportunistic	7,488	1.69	9,003	4.66
Bridgewater Alpha	12,221	4.36	10,140	(0.84)
Bridgewater Market Limited	1,581	6.84	(33)	(2.05)
Northern Trust William Capital	1,731	-	1,877	-
Park Square Capital Credit Opportunities	2,949	0.61	2,169	0.33
Crescent Capital High Income Fund	4,494	2.64	11,563	2.21
Fit Tree Value Fund	522	-	1,189	-
Wellington Global Managed Risk	16,270	6.77	22,916	-
Wellington Trust Collective Investment Fund and Diversified Investment Fund	2,157	7.56	1,324	5.71
Allianz Structured Alpha Fund	17,315	0.13		
GAM Unconstrained Bond Fund	33,828	0.93		
Canyon Value	3,582	2.40	8,687	2.60
Total fixed income	<u>\$ 188,284</u>		<u>\$ 248,598</u>	
Portfolio modified duration		<u>5.47</u>		<u>3.45</u>
Investments with no duration reported	<u>531,866</u>		<u>535,341</u>	
Total investments	<u>\$ 720,150</u>		<u>\$ 783,939</u>	

Foreign Currency Risk—Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. The Additional Plan also holds investments in American Depositary Receipts ("ADRs"), which are not included in the below schedule since they are denominated in US dollars and accounted for at fair market value.

The Additional Plan's foreign currency exposures as December 31, 2015 and 2014 are follows (amounts in U.S. dollars, in

Foreign Currency	December 31,	
	2015	2014
Euro	\$ 15,046	\$ 18,371
British Pound (Sterling)	14,312	5,202
Japanese Yen	6,474	3,530
Franc (Swiss)	1,715	1,627
Dollar (Hong Kong)	972	2,248
Australian Dollar	10,025	1,864
Sri Lankan Rupee	67	124
Krona (Swedish)	1,404	(86)
Brazil Cruzeiro Real	1,530	4,228
Chilean Peso	692	589
Dollar (Canadian)	6,309	1,794
Krone (Danish)	762	394
Mexican New Peso	8,220	2,422
China (Yuan Renminbi)	1,899	1,559
Czech Koruna	(273)	177
Egyptian Pound	121	263
Hungary (Forint)	138	163
South Korean Won	1,942	2,500
Indian Rupee	2,537	2,068
Indonesia Rupiah	2,633	3,095
Israel (Shekel)	425	697
Malaysian (Ringgit)	853	2,172
Philippines Peso	341	469
Dollar (New Zealand)	(385)	1,947
Krone (Norwegian)	635	(704)
Thai Bhat	849	1,005
Polish (New Zloty)	565	1,507
Russian Federation Ruble	1,253	1,579
Singapore Dollar	273	893
Argentina Peso	97	-
Colombian Peso	1,352	2,222
South Africa Rand	906	2,580
Dollar (Taiwan, New)	3,694	1,798
Turkish Lira	278	2,604
Kenyan Shilling	151	136
Uruguayan Pesos	136	170
Peru Sol	479	591
Bangladesh (Taka)	60	137
Botswana Pula	23	25
Bulgarian Lev	1	2
Croatia Kuna	63	130
Ghanaian Cedi	9	10
UAE Dirham	273	190
Omanian Rial	64	112
Pakistani Rupee	452	137
Qatar Riyal	141	228
Mauritius (Ruppee)	67	186
Morocco Dirham	64	124
Nigerian Naira	147	117
Jordanian Dinar	73	129
Romanian Leu	371	437
Kuwait Dinar	124	308
Tunisian Dinar	29	10
Geogian Lari	292	-
Saudi Riyal	69	-
Other	<u>2,084</u>	<u>(3,372)</u>
Totals	<u>\$ 92,830</u>	<u>\$ 70,710</u>

Additional Information—The Additional Plan is part of the MTA Master Trust of which the Additional Plan participates on a percentage basis. JP Morgan Chase is the trustee of the MTA Master Trust. The percentage of the Additional Plan ownership for the years ended December 31, 2015 and 2014, were 17.29% and 18.75%, respectively. The Master Trust invests in commingled funds whereby various invested funds are invested in funds, which have readily determinable fair market values.

	<u>December 31, 2015</u>		<u>December 31, 2014</u>	
	<u>Master Trust Total</u>	<u>Additional Plan</u>	<u>Master Trust Total</u>	<u>Additional Plan</u>
Total Investments:				
Investments measured at fair value level	\$ 791,775	\$ 136,898	\$ 771,278	\$ 144,617
Investments measured at the NAV	<u>2,896,954</u>	<u>500,883</u>	<u>3,015,644</u>	<u>565,442</u>
Total investments	<u>\$ 3,688,729</u>	<u>\$ 637,781</u>	<u>\$ 3,786,922</u>	<u>\$ 710,059</u>

4. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2015 and 2014 were as follows (in thousands):

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 1,555,922	\$ 1,602,159
Fiduciary net position	<u>726,020</u>	<u>782,852</u>
Net pension liability	<u>\$ 829,902</u>	<u>\$ 819,307</u>
Fiduciary net position as a percentage of the total pension liability	<u>46.66 %</u>	<u>48.86 %</u>
Covered payroll	<u>\$ 25,712</u>	<u>\$ 29,334</u>
Net pension liability as a percentage of covered payroll	<u>3,227.72 %</u>	<u>2,793.05 %</u>

Actuarial Methods and Assumptions—The total pension liability as of December 31, 2015 was determined by an actuarial valuation date of January 1, 2015, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Discount Rate—The discount rate used to measure the total liability as of December 31, 2015 and 2014 was 7%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made in accordance with the Employer funding policy as projected by the Plan's

actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00%; as well as what the Plan's net pension would be if it were calculated using a discount rate that is 1-percentage point lower (6.00%) or 1-percentage point higher (8.00%) than the current rate:

2015 (In thousands)	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	<u>\$956,899</u>	<u>\$829,902</u>	<u>\$719,799</u>
2014 (In thousands)	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	<u>\$951,790</u>	<u>\$819,307</u>	<u>\$704,647</u>

Additional information of the latest actuarial valuation follows:

Valuation date	January 1, 2015
Valuation timing	Actuarially determined contributions calculated as of December 31, for the fiscal year and discounted to July 1 to reflect monthly payments throughout the year.
Actuarial cost method	Entry age normal.
Amortization method	Period specified in current valuation report (closed 18-year period beginning January 1, 2015) with level dollar payments.
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA
Actuarial assumptions:	
Investment rate of return	7.0%, net of investment expenses
Projected salary increases	3.0%
Inflation/Railroad Retirement wage base	2.5%; 3.5%

Calculation on Money-Weighted Rate of Return—The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the middle of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

Schedule of Calculations of Money-Weighted Rate of Return
(Amounts in thousands)

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning value—January 1, 2015	\$ 782,852	12.00	1.00	\$ 783,213
Monthly net external cash flows:				
January	(3,383)	11.50	0.96	(3,385)
February	(3,383)	10.50	0.88	(3,385)
March	(3,383)	9.50	0.79	(3,385)
April	(3,383)	8.50	0.71	(3,385)
May	(3,383)	7.50	0.63	(3,384)
June	(3,383)	6.50	0.54	(3,384)
July	(3,383)	5.50	0.46	(3,384)
August	(3,383)	4.50	0.38	(3,384)
September	(3,383)	3.50	0.29	(3,384)
October	(3,383)	2.50	0.21	(3,384)
November	(10,248)	1.50	0.13	(10,249)
December	(13,098)	0.50	0.04	(13,101)
Ending Value—December 31, 2015	<u>\$ 725,671</u>			<u>\$ 726,020</u>
Money—Weighted Rate of Return		<u>0.05</u>	%	

Calculation on Long-Term Expected Rate of Return—The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2015.

SCHEDULE OF LONG TERM EXPECTED RATE OF RETURN

Asset Class	Index	Target Allocation*	Real Rate of Return
US Core Fixed Income	Barclays Aggregate	10.00%	2.11%
US High Yield Bonds	BAML High Yield	8.00%	4.32%
Global Bonds	Citi WGBI	10.00%	0.82%
Emerging Market Bonds	JPM EMBI Plus	3.00%	5.17%
US Large Caps	S&P 500	10.00%	5.09%
US Small Caps	Russell 2000	5.50%	6.26%
Global Equity	MSCI ACWI NR	10.00%	5.67%
Foreign Developed Equity	MSCI EAFE NR	10.00%	6.06%
Emerging Market Equity	MSCI EM NR	3.50%	8.21%
Global REITS	FTSE EPRA/NAREIT Developed	5.00%	5.98%
Private Real Estate Property	NCREIF Property	3.00%	3.84%
Private Equity	Cambridge Private Equity	7.00%	9.17%
Hedge Funds - MultiStrategy	HFRI: Fund Wtd Composite	15.00%	4.20%
Assumed Inflation - Mean			2.50%
Assumed Inflation - Standard Deviation			1.89%
Portfolio Arithmetic Mean Return			7.31%
Portfolio Standard Deviation			11.67%
Long-Term Expected Rate of Return selected by MTA			7.00%

* Based on March 2014 Investment Policy

5. CONTRIBUTIONS

Employer contributions are actuarially determined on an annual basis and are recognized when due. The Additional Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of ERISA.

Upon termination of employment before retirement, vested participants who have been required to contribute must choose to: (1) receive a refund of their own contributions, including accumulated interest at rates established by the Company's Board of Managers of Pensions (1.5% in 2015 and 2014), or (2) leave their contributions in the Additional Plan until they retire and become entitled to the pension benefits. Non-vested participants who have been required to contribute will receive a refund of their own contributions, including accumulated interest at rates established by the Company's Board of Managers of Pensions (1.5% in 2015 and 2014).

The Company performs a public service of providing essential passenger transportation between New York City and Long Island. Substantial deficits result from providing these services and the Company expects that such deficits will continue in the foreseeable future. Funding for the Additional Plan by the

Company is provided by MTA, which obtains the required funds from New York State, federal grants, the sale of bonds to the public and other sources. Certain funding by MTA is made to the Company on a discretionary basis. The continuance of the Company's funding for the Additional Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

6. ACTUARIAL METHODS AND ASSUMPTIONS

A. ACTUARIAL VALUATION METHOD

The Entry Age Normal method was used for determining normal costs and the unfunded actuarial accrued liability.

B. ASSET VALUATION METHOD

The Asset Valuation method smoothes gains and losses over a 5-year period. The formula for the asset valuation method is as follows:

$$\text{Actuarial Value of Assets} = MV_1 - 0.8*UR_1 - 0.6*UR_2 - 0.4*UR_3 - 0.2*UR_4$$

Where

MV_1 = Market Value of assets as of the valuation date.

UR_n = Unexpected return during the nth year preceding the valuation date. The unexpected return for a year equals the total investment return minus the total expected return. The total expected return equals the market value of assets at the beginning of the year plus the weighted net cash flow during the year multiplied by the expected rate of return.

The resulting value cannot be less than 80% or greater than 120% of the market value of assets.

C. ACTUARIAL ASSUMPTIONS

Interest—7.00% per annum, compounded annually, net of investment expenses.

Salary Scale—Salaries are assumed to increase 3.00% per year.

Overtime/Unused Vacation Pay—Earnings in each year increased by 65% for represented employees to account for overtime and by 20% in the year prior to assumed retirement and by 10% in the year prior to termination (other than retirement) for non-represented employees to account for unused vacation pay.

Railroad Retirement Wage Base—3.50% per year.

Consumer Price Index—2.50% per year.

Provision for Expenses—\$650,000 is added to the normal cost to account for administrative expenses paid by plan assets throughout the year.

Termination—Withdrawal rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	2.12 %	45	0.96 %
25	1.64	50	0.80
30	1.44	55	0.60
35	1.36	60	0.00
40	1.16	65	0.00

Retirement—Assumed retirement age varies by year of eligibility.

Eligibility Period	Rate of Retirement
First year	40 %
Years 2–4	33
Year 5	37
Years 6–7	35
Years 8–9	33
Years 10–15	55
Years 16 and above	100

Mortality—Pre-Termination—RP-2000 Employee Mortality Table for Males and Females with blue-collar adjustment, projected on generational basis using Scale AA.

Post-Termination—95% of the rates from the RP-2000 Healthy annuitant mortality Table for Males with blue collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant Mortality Table for Females, both projected on a generational basis using Scale AA.

Marriage—80% of employees are assumed to be married with wives 3 years younger than husbands.

Interest on Employee Contributions—Assumed to be 3.5% per year for future years.

Tier 1 Railroad Offset—The Tier 1 Railroad offset, which is designed similar to a Social Security Benefit, was estimated by assuming that an individual would continue to earn compensation at the level in effect at his date of termination until eligibility for Railroad Benefits and further increased by 2% per year from the date of termination to age 65.

Miscellaneous—The valuation was prepared on a going-plan basis. The valuation was based on participants in the Additional Plan as of the valuation date and did not take future participants into account. No provision has been made for contingent liabilities with respect to non-vested terminated participants who may be reemployed. Since the majority of active plan participants are at or close to retirement eligibility, the disability benefit has not been explicitly valued.

D. CHANGES IN ACTUARIAL ASSUMPTIONS

The provision for the administrative expenses was increased from \$500,000 to \$650,000.

7. PLAN TERMINATION

While the Company expects to continue the Additional Plan indefinitely, it may, subject to its collective bargaining agreements, amend, restrict, or terminate the Additional Plan at any time. In the event of termination, all participants will become fully vested to the extent of their then accrued benefits based on their compensation and service up to the date of termination. The net assets of the Additional Plan will be allocated to provide benefits in accordance with the disposition of the Additional Plan assets in a prescribed manner as defined in the Additional Plan document.

8. COMMINGLING OF PENSION ASSETS FOR INVESTMENT PURPOSES

On July 26, 2006, the MTA Board passed a resolution to transfer the responsibilities for the administration of the Additional Plan to the MTA Defined Benefit Pension Plan ("MTA DB") with no changes in the pension and death benefits and appeal rights provided by the Additional Plan. The trust agreement under the Additional Plan was replaced by the MTA Master Trust Agreement, which allows for the commingling of pension assets for investment purposes under the management of the MTA DB's Board of Managers of Pensions. The Additional Plan and Trust Agreements were amended in September 2006 and all Plan assets were commingled into the MTA Master Trust for investment purposes, effective October 2, 2006.

9. CUSTODIAL AND OTHER PROFESSIONAL SERVICES

JP Morgan Chase Bank is the custodian of plan assets and also provides cash receipt and disbursement services to the Additional Plan. New England Pension Consultants reviews the Additional Plan's portfolio, the investment policies as stipulated by the Investment Committee and the performance of the Investment Managers. Actuarial services were provided to the Additional Plan by Milliman Inc.

10. SUBSEQUENT EVENTS

As of January 23, 2017, there were no materially significant events.

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SUPPLEMENTAL SCHEDULES

**THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS**

SCHEDULE I

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND
RELATED RATIOS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In thousands)**

	2015	2014
Total pension liability:		
Service cost	\$ 3,441	\$ 3,813
Interest	106,987	110,036
Changes of benefit terms		
Differences between expected and actual experience	406	
Changes of assumptions		
Benefit payments and withdrawals	<u>(157,071)</u>	<u>(156,974)</u>
Net change in total pension liability	(46,237)	(43,125)
Total pension liability—beginning	<u>1,602,159</u>	<u>1,645,284</u>
Total pension liability—ending (a)	<u>1,555,922</u>	<u>1,602,159</u>
Plan fiduciary net position:		
Employer contributions	100,000	407,513
Member contributions	1,108	1,304
Net investment income	349	21,231
Benefit payments and withdrawals	(157,071)	(156,974)
Administrative expenses	<u>(1,218)</u>	<u>(975)</u>
Net change in plan fiduciary net position	(56,832)	272,099
Plan fiduciary net position—beginning	<u>782,852</u>	<u>510,753</u>
Plan fiduciary net position—ending (b)	<u>726,020</u>	<u>782,852</u>
Employer's net pension liability—ending (a)-(b)	<u>\$ 829,902</u>	<u>\$ 819,307</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>46.66 %</u>	<u>48.86 %</u>
Covered-employee payroll	<u>\$ 25,712</u>	<u>\$ 29,334</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>3,227.72 %</u>	<u>2,793.05 %</u>

**THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS**

SCHEDULE II

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED DECEMBER 31, 2015
(In thousands)**

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2006	108,517	243,216	(134,699)	117,336	207.28 %
2007	100,907	100,907	0	93,998	107.35 %
2008	100,337	100,337	0	80,927	123.98 %
2009	108,677	108,677	0	72,718	149.45 %
2010	107,249	107,249	0	65,198	164.50 %
2011	108,980	108,285	695	51,159	211.66 %
2012	116,011	116,011	0	40,033	289.79 %
2013	119,325	199,336	(80,011)	33,043	603.26 %
2014	112,513	407,513	(295,000)	29,334	1,389.22 %
2015	82,382	100,000	(17,618)	25,712	388.93 %

**THE LONG ISLAND RAIL ROAD COMPANY PLAN
FOR ADDITIONAL PENSIONS**

SCHEDULE III

**REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF INVESTMENT RETURNS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	3.73 %
2015	0.05 %

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

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

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

DRAFT

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the "Plan") as of December 31, 2015 and 2014, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 11 and the Changes in the Employers' Net Pension Liability and Related Ratios-Schedule I on page 35; Employer Contributions and Notes to Schedule -Schedule II on pages 36-37; and the Investment Returns-Schedule III on page 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The Appendix A—Summary of Principal Plan Provisions on pages 40 through 60 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplementary information is the responsibility of the Plan's management. The Appendix A—Summary of Principal Plan Provisions has not been subjected to the auditing procedures applied in our audits of the basic financial statements and, accordingly, we express no opinion on it.

January 23, 2017

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

This management's discussion and analysis of The Manhattan and Bronx Surface Transit Operating Authority Pension Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2015, 2014, and 2013. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with the prior years' activity and results. This discussion and analysis may contain opinions, assumptions, or conclusions by MTA management that should not be considered a replacement for and is intended to be read in conjunction with the plan's financial statements which begin on page 12.

Overview of Basic Financial Statements

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

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

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

Manhattan and Bronx Surface Transit Operating Authority

Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

CONDENSED FINANCIAL INFORMATION AND ANALYSIS

FINANCIAL ANALYSIS

Plan Net Position As of December 31, 2015, 2014, and 2013 (Dollars in thousands)

				Increase / Decrease			
				2015-2014		2014-2013	
	2015	2014	2013	\$	%	\$	%
Cash and investments	\$ 2,263,535	\$ 2,249,053	\$ 2,072,788	\$ 14,482	0.6%	\$ 176,265	8.5 %
Receivables and other assets	40,789	98,897	41,429	(58,108)	-58.8%	57,468	138.7 %
Total assets	\$ 2,304,324	\$ 2,347,950	\$ 2,114,217	\$ (43,626)	-1.9%	\$ 233,733	11.1 %
Payable for investment securities purchased	1,762	55,863	504	(54,101)	-96.8%	55,359	10983.9 %
Other liabilities	10,247	26,794	19,818	(16,547)	-61.8%	6,976	35.2 %
Total liabilities	12,009	82,657	20,322	(70,648)	-85.5%	62,335	306.7 %
Plan net position held in trust for pension benefits	\$ 2,292,315	\$ 2,265,293	\$ 2,093,895	\$ 27,022	1.2%	\$ 171,398	8.2%

December 31, 2015 versus December 31, 2014

Cash and investments at December 31, 2015, were \$2,263.5 million, an increase of \$14.5 million or 0.6% from 2014. This increase is the result of investment activity and plan contributions net of benefit payments and expenses.

Receivables and other assets less plan liabilities at December 31, 2015 increased by \$12.5 million or 77.2% from 2014. This increase was due primarily to a decrease of \$58 million in receivables from investments, offset by decreases in due to brokers and other liabilities of \$70.6 million in 2015.

The plan net position held in trust for pension benefits increased \$27 million or 1.2% in 2015 as a result of the changes noted above.

Manhattan and Bronx Surface Transit Operating Authority

Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

December 31, 2014 versus December 31, 2013

Cash and investments at December 31, 2014, were \$2,249 million, an increase of \$176.3 million or 8.5% from 2014. This increase is the result of investment activity and plan contributions net of benefit payments and expenses.

Receivables and other assets less plan liabilities at December 31, 2014 decreased by \$4.9 million or 23.1% from 2013. This decrease was due primarily to an increase of \$57.5 million in receivables from investments, offset by increases in due to brokers and other liabilities of \$62.3 million in 2014.

The plan net position held in trust for pension benefits increased \$171.4 million or 8.2% in 2014 as a result of the changes noted above.

Changes in Plan Net Position For the Years Ended December 31, 2015, 2014 and 2013 (Dollars in thousands)

				Increase / Decrease			
	2015	2014	2013	2015-2014		2014-2013	
				\$	%	\$	%
Additions:							
Net investment income	\$ (24,163)	\$ 105,084	\$ 177,246	\$ (129,247)	-123.0%	\$ (72,162)	(40.7)%
Transfers and contributions	231,202	241,834	247,228	(10,632)	-4.4%	(5,394)	(2.2)%
Total net additions	207,039	346,918	424,474	(139,879)	-40.3%	(77,556)	(18.3)%
Deductions:							
Benefit payments	179,928	175,447	170,238	\$ 4,481	2.6%	\$ 5,209	3.1 %
Administrative expenses	89	73	105	16	21.9%	(32)	(30.5)%
Total deductions	180,017	175,520	170,343	4,497	2.6%	5,177	3.0 %
Net increase	27,022	171,398	254,131	(144,376)	-84.2%	(82,733)	(32.6)%
Plan net position held in trust for pension benefits:							
Beginning of year	2,265,293	2,093,895	1,839,764	171,398	8.2%	254,131	13.8 %
End of year	\$ 2,292,315	\$ 2,265,293	\$ 2,093,895	\$ 27,022	1.2%	\$ 171,398	8.2 %

December 31, 2015 versus December 31, 2014

Net investment income decreased by \$129.2 million or 123% in 2015 due to net investment losses of \$24.2 million in 2015 versus net gains of \$105.1 million in 2014.

Contributions decreased by \$10.6 million or 4.4% in 2015 compared to 2014, as a result of the Actuarial Determined Contributions ("ADC") for 2015.

Benefit payments increased by \$4.5 million or 2.6% over the prior year due to a continuing trend of increase in the number of retirees.

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

Administrative expenses increased by \$.016 million or 21.9% over 2014. This increase was due to an increase in fees for various services provided to the plan.

December 31, 2014 versus December 31, 2013

Net investment income decreased by \$72.2 million or 40.7% in 2014 due to lower net investment gains in 2014 of \$105.1 million versus net gains of \$177.2 million on 2013.

Contributions decreased by \$5.4 million or 2.2% in 2014 compared to 2013, as a result of the Actuarial Determined Contributions ("ADC") for 2014.

Benefit payments increased by \$5.2 million or 3.1% over the prior year due to a continuing trend of increase in the number of retirees.

Administrative expenses decreased by \$.032 million or 30.5% over 2013. This decrease is due to a reduction in fees for various services provide to the plan.

Manhattan and Bronx Surface Transit Operating Authority

Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

Economic Factors

Market Overview and Outlook – 2015

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

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

Macro Themes

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

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

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

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

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt issues in developed markets, and a collapse in energy and mineral prices. The main emerging markets, Brazil, Russia, India and China, defined as the "BRICs" all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing-oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential.

United States

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

Equity

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

Large Cap stocks were barely positive, with the S&P 500 and Russell 1000 indices posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large Cap energy stocks fell by 21.1% for the year while Mid Cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the United States, active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Manhattan and Bronx Surface Transit Operating Authority

Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

Fixed Income

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

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

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

International Developed

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

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In United States dollars, all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the US, equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from United States to European Equities. In Asia, most developed markets continue to experience very weak performance in United States dollar terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of

Manhattan and Bronx Surface Transit Operating Authority

Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

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

Emerging Markets

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

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

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

Commodities

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

Commodities posted amongst the worst performance of any asset class in 2015. The Dow Jones Commodity Index ("DJCI") fell by over 25% in 2015, with the energy components leading the downward spiral in prices. Only Cocoa and Cattle provided any positive returns in the index. The Brent Crude Index ("BCI") fell by 45.7% in 2015; Heating Oil fell by 41.4% and Natural Gas fell by 39.1%. While

Manhattan and Bronx Surface Transit Operating Authority Pension Plan

Management's Discussion and Analysis As of and For the Years Ended December 31, 2015 and 2014

potentially a benefit to consumers, the collapse in energy prices has negative effects near (United States shale producers) and far (emerging markets sovereign debt and currencies). Industrial metals were also not immune to the sell-off. As China demand for industrial metals has declined, prices for industrial metals declined by 25% in 2015. The volatility in prices, as well as the impairment on company financials, has led to a significant amount of capital raised in the private equity space in seeking to take advantage of the environment. With little reason to believe that a recovery is near, performance will likely broadly disappoint.

Contact Information

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

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MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

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

	2015	2014
ASSETS:		
Cash	\$ 4,884	\$ 2,210
Receivables:		
Investment securities sold	927	58,434
Interest and dividends	1,614	1,703
Employee loans	38,248	38,562
Total receivables	40,789	98,699
Investments (Notes 2 and 3):		
Investments measured at fair value level	524,352	519,532
Investments measured by Net Asset Value	1,734,299	1,727,311
Total investments	2,258,651	2,246,843
Other assets	-	198
Total assets	2,304,324	2,347,950
LIABILITIES:		
Accounts payable	1,357	1,781
Payable for investment securities purchased	1,762	55,863
Accrued benefits payable	1,578	4,384
Accrued post retirement death benefits (PRDB) payable	893	2,186
Accrued 55/25 Additional Members Contribution (AMC) payable	6,419	7,111
Other liabilities	-	11,332
Total liabilities	12,009	82,657
PLAN NET POSITIONS HELD IN TRUST FOR PENSION BENEFITS	\$2,292,315	\$2,265,293

See notes to financial statements.

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014 (In thousands)

	2015	2014
ADDITIONS:		
Contributions (Note 4):		
Employee contributions	\$ 16,321	\$ 15,460
Employer contributions	<u>214,881</u>	<u>226,374</u>
Total contributions	<u>231,202</u>	<u>241,834</u>
Investment income:		
Interest income	8,071	7,021
Dividend income	18,336	23,144
Net appreciation in fair value of investments	<u>(22,885)</u>	<u>98,325</u>
Total investment income	3,522	128,490
Less investment expenses	<u>27,685</u>	<u>23,406</u>
Net investment income	<u>(24,163)</u>	<u>105,084</u>
Total additions	<u>207,039</u>	<u>346,918</u>
DEDUCTIONS:		
Benefit payments and withdrawals	179,928	175,447
Administrative expenses	<u>89</u>	<u>73</u>
Total deductions	<u>180,017</u>	<u>175,520</u>
NET INCREASE	<u>27,022</u>	<u>171,398</u>
NET POSITION HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>2,265,293</u>	<u>2,093,895</u>
End of year	<u>\$ 2,292,315</u>	<u>\$ 2,265,293</u>

See notes to financial statements.

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

1. PLAN DESCRIPTION

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

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

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

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

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

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

NYCERS has determined that Tier 4 employees are and have been eligible for a post retirement death benefit retroactive to 1986. In June 2012, the Metropolitan Transportation Authority ("MTA") Board approved an amendment to the MaBSTOA Plan to provide for incorporation of this benefit. As of December 31, 2012, the Plan has estimated that \$6 million is owed to beneficiaries of retirees who were deceased prior to January 1, 2013. As of December 31, 2015, the Plan has paid \$5.7 million in post-retirement benefits and accrued an additional \$1 million based on the updated valuation. The Plan recorded \$0.893 million in liabilities in the Plan's financial statements as of December 31, 2015 compared to \$4.4 million as of December 31, 2014.

Funding Policy—The contribution requirements of Plan members are established and may be amended only by the MaBSTOA Board in accordance with Article 10.01 of the MaBSTOA Plan. MaBSTOA's funding policy for periodic employer contributions is to provide for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability.

The MaBSTOA Pension Plan includes the following plans: (i.) the Tier 3 and 4 Basic Age 62 Plan; (ii.) the Tier 6 Age 63 Plan; (iii.) the 55/25 Plan; (iv.) the Tier 4 25 Year Early Retirement Plan; (v.) the

Tier 4 Age 57 Plan, and (vi.) the 2000 amendments which are all under the same terms and conditions as NYCERS.

For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976, are non-contributing (Tiers 1 and 2). Certain employees entering qualifying service on or after July 27, 1976, are required to contribute either 2% of their salary plus certain employees pay additional member contribution of 1.85% (Tiers 3 and 4). See Note 4 for 2000 Plan amendments.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET MATTERS

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

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

New Accounting Standards Adopted – The Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the Funds to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect

management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plan's financial statements as a result of the implementation of GASB 72. Certain changes were also made to the footnotes to the financial statements including additional disclosures related to the hierarchy of valuation inputs and valuation techniques.

Recent Accounting Pronouncements —

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

The Plan has completed the process of evaluating the impact of Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The Plan has determined that GASB Statement No. 76 had no impact on Plan financial statements.

The Plan has completed the process of evaluating the impact of Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined

benefit pension plan that: (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is permitted. The Plan has determined that GASB Statement No. 78 had no impact on its financial position.

The Plan has completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

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

The Plan has not completed the process of evaluating the impact of Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, 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 No. 68*, and Amendments to Certain Provisions of GASB Statements Nos. 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 employee (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.

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

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

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

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

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

Reclassifications—Reclassification of certain prior year amounts have been made to conform to the current year presentation. There were no prior year reclassification for year ended December 31, 2015.

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

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

- a. Hedging. To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.
- b. Creation of Market Exposures. Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.
- c. Management of Country and Asset Allocation Exposure. Managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes.

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

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

3. CASH AND INVESTMENTS

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

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

The table below summarizes the Plan's investment allocation targets and returns at December 31, 2015:

Asset Class	Target Allocation (%)	Target Range (%)	Policy Benchark
Equities	29.0	24-34	
Domestic Large Cap	10.0	5-15	S&P 500
Domestic Small Cap	5.5	2-10	Russell 2000
International Developed			
Markets Equities	10.0	5-15	MSCI EAFE
Emerging Markets Equities	3.5	2-6	MSCI Emerging Markets
Fixed Income	15.0	9-21	Manager Specific
Global Asset Allocation*	20.0	15-33	50% World Equity/ 50% Citigroup WGBI unhedged
Opportunistic Investments	6.0	0-15	Manager Specific
Absolute Return	15.0	10-22	Manager Specific
Real Assets	5.0	0-10	Manager Specific
Real Estate	3.0	0-10	Manager Specific
Private Equity	7.0	0-10	Manager Specific
Total	100.0		

* The Global Asset Allocation managers will invest across numerous liquid asset classes including: stocks, bonds, commodities, TIPS and REITs.

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

(a) Equity

The equity investments criteria are:

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

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

(b) Fixed Income

Fixed income instruments that are acceptable:

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

Fixed income investments shall be appropriately diversified.

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

(e) Derivative Financial Instruments

In 1999, the Plan implemented a cash overlay strategy for its Enhanced Cash Portfolio using futures contracts. An asset manager was retained to manage the overlay strategy and replicate the Plan's Strategic Asset Allocation exposure. A daily reconciliation of the futures exposure to the cash position is conducted to prevent any leverage situation. The Plan, at December 31, 2015 and 2014, had net cash of \$94 million and \$60 million, respectively, which was overlaid with derivative instruments.

(f) Securities Lending Transactions

The Plan terminated the lending of securities to broker dealers..

(g) Other Investments

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

(h) Prohibited Transactions

The Plan's policy prohibits:

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

(i) Investment Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are uninsured and uncollateralized. Custodial credit risk, is the risk that in the event of a failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan and are held by either the counterparty or the counterparty's trust department or agent but not in the name of the Plan.

Consistent with the Plan's investment policy, the investments are held by the Plan's custodian and registered in the name of the Plan.

All of the Plan's deposits are insured by the Federal Deposit Insurance Corporation and collateralized by securities held by a financial institution separate from the Plan's depository financial institution.

(j) Commingled Funds/Mutual Funds

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

(k) Credit Risk

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

In year 2015, the MaBSTOA Pension Plan adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

Investments measured by fair value level

	December 31, 2015	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity Securities:				
Separate account large-cap equity funds	\$ 233,730,250	233,730,250		-
Separate account small-cap equity funds	112,521,684	112,521,684		-
Total equity investments	346,251,934	346,251,934	-	-
Debt Securities				
Separate account debt funds	178,100,326	-	178,100,326	-
Total debt investments	178,100,326	-	178,100,326	-
Total investments by fair value level	\$ 524,352,260	-	178,100,326	-

Investments measured at the net asset value (NAV)

	December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Comingled international equity funds	\$ 191,633,568	\$ -	Daily	None
Comingled emerging market equity funds	78,259,008	-	Daily, monthly	None
Total equity investments measured at the NAV	269,892,576	-		
Debt Securities				
Comingled debt funds	157,718,640	-	Daily, monthly, quarterly	None
Total debt investments measured at the NAV	157,718,640	-		
Absolute return:				
Directional	75,442,971	-	Monthly	3-60 days
Direct lending	81,226,075	20,685,570	Bi-annually	60 plus days
Credit long	32,478,393	-	Quarterly	3-30 days
Credit long/short	48,558,309	-	Quarterly	3-60 days
Equity long/short	18,545,495	-	Quarterly	3-60 days
Event driven	67,624,501	2,093,427	Quarterly, Bi-annually	60-120 days
Global macro	85,169,414	-	Monthly	3-30 days
Global tactical asset allocation	203,808,645	-	Daily, monthly	3-30 days
Market neutral	326,315	-	Quarterly	3-60 days
Multistrategy	19,978,907	-	Quarterly	3-60 days
Risk parity	279,343,628	-	Monthly	3-30 days
Total absolute return measured at the NAV	912,502,653	22,778,997		
Private equity - private equity partnerships	136,463,123	54,599,911	Not eligible	N/A
Real assets				N/A
Comingled commodities fund	43,822,896	-	Not eligible	N/A
Comingled real estate funds	80,268,283	-	Not eligible	N/A
Energy	23,749,949	38,029,950	Not eligible	N/A
Infrastructure	6,117,124	15,433,863	Not eligible	N/A
Total real assets measured at the NAV	153,958,252	53,463,813		
Short term investments measured at the NAV	103,763,871	-		
Total investments measured at the NAV	1,734,299,115	\$ 130,842,721		
Total investments measured at fair value	\$ 2,258,651,375			

Investments measured by fair value level

	December 31, 2014	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity Securities:				
Separate account large-cap equity funds	\$ 231,018,280	231,018,280	-	-
Separate account small-cap equity funds	125,681,389	125,681,389	-	-
Total equity investments	356,699,669	356,699,669	-	-
Debt Securities				
Separate account debt funds	162,831,801	-	162,831,801	-
Total debt investments	162,831,801	-	162,831,801	-
Total investments by fair value level	\$ 519,531,470	-	162,831,801	-

Investments measured at the net asset value (NAV)

	December 31, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Comingled international equity funds	\$ 188,058,933	\$ -	Daily	None
Comingled emerging market equity funds	87,820,036	-	Daily, monthly	None
Total equity investments measured at the NAV	275,878,969	-		
Debt Securities				
Comingled debt funds	166,873,129	-	Daily, monthly, quarterly	None
Total debt investments measured at the NAV	166,873,129	-		
Absolute return:				
Directional	97,356,375	-	Monthly	3-60 days
Direct lending	57,734,022	26,958,508	Bi-annually	60 plus days
Credit long	35,810,786	-	Quarterly	3-30 days
Equity long/short	17,089,289	-	Quarterly	3-60 days
Event driven	93,320,097	2,187,419	Quarterly, Bi-annually	60-120 days
Global macro	82,422,643	-	Monthly	3-30 days
Global tactical asset allocation	204,853,980	-	Daily, monthly	3-30 days
Market neutral	1,113,502	-	Quarterly	3-60 days
Multistrategy	58,502,640	-	Quarterly	3-60 days
Risk parity	303,576,428	-	Monthly	3-30 days
Total absolute return measured at the NAV	951,779,762	29,145,927		
Private equity - private equity partnerships	119,743,156	70,317,942	Not eligible	N/A
Real assets				N/A
Comingled commodities fund	49,118,846	-	Not eligible	N/A
Comingled real estate funds	68,241,325	-	Not eligible	N/A
Energy	19,619,406	47,986,178	Not eligible	N/A
Total real assets measured at the NAV	136,979,577	47,986,178		
Short term investments measured at the NAV	76,056,594	-		
Total investments measured at the NAV	1,727,311,187	\$ 147,450,047		
Total investments measured at fair value	\$ 2,246,842,657			

Concentration of Credit Risk – Individual investments held by the Plan that represents 5.0% or more of the Plan's net assets available for benefits at December 31, 2015 and 2014 are as follows:

	2015	2014
Investments at fair value as determined by quoted market prices:		
Bridgewater All Weather Fund	\$ 119,786,492	\$ 143,468,130
PIMCO All Asset Fund	-	118,160,989

Credit Risk — At December 31, 2015 and 2014, the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2015 Fair Value	Percentage of Fixed Income Portfolio	2014 Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 87,622,789	12.20 %	\$ 101,668,175	12.22 %
AA	36,024,253	5.02	47,591,477	5.72
A	45,960,297	6.40	80,522,794	9.68
BBB	169,644,600	23.63	137,917,874	16.57
BB	52,544,773	7.32	88,108,754	10.59
B	31,853,323	4.43	53,337,709	6.41
CCC	4,970,616	0.68	18,660,448	2.24
Not Rated	42,637,192	5.94	75,112,512	9.03
Credit risk debt securities	471,257,843	65.62	602,919,743	72.46
U.S. Government bonds	246,821,098	34.38	229,127,537	27.54
Total fixed income securities	718,078,941	100.00 %	832,047,280	100.00 %
Other securities not rated — equity, international funds and foreign corporate bonds	1,540,572,434		1,414,795,377	
Total investments	\$ 2,258,651,375		\$ 2,246,842,657	

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

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

(l) Interest Rate Risk

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

Investment Fund	2015		2014	
	Fair Value	Duration	Fair Value	Duration
Chase	\$ 178,100,326	11.46	\$ 162,831,800	4.24
Pimco	-	-	118,160,989	2.77
Wellington Emerging Debt	50,038,235	5.06	65,274,831	4.22
Allianz Structured Alpha Fund	95,184,350	0.13	95,185,328	0.25
GAM Unconstrained Bond Fund	66,632,867	0.93	-	-
Bridgewater All Weather Fund	119,786,492	7.87	143,468,130	9.37
Wellington Opportunistic	24,882,085	1.69	25,314,353	4.66
Bridgewater Pure Alpha	68,987,225	4.36	61,075,178	(0.84)
Northern Trust William Capital	10,006,812	-	10,005,607	-
Park Square Capital Credit Opportunities	11,594,616	0.61	7,713,235	0.33
Crescent Capital High Income Fund	16,941,461	2.64	38,397,082	2.21
Fir Tree Value Realization Fund	1,237,589	-	2,841,408	-
Wellington Global Managed Fund	60,508,536	6.77	79,031,187	-
Wellington Trust Collective Investment Fund and Diversified Inflation Fund	5,740,799	7.56	3,880,389	5.71
Canyon Value	8,437,548	2.40	18,867,763	2.60
Total fixed income securities	718,078,941		832,047,280	
Portfolio modified duration		5.82		3.44
Investments with no duration reported	\$ 1,540,572,434		\$ 1,414,795,377	
Total investments	\$ 2,258,651,375		\$ 2,246,842,657	

(m) Foreign Currency Exposure

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

Foreign Currency Holdings in US \$	December 31, 2015	December 31, 2014
Argentina Peso	\$ 356,060	\$ -
Dollar (Australian)	36,638,334	4,385,371
Bahraini Dinar	266,989	-
Bangladesh (Taka)	239,250	513,360
Botswana Pula	90,152	93,180
Brazil Cruzeiro Real	4,680,235	15,183,193
Bulgarian Lev	3,467	6,867
Dollar (Canadian)	22,397,864	5,380,374
Chilean Peso	3,334,238	2,011,903
China (Yuan Renminbi)	7,865,310	5,483,913
Colombian Peso	5,006,485	7,713,366
Croatia Kuna	249,652	487,611
Czech Koruna	(1,735,533)	674,115
Krone (Danish)	2,568,644	122,877
Egyptian Pound	476,692	981,985
Euro	60,258,522	58,743,271
Georgian Lari	1,276,382	-
Ghanaian Cedi	34,674	39,224
Dollar (Hong Kong)	4,071,871	6,132,699
Hungary (Forint)	(96,208)	(83,733)
Indian Rupee	9,489,781	7,864,889
Indonesia Rupiah	9,665,947	10,538,570
Israeli (Shekel)	1,230,939	2,166,140
Yen (Japan)	26,799,654	(10,175,082)
Jordanian Dinar	287,794	482,156
Kazakhstani Tenge	239,250	-
Kenyan Shilling	631,670	509,328
Kuwait Dinar	492,370	1,153,014
Lebanese Pound	100,554	-
Malaysian (Ringgit)	3,344,436	7,490,810
Mauritius (Rupee)	263,522	709,133
Mexican New Peso	23,349,282	7,110,278
Morocco Dirham	253,120	465,463
Dollar (New Zealand)	(2,158,637)	2,953,707
Nigerian Naira	617,800	437,867
Krone (Norwegian)	505,295	(2,672,689)
Omani Rial	253,120	417,776
Pakistani Rupee	1,950,170	513,780
Panamanian Balboa	104,022	-
Peru Sol	1,993,211	2,175,246
Philippines Peso	1,329,935	1,718,619
Polish (New Zloty)	1,653,189	4,511,544
Pound (Sterling)	51,632,941	11,702,840
Qatar Riyal	556,324	852,157
Romanian Leu	1,347,620	1,505,789
Russian Federation Rouble	5,086,596	6,048,408
Saudi Riyal	273,924	-
Singapore Dollar	809,776	2,529,395
Rand South Africa	2,801,380	8,720,178
South Korean Won	7,504,005	8,398,304
Sri Lankan Rupee	263,522	463,066
Krona (Swedish)	4,013,303	(2,151,398)
Franc (Swiss)	7,645,046	(782,199)
Thai (Bhat)	3,438,066	3,545,137
Dollar (Taiwan, New)	15,665,679	6,631,941
Tunisian Dinar	114,424	84,157
Turkish Lira	913,173	9,129,860
Ukrainian Hryvnia	45,076	-
UAE Dirham	1,138,385	700,217
Uruguayan Pesos	433,945	548,152
Vietnamese Dong	249,652	-
Other	8,968,309	(19,019,977)
Total	\$ 343,280,650	\$ 185,146,152

(n) Alternative Investments

Alternative investments are broadly categorized into the following 5 categories:

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

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

Rate of Return—For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -1.10%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

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

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

4. CONTRIBUTIONS

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

Employer contributions amounted to \$214.9 million and \$226.4 million for the years ended December 31, 2015 and 2014, respectively. Employee contributions amounted to \$16.3 million and \$15.5 million for the years ended December 31, 2015 and 2014, respectively. Contributions made by employees are accounted for in separate accounts maintained for each employee. Annually, these accounts are credited with interest at 5%. Effective April 1, 1990, MaBSTOA began to deduct employee contributions as pretax contributions under Section 414H of the Internal Revenue Code.

Pursuant to Section 7.03 of the MaBSTOA Plan, active plan members are permitted to borrow up to 75% of their contributions with interest. Their total contributions and interest remain intact and interest continues to accrue on the full balance. The participant’s accumulated contribution account is used as collateral against the loan. The Plan granted \$16.8 million and \$16.9 million in loans to members during

2015 and 2014, respectively. Loan repayments by members amounted to \$15.1 million and \$16.1 million in 2015 and 2014, respectively.

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

5. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2015 and 2014 were as follows (in thousands):

	December 31, 2015	December 31, 2014
Total pension liability	\$ 3,391,989	\$ 3,331,464
Fiduciary net position	<u>2,292,316</u>	<u>2,265,293</u>
Net pension liability	<u>\$ 1,099,673</u>	<u>\$ 1,066,171</u>
Fiduciary net position as a percentage of the total pension liability	67.58 %	68.00 %
Covered payroll	\$ 685,999	\$ 671,633
Net pension liability as a percentage of covered payroll	160.30 %	158.74 %

Actuarial Methods and Assumptions—The total pension liability as of December 31, 2015 was determined by an actuarial valuation date of January 1, 2015, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Additional information of the latest actuarial valuation follows:

Valuation date	January 1, 2015
Actuarial cost method	Frozen initial liability (FIL) ⁽¹⁾
Amortization method	For FIL bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA
Actuarial Assumptions: Investment rate of return	7.00%, net of investment related expenses
Projected salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement
Cost-of-living adjustments	1.375% per annum
Inflation	2.50% per annum

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

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

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

- All operating employees are automatically included in the 2000 55/25 plan.
- Elimination of the 2.3% additional employees' contributions applicable to members of the 55/25 plan.
- Reduction in the Tier 3 and 4 employee contribution rate from 3.0% to 2.0%.

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

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

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

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

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

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

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

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

The Plan also adopted the legislative provisions of Chapter 379, which allow current and former members of the Transport Workers Union, Local 100 and Transit Supervisors Organization, Local 106, with an accumulated balance of additional member contributions (AMC) made in accordance with the MaBSTOA 55/25 Plan enacted in 1994, to apply for a refund of such contributions. AMC refunds amounted to approximately \$692 thousand and \$424 thousand as of December 31, 2015 and 2014, respectively.

At January 1, 2016 and 2015, actuarial assets were available to fund 67.3% and 69.3%, respectively, of the actuarial accrued liability (UAAL) when measured using the Entry Age Normal Cost Method and the market value of assets.

Calculation on Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the middle of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

Schedule of Calculations of Money-Weighted Rate of Return

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning Value - January 1, 2015	\$2,265,293,331	12.00	1.00	\$2,241,439,352
Monthly net external cash flows:				
January	4,487,720	11.50	0.96	4,442,344
February	4,487,720	10.50	0.88	4,446,107
March	4,487,720	9.50	0.79	4,450,345
April	4,487,720	8.50	0.71	4,454,116
May	4,487,720	7.50	0.63	4,457,890
June	4,487,720	6.50	0.54	4,462,139
July	8,968,720	5.50	0.46	8,925,152
August	5,144,720	4.50	0.38	5,124,066
September	5,144,720	3.50	0.29	5,128,950
October	5,144,720	2.50	0.21	5,133,295
November	5,144,720	1.50	0.13	5,137,644
December	(5,287,934)	0.50	0.04	-5,285,696
Ending Value - December 31, 2015	\$2,292,315,704			\$2,292,315,704
Money-Weighted Rate of Return	-1.05%			

Expected Rate of Return on Investments—The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of the December 31, 2015 actuarial valuation are summarized in the following table:

Asset Class	Index	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Core Fixed Income	Barclays Aggregate	10.00 %	2.11 %
U.S. High Yield Bonds	BAML High Yield	8.00 %	4.32 %
Global Bonds	Citi WGBI	10.00 %	0.82 %
Emerging Market Bonds	JPM EMBI Plus	3.00 %	5.17 %
U.S. Large Cap	S&P 500	10.00 %	5.09 %
U.S. Small Cap	Russell 2000	5.50 %	6.26 %
Global Equities	MSCI ACWI NR	10.00 %	5.67 %
Foreign Developed Equities	MSCI EAFE NR	10.00 %	6.06 %
Emerging Market Equities	MSCI EM NR	3.50 %	8.21 %
GLOBAL REITS	FTSE EPRA/NAREIT Developed	5.00 %	5.98 %
Private Real Estate Property	NCREIF Property	3.00 %	3.84 %
Private Equity	Cambridge Private Equity	7.00 %	9.17 %
Hedge Funds - MultiStrategy	HFRI Fund Wtd Composite	15.00 %	4.20 %
Total			
Assumed Inflation—Mean			2.50 %
Assumed Inflation—Standard Deviation			1.89 %
Portfolio Arithmetic Mean Return			7.31 %
Portfolio Standard Deviation			11.67 %
Long-Term Expected Rate of Return			7.00 %

Discount Rate—The discount rate used to measure the total liability as of December 31, 2015 and 2014 was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the Plans' contributions will be made in accordance with the statutory contributions determined by the Actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate—The following presents the net pension liability of the Plan, calculated using the discount rate of 7.00 percent; as well as what the Plan's net pension would be if it were calculated using a discount rate that is 1-percentage point lower (6.00 percent) or 1-percentage point higher (8.00 percent) than the current rate for years 2015 and 2014 respectively:

2015 (in thousands)	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	<u>\$ 1,480,961</u>	<u>\$ 1,099,673</u>	<u>\$ 775,092</u>
2014 (in thousands)	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
Net pension liability	<u>\$ 1,448,685</u>	<u>\$ 1,066,171</u>	<u>\$ 740,824</u>

6. CUSTODIAL AND OTHER PROFESSIONAL SERVICES

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

7. SUBSEQUENT EVENTS

A Subsequent events have been evaluated through January 23, 2017.

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**REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)**

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

(in millions)

	2015	2014
Total pension liability:		
Service cost	\$ 77	\$ 72
Interest	232	224
Changes of benefit terms		
Differences between expected and actual experience	(69)	(2)
Changes of assumptions		
Benefit payments and withdrawals	<u>(180)</u>	<u>(175)</u>
Net change in total pension liability	60	119
Total pension liability—beginning	<u>3,331</u>	<u>3,212</u>
Total pension liability—ending (a)	<u>3,391</u>	<u>3,331</u>
Plan fiduciary net position:		
Employer contributions	215	226
Member contributions	16	15
Net investment income	(24)	105
Benefit payments and withdrawals	(180)	(175)
Administrative expenses		
Other	<u> </u>	<u> </u>
Net change in plan fiduciary net position	27	171
Plan fiduciary net position—beginning	<u>2,265</u>	<u>2,094</u>
Plan fiduciary net position—ending (b)	<u>2,292</u>	<u>2,265</u>
Employer's net pension liability—ending (a)-(b)	<u>\$ 1,099</u>	<u>\$ 1,066</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>67.58 %</u>	<u>68.00 %</u>
Covered-employee payroll	<u>686</u>	<u>672</u>
Employer's net pension liability as a percentage of covered-employee payroll	<u>160.30 %</u>	<u>158.74 %</u>

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

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS (in thousands)

Fiscal Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency/ (Excess)	Covered- Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
2015	\$214,881	\$214,881	\$	\$685,999	31.32 %
2014	226,374	226,374		671,633	33.70
2013	234,474	234,474		582,081	40.28
2012	228,918	228,918		575,989	39.74
2011	186,454	186,454		579,696	32.16
2010	200,633	200,633		591,073	33.94
2009	204,274	204,274		569,383	35.88
2008	201,919	201,919		562,241	35.91
2007	179,228	179,228		519,680	34.49
2006	159,638	259,638	(100,000)	498,039	52.13

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF EMPLOYER CONTRIBUTIONS

Note to Schedule II:

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the Plan for the years ended December 31, 2015 and 2014, are as follows:

Valuation Dates	January 1, 2015	January 1, 2014
Actuarial cost method	Frozen initial liability (FIL) (1)	Frozen initial liability (FIL) (1)
Amortization method	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population	For FIL bases, period specified in current valuation report. Future gains/losses are amortized through the calculation of the normal cost in accordance with the FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population
Actuarial asset valuation method	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets
Interest rate	Net rate of 7.0% for 2015, per annum, net of investment expenses	Net rate of 7.0% for 2014, per annum, net of investment expenses
Inflation	2.5% per annum	2.50% per annum
Deaths after retirement	Tables based on recent experience	Tables based on recent experience
Separations other than for normal retirement	Tables based on recent experience	Tables based on recent experience
Rates of normal retirement	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80	Tables based on recent experience. Rates vary by age, years of service at retirement and Tier/Plan. All members are assumed to retire by age 80
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 15.0% for operating employees and 4.0% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than overtime cap	Except for managerial employees, 8.5% of base salary for operating employees and 2.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement. For Tier 6 members, all overtime was assumed to be less than overtime cap
Cost-of-living adjustments	1.375% per annum (2)	1.375% per annum (2)
Provision for expenses	An average of the prior two years' administrative charges added to the normal cost	An average of the prior two years' administrative charges added to the normal cost

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

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

(continued)

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

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

Fiscal Year Ended December 31	Annual Money-Weighted Rate of Return
2015	(1.05)%
2014	4.95

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

**SUPPLEMENTARY INFORMATION
(UNAUDITED)**

MANHATTAN AND BRONX SURFACE TRANSIT OPERATING AUTHORITY PENSION PLAN

SUMMARY OF PRINCIPAL PLAN PROVISIONS

All Tiers

1. Type of Plan
The Plan is a contributory, defined benefit plan. Contributions are not required for Tier I and Tier II members and vary for other members. Details can be found in the following sections.
2. Effective Date of Plan Qualification
January 1, 1989; latest amendment was adopted during 2012 to adopt Tier 6 and to clarify the death benefit payable upon retirement for operating members.
3. Compensation
The wages earned by the employee. Compensation is limited by Section 401(a)(17) of the Code. This limit is \$265,000 for 2015.
4. Credited Service
Credited Service is credited full-time employment from date of hire.
5. Pensioner Supplementations
 - (a) 1998 Supplement
Eligibility: Date of retirement is prior to 1993 for all disability pensioners and other pensioners who have attained (or will attain) age 62 or who have attained (or will attain) age 55 and have been retired for at least 10 years.
Benefit: Commencing with the payment for the month of September 1998, the cost-of-living adjustment is applied to the first \$13,500 of the maximum retirement allowance, computed without option modification. If not eligible by September 1998, payment will commence first of the month following eligibility.
 - (b) 1999 Supplement
Eligibility: Date of retirement is prior to 1994 for all disability pensioners and other pensioners who have attained (or will attain) age 62 or who have attained (or will attain) age 55 and have been retired for at least 10 years.
Benefit: Commencing with the payment for the month of September 1999, the cost-of-living adjustment is applied to the first \$14,000 of the maximum retirement allowance, computed without option modification. If not eligible by September 1999, payment will commence first of the month following eligibility.

All Tiers

(c) 2000 Supplement

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

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

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

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

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

All Tiers

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

Eligibility: One of the following conditions is met:

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

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

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

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

6. Normal and Optional Forms of Payment

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

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

7. Maximum Benefit

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

8. Changes in Plan Provisions Since Prior Valuation

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

I. Tier 1 Employees

1. Eligibility Members hired before July 1, 1973.
2. Pensionable Compensation
 - (a) Compensation Greater of earned or earnable salary during the year prior to retirement.
 - (b) Final Compensation Highest average earnings over five consecutive years.
 - (c) Compensation Limit If hired after June 17, 1971, earnings in a year are limited to 120% of the preceding year.
3. Benefits
 - (a) Service Retirement

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

Benefit:

1.5% for service before March 1, 1962, plus

2.0% for service from March 1, 1962 to June 30, 1970, plus

2.5% for service after June 30, 1970

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

Eligibility: Completion of 20 years of credited service.

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

Active Members

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

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

Terminated Vested Members

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

I. Tier 1 Employees

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

II. Tier 2 Employees

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

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

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

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

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

Eligibility: Completion of 20 years of credited service.

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

Eligibility: Completion of 90 days of credited service.

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

Eligibility: Duty-related death.

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

II. Tier 2 Employees

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

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

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

Tier III/IV—Basic 62 & 5 Plan

1. Eligibility

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

Highest average earnings during any three consecutive calendar-years periods, or the final 36 months immediately preceding the member's retirement date. Earnings used in the calculation ~~a year~~ cannot exceed 110% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

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

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

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

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

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

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

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

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

Tier III/IV—Basic 62 & 5 Plan

(d) Ordinary Death Benefits

Eligibility: all members.

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

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

Spouse Benefit (Tier III only)

Eligibility: Vested and spouse is beneficiary.

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

(e) Accidental Death Benefits

Eligibility: Duty-related death.

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

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

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

Tier III/IV—Basic 62 & 5 Plan

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

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

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Tier III/IV—55 & 25 Programs

1. Eligibility

All operating members hired prior to April 1, 2012 and non-operating members hired prior to July 26, 1994, who elected this program. Members hired on or after July 27, 1976, and before September 1, 1983, are in Tier III. Members hired on or after September 1, 1983 and before April 1, 2012 are in Tier IV.
2. Final Average Compensation

Highest average earnings during any three consecutive calendar-years periods, or the final 36 months immediately preceding the member's retirement date. Earnings used in the calculation cannot exceed 110% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

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

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

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

Benefit: The benefit equals a refund of the basic member's-accumulated contributions. Non-operating can also obtain 50% of additional member contribution. All contributions are refunded with interest at a rate of 5.0% also payable.

Tier III/IV—55 & 25 Programs

(ii) Vested Benefit

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

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

(c) Ordinary Death Benefits

Eligibility: All members.

Pre-retirement Benefit: A maximum The benefit equals to a lump sum of three times annual salary for members with 3 or more years of credited service. The benefit payment is less if fewer than 3 years of credited service. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

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

Spouse Benefit (Tier III only)

Eligibility: Vested and spouse is beneficiary.

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

Tier III/IV—55 & 25 Programs

- (d) Accidental Death Benefits Eligibility: Duty-related death.
Benefit: The benefit equals 50% of compensation paid to eligible beneficiary as defined by priority:
(i) Spouse, until remarriage
(ii) Children, to age 25
(iii) Dependent parents
(iv) Any other dependent survivors, to age 21.
Total of all payments will at least equal the amount of the full ordinary death lump sum benefit.
- (e) Ordinary and Accidental Disability Benefits Eligibility: Completion of 10 years of credited service for ordinary. No service requirement for accidental.
Benefit: The benefit equals the greater of 1-2/3% of Final Average Compensation per year of credited service and 1/3 of Final Average Compensation. If eligible for a Service Retirement benefit, the greater of this benefit and the Service Retirement benefit is payable. For non-operating employees, a refund of one-half of the member's additional contributions accumulated plus interest at a rate of 5.0% is also payable.
4. Member Contributions Operating Employees: Regular contribution rate of 2.0%. Additional 55/25 contributions were made through 2000. These contributions may be refunded effective November, 2007 for TWU Local 100 and April, 2008 for TSO Local 106.
Non-operating Employees: Regular contribution rate of 3.0%. Regular contributions cease at the later of October 1, 2000 or after the later of 10 years of membership or 10 years of credited service. Additional contribution rate of 1.85%, which ceases after 30 years of credited service.
5. Changes in Plan Provisions Since Prior Valuation None

Tier IV—57 & 5 Plan

1. Eligibility

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

Highest average earnings during any three consecutive calendar-years periods, or the final 36 months immediately preceding the member's retirement date. Earnings used in the calculation cannot exceed 110% of the average of the two preceding years.
3. Benefits
 - (a) Service Retirement

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

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

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

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

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

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

Tier IV—57 & 5 Plan

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

Tier VI—55 & 25 Special Plan

1. Eligibility

All operating members hired on or after April 1, 2012.

2. Final Average Compensation

Highest average pensionable earnings over five consecutive years. Pensionable earnings exclude any overtime earnings, defined as compensation paid at a rate greater than the standard rate, in excess of the overtime cap. The overtime cap is indexed annually and is \$15,490 for 2015. Pensionable earnings also exclude wages in excess of the annual salary paid to the Governor of New York, lump sum payments for sick leave, accumulated vacation and other credits for time not worked, termination pay and any additional compensation paid in anticipation of retirement. Pensionable earnings in a year cannot exceed 110% of the average of the four preceding years.

3. Benefits

(a) Service Retirement

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

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

(b) Termination Benefits

(i) Refund of Contributions

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

Benefit: The benefit equals a refund of the member's contributions accumulated plus interest at a rate of 5.0%.

(ii) Vested Benefit

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

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

Tier VI—55 & 25 Special Plan

(c) Ordinary Death Benefits

Eligibility: All members

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

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

(d) Accidental Death Benefits

Eligibility: Duty-related death.

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

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

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

(e) Ordinary and Accidental Disability Benefits

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

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

Tier VI—55 & 25 Special Plan

4. Member Contributions

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

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

5. Changes in Plan Provisions Since Prior Valuation

None

Tier VI—Basic 63 and 10 Plan

1. Eligibility

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

Highest average pensionable earnings over five consecutive years. Pensionable earnings exclude any overtime earnings, defined as compensation paid at a rate greater than the standard rate, in excess of the overtime cap. The overtime cap is indexed annually and is \$15,490 for 2015. Pensionable earnings also exclude wages in excess of the annual salary paid to the Governor of New York, lump sum payments for sick leave, accumulated vacation and other credits for time not worked, termination pay and any additional compensation paid in anticipation of retirement. Pensionable earnings in a year cannot exceed 110% of the average of the four preceding years.
3. Benefits
 - (a) Service Retirement

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

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

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

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

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

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

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

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

Tier VI—Basic 63 and 10 Plan

(d) Ordinary Death Benefits

Eligibility: All members

Pre-retirement Benefit: A maximum ~~The~~ benefit equals to a lump sum of three times annual salary for members with 3 or more years of credited service. The benefit payment is less if fewer than 3 years of credited service. After age 60, the benefit is reduced 5% per year, to a maximum reduction of 50%. Accumulated regular member contributions with interest and one-half of accumulated additional member contributions with interest are also payable.

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

(e) Accidental Death Benefits

Eligibility: Duty-related death.

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

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

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

(f) Ordinary and Accidental Disability Benefits

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

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

Tier VI—Basic 63 and 10 Plan

4. Member Contributions

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

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

5. Changes in Plan Provisions Since Prior Valuation

None

Metropolitan Transportation Authority Defined Benefit Pension Plan

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

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METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Metropolitan Transportation Authority Defined Benefit Pension Plan (the "Plan") as of December 31, 2015 and 2014, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 9 and the Schedule of Changes in the Employers' Net Pension Liability and Related Ratios-Schedule I on page 52; Schedule of Employer Contributions-Schedule II on page 53; and Schedule of Investment Returns-Schedule III on page 54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

January 23, 2017

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

MANAGEMENT'S DISCUSSION AND ANALYSIS DECEMBER 31, 2015 AND 2014

This management's discussion and analysis of the Metropolitan Transportation Authority Defined Benefit Pension Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2015 and 2014. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the two years and the effects of significant changes, as well as a comparison with the prior year's activity and results. This discussion and analysis may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and is intended to be read in conjunction with the Plan's financial statements which begin on page 10.

Overview of Basic Financial Statements

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

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

The accompanying financial statements of the Plan are presented in conformity with accounting principles generally accepted in the United States of America as prescribed by the GASB.

CONDENSED FINANCIAL INFORMATION AND ANALYSIS

Plan Net Position

December 31, 2015, 2014 and 2013

(Dollars in thousands)

				Increase / Decrease			
	2015	2014	2013	2015-2014		2014-2013	
				\$	%	\$	%
Cash and investments	\$ 3,096,159	\$ 3,082,790	\$ 2,867,787	\$ 13,369	0.4%	\$ 215,003	7.5 %
Receivables and other assets	2,243	127,137	70,474	(124,894)	-98.2%	56,663	80.4 %
Total assets	\$ 3,098,402	\$ 3,209,927	\$ 2,938,261	\$ (111,525)	-3.5%	\$ 271,666	9.2 %
Due to broker for securities purchases	18,771	57,978	80,486	(39,207)	-67.6%	(22,508)	(28.0)%
Other liabilities	4,854	86,729	51,408	(81,875)	-94.4%	35,321	68.7 %
Total liabilities	23,625	144,707	131,894	(121,082)	-83.7%	12,813	9.7 %
Plan net position held in trust for pension benefits	\$ 3,074,777	\$ 3,065,220	\$ 2,806,367	\$ 9,557	0.3%	\$ 258,853	9.2%

December 31, 2015 versus December 31, 2014

Cash and investments at December 31, 2015 were \$3,096.2 million representing an increase of \$13.4 million or 0.4% from 2014. This increase is a result of investment activity and plan contributions net of benefit payments and expenses during 2015.

Receivables and other assets net of liabilities at December 31, 2015 increased by \$3.8 million or 21.2% from 2014. This is due primarily to a decrease in collateral fund receivable in the amount of \$80.8 million, and a decrease in net securities sold at the end of 2014 in the amount of \$43.9 million, offset by a decrease in forward currency contracts in the amount of \$80.1 million.

The plan net position held in trust for pension benefits increased \$9.6 million or 0.3% in 2015 as a result of the changes noted above.

December 31, 2014 versus December 31, 2013

Cash and investments at December 31, 2014 were \$3,082.8 million representing an increase of \$215.0 million or 7.5% from 2013. This increase is the result of investment activity and plan contributions net of benefit payments and expenses during 2014.

Receivables and other assets net of plan liabilities at December 31, 2014 decreased by \$143.9 million or 71.4% from 2013. This decrease is due primarily to a net change in collateral fund receivable in the amount of \$69.7, offset by an increase in forward currency contracts in the amount of \$69.0 million and a decrease in unearned revenues of \$35.9 million.

The plan net position held in trust for pension benefits increased \$258.9 million or 9.2% in 2014 as a result of the changes noted above.

Changes in Plan Net Position
For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

				Increase / Decrease			
	2015	2014	2013	2015-2014		2014-2013	
				\$	%	\$	%
Additions:							
Net investment (loss) income	\$ (45,122)	\$ 102,245	\$ 279,159	\$(147,367)	-144.1%	\$ (176,914)	(63.4)%
Contributions	256,213	357,265	276,642	(101,052)	-28.3%	80,623	29.1 %
Total net additions	211,091	459,510	555,801	(248,419)	-54.1%	(96,291)	(17.3)%
Deductions:							
Benefit payments	199,572	191,057	175,998	\$ 8,515	4.5%	\$ 15,059	8.6 %
Administrative expenses	1,962	9,600	4,712	(7,638)	-79.6%	4,888	103.7 %
Total deductions	201,534	200,657	180,710	877	0.4%	19,947	11.0 %
Net increase	9,557	258,853	375,091	(249,296)	-96.3%	(116,238)	(31.0)%
Plan net position held in trust for pension benefits:							
Beginning of year	3,065,220	2,806,367	2,431,276	258,853	9.2%	375,091	15.4 %
End of year	\$ 3,074,777	\$ 3,065,220	\$ 2,806,367	\$ 9,557	0.3%	\$ 258,853	9.2 %

December 31, 2015 versus December 31, 2014

Net investment income decreased by \$147.4 million or 144.1% in 2015 due to net investment losses of \$45.1 million in 2015 versus net gains of \$102.2 million in 2014.

Contributions decreased by \$101.1 million or 28.3% in 2015 compared to 2014 as a result of the Actuarial Determined Contributions ("ADC") for 2015.

Benefit payments increased by \$8.5 million or 4.5% over the prior year due to a continuing trend of increase in the number of retirees and benefits adjustment in 2015.

Administrative expenses decreased by \$7.6 million, or 79.6% over 2014. This decrease is due primarily to a reduction in an offshore tax liability investment charge of \$6.0 million, and a reduction in other fees and expenses charged in 2015 for various services provided to the Plan.

December 31, 2014 versus December 31, 2013

Net investment income decreased by \$176.9 million or 63.4% in 2014 due to lower net investment gains in 2014 of \$102.2 million versus net gains of 279.2 million on 2013.

Contributions increased by \$80.6 million in 2014 compared to 2013 as a result of the Actuarial Determined Contributions ("ADC") for 2014 and the recognition of additional contributions paid in 2014 for 2015.

Benefit payments increased by \$15.0 million or 8.6% over the prior year due to a continuing trend of increase in the number of retirees.

Administrative expenses increased by \$4.9 million, representing a 103.7% increase over 2013. The amount represents an offshore tax liability investment charge of \$6.0 million, offset by a reduction in fees for various services provided to the Plan.

Economic Factors

Market Overview and Outlook – 2015

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

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

Macro Themes

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

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

Europe continues to be impacted by high levels of public debt and low economic growth. Like many emerging markets, much of Europe's exports are tied to Chinese demand and growth. Lower growth in China will continue to place pressures on Europe, in particular Germany. Debt levels have not yet moderated post-financial crisis and flare-ups in the periphery countries, such as in Greece, Portugal, Italy, and Spain, are likely to

continue as growth remains challenged and reforms and austerity lose support. Banks will continue their deleveraging cycle as new rules on risk capital are implemented. In Japan, where banks are in better health; high public debt, low growth, a weakening regional economic picture, and aging demographics will challenge the government in delivering their growth and inflation targets.

Emerging markets have seen their economic performance deteriorate over the past few years, coinciding with both a weaker global growth picture, sovereign debt issues in developed markets, and a collapse in energy and mineral prices. The main emerging markets, Brazil, Russia, India and China, defined as the “BRICs” all face their own challenges. Brazil faces high inflation, high interest rates, low growth and a government beset by allegation of corruption. China, in attempting to shift from being manufacturing- oriented to a consumer-based economy, faces significant pressures to meet its growth target of 7% per year. Russia faces a deteriorating financial condition as lower energy prices and economic sanctions take their toll. Finally, India seems to continually disappoint in liberalizing its economy and implementing the structural reforms necessary to unleash its potential.

United States

Markets in the United States were challenged for the year, but were among the best performers in 2015. Unlike other regions, the United States appears to be on relatively sound footing, with unemployment continuing to decline and the remaining hangovers from the 2008 financial crisis continuing to dissipate.

The better economic picture provided the Federal Reserve enough leeway to raise interest rates in December for the first time in nearly ten years. The 25 basis point move is largely symbolic, as the frequency and velocity of future interest rate hikes will be determined by continued improvement in the economy.

Equity

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

Large Cap stocks were barely positive, with the S&P 500 and Russell 1000 indices posting returns of +1.4% and +0.9%, respectively. Small Cap and Mid Cap indices underperformed large cap. Small Cap, as measured by the Russell 2000 Index, returned -4.4%. The Russell Mid Cap Index performed better, at -2.4%, but still posting its first negative year since 2008. Digging deeper, there was significant performance dispersion across the sectors. Energy and materials performed remarkably poorly. Large Cap energy stocks fell by 21.1% for the year while Mid Cap energy stocks fell by over 33%. Consumer areas performed reasonably well. Consumer Discretionary (+10.1%), Health Care (+6.9%) and Staples (+6.6%) were the leading performers in the S&P 500. With the potential for a new interest rate regime in the United States, active management may finally start to deliver against passive investment options. Dispersion amongst sectors and stocks, as well as increased volatility from a cloudy global macro picture, should provide active managers an adequate environment to deliver value in relation to their fees.

Fixed Income

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

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

Volatility entered the fixed income markets significantly in the back half of the year. High Yield, which had seen strong inflows in recent years, sold off as investors became nervous of rising interest rates, illiquidity, and the impact from the decline in energy prices. Energy issuers comprise roughly 15% of the high yield market and are under significant pressure due to the decline in oil prices. High profile fund closures and liquidations in the fourth quarter added to the volatility in the high yield market.

Investment grade was not immune to the volatility either as risk aversion was evident in the corporate bond markets. Lower-rated investment grade, defined as “BBB” by S&P, posted a -1.5% return for the year, underperforming “A” rated bond by nearly 200 bps. Investment in fixed income will remain a challenging class in 2016. Potential interest rate increases should continue to dampen returns for Treasuries and risk-aversion in investment grade and high-yield will likely lead to further volatility. Nimbleness and patient deployment of capital in fixed income could offer opportunities to take advantage of periods of market stress.

International Developed

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

Europe muddled through 2015, never quite able to shake-off a steady procession of crises or concerns, whether the headlines were Greece, sovereign debt levels, weak growth, the viability of the Euro, or the influx of migrants. In United States dollars, all major developed markets posted negative performance in 2015. Banks in Europe continue their deleveraging programs, selling off non-core holdings and impaired assets. Opportunities in Europe will continue to exist in taking advantage of the deleveraging cycle, although the space has become crowded with ever increasing amounts of capital seeking returns. Unlike the US, equity valuations appear a little more attractive in Europe and there may be a likelihood that investors will shift their focus from United States to European Equities. In Asia, most developed markets continue to experience very weak performance in United States dollar terms, with the one exception being Japan. Japan, which has embarked on aggressive policies to pull the country from two decades of stagnation, returned +9.6% in 2015. Whether the strong relative performance continues is an open question, particularly in light of the developments in China and whether the Yen can continue to depreciate against other currencies.

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

Emerging Markets

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

Emerging markets posted performance not seen since the financial crisis. The broad emerging markets index declined 14.9% for the year. Only two markets tracked by Morgan Stanley Country Index (“MSCI”), Hungary and Russia, posted positive performance for the year, although Russia was largely a result of performance in the non-energy and basic materials sectors.

China, which made significant news through the fall and into winter with the deterioration of its economy and clumsy financial controls implemented to arrest a steep decline in its equity markets, performed better than the broader emerging markets index, falling 7.8% for the year. The worst performance in emerging markets came from Latin America. The Emerging Markets Latin America index (“EMLI”) fell by 31.0% in 2015, with the worst performance coming from the commodity-heavy economies of Brazil (-41.4%), Peru (-31.7%), and Columbia (-41.8%).

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

Commodities

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

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

Contact Information

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

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

STATEMENTS OF PLAN NET POSITION AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS:		
Cash	\$ 45,274,024	\$ 6,108,201
Investments (Notes 2 and 3):		
Investments measured at fair value level	654,863,498	626,624,089
Investments measured by NAV	<u>2,396,020,885</u>	<u>2,450,058,241</u>
Total investments	<u>3,050,884,383</u>	<u>3,076,682,330</u>
Receivables:		
Accrued interest and dividends	1,872,900	1,637,578
Collateral fund receivable	-	80,825,930
Additional plan receivable	-	577,559
Due from broker for Securities sold	-	43,943,134
Other receivable	<u>370,247</u>	<u>111,312</u>
Total receivables	<u>2,243,147</u>	<u>127,095,513</u>
Other assets		41,402
Total assets	<u>3,098,401,554</u>	<u>3,209,927,446</u>
LIABILITIES:		
Due to broker for securities purchased	18,770,581	57,978,104
Due to broker for investment fee	2,094,181	3,664,850
Due to broker for administrative expenses	135,439	(377,203)
Due to MTA for administrative expenses	2,157,638	2,009,412
Due to MTA Long Island Bus for health expenses	-	1,300,000
Forward currency contract	-	80,132,307
Other liabilities	<u>467,060</u>	<u>-</u>
Total liabilities	<u>23,624,899</u>	<u>144,707,470</u>
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS	<u>\$ 3,074,776,655</u>	<u>\$ 3,065,219,976</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

STATEMENTS OF CHANGES IN PLAN NET POSITION FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
ADDITIONS:		
Investment income:		
Net realized and unrealized gains or (losses)	\$ (53,175,371)	\$ 92,077,703
Dividends	28,525,943	37,859,037
Interest	<u>6,248,227</u>	<u>6,468,111</u>
Total Investment (loss)/Income	(18,401,201)	136,404,851
Less:		
Investment expenses	<u>(26,720,680)</u>	<u>(34,159,913)</u>
Net investment (loss)/income	(45,121,881)	102,244,938
Contributions:		
Employer:		
Metro-North Commuter Railroad Company	70,500,320	122,862,733
Long Island Rail Road Company	68,500,000	123,849,954
Metropolitan Transportation Authority Headquarters	30,600,000	30,249,331
MTA Bus Company	45,928,494	45,717,151
Staten Island Rapid Transit Operating Authority	6,164,903	8,579,583
Employee	<u>34,518,682</u>	<u>26,005,910</u>
Total contributions	<u>256,212,399</u>	<u>357,264,662</u>
Total additions	<u>211,090,518</u>	<u>459,509,600</u>
DEDUCTIONS:		
Benefits paid to participants	199,571,600	191,056,637
Administrative expenses	<u>1,962,239</u>	<u>9,600,158</u>
Total deductions	<u>201,533,839</u>	<u>200,656,795</u>
NET INCREASE	<u>9,556,679</u>	<u>258,852,805</u>
PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS:		
Beginning of year	<u>3,065,219,976</u>	<u>2,806,367,171</u>
End of year	<u>\$ 3,074,776,655</u>	<u>\$ 3,065,219,976</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

1. PLAN DESCRIPTION

The following brief description of the Metropolitan Transportation Authority (the “Authority”) Defined Benefit Pension Plan (the “Plan”) is provided for general information purposes only. Participants should refer to the Plan document for more complete information.

General — The Plan represents a cost-sharing employer defined benefit pension plan administered by the Authority covering:

- (a) management employees of the Long Island Rail Road Company (“MTA Long Island Rail Road”) hired after January 1, 1988 not governed by collective bargaining agreements;
- (b) management employees of the Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) not governed by collective bargaining agreements;
- (c) represented MTA Long Island Rail Road employees hired after January 1, 1988, covered by collective bargaining agreements which provide for participation in the plan effective January 1, 2004;
- (d) certain represented MTA Metro-North Railroad employees covered by collective bargaining agreements which provide for participation in the plan effective on or after January 1, 2004;
- (e) represented and non-represented MTA Long Island Rail Road employees hired prior to January 1, 1988;
- (f) Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provided public service in Nassau and Queens Counties. The Authority’s Lease and Operating Agreement with Nassau County, dated January 15, 1973, as amended, was terminated effective December 31, 2011. As of January 1, 2012, the MTA Long Island Bus is no longer a member of the MTA Group. Represented and management Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) employees hired prior to January 24, 1983 and any MTA Long Island Bus person employed by the MSBA Employees’ Pension Trust prior to July 29, 1998 under the MSBA Employees’ Pension Plan remained vested employees in the plan;
- (g) represented and management employees of the Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) effective January 1st, 2005;
- (h) certain represented and management employees of MTA Bus Company, including represented and non-represented employees who were formerly employed by Liberty Lines Express, Inc., New York Bus Tours, Inc., Command Bus Company, Green Bus Lines Inc., Jamaica Buses Inc., Triboro Coach Corporation and represented employees formerly employed by Queens Surface Corporation; and
- (i) participants in the MTA Defined Benefit Pension Plan 20 Year Police Retirement program.

The Plan contains multiple and distinct benefit structures for MTA Metro-North Railroad and MTA Long Island Rail Road management employees, for MTA Metro-North Railroad and MTA Long Island Rail Road represented employees, MTA Police, MTA Long Island Bus employees and MTA Staten Island Railways employees. In addition, there are multiple but distinct benefit structures for the

employees of MTA Bus which are based on the plans covering those employees prior to their becoming MTA Bus employees. Assets and liabilities are pooled and a single cash contribution amount and annual pension cost is determined. The Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(b) of the Internal Revenue Code. Accordingly, the Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act ("ERISA") of 1974.

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

	2015	2014
Active Plan Members	17,156	16,688
Retirees and beneficiaries receiving benefits	11,382	11,038
Vested formerly active members not yet receiving benefits	<u>1,417</u>	<u>1,422</u>
Total	<u>29,955</u>	<u>29,148</u>

Funding for the Plan is provided by the Authority, MTA Metro-North Railroad, MTA Long Island Rail Road, MTA Bus and MTA Staten Island Railway which are public benefit corporations that receive a significant portion of their operating and capital financing requirements from New York City, New York State, federal and regional governmental units and from the sale of bonds to the public. Certain funding is made on a discretionary basis. The continuance of funding for the Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

Plan Administration – The Defined Benefit Plan is administered by the Board of Managers of Pensions which comprised of:

- (a) the persons holding the following positions:
 - (i) the Chairman of the MTA;
 - (ii) the MTA Chief Financial Officer;
 - (iii) the MTA Director of Labor Relations; and
 - (iv) the agency head of each participating Employer.
- (b) Designation of Others – Any member of the Board of Managers, serving as such by virtue of holding a position described in (a) of this section, may, by written authorization filed with the Secretary who shall notify the other members of the Board of Managers, designate another individual, not then a member of the Board of Managers, to serve in that member's stead, in accordance with procedures established with the approval of the Executive Director. Any such authorization may be revoked by the designating member at any time in writing filed in the same manner.
- (c) The Board of Managers shall be the agent for the service of legal process with respect to the Plan. No bond or other security is required in any jurisdiction of the Board of Managers or any member thereof except as required by law.

Pension Benefits — Retirement benefits are paid from the Plan to covered MTA Metro-North Railroad, MTA Staten Island Railway and post — 1987 MTA Long Island Rail Road employees as service retirement allowances or early retirement allowances. A participant is eligible for a service retirement allowance upon termination if the participant satisfied both age and service requirement. A participant is eligible for an early retirement allowance upon termination if the participant has attained age fifty-five and completed at least ten years of credited service. Terminated participants with five or more years of credited service who are eligible for a deferred vested benefit are not eligible to receive a service retirement allowance or early retirement allowance. Deferred vested benefits are payable on an unreduced basis on the first day of the month following the participant sixty-second birthday. Effective

in 2007, members and certain former members who become (or became) employed by another MTA agency which does not participate in the Plan continue to accrue service credit based on such other employment. Upon retirement, the member's vested retirement benefit from the Plan will be calculated on the final average salary of the subsequent MTA agency, if higher. Moreover, the Plan benefit will be reduced by the benefit, if any, payable by the other plan based on such MTA agency employment. Such member's disability and ordinary death benefit will be determined in the same way.

Retirement benefits are paid from the Plan under the MTA 20-Year Police Retirement Program. A participant is eligible for service retirement at the earlier of completing twenty years of credited Police service or attainment of age sixty-two. Terminated participants with five years of credited police service, who are not eligible for retirement, are eligible for a deferred benefit. Deferred vested benefits are payable on the first of the month following the participant's attainment of age fifty-five.

Retirement benefits paid from the Plan to covered represented MTA Bus employees include service retirement allowances or early retirement allowances. Under the programs covering all represented employees at Baisley Park, Eastchester, La Guardia, Spring Creek, and Yonkers Depots and the represented employees at College Point Depot, JFK, Far Rockaway a participant is eligible for a service retirement allowance upon termination if the participant has attained age sixty-five and completed at least five years of credited service or if the participant has attained age 57 and completed at least 20 years of credited service. A participant hired prior to June 2009 from Baisley Park, College Point, and La Guardia Depots is eligible for an early retirement allowance if the participant has attained age 55 and completed 20 years of credited service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age sixty-five.

At Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek Depots, a participant who is a non-represented employee is eligible for an early retirement allowance upon termination if the participant has attained age 55 and completed 15 years of service. Terminated participants with five or more years of credited service who are not eligible to receive a service retirement allowance or early retirement allowance are eligible for a deferred vested benefit. Deferred vested benefits are payable on an unreduced basis on or after the participant attains age sixty-two.

The MTA Bus retirement programs covering represented and non-represented employees at Eastchester and Yonkers and covering the represented employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek are fixed dollar plans, i.e., the benefits are a product of credited service and a specific dollar amount.

The retirement benefits for certain non-represented employees at Baisley Park, Far Rockaway, JFK, La Guardia and Spring Creek are based on final average salary. Certain participants may elect to receive the retirement benefit as a single life annuity or in the form of an unreduced 75% joint and survivor benefit.

Pre-1988 MTA Long Island Rail Road participants are eligible for a service retirement allowance upon termination if the participants has either: (a) attained age sixty-five and completed at least five years of credited service, or if an employee on January 1, 1988 completed at least 10 years of credited service, or (b) attained age fifty and has completed at least 20 years of credited service. Terminated participants who were not employees on January 1, 1988 with five or more years of credited service are eligible for a deferred vested benefit. Pension benefits payable to age 65, where eligible, are calculated as 2% of the employee's applicable final average earnings for each year of qualifying service up to 25 years plus 1.5% of applicable final average earning of each year of qualifying service in excess of 25 years. For pension benefits payable at and after age 65 regardless of whether benefits commenced before or after the employee attained age 65, benefits are calculated in the same manner as pension benefits payable prior to age 65 except that the amount so determined is reduced by a percentage of the employee's annuity (not including supplemental annuity) value at age 65 under the Federal Railroad Retirement Act.

The reduction of pension benefits for amounts payable under the Federal Railroad Retirement Act is 50%.

Death and Disability Benefits — In addition to service retirement benefits, participants of the Plan are eligible to receive disability retirement allowances and death benefits. Participants who become disabled may be eligible to receive disability retirement allowances after ten years of covered MTA Bus service; ten years of credited service for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented employees, covered MTA Staten Island Railway employees and covered MTA police participants.

The disability retirement allowance for covered MTA Metro-North Railroad and MTA Long Island Rail Road management and represented covered MTA Staten Island Railway employees is calculated based on the participant's credited service and final average salary ("FAS") but not less than $\frac{1}{3}$ of FAS. Under the MTA 20 Year Police Retirement Program, a disabled participant may be eligible for one of three forms of disability retirement: (a) ordinary disability which is payable if a participant has ten years of credited Police service and is calculated based on the participant's credited Police service and FAS but not less than $\frac{1}{3}$ of FAS; (b) performance of duty, which is payable if a participant is disabled in the performance of duty and is $\frac{1}{2}$ of FAS, and (c) accidental disability, which is payable if a participant is disabled as the result of an on-the-job accidental injury and is $\frac{3}{4}$ of FAS subject to an offset of Workers' Compensation benefits. Pursuant to the MTA Bus programs, the disability benefit is the same as the service retirement benefit.

Pre-1988 MTA Long Island Rail Road participants who become disabled after accumulating 10 years of credited service and who meet the requirements as described in the Plan may be eligible to receive a disability benefit. Disability pension benefits are calculated based on the participant's qualified service and a percentage of final average compensation reduced by the full amount of the disability benefit under the Federal Railroad Retirement Act.

Survivorship benefits for pre-1988 MTA Long Island Rail Road participants are paid to the spouse when a survivorship option is elected or when an active participant has not divested their spouse of benefits. The survivorship benefit is payable at the time of death or when the vested participant would have attained an eligible age. The amount payable is in the form of an annuity. A lump sum death benefit no greater than \$5,000 is payable upon death on behalf of a non-vested participant or vested participant whose pension rights were waived.

Death benefits are paid to the participant's beneficiary in the event of the death of a covered MTA Metro-North Railroad, post-1987 MTA Long Island Rail Road or MTA Staten Island Railway employee after completion of one year of credited service. The death benefit payable is calculated based on a multiple of a participant's salary based on years of credited service up to three years and is reduced beginning at age sixty-one. There is also a post-retirement death benefit which, in the 1st year of retirement, is equal to 50% of the pre-retirement death benefit amount, 25% the 2nd year and 10% of the death benefit payable at age 60 for the 3rd and later years. For the Police 20 Year Retirement Program, the death benefit is payable after ninety days of credited MTA Police service, and is equal to three times their salary. For non-Police groups, this death benefit is payable in a lump sum distribution while for Police, the member or the beneficiary can elect to have it paid as an annuity. The MTA Police do not have a post retirement benefit.

In the MSBA Employees' Pension Plan, there are special spousal benefits payable upon the death of a participant who is eligible for an early retirement benefit, or a normal service retirement benefit, or who is a vested participant or vested former participant. To be eligible, the spouse and participant must have been married at least one year at the time of death. Where the participant was eligible for an early service retirement benefit or was a vested participant or former participant, the benefit is a pension equal to 40% of the benefit payable to the participant as if the participant retired on the date of death. Where the participant was eligible for a normal service retirement benefit, the eligible spouse can elect either the benefit payable as a pension, as described in the prior sentence, or a lump sum payment based on an

actuarially determined pension reserve. If there is no eligible spouse for this pension reserve benefit, a benefit is payable to the participant's beneficiary or estate.

Moreover, an accidental death benefit is payable for the death of a participant who is a covered MTA Metro-North Railroad or post-1987 MTA Long Island Rail Road employee, a covered MTA Staten Island Railway employee or a covered MTA Police member and dies as the result of an on-the-job accidental injury. This death benefit is paid as a pension equal to 50% of the participant's salary and is payable to the spouse for life, or, if none, to children until age eighteen (or twenty-three, if a student), or if none, to a dependent parent.

For MTA Bus employees, there is varied death benefit coverage under the Plan. For all represented and non-represented MTA Bus employees at Eastchester and Yonkers Depots and represented MTA Bus employees at Baisley Park, College Point, Far Rockaway, JFK, La Guardia and Spring Creek Depots, if a participant dies prior to being eligible for a retirement benefit, the participant's beneficiary may elect to receive a refund of the participant's contributions plus interest.

Moreover, the spouses of the above employees who are vested are entitled to a presumed retirement survivor annuity which is based on a 50% Joint and Survivor annuity. The date as of which such annuity is determined and on which it commences varies among the different programs depending on whether the participants are eligible for retirement and for payment of retirement benefits.

In addition, the spouse of a non-represented MTA Bus employee at Spring Creek, JFK, La Guardia, Baisley Park and Far Rockaway, if such employee is age 55 and has 15 years of service and is a terminated member with a vested benefit which is not yet payable, may elect the presumed retirement survivor annuity or 1/2 the participant's accrued benefit paid monthly and terminating on the 60th payment or the spouse's death. The spouse of a non-represented MTA Bus employee at Yonkers Depot may also receive a pre-retirement survivor annuity from the supplemental plan. If there is no such spouse, the actuarial equivalent of such annuity is payable.

The dependent children of MTA Bus employees are also entitled to an annuity based on the spouse's pre-retirement survivor annuity (1/2 of the spouse's annuity is payable to each child, but no more than 100% of the spouse's annuity is payable). In addition, the dependent children of retirees who were MTA Bus employees at these Depots are entitled to an annuity based on the presumed retirement survivor's annuity (25% of the spouse's annuity; but no more than 50% of the spouse's annuity is payable).

Retirement benefits establishment and changes for representative employees are collectively bargained and must be ratified by the respective union and the MTA Board. For nonrepresentative employees, retirement benefits establishment and changes are presented to the MTA Board and must be accepted and approved by the MTA Board.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

For financial reporting purposes, The MTA adheres to accounting principles generally accepted in the United States of America. The MTA Defined Benefit Pension Plan applies all applicable pronouncements of the Governmental Accounting Standards Board ("GASB").

MTA Defined Benefit Pension Plan has implemented GASB Statement No. 67, *Financial Reporting for Pension Plans*. The Statement addresses accounting and financial reporting requirements for pension plans. Significant requirements include an actuarial calculation of total and net pension liability. It also includes comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The total pension liability, determined in accordance with GASB Statement No. 67, is presented in Note 6 and in the Required Supplementary Information starting on page 56.

Recent Accounting Pronouncements —

The Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 requires the Funds to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plan's financial statements as a result of the implementation of GASB 72. Certain changes were also made to the footnotes to the financial statements including additional disclosures related to the hierarchy of valuation inputs and valuation techniques.

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

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

Governments. The Plan has determined that GASB Statement No. 76 had no impact on Plan's financial statements

The Plan has completed the process of evaluating the impact of Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. Prior to the issuance of this Statement, the requirements of Statement 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that: (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Earlier application is permitted. The Plan has determined that GASB Statement No. 78 had no impact on its financial position.

The Plan has completed the process of evaluating the impact of Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

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

The Plan has not completed the process of evaluating the impact of Statement No. 82, *Pension Issues: An Amendment of GASB Statements No. 67, No. 68 and No. 73*. The objective of this Statement is to

address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, 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 No. 68, and Amendments to Certain Provisions of GASB Statements Nos. 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 employee (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. Earlier application is encouraged.

Use of Estimates — The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include fair market value of investments, the annual required contribution and the unfunded actuarial accrued liability.

Benefits — Benefits are recorded when paid.

Contributions - As a condition of participation in the MTA Defined Benefit Pension Plan ("MTADBPP" or the "Plan"), employers and employees are required to contribute to the Plan. The amount of the employer contributions are determined by the Plan actuaries. Employee contribution rates for represented employees are determined by collective bargaining. Employee contribution rates for non-represented employees are set forth in the Plan document as adopted by the MTA Board. If an employee terminates employment with less than 10 (ten) years of credited service in the Plan, the employee may request a refund of his employee contributions with interest. Upon receipt of this refund of contributions, the employee has no claim on any future benefit from the Plan. Employees with more than 10 years of credited service, except for a small group of MTA Bus participants, cannot withdraw their contributions.

Members of the MTA Police Program who have transferred pursuant to Retirement and Social Security Law Section 343 and have not been employed in the MTA Police Program for 15 years may, upon termination of employment, withdraw member contributions. The withdrawal of such transferred police service member contributions shall not terminate membership and rights in the MTA Police Program attributable to Credited Police Service.

Income - Dividend and interest income are recorded when earned.

Securities - Purchases and sales of securities are recorded on a trade-date basis.

Asset Transfers — No assets were transferred to the MTA Defined Benefit Pension Plan for the years 2015 and 2014 respectively.

Administrative Expenses — Administrative expenses of the Plan are paid for by the Plan.

3. CASH AND INVESTMENTS

Investment Policy – The Plan’s policy statement is issued for the guidance of fiduciaries, including the members of the Board and investment managers, in the course of investing the assets of the Trust. The investments of the Trust will be made for the exclusive benefit of the Plan participants and their beneficiaries. Policy guidelines may be amended by the Board upon consideration of the advice and recommendations of the investment professionals.

In order to have a reasonable probability of achieving the target return at an acceptable risk level, the Board has adopted the asset allocation policy outlined below. The actual asset allocation will be reviewed on, at least, a quarterly basis and will be readjusted when an asset class weighting is outside its target range. The following was the MTA Defined Benefit Pension Plan Board adopted asset allocation policy as at December 31, 2015.

Asset Class	Target Allocation (%)	Target Range (%)	Policy Benchmark
Equities	29.0	24-34	
Domestic Large Cap	10.0	5-15	S&P 500
Domestic Small Cap	5.5	2-10	Russrll 2000
International Developed Markets Equities	10.0	5-15	MSCI EAFE
Emerging Markets Equities	3.5	2-6	MSCI Emerging Markets
Fixed Income	15.0	9-21	Manager Specific
Global Asset Allocation*	20.0	15-33	50% World Equity/ 50% Citigroup WGBI unhedged
Opportunistic Investments	6.0	0-15	Manager Specific
Absolute Return	15.0	10-22	Manager Specific
Real Assets	5.0	0-10	Manager Specific
Real Estate	3.0	0-10	Manager Specific
Private Equity	7.0	0-10	Manager Specific
Total	100.0		

* The Global Asset Allocation managers will invest across numerous liquid asset classes including: stocks, bonds, commodities, TIPS and REITs.

Investment Objective — The investment objective of the funds is to achieve consistent positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation.

Investment Guidelines — The Board of Pension Managers executes investment management agreements with professional investment management firms to manage the assets of the Plan. The fund managers must adhere to guidelines that have been established to limit exposure to risk.

All Securities managers shall be registered advisors under the Investment Advisors Act of 1940.

The overall capital structure targets and permissible ranges for eligible asset classes of the Trust are detailed within the Investment Policy Statement. Full discretion, within the parameters of the guidelines described herein and in any individual investment policy associated with that allocation, is granted to the investment managers regarding the asset allocation, the selection of securities, and the timing of transactions. It is anticipated that the majority of investment managers will be funded through commingled funds, however, in some cases (likely equity and fixed income mandates) separate account vehicles may be utilized. For separate accounts, individual manager guidelines and/or exemptions are specified in each approved investment management agreement (IMA). Should there be conflicts, the individual manager guidelines set forth in the IMA supersede the general guidelines in the Investment

Policy Statement. For commingled funds, investment guidelines and/or exemptions are specified in such vehicle's offering documents. Should there be conflicts, the individual vehicle's investment guidelines supersede the general guidelines in the Investment Policy Statement.

Individual investment manager benchmarks and performance requirements are specified within the Investment Policy Statement. Performance of the Trust will be evaluated on a regular basis. Evaluation will include the degree to which performance results meet the goals and objectives as herewith set forth. Toward that end, the following standards will be used in evaluating investment performance:

1. The compliance of each investment manager with the guidelines as expressed herein, and
2. The extent to which the total rate of return performance of the Trust achieves or exceeds the targeted goals.

Fixed Income Investment Managers

- Domestic fixed income investments are permitted, subject to the guidelines reflected in Investment Policy Statement. Yankee bonds, which are dollar denominated foreign securities, may be held by each domestic manager in proportions which each manager shall deem appropriate.
- International fixed income securities are permitted, subject to the guidelines reflected in Investment Policy Statement. Generally defined, the Citigroup World Government Bond Index represents the opportunity set for international developed markets. The J.P. Morgan Emerging Markets Bond Index-Global represents the opportunity set for international emerging markets denominated in USD. The J.P. Morgan GBI-EM Global Diversified Index represents the opportunity set for international emerging markets denominated in local currency. These index references are guidelines and do not prohibit investment in securities outside those indexes.
- Investment managers are responsible for making an independent analysis of the credit worthiness of securities and their suitability as investments regardless of the classifications provided by rating agencies.
- The average duration (interest rate sensitivity) of an actively managed fixed income portfolio shall range within two years of the benchmark's duration.
- For domestic fixed income portfolios, individual manager account for the securities of an individual issuer, excepting the U.S. government and U.S. government agencies, shall not constitute more than 5% at market at any time.
- For international bond portfolios, individual manager account for the securities of any non-governmental issuer shall not constitute more than 5% at market at any time.

Equity Investment Managers

- Domestic equity investments are permitted, subject to the guidelines. American Depositary Receipts (ADRs), which are dollar denominated foreign securities traded on the domestic U.S. stock exchanges (e.g., Reuters, Nestle, Sony) may be held by each domestic stock manager in proportions which each manager shall deem appropriate.
- International equities are permitted, subject to the guidelines. Generally defined, the Morgan Stanley EAFE (Europe, Australasia and the Far East) Index represents the opportunity set for international developed markets. The Morgan Stanley Emerging Markets Free Index represents the opportunity

set for international emerging markets. These index references are guidelines and do not prohibit investment in securities outside those indexes.

- The equity specialists may vary equity commitment from 90% to 100% of assets under management.
- Individual manager account may hold no more than 8% at market or 1.5x the manager's benchmark weight (whichever is greater) of any single company's stock.

Overlay Manager(s).

- For a variety of reasons, the investment program may carry large amounts of cash throughout the year. In order to achieve the actuarial assumed returns on the total investment program, the Board may retain a futures overlay manager. The overlay manager shall use exchange traded futures contracts to expose the cash to the long-term target asset allocation.
- In addition, the overlay manager may be utilized for the following:
 - a) Expose un-invested assets of domestic and international equity investment managers to their respective equity benchmarks through the use of futures contracts,
 - b) Assist the Board in rebalancing, transitions, and/or gaining exposure to approved asset classes,
 - c) Provide the market (or "beta") exposures in a portable alpha program.
 - d) The overlay manager shall ensure that all futures positions are fully collateralized and the manager is prohibited from leveraging any portion of the portfolio.

Alternative Investments Managers

Alternative investments are broadly categorized into the following categories:

- Opportunistic
- Real assets
- Real estate
- Absolute return
- Private equity

Common features of alternative investments are limited liquidity, the use of derivatives, leverage and shorting, lower regulatory oversight, limited transparency, and high fees. Compensating for these risks, these investments offer the potential of diversification and/or higher rates of return over time

Derivatives Policy

Where appropriate, investment managers may use derivative securities for the following reasons:

- Hedging. To the extent that the portfolio is exposed to clearly defined risks and there are derivative contracts that can be used to reduce those risks, the investment managers are permitted to use such derivatives for hedging purposes, including cross-hedging of currency exposures.
- Creation of Market Exposures. Investment managers are permitted to use derivatives to replicate the risk/return profile of an asset or asset class provided that the guidelines for the investment manager allow for such exposures to be created with the underlying assets themselves.
- Management of Country and Asset Allocation Exposure. Investment managers charged with tactically changing the exposure of their portfolio to different countries and/or asset classes are permitted to use derivative contracts for these purposes.

- Additional uses of derivatives shall be approved by the Board or set forth in the individual investment guidelines or the offering documents prior to implementation and shall be restricted to those specific investment managers.

Ineligible Investments (Separately Managed Accounts)

Unless specifically approved by the Board or set forth in the individual investment guidelines, certain securities, strategies and investments are ineligible for inclusion within separately managed accounts. Among these are:

- Privately-placed or other non-marketable debt, except securities issued under Rule 144a,
- Lettered, legend or other so-called restricted stock,
- Commodities
- Short sales, and,
- Direct investments in private placements, real estate, oil and gas and venture capital, or funds comprised thereof.

Exceptions:

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

Investment Valuation and Income Recognition — Investments are presented at fair value based on information provided by JP Morgan Chase (the “trustee”), New England Pension Consultant (“NEPC”), and the investment managers.. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Many factors are considered in arriving at that value. Corporate debt securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. All investments are registered, with securities held by the Plan’s trustee, in the name of the Plan. Gains and losses on investments that were sold during the year are included in in the statement of plan net position.

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

The financial markets, both domestically and internationally, have demonstrated significant volatility on a daily basis, which affects the valuation of investments. The Plan utilizes asset allocation strategies that are intended to optimize investment returns over time in accordance with investment objectives and with acceptable levels of risk.

In year 2015, the MTA Defined Benefit Pension Plan adopted GASB Statement No. 72 (“GASB 72”), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements.

Investments measured by fair value level
(In thousands)

	December 31, 2015	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity Securities:				
Separate account large-cap equity funds	\$ 289,802,444	289,802,444	-	-
Separate account small-cap equity funds	165,170,034	165,170,034	-	-
Total equity investments	454,972,478	454,972,478	-	-
Debt Securities				
Separate account debt funds	199,891,020	-	199,891,020	-
Total debt investments	199,891,020	-	199,891,020	-
Total investments by fair value level	\$ 654,863,498	-	199,891,020	-

Investments measured at the net asset value (NAV)
(In thousands)

	December 31, 2015	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Comingled international equity funds	\$ 307,936,422	\$ -	Daily	None
Comingled emerging market equity funds	91,753,658	-	Daily, monthly	None
Total equity investments measured at the NAV	399,690,080	-		
Debt Securities				
Comingled debt funds	281,493,679	-	Daily, monthly, quarterly	None
Total debt investments measured at the NAV	281,493,679	-		
Absolute return:				
Directional	84,710,510	-	Monthly	3-60 days
Direct lending	106,029,965	25,663,011	Bi-annually	60 plus days
Credit long	50,252,481	-	Quarterly	3-30 days
Credit long/short	64,246,718	-	Quarterly	3-60 days
Equity long/short	49,295,498	-	Quarterly	3-60 days
Event driven	114,272,619	1,875,723	Quarterly, Bi-annually	60-120 days
Global macro	81,745,847	-	Monthly	3-30 days
Global tactical asset allocation	261,821,767	-	Daily, monthly	3-30 days
Market neutral	450,313	-	Quarterly	3-60 days
Multistrategy	39,364,728	-	Quarterly	3-60 days
Risk parity	389,682,691	-	Monthly	3-30 days
Total absolute return measured at the NAV	1,241,873,138	27,538,734		
Private equity - private equity partnerships	175,751,452	71,180,490	Not eligible	N/A
Real assets				
Comingled commodities fund	78,772,929	-	Not eligible	N/A
Comingled real estate funds	76,719,180	-	Not eligible	N/A
Energy	29,722,941	48,320,894	Not eligible	N/A
Infrastructure	8,738,908	22,048,777	Not eligible	N/A
Total real assets measured at the NAV	193,953,958	70,369,671		
Short term investments measured at the NAV	103,258,576	-		
Total investments measured at the NAV	2,396,020,884	\$ 169,088,895		
Total investments measured at fair value	\$ 3,050,884,383			

Investments measured by fair value level
(In thousands)

	December 31, 2014	Quoted Price in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Equity Securities:				
Separate account large-cap equity funds	\$ 282,314,384	282,314,384	-	-
Separate account small-cap equity funds	158,137,281	158,137,281	-	-
Total equity investments	440,451,665	440,451,665	-	-
Debt Securities				
Separate account debt funds	186,172,423	-	186,172,423	-
Total debt investments	186,172,423	-	186,172,423	-
Total investments by fair value level	\$ 626,624,088	-	186,172,423	-

Investments measured at the net asset value (NAV)
(In thousands)

	December 31, 2014	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Equity Securities:				
Comingled international equity funds	\$ 264,194,076	\$ -	Daily	None
Comingled emerging market equity funds	101,320,207	-	Daily, monthly	None
Total equity investments measured at the NAV	365,514,283	-		
Debt Securities				
Comingled debt funds	279,069,883		Daily, monthly, quarterly	None
Total debt investments measured at the NAV	279,069,883	-		
Absolute return:				
Directional	95,553,877	-	Monthly	3-60 days
Direct lending	70,358,970	32,853,633	Bi-annually	60 plus days
Credit long	55,345,297	-	Quarterly	3-30 days
Equity long/short	35,547,896	-	Quarterly	3-60 days
Event driven	149,265,036	1,925,263	Quarterly, Bi-annually	60-120 days
Global macro	77,394,217	-	Monthly	3-30 days
Global tactical asset allocation	293,998,199	-	Daily, monthly	3-30 days
Market neutral	1,446,997	-	Quarterly	3-60 days
Multistrategy	79,043,305	-	Quarterly	3-60 days
Risk parity	381,747,917	-	Monthly	3-30 days
Total absolute return measured at the NAV	1,239,701,711	34,778,896		
Private equity - private equity partnerships	155,137,375	90,027,433	Not eligible	N/A
Real assets				N/A
Comingled commodities fund	72,618,411	-	Not eligible	N/A
Comingled real estate funds	60,619,242	-	Not eligible	N/A
Energy	24,059,052	59,757,148	Not eligible	N/A
Total real assets measured at the NAV	157,296,705	59,757,148		
Short term investments measured at the NAV	253,338,284	-		
Total investments measured at the NAV	2,450,058,241	\$ 184,563,477		
Total investments measured at fair value	<u>\$ 3,076,682,330</u>			

Concentration of Credit Risk – Individual investments held by the Plan that represents 5.0% or more of the Plan's net assets available for benefits at December 31, 2015 and 2014 are as follows:

	2015	2014
Investments at fair value as determined by quoted market prices:		
Mellon Dynamic Growth Fund	\$ 157,117,663	\$ -
GAM Unconstrained Bond Fund	161,805,235	-
PIMCO All Asset Fund	-	160,406,798

Credit Risk — At December 31, 2015 and 2014, the following credit quality rating has been assigned by a nationally recognized rating organization:

Quality Rating	2015 Fair Value	Percentage of Fixed Income Portfolio	2014 Fair Value	Percentage of Fixed Income Portfolio
AAA	\$ 118,263,857	13.13 %	\$ 111,945,110	9.58 %
AA	62,182,061	6.90	46,623,025	3.99
A	73,114,438	8.12	92,141,911	7.89
BBB	181,867,523	20.19	151,264,764	12.95
BB	66,787,768	7.42	111,325,462	9.53
B	67,671,875	7.51	76,066,100	6.51
CCC	7,880,217	0.88	29,241,171	2.50
Not Rated	<u>65,721,828</u>	<u>7.30</u>	<u>304,889,626</u>	<u>26.09</u>
Credit risk debt securities	643,489,567	71.45	923,497,169	79.04
U.S. Government bonds	<u>257,095,359</u>	<u>28.55</u>	<u>244,856,498</u>	<u>20.96</u>
Total fixed income securities	900,584,926	<u>100.00 %</u>	1,168,353,667	<u>100.00 %</u>
Other securities not rated — equity, international funds and foreign corporate bonds	<u>2,150,299,457</u>		<u>1,908,328,663</u>	
Total investments	<u>\$ 3,050,884,383</u>		<u>\$ 3,076,682,330</u>	

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

Investment Fund	2015		2014	
	Fair Value	Duration	Fair Value	Duration
Chase	\$ 199,891,020	11.46	\$ 390,202,214	4.24
Allianz Structured Alpha	82,821,466	0.13	91,187,065	0.25
Pimco	-	-	160,405,090	2.77
Wellington Blended Emerging Market Debt	67,054,183	5.06	85,429,532	4.22
Bridgewater All Weather Fund	135,533,958	7.87	142,871,680	9.37
Wellington Opportunistic	35,816,535	1.69	39,008,689	4.66
Bridgewater Pure Alpha	58,453,158	4.36	43,935,113	(0.84)
Bridgewater Markets	7,559,768	6.84	(141,534)	(2.05)
GAM Unconstrained Bond Fund	161,805,236	0.93	-	-
Northern Trust William Capital	8,278,847	-	8,131,396	-
Park Square Capital Credit Opportunities	14,105,020	0.61	9,399,938	0.33
Crescent Capital High Income Fund	21,493,620	2.64	50,102,159	2.21
Fir Tree realization Value Fund	2,498,689	-	5,150,100	-
Wellington Global Managed Risk	77,818,919	6.77	99,296,032	-
Wellington Trust Collective Investment Fund and Diversified Inflation Fund	10,319,254	7.56	5,736,854	5.71
Canyon Value	17,135,253	2.40	37,639,339	2.60
Total fixed income securities	900,584,926		1,168,353,667	
Portfolio modified duration		5.47		3.60
Investments with no duration reported	\$ 2,150,299,457		\$ 1,908,328,663	
Total investments	\$ 3,050,884,383		\$ 3,076,682,330	

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Each investment manager, through the purchase of units in a commingled investment trust fund or international equity mutual fund establishes investments in international equities. The Plan also holds investments in American Depositary Receipts (“ADRs”) which are not included in the below schedule since they are denominated in U.S. dollars and accounted for at fair market value.

In addition, the Plan has investments in foreign stocks and/or bonds denominated in foreign currencies. The Plan's foreign currency exposures as of December 31, 2015 and 2014 are as follows (amounts in U.S. dollars, in thousands):

Foreign Currency Holdings in US \$	December 31, 2015	December 31, 2014
Argentina Peso	\$ 464,439	\$ -
Dollar (Australian)	47,951,037	8,076,097
Bahraini Dinar	322,774	-
Bangladesh (Taka)	289,239	594,775
Botswana Pula	108,989	107,958
Brazil Cruzeiro Real	7,316,548	18,318,280
Bulgarian Lev	4,192	7,956
Dollar (Canadian)	30,175,538	7,771,955
Chilean Peso	3,308,584	2,552,383
China (Yuan Renminbi)	9,084,125	6,756,029
Colombian Peso	6,468,225	9,629,679
Croatia Kuna	301,815	564,942
Czech Koruna	(1,303,626)	765,697
Krone (Danish)	3,643,732	1,708,741
Egyptian Pound	576,153	1,137,720
Euro	71,966,317	79,602,539
Ghanaian Cedi	41,919	45,444
Georgian Lari	1,395,379	-
Dollar (Hong Kong)	4,650,918	9,741,043
Hungary (Forint)	662,002	706,519
Indian Rupee	12,132,464	8,958,979
Indonesia Rupiah	12,592,872	13,412,187
Israeli (Shekel)	2,031,102	3,018,859
Yen (Japan)	30,966,067	15,295,494
Jordanian Dinar	347,925	558,622
Kazakhstani Tenge	289,239	-
Kenyan Shilling	721,454	590,104
Kuwait Dinar	595,246	1,335,872
Lebanese Pound	121,564	-
Malaysian (Ringgit)	4,079,733	9,413,226
Mauritius (Rupee)	318,582	806,179
Mexican New Peso	39,317,139	10,493,214
Morocco Dirham	306,007	539,282
Dollar (New Zealand)	(1,842,208)	8,438,204
Nigerian Naira	704,686	507,309
Krone (Norwegian)	3,036,554	(3,048,265)
Omanian Rial	306,007	484,032
Pakistani Rupee	2,162,476	595,261
Panama Balboa	125,756	-
Peru Sol	2,292,807	2,559,337
Philippines Peso	1,630,160	2,030,591
Polish (New Zloty)	2,701,834	6,531,445
Pound (Sterling)	68,456,693	22,539,902
Qatar Riyal	675,891	987,472
Romanian Leu	1,774,066	1,895,281
Russian Federation Rouble	5,991,158	6,840,477
Saudi Riyal	331,158	-
Singapore Dollar	1,304,597	3,869,962
Rand South Africa	4,332,714	11,177,654
South Korean Won	9,286,673	10,832,107
Sri Lankan Rupee	318,582	536,504
Krona (Swedish)	6,716,714	(372,657)
Franc (Swiss)	8,202,309	7,047,726
Thai (Bhat)	4,059,064	4,354,097
Dollar (Taiwan, New)	17,669,773	7,789,162
Tunisian Dinar	138,332	42,730
Turkish Lira	1,329,207	11,284,474
Ukraine Hryvnia	54,494	-
UAE Dirham	1,303,532	824,392
Uruguayan Pesos	650,764	736,977
Vietnam Dong	301,815	-
Other	8,754,683	(14,609,695)
Total	\$ 444,017,984	\$ 306,384,254

Additional Information — The plan holdings are part of the MTA Master Trust of which the MTA Defined Benefit Plan participates on a percentage basis. The percentage of the plan ownership for the year ended December 31, 2015 and December 31, 2014 was 82.71% and 81.24% respectively.

	<u>Total Plan</u> <u>December 31, 2015</u>		<u>Benefit Plan</u> <u>December 31, 2014</u>	
Total Investments:				
Investments measured at fair value level	\$ 791,775,089	\$ 654,863,498	\$ 771,277,743	\$ 626,624,089
Investments measured at the NAV	<u>2,896,954,334</u>	<u>2,396,020,885</u>	<u>3,015,644,346</u>	<u>2,450,058,241</u>
Total investments measured at fair value	<u>\$ 3,688,729,423</u>	<u>\$ 3,050,884,383</u>	<u>\$ 3,786,922,089</u>	<u>\$ 3,076,682,330</u>

4. NET PENSION LIABILITY

The components of the net pension liability of the Plan at December 31, 2015 and 2014 were as follows (in thousands):

	<u>December 31,</u> <u>2015</u>	<u>December 31,</u> <u>2014</u>
Total pension liability	\$ 4,364,946	\$ 4,099,738
Fiduciary net position	<u>3,074,777</u>	<u>3,065,220</u>
Net pension liability	<u>1,290,169</u>	<u>1,034,518</u>
Fiduciary net position as a percentage of the total pension liability	70.44%	74.77%

Actuarial Methods and Assumptions

The total pension liability as of December 31, 2015 was determined by an actuarial valuation date of January 1, 2015, that was updated to roll forward the total pension liability to the respective year-end. Actuarial valuations are performed annually as of January 1.

Discount Rate

The discount rate used to measure the total liability as of December 31, 2015 and 2014 was 7.0%. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made in accordance with the Employer funding policy as projected by the Plan's actuary. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all projected benefit payments to determine the total pension liability.

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

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

2015

(in thousands)

1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
----------------------------------	--	----------------------------------

Net pension liability

\$1,835,699

\$1,290,169

\$830,112

2014

(in thousands)

1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
----------------------------------	--	----------------------------------

Net pension liability

\$1,554,937

\$1,034,518

\$596,266

Valuation date

January 1, 2015

Valuation timing

Actuarially determined contributions calculated as of December 31, for the fiscal year and discounted to expected payment dates (July 1 for these projections).

Actuarial cost method

Entry age normal

Amortization method

For FIL bases, period specified in current valuation report. Future gains/ losses are amortized through the calculation of the normal cost in accordance with FIL cost method amortized based on expected working lifetime, weighted by salary, of the projected population for each group.

Actuarial asset valuation method

Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets

Mortality

Based on experience of all MTA members reflecting mortality improvement on a generational basis using Scale AA

Actuarial assumptions:

Investment rate of return

7.0%

Projected salary increases

Varies by years of employment, and employee group; 3.5% for MTA Bus hourly employees

COLAs

55% of inflation assumption or 1.375%, if applicable

Inflation/Railroad Retirement wage base

2.5%; 3.5%

Calculation on Money-Weighted Rate of Return

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the middle of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month.

Schedule of Calculations of Money-Weighted Rate of Return

	Net External Cash Flows	Periods Invested	Period Weight	Net External Cash Flows With Interest
Beginning Value - January 1, 2015	\$3,065,219,976	12.00	1.00	\$3,028,239,128
Monthly net external cash flows:				
January	(9,289,705)	11.50	0.96	(9,158,428)
February	(7,790,927)	10.50	0.88	(7,689,944)
March	(6,755,827)	9.50	0.79	(6,677,164)
April	(1,193,263)	8.50	0.71	(1,180,769)
May	6,017,761	7.50	0.63	5,961,817
June	8,443,341	6.50	0.54	8,376,016
July	8,993,341	5.50	0.46	8,932,218
August	9,543,341	4.50	0.38	9,489,729
September	9,543,341	3.50	0.29	9,502,399
October	9,543,341	2.50	0.21	9,513,676
November	9,543,341	1.50	0.13	9,524,986
December	18,080,475	0.50	0.04	18,069,756
Ending Value - December 31, 2015	\$3,074,776,655			\$3,074,776,655
Money-Weighted Rate of Return	-1.47%			

Calculation on Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2015.

SCHEDULE OF LONG TERM EXPECTED RATE OF RETURN

Asset Class	Index	Target Allocation*	Real Rate of Return
US Core Fixed Income	Barclays Aggregate	10.00%	2.11%
US High Yield Bonds	BAML High Yield	8.00%	4.32%
Global Bonds	Citi WGBI	10.00%	0.82%
Emerging Market Bonds	JPM EMBI Plus	3.00%	5.17%
US Large Caps	S&P 500	10.00%	5.09%
US Small Caps	Russell 2000	5.50%	6.26%
Global Equity	MSCI ACWI NR	10.00%	5.67%
Foreign Developed Equity	MSCI EAFE NR	10.00%	6.06%
Emerging Market Equity	MSCI EM NR	3.50%	8.21%
Global REITs	FTSE EPRA/NAREIT Developed	5.00%	5.98%
Private Real Estate Property	NCREIF Property	3.00%	3.84%
Private Equity	Cambridge Private Equity	7.00%	9.17%
Hedge Funds - MultiStrategy	HFRI: Fund Wtd Composite	15.00%	4.20%
Assumed Inflation - Mean			2.50%
Assumed Inflation - Standard Deviation			1.89%
Portfolio Arithmetic Mean Return			7.31%
Portfolio Standard Deviation			11.67%
Long-Term Expected Rate of Return selected by MTA			7.00%

* Based on March 2014 Investment Policy

5. CONTRIBUTIONS

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 Plan are recognized in the period in which the contributions are due. There are no contributions required under the Metropolitan Suburban Bus Authority Employee's Pension Plan.

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

Effective January 1, 1994, covered MTA Metro-North Railroad and MTA Long Island Rail Road non-represented employees are required to contribute to the Plan to the extent that their Railroad Retirement Tier II employee contribution is less than the pre-tax cost of the 3% employee contributions. Effective October 1, 2000, employee contributions, if any, were eliminated after ten years of making contributions to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1993 and MTA Long Island Rail Road employees may purchase prior service from January 1, 1988 through December 31, 1993 by paying the contributions that would have been required of that employee for the years in question, calculated as described in the first sentence, had the Plan been in effect for those years.

Police Officers who become participants of the MTA Police Program prior to January 9, 2010 contribute to that program at various rates. Police Officers who become participants on or after January 9, 2010 but before April 1, 2012 contribute 3% up to the completion of 30 years of service, the maximum amount of service credit allowed. Police Officers who become participants on or after April 1, 2012 contribute 3%, with additional new rates starting April 2013, ranging from 3.5%, 4.5%, 5.75%, to 6%, depending on salary level, for their remaining years of service.

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

Covered MTA Bus represented employees and certain non-represented employees are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at certain Depots, contribute \$21.50 per week. Non-represented employees at Eastchester hired prior to 2007 contribute \$25 per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute \$29.06 per week; Spring Creek represented employees contribute \$32.00 per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the plan that was in effect before their promotion. Certain MTA Bus non-represented employees who are formerly employed by the private bus companies (Jamaica, Green, Triboro and Command) at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots who are in the pension program covering only such employees make no contributions to the program.

MTA Bus is required to make significant annual contributions to the MTA Plan on a current basis. Pursuant to the January 1, 2015 and January 1, 2014 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 and \$45.7 for the calendar years ended December 31, 2015 and 2014, respectively. Both of these employer contributions were paid to the MTA Plan in their respective years.

6. ACTUARIAL METHODS AND ASSUMPTIONS

A. Actuarial Valuation Method

The Frozen Initial Liability method was used for determining normal costs and the unfunded actuarial accrued liability. Entry Age Normal method is used for determining changes in the unfunded actuarial accrued liability due to plan provision and assumption changes. The Normal Cost equals the present value of future employer normal contributions divided by the average future working lifetime factor. This factor equals the present value of future compensation or service divided by current compensation or the member count (less certain retirements), depending if benefits are pay-related, and weighted by the present value of benefits.

B. Asset Valuation Method

The Asset Valuation method smoothes gains and losses over a 5-year period. The formula for the asset valuation method is as follows:

$$\text{Actuarial Value of Assets} = MV_t - .8UR_1 - .6UR_2 - .4UR_3 - .2UR_4$$

Where

MV_t = Market Value of assets as of the valuation date.

UR_n = Unexpected return during the n^{th} year preceding the valuation date. The unexpected return for a year equals the total investment return minus the total expected return. The total expected return equals the market value of assets at the beginning of the year plus the weighted net cash flow during the year multiplied by the expected rate of return.

The resulting value cannot be less than 80% or greater than 120% of the market value of assets.

C. Actuarial Assumptions Universal to all Groups

Interest — 7.00% per annum, compounded annually.

Railroad Retirement Wage Base — 3.00% per year.

Consumer Price Index — 2.50% per year.

Provision for Expenses — Estimated administrative expenses are added to the normal cost. Administrative expenses are based on the average of the prior three year's reported administrative expenses and are assumed payable in the middle of the plan year.

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

Preretirement — RP-2000 Employee Mortality Table for Males and Females with Blue collar adjustments.

Postretirement Healthy Lives — 95% of RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant mortality table for females.

Postretirement Disabled Lives — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

D. Changes in Actuarial Assumptions Universal to all Groups

None

E. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Management

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate of Increase
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Termination — Withdrawal rates vary by years of service and sex. Illustrative rates are shown below:

Years of Service	Male	Female
0 - 1	5.00 %	7.50 %
2 - 3	3.25	4.00
4	2.50	4.00
5 - 9	2.25	3.50
10 - 19	1.50	3.00
20+	1.00	1.50

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

A. For Management employees hired prior to January 31, 2008.

Age	Reduced Early Retirement	Unreduced Early Retirement
55	5.00 %	10.00 %
56	5.00	7.00
57	5.00	5.00
58	5.00	5.00
59	5.00	5.00

B. For Management employees hired on or after January 31, 2008.

Age	Reduced Early Retirement	Unreduced Early Retirement
55	3.00 %	10.00 %
56	3.00	7.00
57	3.00	5.00
58	3.00	5.00
59	3.00	5.00
60	3.00	30.00
61	3.00	30.00

C. For all management employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service

- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Ordinary		Accidental		Age	Ordinary		Accidental	
	M	F	M	F		M	F	M	F
20	0.015 %	0.020 %	0.010 %	0.005 %	45	0.176 %	0.147 %	0.039 %	0.010 %
25	0.020	0.020	0.010	0.005	50	0.240	0.221	0.044	0.010
30	0.024	0.024	0.015	0.005	55	0.245	0.245	0.049	0.010
35	0.039	0.029	0.024	0.005	60	0.245	0.245	0.049	0.010
40	0.103	0.069	0.034	0.010	64	0.245	0.245	0.049	0.010

Marriage — 85% of members are assumed to be married with wives 3 years younger than their husbands.

Employee Contributions — No employee contributions have been anticipated for future years.

Changes in Actuarial Assumptions — Early Retirement rates have been added for employees hired on and after January 31, 2008. This group was previously valued as though no early retirement (reduced or unreduced) was available. It has now been verified that the early retirement provisions are applicable to this group.

F. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Metro-North Represented Employees

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate of Increase
0	3.25 %
1	10.50
2	10.00
3	9.75
4	9.25
5	14.75
6+	3.25

Overtime - Members are assumed to earn overtime equal to 25% of their rate of pay for years when they are retirement eligible. All other years are assumed to earn overtime equal to 18% of their rate of pay.

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Years of Service	Termination Rate
0	3.50 %
1	3.25
2 - 3	2.50
4 - 9	2.25
10 - 19	1.50
20+	1.00

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

A. For represented employees hired prior to July 1, 2007:

Age	Reduced Early Retirement	Unreduced Early Retirement
55	4.50 %	10.00 %
56	4.00	7.50
57	3.00	5.00
58	3.00	5.00
59	3.50	5.00

B. For represented employees hired on and after July 1, 2007 with union codes 002, 003, 006, 007, 020, and 021.

Age	Reduced Early Retirement	Unreduced Early Retirement
55	3.00 %	10.00 %
56	3.00	7.50
57	3.00	5.00
58	3.00	5.00
59	3.00	5.00
60	3.00	30.00
61	3.00	30.00

No early retirement is available to all other represented employees hired on or after July 1, 2007.

C. For all other management employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability beginning at benefit eligibility. Illustrative rates are shown below:

Age	Ordinary		Accidental		Age	Ordinary		Accidental	
	M	F	M	F		M	F	M	F
20	0.17 %	0.25 %	0.01 %	0.01 %	45	0.27 %	0.41 %	0.06 %	0.01 %
25	0.17	0.25	0.01	0.01	50	0.50	0.75	0.06	0.01
30	0.17	0.25	0.02	0.01	55	0.95	1.43	0.07	0.01
35	0.18	0.27	0.03	0.01	60	1.93	2.90	0.07	0.01
40	0.20	0.31	0.05	0.01	64	1.93	2.90	0.07	0.01

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions — Early Retirement rates have been added for certain employees (union codes 002, 003, 006, 007, 020, and 021) hired on and after July 1, 2007. This group was previously not eligible for early retirement (reduced or unreduced) benefits. The salary scale assumption has been modified to reflect the presence of a wage progression scale in the initial years of employment. Consistent with that, the assumed salary growth rate applicable after the initial 5 years of service has been lowered from 3.50% to 3.25%.

G. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Long Island Rail Road Represented Employees

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate of Increase
0	3.25 %
1	10.50
2	10.00
3	9.75
4	9.25
5	14.75
6+	3.25

Overtime - Members are assumed to earn overtime equal to 30% of their pay for years when they are retirement eligible. All other years are assumed to earn overtime equal to 20% of their rate of pay. Members hired on or after January 31, 2008 have overtime capped at 20%.

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Years of Service	Termination Rate
0	4.25 %
1 - 4	2.75
5 - 9	2.25
10+	1.25

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

A. For represented employees hired prior to January 31, 2008:

Age	Reduced Early Retirement	Unreduced Early Retirement
55	4.50 %	10.00 %
56	4.00	7.00
57	3.00	5.00
58	3.00	5.00
59	3.50	5.00

B. For represented employees hired on or after January 31, 2008:

Age	Reduced Early Retirement	Unreduced Early Retirement
55	3.00 %	10.00 %
56	3.00	7.50
57	3.00	5.00
58	3.00	5.00
59	3.00	5.00
60	3.00	30.00
61	3.00	30.00

C. For all other represented employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability beginning at benefit eligibility. Illustrative rates are shown below:

		Ordinary		Accidental				Ordinary		Accidental	
Age		M	F	M	F	Age		M	F	M	F
20		0.17 %	0.25 %	0.01 %	0.01 %	45		0.27 %	0.41 %	0.06 %	0.01 %
25		0.17	0.25	0.01	0.01	50		0.50	0.75	0.06	0.01
30		0.17	0.25	0.02	0.01	55		0.95	1.43	0.07	0.01
35		0.18	0.27	0.03	0.01	60		1.93	2.90	0.07	0.01
40		0.20	0.31	0.05	0.01	64		1.93	2.90	0.07	0.01

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions - Early Retirement rates have been added for employees hired on and after January 31, 2008. This group was previously valued as though no early retirement (reduced or unreduced) was available. It has now been verified that the early retirement provisions are applicable to this group. The salary scale assumption has been modified to reflect the presence of a wage progression scale in the initial years of employment. Consistent with that, the assumed salary growth rate applicable after the initial 5 years of service has been lowered from 3.50% to 3.25%.

H. Actuarial Assumptions — MTA 20-Year Police Retirement Program

Salary Scale — Salary increases vary by years of Police Service. Illustrative rates are shown below.

Years of Service	Rate of Increase
1	12.5 %
2	14.5
3 – 4	15.5
5	39.5
6 – 9	3.5
10	4.5
11 – 14	3.5
15	5.5
16 – 19	3.5
20	4.5
21 – 24	3.5
25	4.5
26+	3.5

Overtime - Members are assumed to earn overtime equal to 30% of their rate of pay. Overtime for those hired on and after January 9, 2010 is limited to 15% of their rate of pay.

Termination — Withdrawal rates vary by length of service. Illustrative rates are shown below:

Years of Service	Termination Rate
0	6.50 %
1	2.50
2 – 4	2.00
5	0.50
6 – 9	0.35
10+	0.30

Retirement — Rates vary by year of eligibility. Illustrative rates are shown below:

Years of Eligibility	Retirement Rate
1	17.00 %
2	12.00
3 – 9	10.00
10+	50.00

Retirement rates at ages 62 and above are 100% regardless of year of eligibility.

Disability — Rates vary by age and type of disability beginning at benefit eligibility. Illustrative rates are shown below:

Age	Ordinary	Accidental	Age	Ordinary	Accidental
20	0.043 %	0.095 %	45	0.256 %	0.500 %
25	0.043	0.095	50	0.559	0.527
30	0.062	0.095	55	0.819	0.539
35	0.096	0.115	60	0.896	0.544
40	0.138	0.316			

Cost of Living Expenses — assumed to be 1.375% per annum, compounded annually.

Marriage — 85% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions — None

I. Actuarial Assumptions — MSBA Employees Pension Plan

Salary Scale — Rates of pay are assumed to increase at a rate of 3.50% per annum.

Overtime — Members are assumed to earn overtime equal to the following percentage of their rates of pay:

Years of Service	Rate
25 years of service	17.00 %
25 to 29 years of service	20.00
30 or more years of service	23.00

Termination — Withdrawal rates vary by years of service and sex. Illustrative rates are shown below:

Years of Service	Male	Female
0 - 1	5.00 %	7.50 %
2 - 3	3.25	4.00
4	2.50	4.00
5 - 9	2.25	3.50
10 - 19	1.50	3.00
20+	1.00	1.50

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

Age	Reduced Early Retirement	Unreduced Early Retirement
55	4.50 %	10.00 %
56	4.00	7.50
57	3.00	5.00
58	3.00	5.00
59	3.50	5.00

. For all other represented employees.

Normal Retirement:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age and type of disability beginning at benefit eligibility. Illustrative rates are shown below:

Age	Ordinary		Accidental		Age	Ordinary		Accidental	
	M	F	M	F		M	F	M	F
20	0.015 %	0.020 %	0.010 %	0.005 %	45	0.176 %	0.147 %	0.039 %	0.010 %
25	0.020	0.020	0.010	0.005	50	0.240	0.221	0.044	0.010
30	0.024	0.024	0.015	0.005	55	0.245	0.245	0.049	0.010
35	0.039	0.029	0.024	0.005	60	0.245	0.245	0.049	0.010
40	0.103	0.069	0.034	0.010	64	0.245	0.245	0.049	0.010

Marriage — 85% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions -The termination, retirement and disability assumptions have been modified to be consistent with those being used for the MTA Management group.

J. Actuarial Assumptions — MTA Defined Benefit Plan — SIRTOA

Salary Scale — Salary increases vary by years of service. Illustrative rates are shown below.

Years of Service	Rate
0	10.00 %
1	9.50
2	9.25
3	9.00
4	8.75
5	6.00
6+	3.25

Overtime — Hourly employees are assumed to earn overtime equal to 7.50% of their rate of pay.

Termination — Withdrawal rates vary length of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	9.00 %
1 - 3	5.50
4 - 9	3.50
10 - 19	1.40
20+	0.50

Retirement — Rates vary by age and type of retirement. Illustrative rates are shown below:

Age	Reduced Early* Retirement	Normal Retirement	
		First Year Eligible	After First Eligibility
55	3.00 %	30.00 %	20.00 %
56	3.00	30.00	20.00
57	3.00	30.00	20.00
58	3.00	30.00	20.00
59	3.00	30.00	20.00
60	3.00	30.00	20.00
61	3.00	30.00	20.00

*Applies only to members of United Transportation Union and management employees.

For ages 62 to 80:

- 5% per year if members has fewer than 10 years of service
- 15% per year if members has 10 but fewer than 20 years of service
- 30% per year if member has 20 or more years of service

Disability — Rates vary by age, sex and type of disability. Illustrative rates are shown below:

Age	Ordinary	Accidental	Age	Ordinary	Accidental
20	0.15 %	0.03 %	45	0.44 %	0.05 %
25	0.17	0.03	50	0.54	0.06
30	0.19	0.03	55	0.61	0.07
35	0.24	0.03	60	0.81	0.08
40	0.33	0.04			

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Participant Data — Benefits were estimated for vested members...

Benefits Not Valued — Accidental death benefits.

Changes in Actuarial Assumptions — None.

K. Actuarial Assumptions — LIRR Pension Plan

Salary Scale — Rates of pay are assumed to increase at a rate of 3.0% per annum.

Overtime/Unused Vacation Pay — Earnings in each year increased by 65% for represented employees to account for overtime and by 20% in the year prior to assumed retirement and by 10% in the year prior to termination (other than retirement) for non-represented employees to account for unused vacation pay.

Termination — Withdrawal rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	2.12 %	45	0.96 %
25	1.64	50	0.80
30	1.44	55	0.60
35	1.36	60	0.00
40	1.16		

Retirement — Assumed retirement rate varies by year of eligibility.

Eligibility Period	Rate of Retirement
First Year	40 %
Years 2–4	33
Years 5	37
Years 6–7	35
Years 8–9	33
Years 10–15	55
Years 16 and above	100

Terminated vested participants are assumed to retire upon first eligibility, or attained age if later.

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions — Assumed to be 3.5% per year for future years.

Tier 1 Railroad Offset — The Tier 1 Railroad offset, which is designed similar to a Social Security Benefit, was estimated by assuming that an individual would continue to earn compensation at the level in effect at his date of termination until his eligibility for Railroad Benefits and further increased by 2% per year from the date of termination to age 65.

Miscellaneous — The valuation was prepared on a going-plan basis. The valuation was based on participants in the Plan as of valuation date and did not take future participants into account. No provision has been made for contingent liabilities with respect to non-vested terminated participants who may be reemployed. Since the majority of active plan participants are at or close to retirement eligibility, the disability benefit has not been explicitly valued.

Changes in Actuarial Assumptions — None.

L. Actuarial Assumptions — MTA Defined Benefit Pension Plan – Former New York Bus Service Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

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

For represented TWU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

All members are assumed to retire at their Normal Retirement Age of 62.

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions — Future years assumed to be 3.5% per year.

Benefits Not Valued — The \$2,500 post-retirement death benefit for represented TWU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions — None.

M. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Queens Surface, Triboro and Jamaica Represented Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

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

For represented TWU and TSO members:

Age	Years of Service at Retirement		
	<u><5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Retirement Rate
55-56	10 %
57	20
58-60	15
61	20
62-63	45
64	40
65	100

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Disability rates cease upon attainment of unreduced retirement eligibility for members not represented by TWU or TSO.

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions — Future years assumed to be 3.5% per year.

Benefits Not Valued —

The \$2,500 post-retirement death benefit for represented TWU members is not valued since premiums are paid outside of the plan trust.

The \$10,000 post-retirement death benefit for all other members is not valued since premiums are paid outside of the plan trust.

The accidental death and dismemberment benefit for members who are not represented by TWO or TSO is not valued as the costs are expected to be de minimis.

Changes in Actuarial Assumptions — None.

N. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Liberty Lines Bus Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

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

For represented TWU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Retirement Rate
60–61	7.5 %
62	40.0
63–64	20.0
65	100.0

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions — Future years assumed to be 3.5% per year.

Benefits Not Valued — The \$2,500 post-retirement death benefit for represented TWU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions — None.

O. Actuarial Assumptions- MTA Defined Benefit Pension Plan – Former Liberty Lines Bus Non-Represented MTA Bus employees

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

Retirement — All members are assumed to retire at their Normal Retirement Age of 62.

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Form of Payment — All members are assumed to elect the lump sum payment option. Lump sums valued using the current (2014) lump sum mortality table published by the IRS and the 4.5% assumed interest rate.

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions — None.

P. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Command Bus Represented Employees

Termination — Withdrawal rates vary by years of service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

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

For represented ATU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80 +	100 %	100 %	100 %

For all other members:

Age	Retirement Rate	Age	Retirement Rate
50-52	5 %	59	34 %
53-54	10	60	35
55	30	61	36
56	31	62-64	40
57	32	65	100
58	33		

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Disability rates cease upon attainment of unreduced retirement eligibility.

Marriage — 80% of male members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions — Future years assumed to be 3.5% per year.

Benefits Not Valued — The \$2,500 post-retirement death benefit for represented ATU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions: The marriage assumption was updated to be consistent with other MTA Bus agencies.

Q. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Former Green Bus Represented Employees

Termination — Withdrawal rates vary by Years of Service. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

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

For represented ATU and TSO members:

Age	Years of Service at Retirement		
	<u>≤5</u>	<u>5-10</u>	<u>10+</u>
57-64	N/A	N/A	30 %
65-79	0 %	5 %	30 %
80+	100 %	100 %	100 %

For all other members:

Age	Rate of Retirement
55-59	5 %
60-61	10
62	100

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of male members are assumed to be married with wives 3 years younger than their husbands.

Interest on Employee Contributions: Future years assumed to be 3.5% per year.

Benefits Not Valued — The \$2,500 post-retirement death benefit for represented ATU members is not valued since premiums are paid outside of the plan trust.

Changes in Actuarial Assumptions: The marriage assumption was updated to be consistent with other MTA Bus agencies.

Q. Actuarial Assumptions — MTA Defined Benefit Pension Plan — Certain Non-Represented Employees of Alliance Companies

Salary Scale — Salaries are assumed to increase in accordance with the following schedule:

Years of Service	Rate of Increase
0	6.00 %
1	5.00
2	4.25
3	4.00
4+	3.50

Termination — Withdrawal rates vary by years. Illustrative rates are shown below:

Year of Service	Termination Rate
0	17.50 %
1	4.75
2 - 9	2.75
10+	2.25

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

Age	Retirement Rate
55–56	6 %
57–58	8
59	9
60–61	13
62	25
63–64	15
65	100

Disability — Rates vary by age. Illustrative rates are shown below:

Age	Rate	Age	Rate
20	0.03 %	45	0.27 %
25	0.04	50	0.48
30	0.08	55	0.87
35	0.11	60	1.30
40	0.16		

Marriage — 80% of members are assumed to be married with wives 3 years younger than their husbands.

Changes in Actuarial Assumptions — The marriage assumption was updated to be consistent with other MTA BUS agencies.

7. CUSTODIAL AND OTHER PROFESSIONAL SERVICES

JP Morgan Chase Bank is the custodian of plan assets and also provides cash receipt and disbursement services to the Plan. New England Pension Consultants reviews the Plan's portfolio, the investment policies as stipulated by the Investment Committee and the performance of the Investment Managers. Actuarial services were provided to the Plan by Milliman Inc.

8. SUBSEQUENT EVENTS

Subsequent events have been evaluated through January 23, 2017.

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METROPOLITAN TRANSPORTATION AUTHORITY DEFINED BENEFIT PENSION PLAN

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS

(in thousands)

	2015	2014
Total pension liability:		
Service cost	\$ 124,354	121,079
Interest	288,820	274,411
Changes of benefit terms	6,230	-
Differences between expected and actual experience	121,556	2,322
Changes of assumptions	(76,180)	-
Benefit payments and withdrawals	(199,572)	(191,057)
Net change in total pension liability	265,208	206,755
Total pension liability – beginning	4,099,738	3,892,983
Total pension liability – ending (a)	4,364,946	4,099,738
Plan fiduciary net position:		
Employer contributions	221,694	331,259
Member contributions	34,519	26,006
Net investment income	(45,122)	102,245
Benefit payments and withdrawals	(199,572)	(191,057)
Administrative expenses & Transfer to investments	(1,962)	(9,600)
Net change in plan fiduciary net position	9,557	258,853
Plan fiduciary net position – beginning	3,065,220	2,806,367
Plan fiduciary net position – ending (b)	3,074,777	3,065,220
Employer's net pension liability – ending (a)-(b)	\$ 1,290,169	1,034,518
Plan fiduciary net position as a percentage of the total pension liability	70.44%	74.77%
Covered-employee payroll	\$ 1,603,924	1,544,050
Employer's net pension liability as a percentage of covered-employee payroll	80.44%	67.00%

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

**METROPOLITAN TRANSPORTATION AUTHORITY
DEFINED BENEFIT PENSION PLAN**

SCHEDULE II

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

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2005	\$ 58,239	\$ 58,239	\$ -	\$ -	N/A
2006	72,596	302,999	(230,403)	-	N/A
2007	81,700	81,700	-	-	N/A
2008	107,759	107,759	-	-	N/A
2009	146,171	146,171	-	-	N/A
2010	155,318	155,318	-	-	N/A
2011	166,188	166,188	-	-	N/A
2012	212,397	212,397	-	-	N/A
2013	242,980	242,980	-	-	N/A
2014	271,523	331,259	(59,736) *	1,544,050	21.45%
2015	273,730	221,694	52,036	1,603,924	13.82%

* Excess for 2014 reflects a prepaid contribution toward the 2015 Actuarially Determined Contribution.

**METROPOLITAN TRANSPORTATION AUTHORITY
DEFINED BENEFIT PENSION PLAN**

SCHEDULE III

**Required Supplementary Information (Unaudited)
Schedule of Investment Returns**

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

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2005	N/A
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	3.58%
2015	-1.47%

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

Calculation on Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2015.

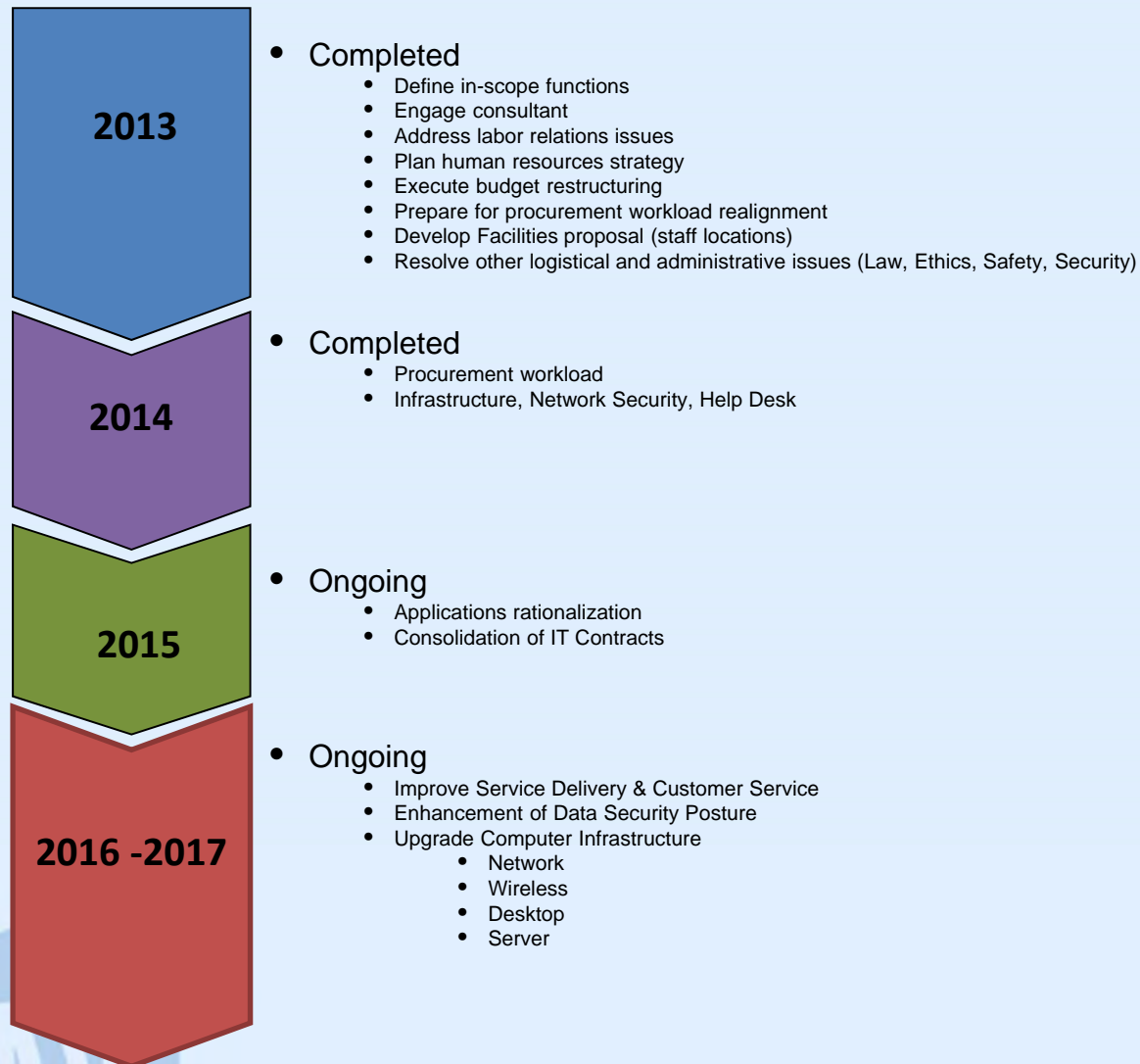
MTA Information Technology

Audit Committee Informational Report 2017

Sidney Gellineau
Chief Information Officer



Transformation Time Line



1/18/2017

MTA IT is driving savings by using resources more efficiently across all agencies

- 2015 Budget reduction of 6%
 - 59 Positions (\$19.3m)
 - \$3.4m Non Labor
- 2016 Budget reduction of 7%
 - 69 Positions (\$16.7m)
 - \$5.9m Non Labor
- One time savings from demand management \$36m

Total savings since consolidation \$81.3m

* Payroll underrun was \$4m less in 2016



MTA IT has identified, and is working with Procurement to consolidate various agencies IT Contracts into single MTA IT Contracts or Enterprise License Agreements (ELA).

Completed

- Microsoft
- CISCO
- VMWare
- IT Training Services
- EMC (System Backup)
- HP Managed Print Services
- Dell (computer hardware)

In Progress

- ESRI (GIS)
- EMC (Storage)
- Adobe
- IBM (Document management)
- GIRO (HASTUS Scheduling System)



Major Accomplishments 2016

- Migration to MS Office 365 (26,000 mailboxes)
- PeopleSoft Application Upgrade
- Mobile Ticketing
- Alternate Desktop Solution
- Beacon Count Clock Proof of Concept
- Technology open house showcasing IT
- Expanded cybersecurity and operations center



Goals for 2017

- Complete replacement of NYCT Business Data Network
- Installation of ServiceNow IT Management Tool
- Continue to improve IT Service Delivery
- Upgrade PeopleSoft Hardware and Disaster Recovery
- Continue to update cyber security platforms
- Complete security reviews of SCADA/ICS systems



What are our concerns?

- Service Delivery
 - Avg. 710 Service Calls a day
- Staffing
 - Difficulty filling vacancies
 - Working with HR on recruiting efforts
 - Advertising effort promoting MTA IT brand
 - Development of current staff



MTA AUDIT SERVICES

2016 Year End Status and 2017 Proposed Audit Plan



January 23, 2017

2016 Audit Plan Summary

Financial/Operational/Technology

- Projects Completed = 171
- Recommendations = 559
- Savings/Cost Efficiencies = \$ 38.2 M

Contracts

- Projects Completed = 142
- Pre-Award OH Reviews = 113
- \$ Audited = \$ 890 M
- Questioned Costs = \$ 49.4 M



2016 Audit Plan

Superstorm Sandy Recovery Oversight Audits (Since 2013)

- **Total Grant Expenditures** = **\$1.32 Billion**
- **Total \$ Audited** = **\$300 Million**
- **Projects Completed** = **76**
- **Recommendations** = **199**
- **Total Cost Adjustments** = **\$ 58.1 Million**



MTA AUDIT SERVICES

2017 AUDIT PLAN



Audit Plan Formulation

Perform Company Analysis

Analyze strategies, financial indicators, and operational controls to identify the audit universe.

Develop Value Driver Analysis

Understand enterprise, business unit and functional strategies based on business risk factors and discussions with key management personnel.

Evaluate Enterprise Risk

Evaluate the enterprise risk using five main key indicators.

Prioritize Audits

Identify auditable activities / units, based on the results of the risk assessment.

Refine Audit Strategy

Using the IIA's risk assessment methodology formulate audit plan and obtain Audit Committee approval.

September

October

November

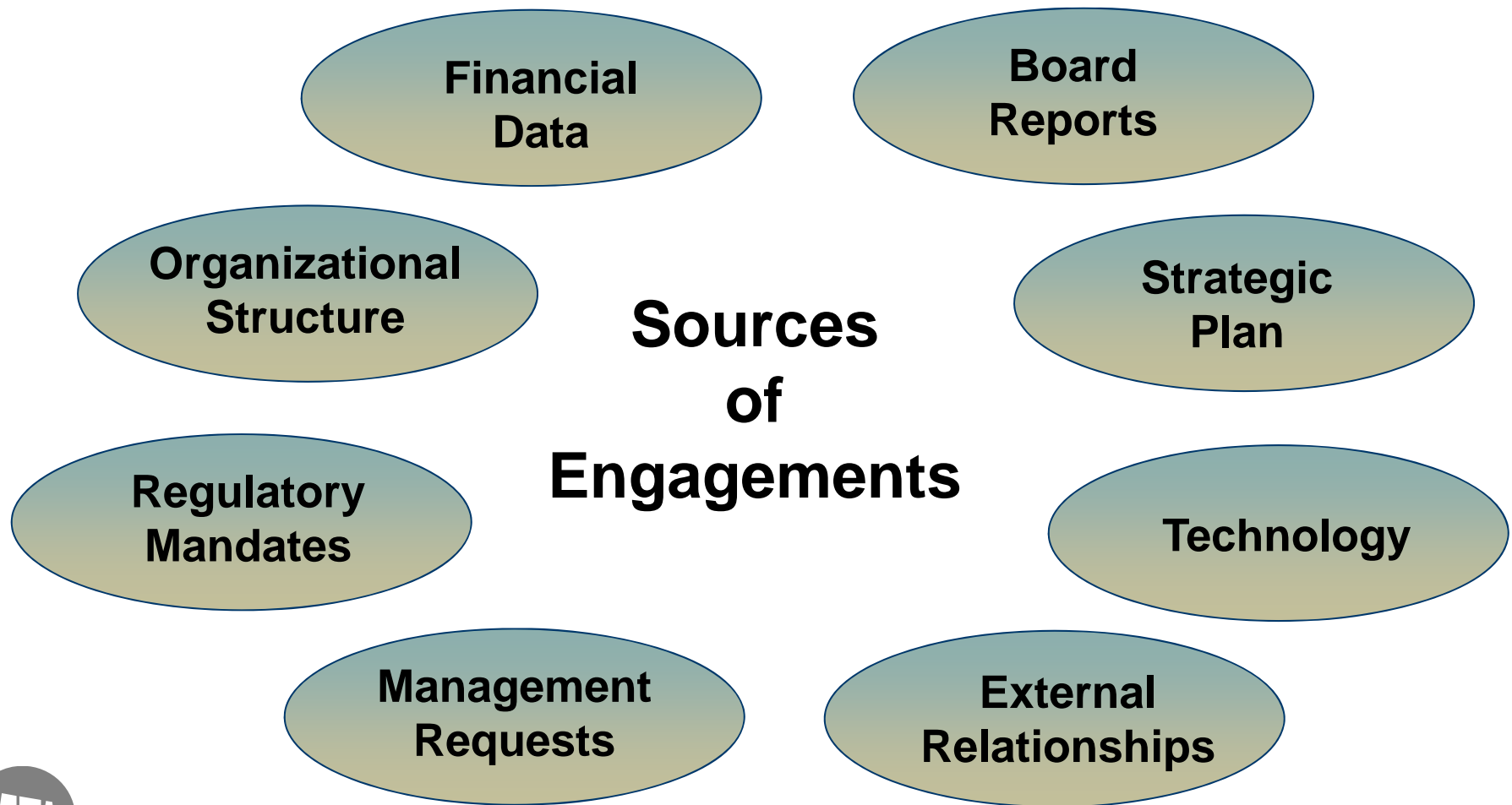
December

January



The Audit Plan Sources

The Metropolitan Transportation Authority Mission is to preserve and enhance the quality of life and economic health of the region it services through the cost-efficient provisions of safe, on-time, reliable, and clean transportation services.



Risk Factor Considerations

Financial Exposure

Condition of Internal Controls

Change in Operations

Impact of Technology

Previous Audit Results

Management Interest



**Conducted
115 Interviews**



Risk Assessment Results

Audit Universe

295 Activities
(672 Sub-Activities)

2017 Audit Plan
170 Audits

128 High

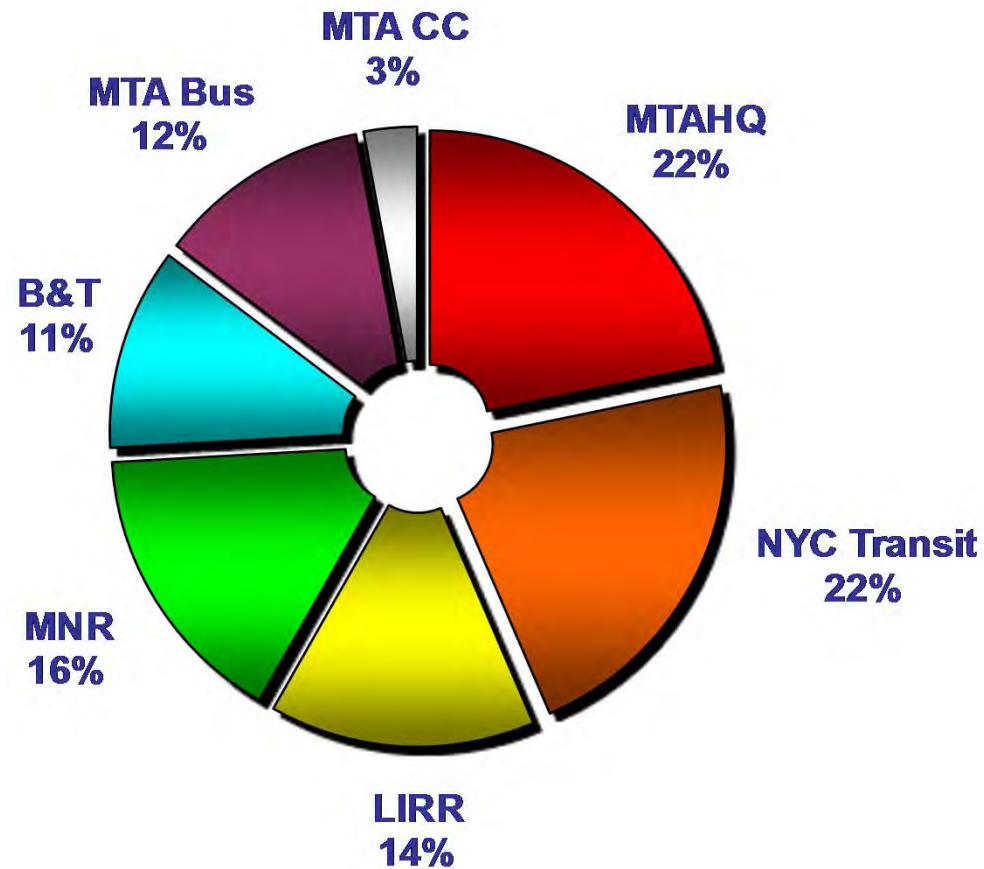
120 Moderate

47 Low

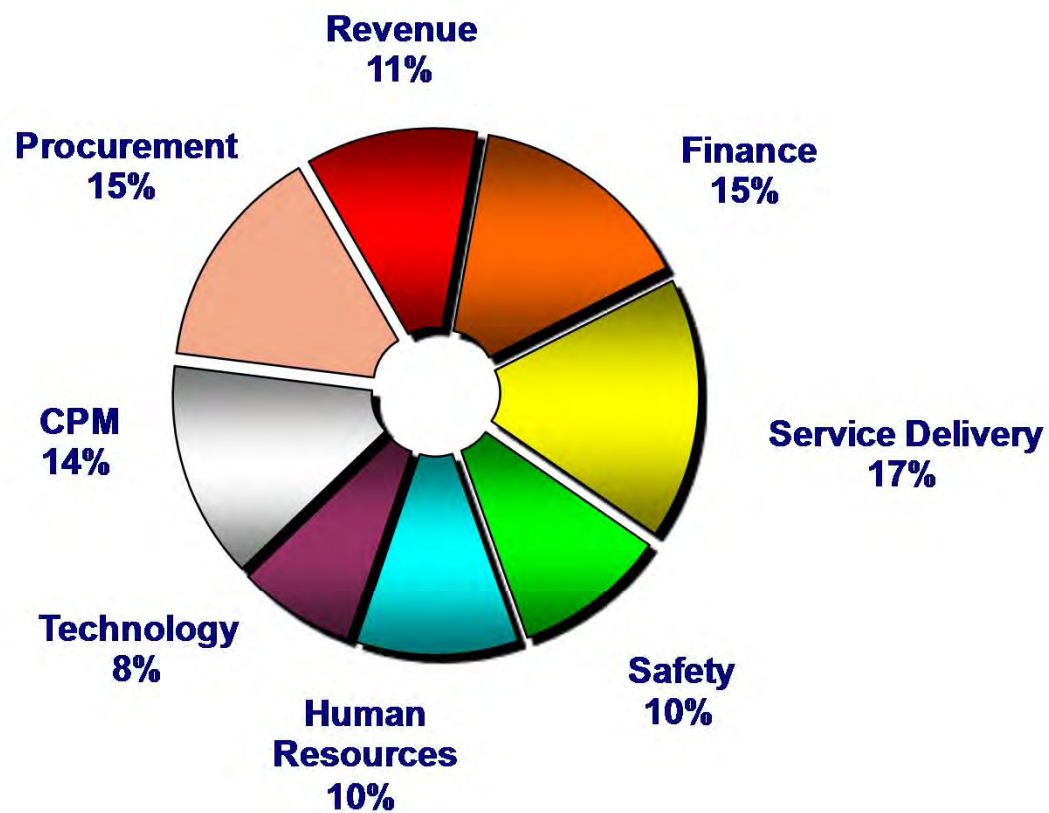
Audit Universe based on a Five Year Cycle



2017 AGENCY RESOURCE ALLOCATION



2017 RESOURCE ALLOCATION BUSINESS FUNCTIONS



2017 Audit Strategy

- ☐ **Focus Audit work on Governance, Risk, and Control Environment**
- ☐ **Review efficiency & effectiveness of Operations**
- ☐ **Evaluate Reliability of Internal and External Reporting**
- ☐ **Support Agency-wide Goals & Initiatives**



2017 Audit Areas

Finance	Safety	Capital Program
<ul style="list-style-type: none"> Treasury Payroll Pension Accounts Payable Timekeeping Overtime Enterprise Asset Management Enterprise Risk Management Inter-Agency Billings Prior Audit Recommendations 	<ul style="list-style-type: none"> Random Drug & Alcohol Testing Enhanced Employee Protection Syst. Hours of Service Sleep Apnea Program Asbestos / Lead Abatement 	<ul style="list-style-type: none"> Superstorm Sandy Fulton Center 7 Line Extension 2nd Avenue East Side Access Capital Contracts
Service Delivery	Procurement	Human Resources
<ul style="list-style-type: none"> Infrastructure Maintenance Yard Inspections Car Shops Signals Power Depot Facilities Bridge & Tunnel Facilities Elevators & Escalators Car Equipment Non-Revenue Vehicles Customer Services Center Key Performance Indicators 	<ul style="list-style-type: none"> Strategic Sourcing Federal Contract Compliance Operating Contracts Inventory Management Scrap Non-PO Purchases Third Party Contracts 	<ul style="list-style-type: none"> Medical Services Employee Availability Qualifications/Certifications Applicant Tracking System Training
	Revenue	Technology
	<ul style="list-style-type: none"> Rental Property Income Advertising Agreements MetroCard E-ZPass Open Road Tolling Transit Adjudication Bureau On-Board Fare Collection Electronic Fare Collection 	<ul style="list-style-type: none"> BSC PeopleSoft Service Desk Data Security Cyber Security Enterprise Change Mgmt. Application Controls Data Centers Business Continuity

Internal Quality Assurance Review 2016 Results

Results: "Fully Complies"		
Seq#	IIA - Audit Elements	Compliance
1	Purpose, Authority & Responsibility	✓
2	Independence & Objectivity	✓
3	Proficiency & Due Professional Care	✓
4	Quality Assurance & Improvement Program	✓
5	Managing the Internal Audit Activity	✓
6	Nature of Work	✓
7	Engagement Planning	✓
8	Performing the Engagement	✓
9	Communicating Results	✓
10	Monitoring Progress	✓
11	Resolution of Management's Acceptance of Risk	✓



Other Activities

- ❑ Continue to coordinate audit activities with:
 - External Auditors
 - City/State Comptrollers' Offices
 - MTA Chief Compliance Officer
- ❑ Perform Internal Quality Assurance Review



QUESTIONS?



Memorandum



Metropolitan Transportation Authority

State of New York

To: Audit Committee

From: Lamond W. Kears, Chief Compliance Officer

A handwritten signature in black ink, appearing to be "LW Kears", written over the name in the "From:" field.

Date: January 23, 2017

Re: Open Audit Recommendation(s)

Based upon information received from MTA Audit Services, there are currently ten (10) open audit recommendation which have exceeded their original or approved revised implementation date by more than six months.

1. Kronos Timekeeping Application-Bridges and Tunnels
Report Number MTA-13-104

Recommendation: Tracking Changes to Rules Tables - As a compensating control, Central Control Unit Management should generate the Pay Rule Audit Trail report of changes made to the pay/work rules on a frequent periodic basis to validate that all changes are authorized. The Central Control Unit should retain evidence of such reviews and ensure that any changes made to the pay/work rules tables have been properly approved and tested before being placed in production.

Status: Implemented

Original Implementation Date: 6/30/2015

Revised Implementation Date: 6/30/2017

2. Audit of Superstorm Sandy DBE Compliance-MTAHQ
Report Number: MTA-14-204A

Recommendation: DBE Roles and Responsibilities – DDCR should work with Corporate Compliance to define the roles and responsibilities of both DDCR and MTA Agencies, and properly identify the Agency contact person(s) for M/W/DBE issues to be included in all contracts. Once the roles are defined, the agencies should modify existing contracts to properly identify the agency point of contact(s) for M/W/DBE issues.

Policy revisions are being made to incorporate real changes to DDCR's business process related to the implementation of the B2G system)

Original Implementation Date: 12/31/2015
Revised Implementation Date: 3/31/2017

3. Military Pay-MTA HQ
Report Number: MTA-15-0878

Recommendation: MTA Corporate Compliance should work with MTA Human Resources representatives as appropriate to establish an all-agency consolidated military leave policy.

Status: Corp Compliance is working with HR on numerous high priority policies. Therefore the implementation of an all agency military leave policy was delayed. Staff has developed a draft which is currently under review.

Original Implementation Date: 06/30/2015
Revised Implementation date: 3/31/2017

4. Audit of FTA Superstorm Sandy Reporting-NYCT/CPM
Report Number: MTA-14-023

Recommendation: FTA Reimbursement - As this would be an extended process, in the interim, we recommended that as planning for these changes take place, NYCT transfer appropriate storm related capital expenditures to approved Superstorm Sandy projects by no later than June 30th, 2014, thereby obtaining timely FTA reimbursement and record of Sandy local expenditure, as required.

Status: There are several remaining transactions left before full implantation. New implementation date: Fourth Quarter 2016.

Original Implementation Date: 9/30/2015
Revised Implementation Date: 12/31/2016

5. NYCT SANDY IN-HOUSE ADDITIONAL WORK ORDERS-NYCT/CPM
Report Number: MTA-15-082

Recommendation: CPM should secure the proper approvals for the retroactive AWOs.

Status: All requested documentation for reconciliation has been submitted to Capital Planning & Budget. The reconciliation will require additional time. New implementation date: First Quarter 2017.

Original Implementation Date: 12/31/2015
Revised Implementation Date: 3/31/2017

6. NYCT SANDY IN-HOUSE ADDITIONAL WORK ORDERS-NYCT/CPM
Report Number: MTA-15-082

Recommendation: CPM should work with Capital Planning and Budget to initiate the process to obtain the required WAR certificates for the AWO costs.

Status: All requested documentation for reconciliation has been submitted to Capital Planning & Budget. The reconciliation will require additional time. New implementation date: First Quarter 2017

Original Implementation Date: 12/31/2015
Revised Implementation Date: 3/31/2017

7. Audit of Signal Maintenance-NYCT/Subways
Report Number: MTA-15-038

Recommendation: We recommended that Signal management review and update the signal guidelines specifically related to standard tests, procedure 7.05.003 and 7.05.005.

Status: Signals management is reviewing safety and field audit procedures for necessary updates. 11/3/16 - The current procedures are under review and editing due to organizational changes and on schedule to meet revised implementation date of June 1, 2017.

Original Implementation Date: 12/31/2015
Revised Implementation Date: 06/01/2017

8. HQ Payroll Reconciliation: MTA HQ
Report Number: MTA-14-148B

Recommendation: Time Reporting - Appropriate departments within MTA HQ should finalize the draft of the injury on duty policy to ensure that affected employees' personnel status is accurately recorded in PeopleSoft.

Status: HR is working with the Director of Employee Health & Safety Program and Standards to develop a Injury on Duty Policy. In progress for implementation of the Policy by 4th Quarter 2017.

Original Implementation Date: 12/31/2015
Revised Implementation Date: 12/31/2017

9. HQ Payroll Reconciliation: BSC
Report Number: MTA-14-148A

Recommendation: Time Reporting - BSC Human Resources should proactively identify when approvers in the workflow may require update based on personnel actions that occur.

Status: Implemented

Original Implementation Date: 12/31/2015
Revised Implementation Date: Not Provided

10. HQ Payroll Reconciliation-MTA HQ
Report Number: MTA-14-148B

Recommendation: Time Reporting - MTA HQ Human Resources should work with the BSC to establish an exception report that could be used to monitor when employees are paid without recording their time beyond a reasonable period.

Status: With the separating of Time and Labor from Payroll and transitioning to Human Resources in 2016, the BSC will implement the recommendation by February 6, 2017.

c: Michael Fucilli, Auditor General
Enterprise Risk Management Committee

Metropolitan Transportation Authority
Department of Diversity and Civil Rights

Report to the Audit Committee
January 23, 2017



MTA Headquarters DDCR Update

- New Contract Compliance System
 - MTA has gone live with the New York State Contract System (B2GNow) since September, 2016
 - New York State Agencies & Authorities are currently utilizing B2G
 - As a result, the system now allows the following:
 - Improved tracking and monitoring of M/W/DBE contract goal compliance
 - Input of M/W/DBE subcontractor payments directly into the system by prime contractors
 - In-system confirmation of receipt of payments by M/W/DBE subcontractors
 - Verification of prompt payment status



MTA Headquarters DDCR Update

Inactive Contracts – Status as of December 31, 2016

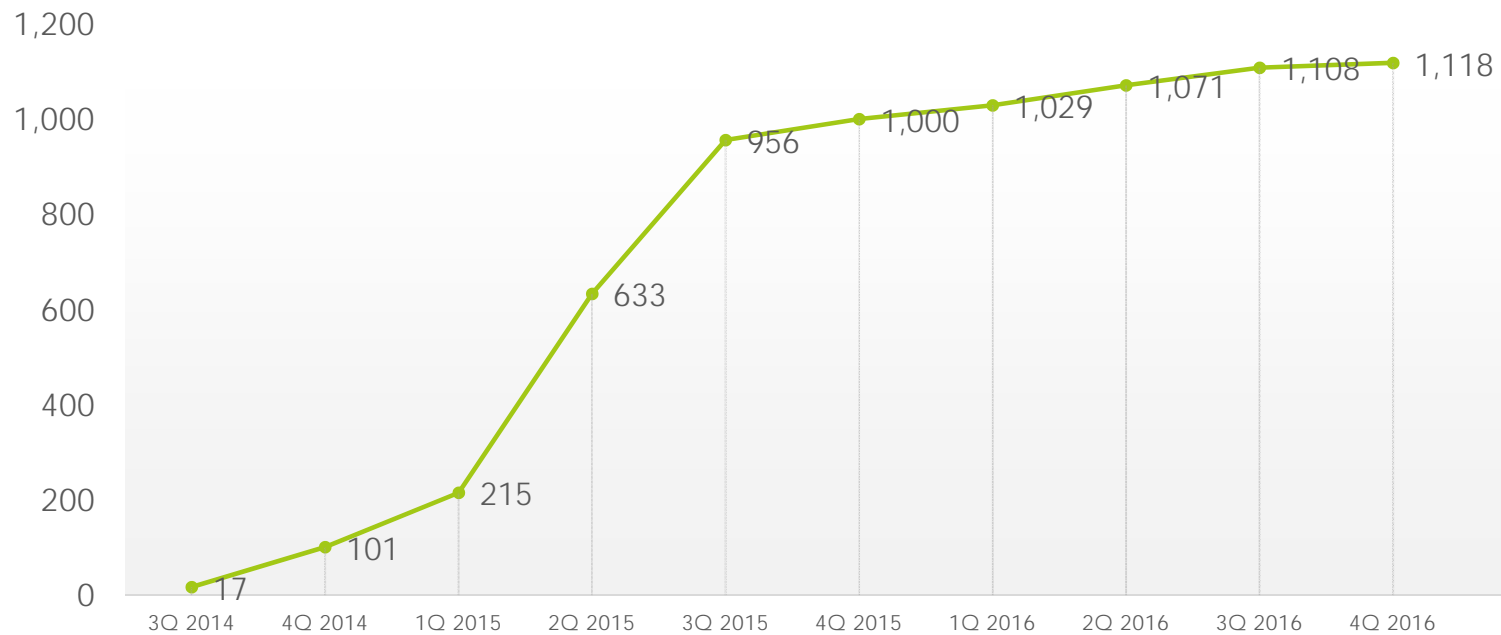
Inactive Contracts with Goals	#
1. Total Contracts Reviewed and Closed	835
2. Contracts Administratively Closed	283 ¹
Sub-Total	1,118 (92%)
3. Closeouts in Progress	41
4. Contracts Pending Agency Action	55
Total	1,214 ² (100%)

1. Contracts administratively closed because of the age of the contract (beyond the established seven-year record retention period).
2. Total number of inactive & closed contracts as of December 31, 2016.



MTA Headquarters DDCR Update

DDCR Contract Closeout Progression 3Q 2014 through 4Q 2016



MTA Headquarters DDCR Update

DDCR Project Site Visits: 3Q 2015 - 4Q 2016

Total Site Visits Performed = 914

