



**Metropolitan Transportation Authority**

# **Audit Committee Meeting**

## **June 2017**

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### **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, 6/19/2017**  
**2:15 - 3:45 PM ET**

**1. PUBLIC COMMENTS**

**2. APPROVAL OF MINUTES**

*Minutes of April 24 2017 meeting - Page 3*

**3. AUDIT COMMITTEE WORK PLAN**

*2017 WORKPLAN - Condensed - Page 6*

*2017 WORKPLAN - Detailed - Page 8*

**4. INDEPENDENT ACCOUNTANT'S REVIEW REPORT - 1ST QUARTER 2017**

*MTA Consolidated Financial Statements-1Q 2017 - Page 13*

**5. 2016 SINGLE AUDIT REPORTS**

*Draft - 2016 MTA Single Audit Report - Page 137*

**6. 2016 INVESTMENT COMPLIANCE REPORT**

*Draft - MTA 2016 Investment Compliance Report - Page 176*

**7. MANAGEMENT LETTERS**

*2016 MTA Consolidated Mgmt Letter - Page 177*

**8. ERM UPDATE AND ETHICS COMPLIANCE PROGRAM**

*Enterprise Risk Management Control Audit Committee Update June 2017 - Page 226*

*2017 Ethics and Compliance Program - Page 234*

**9. 2017 AUDIT PLAN STATUS**

*2017 MidYear Audit Status - Page 262*

**MINUTES OF MEETING  
AUDIT COMMITTEE OF THE BOARD  
MONDAY, APRIL 24, 2017 - 2:15 P.M.  
RONAN BOARD ROOM – 20<sup>TH</sup> FLOOR  
2 BROADWAY**

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The following were present:

**Honorable:**

James Vitiello  
Mitchell Pally

Neal Zuckerman  
John Molloy

Andrew Albert

M. Fucilli - MTA  
L. Kearse - MTA  
M. Garner - MTA  
H. Fromm - MTA  
R. Gans - MNR  
J. Christ - B&T  
P. Graves - MTA Bus

R. Foran - MTA  
P. Kane - MTA  
N. Din - MTA  
J. Henly - NYCTA  
M. Hoffer - LIRR  
E. Eisland - MTACC

M. Fritz - Deloitte  
G. Koslow - Deloitte  
J. Strohmeyer - Deloitte  
C. Hickmann - Deloitte  
J. Young - Deloitte

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**1. PUBLIC COMMENTS PERIOD**

There were no public speakers.

**2. APPROVAL OF MINUTES**

The minutes of the January 23, 2017 Audit Committee meeting were approved.

**3. AUDIT COMMITTEE WORK PLAN**

There were no changes to the work plan.

**4. MANAGEMENT’S REVIEW OF MTA CONSOLIDATED FINANCIAL STATEMENTS**

Pat Kane (MTA Comptroller) briefed the Committee on the preparation and contents of MTA’s 2016 consolidated financial statements, stating they were prepared in accordance with Generally Accepted Accounting Principles and the standards established by Government Accounting Standards Board (GASB) and that the disclosure requirements of GASB 72 on the fair value measurements of investments are reflected in the statements. He presented the Consolidated Statement of Net Position, noting MTA had total assets of \$73.7 billion; deferred outflows of resources of \$3.8 billion; total liabilities of \$71.7 billion; deferred inflows of resources of \$324 million and a net position of \$5.5 billion as of December 31, 2016. He provided brief explanations on the variances related to: the increase in liabilities; the changes in assets and deferred outflows; and the increase in cash from \$454 million to \$732 million at year ended 2016. Additionally, he discussed the items presented in the agenda book pertaining to “Statement of Revenues, Expenses and Changes in Net Position” as well as the reconciliation of Financial Plan to the GAAP-based financial statements. Lastly, Pat stated that financial management is currently finalizing several prior year restatement adjustments, the expected overall effect of which will not impact the reported cash flows but will increase prior year’s Capital Assets and Net Position balances.

## **5. 2016 FINANCIAL STATEMENTS**

Mike Fritz (Deloitte) introduced the senior members of his audit team (Greg Koslow, Chris Hickmann and John Young) as the required communication regarding Deloitte's responsibilities on this audit engagement under the auditing standards (GAAS and GAGAS) was being distributed to the Committee. He said Deloitte is ready to issue the audited 2016 financial statements of FMTAC, LIRR, MNR MTA Bus and SITROA but the ones for NYC Transit, Bridges & Tunnels and MTAHQ would be issued upon completion of the restatement adjustments that Pat Kane just spoke about. He indicated the adjustments are not material to the overall financial statements but are in the \$700 million range that impact beginning net position balances. He said Deloitte will be issuing an opinion on: (a) the fairness of the presentation of the financial statements based on audits conducted under the auditing standards; (b) whether the supplementary information that accompany the financial statements are presented fairly; (c) internal controls over financial reporting and (d) MTA's compliance with Uniform Grant Guidance on single audits for which the results would be reported to the Committee in June. Mike expounded on the items presented in required communication pertaining to: "Significant Accounting Policies, Accounting Estimates, Uncorrected Misstatements, and Material Corrected Misstatements and Disagreements with Managements," stating among others, that there was a change in accounting policy regarding the disclosures on the valuation and "levelling" of investments and that Deloitte had no disagreements with management on matters that are material to the financial statements. Mike also spoke about the "emphasis of matter paragraph" portion of the audit report, the added footnote to the financial statements as a result of the restatement of prior year balances and Deloitte's "clean" or "unmodified" opinion on the financial statements.

Pat Kane moved that the draft 2016 financial statements be approved for release by the Committee, subject to the non-material final audit adjustments relating to NYC Transit, Bridges & Tunnels and MTA HQ financial statements to be reviewed by Deloitte in conjunction with the MTA Chief Financial Officer and the MTA Auditor General.

The motion was seconded and accepted by the Committee.

## **6. FINANCIAL INTEREST REPORTS**

Lamond Kears (MTA Chief Compliance Officer) informed the Committee that Compliance Office has formally notified all required MTA filers, reminding over 7,000 employees and Board Members of their obligation to file their Financial Disclosure Statement for 2017, covering calendar year 2016. Lamond referred the Committee to the FDS letters in the agenda book, noting the reminder given to Board and the Committee about the filing requirements and the reaffirmation of the MTA's commitment to comply with statutory reporting and filing requirements. Lamond noted that employees who received delinquency notices last year total 21. He said most of the 21 were first time filers and all have since complied with the filing requirements upon confirmation of their filing status.

## **7. DDCR PERFORMANCE MEASURES UPDATE**

Michael Garner (MTA Chief Diversity Officer), citing the statistics presented in the agenda book, reported that, through March 31, 2017, 1,139 contracts have been closed out or 90% of the total inactive contracts dating back to 2002. Additionally, he said site visits performed by his staff have increased, now averaging about 50 a month, and they focused on contract compliance and any potential fraud issues noted during the visits are referred to the MTA IG. Mike spoke about DDCR's additional staffing needs and the support MTA Audit Services has given to his office, mentioning in particular the guidance provided by Michele Woods. In response to a prior Committee inquiry, Mike confirmed that information about contractors with M/W/DBE compliant issues cannot be shared among agencies, via the B2G

system, due to confidentiality restrictions. Mike indicated, however, that non-compliant contractors once identified are shared between and among MTA agencies prior to an MTA contract award. Member Pally talked about a pending MNR contract for the State of Connecticut that had a “zero” M/W/DBE participation and asked why the apparent inconsistency with MTA requirements. Mike said he will follow-up and will provide the committee with an answer.

Chair Vitiello expressed his appreciation to the Chief Financial Officer, DDCR, Chief Compliance Office, Audit Services for all their work and the financial management for completing the year-end financial reports timely.

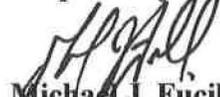
**8. EXECUTIVE SESSION**

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.

**9. 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

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## 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 <sup>rd</sup> 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 <sup>st</sup> Quarter 2017	External Auditor/CFOs
Single Audit Report	External Auditor/CFOs
Investment Compliance Report	External Auditor
Management Letter Reports	External Auditor/CFOs/Controllers
Enterprise Risk Management Update	Chief Compliance Officer
Ethics and Compliance Program	Chief Compliance Officer
MTAAS Audit Plan Status Report	Auditor General

October 2017

Quarterly Financial Statements – 2 <sup>nd</sup> Quarter 2017	External Auditor/CFOs
Review of MTA/IG's Office	External Auditor/IG
Appointment of External Auditors	Committee Chair & Members
Audit Approach Plans/Coordination	External Auditor
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
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**

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## **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 – 3<sup>rd</sup> 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 – 1<sup>st</sup> 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.

### 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.

## **OCTOBER 2017**

### Quarterly Financial Statements - 2<sup>nd</sup> 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.

### 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.

### 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.

### 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).

### 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 Three-Month Period Ended March 31, 2017

DRAFT

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

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## INDEPENDENT AUDITORS' REVIEW REPORT

To the Members of the Board of  
Metropolitan Transportation Authority

### **Report on the Consolidated Interim Financial Information**

We have reviewed the accompanying consolidated interim statement of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of March 31, 2017, and the related consolidated interim statements of revenues, expenses and changes in net position and consolidated cash flows for the three-month periods ended March 31, 2017 and 2016 (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 19, the Schedule of Changes in the MTA's Net Pension Liability and Related Ratios for the Single Employer Pension Plans on page 111, the Schedule of the MTA's Proportionate Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans on page 112, the Schedule of the MTA's Contributions for All Pension Plans on pages 113-114, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 119 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, 2016**

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, 2016, 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 June xx, 2017, which contains explanatory paragraphs that the MTA requires significant subsidies from other governmental entities. In our opinion, the accompanying consolidated statement of net position of the MTA as of December 31, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

June 19, 2017

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
AS OF MARCH 31, 2017 AND DECEMBER 31, 2016 AND  
FOR PERIODS ENDED MARCH 31, 2017 AND 2016  
(\$ In Millions, except as noted)**

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**OVERVIEW OF THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

***Introduction***

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

***Management's Discussion and Analysis***

This MD&A provides a narrative overview and analysis of the financial activities of the Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA" or "MTA Group") as of March 31, 2017 and December 31, 2016 and for the three-month periods ended March 31, 2017 and 2016. 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 statements of revenues, expenses and changes in net position.

## **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.

## CONDENSED CONSOLIDATED FINANCIAL INFORMATION AND CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA Group’s financial position as of March 31, 2017 and December 31, 2016 and for the three-month periods ended March 31, 2017 and 2016. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated interim financial statements and the various exhibits presented were derived from the MTA Group’s consolidated interim financial statements.

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

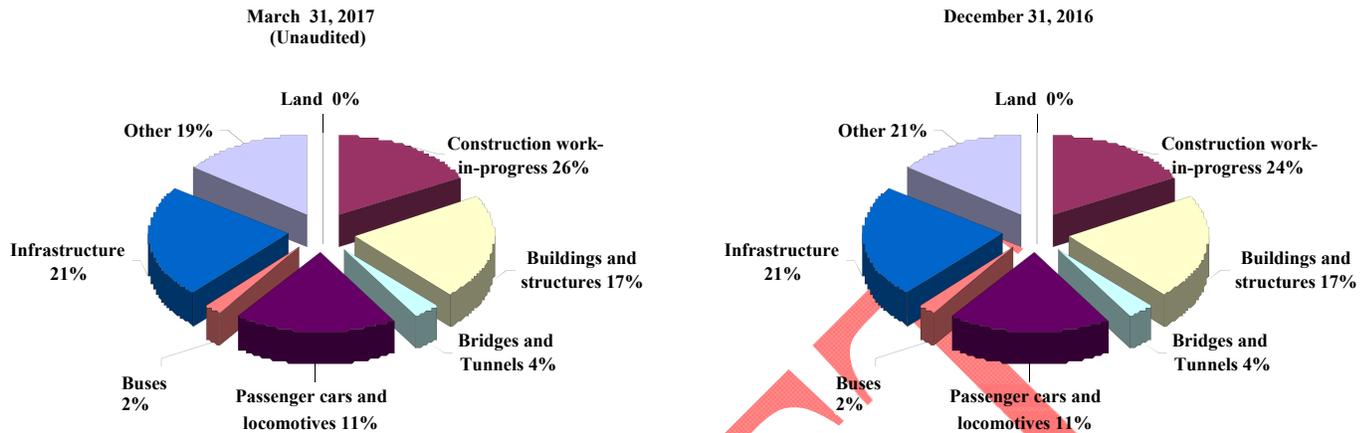
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of buses, equipment, passenger cars, and locomotives.

Other assets include, but are not limited to: cash, restricted and unrestricted investments, State and regional mass transit taxes receivables, and receivables from New York State.

Deferred outflows of resources reflect: changes in fair market values of hedging derivative instruments that are determined to be effective, unamortized loss on refunding, and deferred outflows from pension activities.

(In millions)	March 31, 2017	December 31, 2016	Increase / (Decrease)
	(Unaudited)		
Capital assets — net (see Note 6)	\$ 64,834	\$ 64,518	\$ 316
Other assets	9,970	9,382	588
Deferred outflows of resources	3,979	3,832	147
Total assets and deferred outflows of resources	<u>\$ 78,783</u>	<u>\$ 77,732</u>	<u>\$ 1,051</u>

## Capital Assets, Net



### *Significant Changes in Assets and Deferred Outflows of Resources Include:*

#### **March 31, 2017 versus December 31, 2016**

- Net capital assets increased at March 31, 2017 by \$316 or 0.5%. There was an increase in other capital assets of \$85, an increase in infrastructure for \$41, and an increase in construction work-in-progress of \$791, This was offset by a net increase in accumulated depreciation of \$601. 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 of all MTA Bridge and Tunnels’ facilities.
    - Improvements to MTA Long Island Railroad’s road-assets, replacement of signal power lines, various right-of-way enhancements and upgrades of radio communications.
    - Continued improvements to MTA Metro-North Railroad stations, tracks and structures, power rehabilitation of substations, and security.
    - Subway and bus real-time customer information and communications systems.
    - Continued structural rehabilitation and repairs of the ventilation system at various facilities.
  - Continued improvements made to the East River Tunnel Fire and Life Safety project for 1<sup>st</sup> Avenue, Long Island City and construction of three Montauk bridges.
  - Continued passenger station rehabilitations for Penn Station and East Side Access Passenger station.
  - Ongoing work by MTA New York City Transit to make stations fully accessible and structurally reconfigured in accordance with the Americans with Disability Act (“ADA”) standards.

- Other assets increased by \$588 or 6.3%. This increase was mainly due from an increase in investments of \$849 offset by a decrease in cash of \$115 from net cash flow activities and a net decrease in various other assets of \$146.
- Deferred outflows of resources increased by \$147 or 3.8%. This increase was primarily due from higher deferred outflows related to pensions of \$133, an increase in deferred outflows for unamortized losses on refundings of \$23, offset by a decrease in the fair value of derivative instruments of \$9.

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

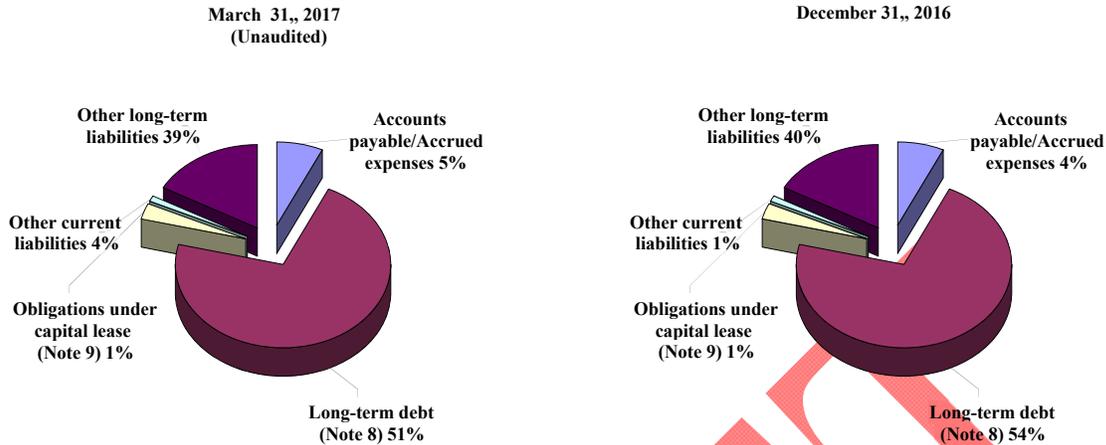
Current liabilities include: accounts payable, accrued expenses, current portions of long-term debt, capital lease obligations, pollution remediation liabilities, unredeemed fares and tolls, and other current liabilities.

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.

(In millions)	March 31, 2017	December 31, 2016	Increase / (Decrease)
	(Unaudited)		
Current liabilities	\$ 6,860	\$ 6,126	\$ 734
Non-current liabilities	67,024	65,675	1,349
Deferred inflows of resources	323	324	(1)
Total liabilities and deferred inflows of resources	<u>\$ 74,207</u>	<u>\$ 72,125</u>	<u>\$ 2,082</u>

## Total Liabilities



### *Significant Changes in Liabilities and Deferred Inflows of Resources Include:*

#### March 31, 2017 versus December 31, 2016

- Current liabilities increased by \$734 or 12.0%. The net increase in current liabilities was mainly due to an increase in accrued expenses of \$574, an increase in accounts payable of \$92 and a net increase in other various current liabilities of \$68.
- Non-current liabilities increased by \$1,349 or 2.1%. This increase was mainly due:
  - An increase in the non-current portion of long-term debt of \$896 primarily due to 2017 bond issuances (See Note 8).
  - An increase in postemployment benefits other than pension liability (“OPEB”) of \$349 resulting from actuarial calculations as required by GASB Statement No. 45 (See Note 5).
  - A net increase in other various non-current liabilities of \$104, primarily due to changes in the fair market value of derivative liabilities of \$166 and a net decrease in other various non-current liabilities of \$62.
- Deferred inflows of resources decreased by \$1 or 0.3%.

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

(In millions)	March 31, 2017	December 31, 2016	Increase / (Decrease)
	(Unaudited)		
Net investment in capital assets	\$ 25,720	\$ 25,756	\$ (36)
Restricted for debt service	1,042	352	690
Restricted for claims	171	178	(7)
Restricted for other purposes	992	934	58
Unrestricted	<u>(23,349)</u>	<u>(21,613)</u>	<u>(1,736)</u>
Total Net Position	<u>\$ 4,576</u>	<u>\$ 5,607</u>	<u>\$ (1,031)</u>

***Significant Changes in Net Position Include:***

**March 31, 2017 versus December 31, 2016**

At March 31, 2017, total net position decreased by \$1,031 or 18.4%, when compared with December 31, 2016. This change is a result of net non-operating revenues of \$688 and appropriations, grants and other receipts externally restricted for capital projects of \$344 offset by operating losses of \$2,063.

The net investment in capital assets decreased by \$36. Funds restricted for debt service, claims and other purposes increased by \$741 or 50.7% in the aggregate, mainly due scheduled debt service payment. Unrestricted net position decreased by \$1,736 or 8.1%.

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

(In millions)	Three-Month Period Ended		
	March 31, 2017 (Unaudited)	March 31, 2016 (Unaudited)	Increase/ (Decrease)
Operating revenues			
Passenger and tolls	\$ 1,873	\$ 1,872	\$ 1
Other	<u>144</u>	<u>149</u>	<u>(5)</u>
Total operating revenues	<u>2,017</u>	<u>2,021</u>	<u>(4)</u>
Non-operating revenues			
Grants, appropriations and taxes	891	2,828	(1,937)
Other	<u>174</u>	<u>170</u>	<u>4</u>
Total non-operating revenues	<u>1,065</u>	<u>2,998</u>	<u>(1,933)</u>
Total revenues	<u>3,082</u>	<u>5,019</u>	<u>(1,937)</u>
Operating expenses			
Salaries and wages	1,465	1,421	44
Retirement and other employee benefits	764	684	80
Postemployment benefits other than pensions	537	499	38
Depreciation and amortization	602	589	13
Other expenses	<u>712</u>	<u>688</u>	<u>24</u>
Total operating expenses	<u>4,080</u>	<u>3,881</u>	<u>199</u>
Non-operating expenses			
Interest on long-term debt	402	358	44
Other net non-operating expenses	<u>(25)</u>	<u>(51)</u>	<u>26</u>
Total non-operating expenses	<u>377</u>	<u>307</u>	<u>70</u>
Total expenses	<u>4,457</u>	<u>4,188</u>	<u>269</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>344</u>	<u>478</u>	<u>(134)</u>
Change in net position	(1,031)	1,309	(2,340)
Net position, beginning of period	<u>5,607</u>	<u>5,833</u>	<u>(226)</u>
Net position, end of period	<u>\$ 4,576</u>	<u>\$ 7,142</u>	<u>\$ (2,566)</u>

***Revenues and Expenses, by Major Source:***

**Period ended March 31, 2017 versus 2016**

- Total operating revenues decreased by \$4 or 0.2%. The decrease was mainly due to lower advertising revenues collected on behalf of all agencies.
- Total non-operating revenues decreased by \$1,933 or 64.5%.
  - Total grants, appropriations, and taxes decreased by \$1,937. This decrease is primarily a result of the delay in the approval of the New York State Budget for 2017-2018.
  - Other non-operating revenues increased by \$4.
- Labor costs increased by \$162 or 6.3%. The major changes within this category are:
  - Retirement and employee benefits increased by \$80 primarily due to higher pension expenses of from GASB Statement No. 68 contributions and amortization of deferred outflows of resources.
  - Salaries, wages and overtime increased by \$44 due largely to increases in MTA New York City Transit.
  - Postemployment benefits other than pensions increased by \$38 based on changes in the actuarial estimates.
- Non-labor operating costs increased by \$37 or 2.9%. The variance was primarily due to:
  - An increase in claims arising from injuries to persons of \$22 based on the most recent actuarial valuations.
  - An increase in depreciation of \$13 due to placing additional facilities, track work and new buses and subway cars into service.
  - An increase in material and supplies by \$8, mainly due to ongoing maintenance and repairs for transit and commuter systems.
  - An increase in electric power of \$9 and fuel of \$9 due to changes in rates and consumption.
  - A decrease in professional service contracts of \$20 due to changes in consulting services requirements
  - A net decrease in other various expenses of \$4 mainly due to lower operating expenses.
- Appropriations, grants and other receipts externally restricted for capital projects decreased by \$134 or 28.1%, mainly due to timing in the availability of Federal and State grants for capital projects.

## OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

### *Economic Conditions*

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

Preliminary MTA system-wide utilization for the first quarter of 2017 decreased relative to 2016, with ridership down by 15.8 million trips (2.4%). Subway ridership declined by 7.1 million, while New York City Transit Bus ridership declined by 8.3 million trips. MTA Bus ridership declined by 0.6 million trips (2.0%), Metro-North Railroad declined by 0.1 million trips (0.7%) and Staten Island Railway declined by 4 thousand trips (0.3%), while Long Island Rail Road experienced an increase of 0.3 million trips (1.7%). Lower ridership levels are primarily attributable to unfavorable weather conditions during the quarter, particularly storms that dumped at least five inches of snow on three occasions. In advance of Winter Storm Stella, which hit the metropolitan area on March 14, MTA suspended above-ground subway service and MNR service, and bus service saw limited operations. The LIRR remained operational; however, ridership was impacted significantly as most commuters heeded the Governor's and the Mayor's state of emergency warnings to not travel unless absolutely necessary. Vehicle traffic at MTA Bridges and Tunnels facilities decreased by 0.7 million crossings (0.9%) in the first quarter; as with ridership, the decline in traffic reflects the adverse impacts from the winter snowstorms.

Seasonally adjusted non-agricultural employment in New York City for the first quarter was higher in 2017 than in 2016 by 68.3 thousand jobs (1.6%). On a quarter-to-quarter basis, New York City employment has increased in each of the last twenty-six quarters – the last decline occurred in the third quarter of 2010 – and is higher than at any time since 1950, when non-agricultural employment levels for New York City were first recorded by the Bureau of Labor Statistics.

National economic growth, as measured by Real Gross Domestic Product ("RGDP"), expanded at an annualized rate of 0.7% in the first quarter of 2017, according to the most recent advance estimate released by the Bureau of Economic Analysis. The increase in RGDP reflected positive contributions from non-residential fixed investment, exports, residential fixed investment, and personal consumption expenditures; these were offset by negative contributions from private inventory investment, state and local government spending, and federal government spending. Imports, which are a subtraction in the Gross Domestic Product ("GDP") calculation, increased. The deceleration in RGDP growth, over the fourth quarter's revised 2.1% growth rate, reflected downturns in private inventory investment and in state and local government spending, and a deceleration in personal consumption expenditures. These were partly offset by upturns in exports and accelerations in both nonresidential and residential fixed investment.

The New York City metropolitan area's price inflation, as measured by the Consumer Price Index for All Urban Consumers ("CPI-U"), was lower than the national average in the first quarter of 2017, with the metropolitan area index increasing 2.48% while the national index increased 2.54%, when compared with the first quarter of 2016. A 15.2% increase in the regional price of energy products, along with a 12.3% national increase, impacted overall inflation; in the metropolitan area, the CPI-U exclusive of energy products increased by 1.8%, while nationally, inflation exclusive of energy prices increased 1.9%. Increasing more steeply than overall energy prices, the spot price for New York Harbor conventional gasoline rose by 37.8% from an average price of \$1.13 per gallon to an average price of \$1.55 per gallon between the first quarters of 2016 and 2017.

In December 2015, citing evidence that economic activity had been expanding at a moderate rate, the Federal Open Market Committee (“FOMC”) raised its target for the Federal Funds rate to the range of 0.25% to 0.50%, the 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 deepened. The FOMC maintained this target until December 2016, when the FOMC announced another increase, raising the target range for the Federal Funds rate to 0.5% to 0.75%. In March 2017, the FOMC raised rates again, with the target range set at 0.75% to 1 percent in view of realized and expected labor market conditions and inflation. Monetary policy continued to remain accommodative, supporting some further strengthening in labor market conditions and a sustained return to 2 percent inflation. The FOMC noted that job gains remained solid and the unemployment rate was little changed in recent months. Household spending continued to rise moderately while business fixed investment had somewhat firmed up. Inflation has increased over the past few months, moving towards the FOMC’s 2 percent target, while survey-based measures of longer-term inflation expectations were little changed. 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, labor market conditions will strengthen somewhat further, and inflation will stabilize around 2 percent over the medium term. Near-term risks to economic outlook appear roughly balanced, and the FOMC continues to closely monitor inflation indicators and global economic and financial developments.

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 thereby impact receipts from the Mortgage Recording Tax (“MRT”) and Urban Tax, two important sources of MTA revenue. After the steady fall in revenues in the wake of the financial and real estate crisis, MTA’s monthly MTA and Urban Tax receipts remained virtually flat for three years beginning in the first quarter of 2009. A discernible upward trend in MRT and Urban Tax receipts began during the first quarter of 2012. For the MRT, this trend continued through the third quarter of 2015, but since then, receipts have been fairly consistent from quarter to quarter. Urban Tax receipts have varied widely since the third quarter of 2015, and for the past two quarters – the fourth quarter of the 2016 and the first quarter of 2017 – have fallen to levels last seen in 2014. Mortgage Recording Tax collections for the first quarter of 2017 were higher than the first quarter of 2016 by \$5.2 million (4.6%); receipts in the first quarter of 2017 were \$2.1 million (1.7%) lower than receipts from the fourth quarter of 2016. Despite the gradual overall recovery of MRT receipts that began in 2013, average monthly receipts in 2017 remain \$24.8 million (38.9%) 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 – were \$87.8 million (34.4%) lower than receipts for the first quarter of 2016; receipts in the first quarter of 2017 were \$5.9 million (3.6%) higher than receipts from the fourth quarter of 2016. Average monthly receipts in 2017 are \$17.7 million (24.0%) lower than the monthly average for 2007, just prior to the steep decline in Urban Tax revenues.

### ***Results of Operations***

*MTA Bridges and Tunnels* - Total paid traffic reached 69.6 million crossings in the first quarter of 2017, which was 0.7 million, or 0.9% lower than the first quarter of 2016. The decline primarily resulted from one less calendar day in February 2017 due to the 2016 leap year, along with relatively harsh weather in March of 2017, when snow accumulations neared 10 inches compared to 2 inches last year. Toll revenue through March 2017 totaled \$421.7 million, which was \$5.6 million, or 1.3% less than the first quarter of 2016. In addition to the year-to-year decline in traffic volume, the first quarter average toll was \$6.058 in 2017 compared to \$6.081 in 2016, a drop of 0.4% resulting from a greater proportion of lower tolled E-ZPass transactions compared to higher tolled cash and Tolls by Mail transactions. The lower traffic volume accounted for approximately \$4.0 million of the revenue decline and the drop in the average toll accounted for \$1.6 million.

The E-ZPass electronic toll collection system experienced year-to-year increases in market share. Total average market share as of the March 31, 2017 was 87.9% compared to 85.9% as of 2016. The average weekday market shares were 89.2% and 87.5% for the first quarter March 31, 2017 and 2016, respectively.

*MTA New York City Transit* - Total revenue from fares were \$1,062 for the period ended March 31, 2017, a decrease of \$3.18 or .30% compared to the period ended March 31, 2016. For the same comparative period, operating expenses increased by \$538.1 or 0.21%, totaling \$3,081 for the three months ended March 31, 2017.

*MTA Long Island Rail Road* – Total operating revenue for the three months ended March 31, 2017 were \$180.4, which was higher by \$2.4 or 1.3% compared to the first three months of 2016. For the same comparative period, operating expenses were higher by \$7.2 or 1.6%, totaling \$457.7 for the three months ended March 31, 2017.

*MTA Metro-North Railroad* – During the first three months of 2017, operating revenue increased by \$4,755 or 2.7 percent compared to the first three months of 2016. During the same period of time, operating expenses increased by \$25,106 or 6.9 percent. Year-to-date 2017 Fare Revenue increased by 1.6 percent and Ridership decreased by 0.1 percent compared to the same period in 2016. 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 for the period ended March 31, 2017 was \$108.5 compared to \$111.8 for the period ended March 31, 2016.

### **Capital Programs**

At March 31, 2017, \$6,003 had been committed and \$1,314 had been expended for the combined 2015-2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, and \$25,237 had been committed and \$17,515 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and \$24,025 had been committed and \$23,373 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. 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.

On February 23, 2017, the MTA Board approved a revision to the CPRB portion of the capital programs for the years covering 2015-2019, adding \$119 transferred from prior capital programs to support additional investment projects. The revised 2015-2019 capital programs now provide \$29,575 in capital expenditures, of which \$15,849 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$5,275 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,956 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$263 relates to Planning and Customer Service; \$376 relates to MTA Bus Company initiatives; and \$2,856 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the revised 2015–2019 MTA Capital Programs and the 2015-2019 MTA Bridges and Tunnels Capital Program, include \$5,929 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, \$1,925 in pay-as-you-go (PAYGO) capital, \$600 from asset sale/leases, and \$562 from Other Sources.

At March 31, 2017, \$6,003 had been committed and \$1,314 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 March 31, 2017, the 2010-2014 MTA Capital Programs budget decreased by \$16, which was transferred to the CPRB portion of the 2015-2019 Capital Program to support new investment projects. Of the \$34,785 now provided in capital expenditures, \$11,629 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; \$3,881 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; \$338 relates to a multi-faceted security program including MTA Police Department; \$223 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 \$10,445 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 \$12,675 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), \$81 in pay-as-you-go capital, supplemented, to the extent necessary, by external borrowing of up to \$988 in additional MTA and MTA Bridges and Tunnels bonds.

At March 31, 2017, \$25,237 had been committed and \$17,515 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program.

2005-2009 Capital Program — Capital programs covering the years 2005-2009 for: (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2005–2009 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the “2005–2009 Transit Capital Program”) were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005–2009 MTA Bridges and Tunnels Capital Program”) was approved by the MTA Board in April 2005 and was not subject to CPRB approval. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) were last amended by the MTA Board in July 2008. This latest 2005-2009 MTA Capital Program amendment was resubmitted to the CPRB for approval in July 2008, and was approved in August 2009.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provided for \$23,717 in capital expenditures. By March 31, 2017, the 2005-2009 MTA Capital Programs budget increased by \$777 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 \$24,495 now provided in capital expenditures, \$11,602 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; \$3,749 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; \$7,697 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) and a security program throughout MTA's transit network; \$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 \$9,807 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 March 31 2017, \$24,025 had been committed and \$23,373 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

## **CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

### ***The November Financial Plan (the “November Plan”)***

The November Financial Plan (The November Plan) was approved by the Board at its December 14, 2016 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 November 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 November 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 November 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.

The MTA 2017 Adopted Budget and February Financial Plan 2017-2020 (collectively, the “February Plan”) was presented to the MTA Board at its February 23, 2017 meeting. The purpose of the February Plan is to incorporate adjustments approved by the MTA Board that were captured “below-the-line” and on a consolidated basis in the November Plan into MTA agencies’ (“Agencies” or each an “Agency”) financial plan baseline budgets and forecasts. It also establishes a 12-month allocation of the 2017 Adopted Budget for financials, utilization and positions, which will be compared with actual results. The February Plan also reflects certain technical adjustments to MTA and Agency forecasts.

As a result of technical adjustments and other changes, year-ending cash positions have changed from the November Plan. The February Plan is projecting year-end cash balances of \$260 million in 2016, \$24 million in 2017, \$27 million in 2018 and \$7 million in 2019, with a projected cash deficit of \$372 million in 2020. The

February Plan includes funding for all of the programs included in the November Plan while reflecting a manageable increase in the 2020 projected deficit.

The \$372 million projected cash deficit for 2020 is higher than the \$319 million that the Board approved in December because the unfavorable costs necessary to address the labor settlement and the MMTOA subsidy reduction exceeded the value of the insurance recovery. Excluding these unfavorable impacts on carryover cash balances, MTA's operating cash position is virtually unchanged from the November Plan for the years 2019 and beyond.

There was, however, a change in the projected revenue for the March 2017 Fare and Toll Increase. 7. The MTA consolidated farebox and toll revenues will be implemented on March 19, 2017. Excluding MTA Bus and MTA Staten Island Railway, revenues are expected to increase by \$220 million in 2017, \$275 million in 2018, \$276 million in 2019 and \$277 million in 2020. MTA Bus revenue is expected to increase by \$5 million in 2017 and by \$7 million annually for years 2018 through 2020, while MTA Staten Island Railway revenue is expected to increase by \$0.2 million in 2017 and by \$0.3 million in subsequent years.

Additional details of the November Plan and the February Plan are available on the MTA website under the caption "MTA Info – Budget and Financial Information – Budgets and Financial Statements".

### ***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 December 31, 2016, MTA has drawn down a total of \$1.29 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 Year 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 that 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).

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# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED INTERIM STATEMENT OF NET POSITION AS OF MARCH 31, 2017 AND CONSOLIDATED STATEMENT OF NET POSITION AS OF DECEMBER 31, 2016 (\$ In millions)

	March 31, 2017 (Unaudited)	December 31, 2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS:</b>		
Cash (Note 3)	\$ 617	\$ 732
Unrestricted investments (Note 3)	3,518	3,995
Restricted investments (Note 3)	2,756	1,425
Restricted investments held under capital lease obligations (Notes 3 and 9)	3	93
Receivables:		
Station maintenance, operation, and use assessments	161	120
State and regional mass transit taxes	216	150
Mortgage Recording Tax receivable	37	45
State and local operating assistance	1	11
Other receivable from New York City and New York State	214	309
Due from Build America Bonds	3	1
Capital project receivable from federal and state government	125	222
Other	597	605
Less allowance for doubtful accounts	(171)	(130)
Total receivables — net	<u>1,183</u>	<u>1,333</u>
Materials and supplies	573	566
Prepaid expenses and other current assets (Note 2)	206	201
Total current assets	<u>8,856</u>	<u>8,345</u>
<b>NON-CURRENT ASSETS:</b>		
Capital assets (Notes 2 and 6):		
Land and construction work-in-progress	17,250	16,459
Other capital assets (net of accumulated depreciation)	47,584	48,059
Unrestricted investments (Note 3)	30	28
Restricted investments (Note 3)	410	418
Restricted investments held under capital lease obligations (Notes 3 and 9)	364	273
Other non-current receivables	123	124
Receivable from New York State	114	114
Other non-current assets	73	80
Total non-current assets	<u>65,948</u>	<u>65,555</u>
<b>TOTAL ASSETS</b>	<u>74,804</u>	<u>73,900</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Accumulated decreases in fair value of derivative instruments (Note 8)	430	439
Loss on debt refunding (Notes 2 and 8)	991	968
Deferred outflows related to pensions (Note 4)	2,558	2,425
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>3,979</u>	<u>3,832</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 78,783</u>	<u>\$ 77,732</u>

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

(Continued)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## CONSOLIDATED INTERIM STATEMENT OF NET POSITION AS OF MARCH 31, 2017 AND CONSOLIDATED STATEMENT OF NET POSITION AS OF DECEMBER 31, 2016

(\$ In millions)

	March 31, 2017 <u>(Unaudited)</u>	December 31, 2016
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable (Note 2)	\$ 618	\$ 526
Accrued expenses:		
Interest	594	226
Salaries, wages and payroll taxes	314	251
Vacation and sick pay benefits	923	911
Current portion — retirement and death benefits	14	15
Current portion — estimated liability from injuries to persons (Note 11)	698	415
Capital accruals	375	436
Other	672	762
Total accrued expenses	<u>3,590</u>	<u>3,016</u>
Current portion — long-term debt (Note 8)	2,006	1,977
Current portion — obligations under capital lease (Note 9)	4	4
Current portion — pollution remediation projects (Note 13)	23	23
Unearned revenues	619	571
Total current liabilities	<u>6,860</u>	<u>6,117</u>
<b>NON-CURRENT LIABILITIES:</b>		
Net pension liability (Note 4)	8,983	8,983
Estimated liability arising from injuries to persons (Note 11)	3,116	3,026
Post employment benefits other than pensions (Note 5)	15,503	15,156
Long-term debt (Notes 2 and 8)	37,841	36,945
Obligations under capital leases (Note 9)	429	429
Pollution remediation projects (Note 13)	65	65
Contract retainage payable	317	309
Derivative liabilities (Note 8)	441	454
Other long-term liabilities	329	317
Total non-current liabilities	<u>67,024</u>	<u>65,684</u>
<b>TOTAL LIABILITIES</b>	<u>73,884</u>	<u>71,801</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Gain on debt refunding	28	29
Deferred Inflows related to pensions (Note 4)	295	295
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>323</u>	<u>324</u>
<b>NET POSITION:</b>		
Net investment in capital assets (Note 2)	25,720	25,756
Restricted for debt service	1,042	352
Restricted for claims	171	178
Restricted for other purposes (Note 2)	992	934
Unrestricted	(23,349)	(21,613)
<b>TOTAL NET POSITION</b>	<u>4,576</u>	<u>5,607</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u>\$ 78,783</u>	<u>\$ 77,732</u>

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

(Concluded)

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

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

THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

(\$ In millions)

	March 31, 2017	March 31, 2016
	(Unaudited)	(Unaudited)
OPERATING REVENUES:		
Fare revenue	\$ 1,451	\$ 1,445
Vehicle toll revenue	422	427
Rents, freight, and other revenue	144	149
	<u>2,017</u>	<u>2,021</u>
OPERATING EXPENSES:		
Salaries and wages	1,465	1,421
Retirement and other employee benefits	764	684
Postemployment benefits other than pensions (Note 5)	537	499
Electric power	116	107
Fuel	39	30
Insurance	3	10
Claims	87	65
Paratransit service contracts	93	95
Maintenance and other operating contracts	121	122
Professional service contracts	54	74
Pollution remediation projects (Note 13)	1	2
Materials and supplies	149	141
Depreciation (Note 2)	602	589
Other	49	42
	<u>4,080</u>	<u>3,881</u>
OPERATING LOSS	<u>(2,063)</u>	<u>(1,860)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax-supported subsidies — NYS:		
Mass Transportation Trust Fund subsidies	144	148
Metropolitan Mass Transportation Operating Assistance subsidies	-	1,668
Payroll Mobility Tax subsidies	463	422
MTA Aid Trust Account subsidies	65	66
Tax-supported subsidies — NYC and Local:		
Mortgage Recording Tax subsidies	108	112
Urban Tax subsidies	109	193
Other subsidies:		
Operating Assistance - 18-B program	-	217
Build America Bond subsidy	2	2
	<u>891</u>	<u>2,828</u>
Subtotal grants, appropriations and taxes	<u>\$ 891</u>	<u>\$ 2,828</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 REVENUES, EXPENSES AND CHANGES IN NET POSITION

THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

(\$ In millions)

	<u>March 31, 2017</u>	<u>March 31, 2016</u>
	(Unaudited)	(Unaudited)
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	\$ 27	\$ 31
Subsidies paid to Dutchess, Orange, and Rockland Counties	(1)	(1)
Interest on long-term debt (Note 2)	(402)	(358)
Station maintenance, operation and use assessments	40	40
Operating subsidies recoverable from NYC	107	99
Other net non-operating expenses	26	52
	<u>688</u>	<u>2,691</u>
Net non-operating revenues		2,691
LOSS BEFORE APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	(1,375)	831
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>344</u>	<u>478</u>
CHANGE IN NET POSITION	(1,031)	1,309
NET POSITION— Beginning of period	<u>5,607</u>	<u>5,833</u>
NET POSITION — End of period	<u>\$ 4,576</u>	<u>\$ 7,142</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 THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016 (\$ In millions)

	March 31, 2017 <u>(Unaudited)</u>	March 31, 2016 <u>(Unaudited)</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 1,967	\$ 1,914
Rents and other receipts	129	178
Payroll and related fringe benefits	(2,256)	(2,220)
Other operating expenses	<u>(588)</u>	<u>(758)</u>
Net cash used by operating activities	<u>(748)</u>	<u>(886)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	1,377	1,035
Operating subsidies from CDOT	27	45
Subsidies paid to Dutchess, Orange, and Rockland Counties	<u>(5)</u>	<u>(4)</u>
Net cash provided by noncapital financing activities	<u>1,399</u>	<u>1,076</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	718	1,635
MTA Bridges and Tunnels bond proceeds	1,427	646
MTA bonds refunded/reissued	(514)	(1,037)
MTA Bridges and Tunnels bonds refunded/reissued	(1,081)	(288)
MTA anticipation notes proceeds	707	707
MTA anticipation notes redeemed	-	(502)
MTA credit facility refunded	-	-
Grants and appropriations	334	503
Payment for capital assets	(1,153)	(994)
Debt service payments	<u>(366)</u>	<u>(173)</u>
Net cash used by capital and related financing activities	<u>72</u>	<u>497</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(3,053)	(3,052)
Sales or maturities of long-term securities	2,839	2,516
Net sales (purchases) or maturities of short-term securities	(637)	(273)
Earnings on investments	<u>13</u>	<u>13</u>
Net cash provided by (used by) investing activities	<u>(838)</u>	<u>(796)</u>
NET INCREASE IN CASH	(115)	(109)
CASH — Beginning of period	<u>732</u>	<u>454</u>
CASH — End of period	<u>\$ 617</u>	<u>\$ 345</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 THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016

(\$ In millions)

	<u>March 31,</u> <u>2017</u>	<u>March 31,</u> <u>2016</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss (Note 2)	\$ (2,063)	\$ (1,860)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	602	589
Net increase in payables, accrued expenses, and other liabilities	606	315
Net (increase) decrease in receivables	128	(62)
Net increase (decrease) in materials and supplies and prepaid expenses	<u>(21)</u>	<u>44</u>
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (748)</u>	<u>\$ (974)</u>
NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES:		
Noncash investing activities:		
Interest expense includes amortization of net (premium) / discount	\$ 979	\$ 65
Interest expense which was capitalized	<u>12</u>	<u>10</u>
Total Noncash investing activities	<u>991</u>	<u>75</u>
Noncash capital and related financing activities:		
Capital assets related liabilities	375	\$ 599
Capital leases related liabilities	<u>429</u>	<u>511</u>
Total Noncash capital and related financing activities	<u>804</u>	<u>1,110</u>
TOTAL NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ 1,795</u>	<u>\$ 1,185</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 MARCH 31, 2017 AND DECEMBER 31, 2016 AND FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2017 AND 2016 (\$ In millions, except as noted)

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### 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, 16<sup>th</sup> Floor, New York, New York 10004.

Although the MTA Group collects fares for the transit and commuter service, they provide and receive revenues from other sources, such as the leasing out of real property assets, and the licensing of advertising. Such revenues, including forecast-increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such services. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Non-operating subsidies to the MTA Group for transit and commuter service for the period ended March 31, 2017 and 2016 totaled \$0.9 billion and \$2.8 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 Adopted**

The MTA adopted the following GASB Statement for the period ended March 31, 2017:

GASB Statement No. 80, *Blending Requirements for Certain Component Units* establishes an additional blending requirement for the financial statement presentation of component units. This Statement applies

to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member, as identified in the component unit's articles of incorporation or bylaws. The adoption of this Statement had no impact on the MTA's financial statements. No additional disclosures are required.

### Accounting Standards Issued but Not Yet Adopted

GASB has issued the following pronouncements that may affect the future financial position, results of operations, cash flows, or financial presentation of the MTA upon implementation. Management has not yet evaluated the effect of implementation of these standards.

<b>GASB Statement No.</b>	<b>GASB Accounting Standard</b>	<b>MTA Required Year of Adoption</b>
73	<i>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</i>	2017
74	<i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	2017
75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	2018
81	<i>Irrevocable Split-Interest Agreement</i>	2018
82	<i>Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73</i>	2017
83	<i>Certain Asset Retirement Obligations</i>	2019
84	<i>Fiduciary Activities</i>	2020
85	<i>Omnibus 2017</i>	2018
86	<i>Certain Debt Extinguishment Issues</i>	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 fair value of investments, allowances for doubtful accounts, valuation of derivative instruments, arbitrage rebate liability, accrued expenses and other liabilities, depreciable lives of capital assets, estimated liability arising from injuries to persons, pension benefits and other postemployment benefits. Actual results could differ significantly from those estimates.

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

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

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

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

In accordance with the provisions of GASB Statement No. 72, *Fair Value Measurement and Application*, investments are recorded on the consolidated 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 statement of revenues, expenses and changes in net position. Fair values have been determined using quoted market values at March 31, 2017 and December 31, 2016.

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 their 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 after the NYS budget is approved and adopted. 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).
- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland (“DOR”) Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County’s fund an amount equal to the product of (i) the percentage by which each respective County’s mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each

county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. As of March 31, 2017, the MTA paid to Dutchess, Orange and Rockland Counties the 2015 excess amounts of MRT-1 and MRT-2 totaling \$3.6.

- 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 to the bondholder.

*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 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 both 2015 and 2016.

Prior to April 1995, NYC 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, NYC 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 NYC’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 NYC. The MTA received approximately \$6.2 and \$4.1 for

the three months ended March 31, 2017 and 2016, respectively, from NYC 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 March 31, 2017 and 2016 were \$4.5 and \$5.0, respectively. The amounts recovered for the periods ended March 31, 2017 and 2016 were approximately \$2.9 and \$3.3, 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, effective July 1, 1993, 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 NYC for the preceding calendar year. Fare revenues and New York City reimbursement aggregated approximately \$46.9 and \$51.5 for the three months ended March 31, 2017 and 2016, 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 December 31, 2016, the balance of the assets in this program was \$122.8.

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

On March 1, 2017, 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, 2017, 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, 2016, 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, 2017, FMTAC renewed the all-agency property insurance program. For the annual period commencing May 1, 2017, FMTAC directly insures property damage claims of the Related Entities in excess of a \$25 million per occurrence deductible, subject to an annual \$75 million aggregate deductible. The total All Risk program annual limit is \$675 million per occurrence and in the annual aggregate for Flood and Earthquake covering property of the Related Entities collectively. FMTAC is reinsured in the domestic, Asian, London, European and Bermuda reinsurance markets for this coverage. Losses occurring after exhaustion of the deductible aggregate are subject to a deductible of \$7.5 million per occurrence. The property insurance policy provides replacement cost coverage for all risks (including Earthquake, Flood and Wind) of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

Supplementing the \$675 million per occurrence noted above, FMTAC’s property insurance program has been expanded to include a further layer of \$125 million of fully collateralized earthquake coverage for an event of a certain index value and for 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 May 23, 2017 to April 30, 2020. The expanded protection is reinsured by MetroCat Re Ltd. 2017-1, a Bermuda special purpose insurer independent from the MTA and formed to provide FMTAC with capital markets based property reinsurance. The MetroCat Re Ltd. 2017-1 reinsurance policy is fully collateralized by a Regulation 114 trust invested in U.S. Treasury Money Market Funds. The additional coverage provided is parametric and available for storm surge losses resulting from a storm that causes water levels that reach the specified index values, and also for an earthquake event of a certain index value.

With respect to acts of terrorism, FMTAC provides direct coverage that is reinsured by the United States Government for 83% of “certified” losses in 2017 and 82% of “certified” losses in 2018 and 81% of “certified” losses in 2019, as covered by the Terrorism Risk Insurance Program Reauthorization Act

("TRIPRA") of 2015. The remaining 17% (2017), 18% (2018) and 19% (2019) 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 \$140 million in 2017, \$160 million in 2018 and \$180 million in 2019. 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) 17% of any "certified" act of terrorism up to a maximum recovery of \$182.75 million for any one occurrence and in the annual aggregate during 2017, 18% of any "certified" act of terrorism up to a maximum recovery of \$193.5 million for any one occurrence and in the annual aggregate during 2018 and 19% of any "certified" act of terrorism up to a maximum recovery of \$204.25 million for any one occurrence and in the annual aggregate during 2019, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the "certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$140 TRIPRA trigger up to a maximum recovery of \$140 million for any occurrence and in the annual aggregate during 2017, or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$160 million TRIPRA trigger up to a maximum recovery of \$160 million for any occurrence and in the annual aggregate during 2018 or 100% of any "certified" terrorism loss which exceeds \$5 million and less than the \$180 million TRIPRA trigger up to a maximum recovery of \$180 million for any occurrence and in the annual aggregate during 2019.

Additionally, MTA purchases coverage for acts of terrorism which are not certified under TRIPRA to a maximum of \$182.75 million in 2017, \$193.5 million in 2018 and \$204.25 million in 2019. Recovery under the terrorism policy is subject to a deductible of \$25 million per occurrence and \$75 million in the annual aggregate in the event of multiple losses during the policy year. Should the Related Entities' deductible in any one year exceed \$75 million future losses in that policy year are subject to a deductible of \$7.5 million. The terrorism coverages expire at midnight on May 1, 2019.

**Pension Plans** — In accordance with the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, the MTA recognizes a net pension liability for each qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the MTA's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the measurement date of each of the qualified pension plans. Changes in the net pension liability during the year are recorded as pension expense, or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change, in the year incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the year in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the year in which the difference occurred.

**Postemployment Benefits Other Than Pensions** — In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement 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 March 31, 2017 and December 31, 2016 (in millions):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	
<b>FDIC insured or collateralized deposits</b>	\$ 162	\$ 162
<b>Uninsured and not collateralized</b>	<u>155</u>	<u>155</u>
<b>Total Bank Balance</b>	<u>\$ 317</u>	<u>\$ 317</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.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the MTA will not be able to recover the value of its deposits. While the MTA does not have a formal deposit policy for custodial credit risk, New York State statutes govern the MTA’s investment policies. 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 March 31, 2017 and December 31, 2016 (in millions):

Investments by fair value level	March 31,	Fair Value Measurements		December 31,	Fair Value Measurements	
	2017	Level 1	Level 2	2016	Level 1	Level 2
	(Unaudited)	(Unaudited)				
Debt Securities:						
U.S. treasury securities	\$ 4,465	\$ 3,990	\$ 475	\$ 3,546	\$ 3,359	\$ 187
U.S. government agency	532	-	532	549	-	549
Commercial paper	1,312	-	1,312	1,397	-	1,397
Asset-backed securities	35	-	35	35	-	35
Commercial mortgage-backed securities	30	-	30	33	-	33
Foreign bonds	14	14	-	13	13	-
Corporate bonds	172	172	-	165	165	-
Tax Benefit Lease Investments:						
U.S. treasury securities	173	173	-	172	172	-
U.S. government agency	103	-	105	103	-	103
Repurchase agreements	98	98	-	73	73	-
Money Market Funds	6	-	6	6	-	6
Total debt securities	6,940	4,447	2,495	6,092	3,782	2,310
Equity securities	22	22	-	21	21	-
<b>Total investments by fair value level</b>	<b>6,962</b>	<b>\$ 4,469</b>	<b>\$ 2,495</b>	<b>6,113</b>	<b>\$ 3,803</b>	<b>\$ 2,310</b>
Other	119			119		
<b>Total Investments</b>	<b>\$ 7,081</b>			<b>\$ 6,232</b>		

Investments classified as Level 1 of the fair value hierarchy, totaling \$4,469 and \$3,083 as of March 31, 2017 and December 31, 2016, 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 fair value at least equal to the cost of the investment.

U.S. Government agency securities totaling \$637 and \$652, commercial paper totaling \$1,312 and \$1,397, and money market instruments totaling \$6 and \$6, as of March 31, 2017 and December 31, 2016, 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 obligations. Investments had weighted average yields of 0.56% and 0.56% for the three months ended March 31, 2017 and year ended December 31, 2016, respectively.

**Credit Risk** — At March 31, 2017 and December 31, 2016, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

Quality Rating Standard & Poor's	March 31, 2017	Percent of Portfolio	December 31, 2016	Percent of Portfolio
	(Unaudited)			
A-1+	\$ 502	7 %	\$ 504	8 %
A-1	1,390	20	1,397	23
AAA	88	1	88	1
AA+	46	1	46	1
AA	35	1	35	0
A	100	1	100	2
BBB	49	1	49	1
Not rated	101	1	101	2
U.S. Government	<u>4,638</u>	<u>67</u>	<u>3,774</u>	<u>62</u>
Total	6,949	100 %	6,094	100 %
Equities and capital leases	<u>132</u>		<u>138</u>	
Total investment	<u>\$ 7,081</u>		<u>\$ 6,232</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)	March 31, 2017		December 31, 2016	
	Fair Value	Duration (in years)	Fair Value	Duration (in years)
U.S. Treasuries	\$ 4,465	5.43	\$ 3,546	5.44
Federal Agencies	566	2.95	549	2.95
Tax benefits lease investments	249	8.87	275	8.87
Repurchase agreement	98	-	73	-
Certificate of deposits	6	-	6	-
Commercial paper	1,312	0.04	1,397	0.04
Asset-backed securities <sup>(1)</sup>	35	1.04	35	1.04
Commercial mortgage-backed securities <sup>(1)</sup>	30	3.04	33	3.04
Foreign bonds <sup>(1)</sup>	14	0.00	13	0.00
Corporates <sup>(1)</sup>	<u>165</u>	<u>2.56</u>	<u>165</u>	<u>2.56</u>
Total fair value	6,940		6,092	
Modified duration		3.56		3.93
Equities <sup>(1)</sup>	<u>22</u>		<u>21</u>	
Total	6,962		6,113	
Investments with no duration reported	<u>119</u>		<u>119</u>	
Total investments	<u>\$ 7,081</u>		<u>\$ 6,232</u>	

<sup>(1)</sup> 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) (MTA New York City 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](http://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, 10<sup>th</sup> Floor, New York, New York, 10004 or at [www.mta.info](http://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](http://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](http://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](http://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](http://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 55/25 Plan must be at least age 55 with the completion of at least 25 years of service, or be at least age 62 with the completion of at least 5 years of service, to be eligible to collect a service retirement benefit. Generally, the benefit for members with at least 25 years of service, is equal to 2.0% of 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 participant 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 earnings 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 60<sup>th</sup> 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 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, 2016, January 1, 2015 and January 1, 2014, the dates of the most recent actuarial valuations, membership data for the following pension plans are as follows:

Membership at:	January 1, 2016		January 1, 2015		TOTAL
	MNR Cash Balance Plan	Additional Plan	MaBSTOA Plan	MTA Defined Benefit Plan	
Active Plan Members	7	282	8,122	17,156	25,567
Retirees and beneficiaries receiving benefits	27	5,985	5,394	11,382	22,788
Vested formerly active members not yet receiving benefits	14	53	1,054	1,417	2,538
Total	48	6,320	14,570	29,955	50,893

**Membership at:**

January 1, 2014

	<b>MNR Cash Balance Plan</b>	<b>Additional Plan</b>	<b>MaBSTOA Plan</b>	<b>MTA Defined Benefit Plan</b>	<b>TOTAL</b>
Active Plan Members	15	321	7,739	16,688	24,763
Retirees and beneficiaries receiving benefits	26	6,089	5,168	11,038	22,321
Vested formerly active members not yet receiving benefits	19	67	1,104	1,422	2,612
Total	60	6,477	14,011	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.

**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.

### **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.

#### **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 \$44.3 and \$45.9 for the years ended December 31, 2016 and 2015, respectively. Both of these employer contributions were paid to the MTA Plan in their respective years.

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

**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.

A summary of the aggregate actual contributions made to each pension plan and the respective contribution rates as a percent of covered payroll for the years ended December 31, 2016 and 2015 are as follows:

Year-ended December 31, (\$ in millions)	2016		2015	
	Actual Employer Contributions	Contributions as a percentage of covered payroll	Actual Employer Contributions	Contributions as a percentage of covered payroll
Additional Plan	\$ 151.1	562.13%	\$ 100.0	283.43%
MaBSTOA Plan	220.7	30.45%	214.9	30.97%
MNR Cash Balance Plan	- *	2.72%	- *	0.85%
MTA Defined Benefit Plan	280.8	15.62%	221.7	13.68%
NYCERS	797.9	24.59%	736.2	22.05%
NYSLERS	13.0	13.51%	15.8	17.93%
<b>Total</b>	<b>\$ 1,463.5</b>		<b>\$ 1,288.6</b>	

\* MNR Cash Balance Plan's actual employer contribution for the years ended December 31, 2016 and 2015 was \$23 thousand and \$14 thousand, respectively.

***Net Pension Liability***

The MTA's net pension liabilities for each of the pension plans reported at March 31, 2017 and December 31, 2016 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.

Year ended December 31,	2016		2015	
	Plan Measurement Date	Plan Valuation Date	Plan Measurement Date	Plan Valuation Date
<b>Pension Plan</b>				
<b>Additional Plan</b>	December 31, 2015	January 1, 2015	December 31, 2014	January 1, 2014
<b>MaBSTOA Plan</b>	December 31, 2015	January 1, 2015	December 31, 2014	January 1, 2014
<b>MNR Cash Balance Plan</b>	December 31, 2015	January 1, 2016	December 31, 2014	January 1, 2014
<b>MTA Defined Benefit Plan</b>	December 31, 2015	January 1, 2015	December 31, 2014	January 1, 2014
<b>NYCERS</b>	June 30, 2016	June 30, 2014	June 30, 2015	June 30, 2013
<b>NYSLERS</b>	March 31, 2016	April 1, 2015	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.

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**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:

Valuation Date:	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan	
	January 1, 2015	January 1, 2014	January 1, 2015	January 1, 2014	January 1, 2016	January 1, 2014
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	4.00% per annum, net of investment expenses.	4.50% per annum, net of investment expenses.
Salary Increases	3.00%	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 operating 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 operating employees per year, depending on years of service.	Not applicable	Not applicable
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%	2.50%	2.30%	2.50%
Cost-of Living Adjustments	Not applicable	Not applicable	1.375% per annum.	1.375% per annum.	Not applicable	Not applicable

Valuation Date:	MTA Defined Benefit Plan		NYCERS		NYSLERS	
	January 1, 2015	January 1, 2014	June 30, 2014	June 30, 2013	April 1, 2015	April 1, 2014
Investment Rate of Return	7.00% per annum, net of investment expenses.	7.00% per annum, net of investment expenses.	7.00% per annum, net of expenses.	7.00% per annum, net of expenses.	7.00% per annum, including inflation, net of investment expenses.	7.50% 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.	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.	In general, merit and promotion increases plus assumed General Wage increases of 3.0% per year.	3.80% in ERS, 4.5% in PFRS	4.90% in ERS, 6.00% in PFRS
Inflation	2.50%; 3.50% for Railroad Retirement Wage Base.	2.50%; 3.00% for Railroad Retirement Wage Base.	2.50%	2.50%	2.50%	2.70%
Cost-of Living Adjustments	55% of inflation assumption or 1.375%, if applicable.	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 4 retirees.	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 4 retirees.	1.30% per annum.	1.40% per annum.

## *Mortality*

### **Additional Plan / MaBSTOA Plan/ MNR Cash Balance Plan and MTA Defined Benefit Plan:**

The actuarial assumptions used in the January 1, 2016, 2015, and 2014 valuations for the MTA plans are based on the results of an actuarial experience study for the period from January 1, 2006 through December 31, 2011. Mortality assumption is based on a 2012 experience study for all MTA plans. The 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. As generational tables, they reflect mortality improvements both before and after the measurement date.

Pre-retirement: The MTA plans utilized RP-2000 Employee Mortality Table for Males and Females with Blue collar adjustments.

Post-retirement Healthy Lives: Assumption utilized 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.

Post-retirement Disabled Lives: Assumption utilized 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. This assumption was not applicable for the Additional Plan and the MNR Cash Balance Plan.

### **NYCERS:**

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. In accordance, with the Administrative Code of the City of New York ("ACNY"), the Board of Trustees of NYCERS are to periodically review and adopt actuarial assumptions as proposed by the Actuary for use in the determination of Employer Contributions.

Mortality tables for service and disability pensioners were developed from experience studies of the NYCERS Plan. The mortality tables for beneficiaries were developed from an experience review.

The actuarial assumptions used in the June 30, 2014 valuation are based, in part, on the GRS report, on published studies of mortality improvement, and on input from the NYC's outside consultants and auditors, the Actuary proposed, and the Board of Trustees of NYCERS adopted, new post-retirement mortality tables for use in determining employer contributions beginning in Fiscal Year 2016. The new tables of post-retirement are based primarily on the experience of NYCERS and the application of the Mortality Improvement Scale MP-2015, published by the Society of Actuaries in October 2015. Scale MP-2015 replaced Mortality Improvement Scale AA.

The actuarial assumptions used in the June 30, 2013 valuation are based on the results of an actuarial experience study published by Gabriel, Roeder, Smith & Company ("GRS") dated October 2015 and analyzed experience for Fiscal Years 2010 through 2013. GRS made recommendations with respect to the actuarial assumptions and methods based on their analysis.

### **NYSLERS:**

The actuarial assumptions used in the April 1, 2015 valuation are based on the results of an actuarial experience study for the period April 1, 2010 through March 31, 2015. The annuitant mortality rates are based on the results of the 2015 experience study of the period April 1, 2010 through March 31, 2015, with adjustments for mortality improvement based on the Society of Actuaries' Scale MP-2014.

The actuarial assumptions used in the April 1, 2014 valuation are based on the results of an actuarial experience study for the period April 1, 2005 through March 31, 2010. The annuitant mortality rates are based on the results of the 2010 experience study of the period April 1, 2005 through March 31, 2010, with adjustments for mortality improvement based on the Society of Actuaries Scale MP-2014.

***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.

<b>Pension Plan</b>	<b>Plan Measurement Date</b>	<b>Rate</b>
<b>Additional Plan</b>	December 31, 2015	7.00%
<b>MaBSTOA Plan</b>	December 31, 2015	7.00%
<b>MNR Cash Balance Plan</b>	December 31, 2015	4.00%
<b>MTA Defined Benefit Plan</b>	December 31, 2015	7.00%
<b>NYCERS</b>	June 30, 2016	7.00%
<b>NYSLERS</b>	March 31, 2016	7.00%

For the Additional Plan, MaBSTOA Plan, MNR Cash Balance Plan, MTA Defined Benefit Plan, NYCERS plan and NYSLERS 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.

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:

<b>Asset Class</b>	<b>Additional Plan</b>		<b>MaBSTOA Plan</b>	
	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>	<b>Target Asset Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
US Core Fixed Income	10.00%	2.11%	10.00%	2.11%
US High Yield Bonds	8.00%	4.32%	8.00%	4.32%
Global Bonds	10.00%	0.82%	10.00%	0.82%
Emerging Markets Bonds	3.00%	5.17%	3.00%	5.17%
US Large Caps	10.00%	5.09%	10.00%	5.09%
US Small Caps	5.50%	6.26%	5.50%	6.26%
Global Equity	10.00%	5.67%	10.00%	5.67%
Foreign Developed Equity	10.00%	6.06%	10.00%	6.06%
Emerging Markets Equity	3.50%	8.21%	3.50%	8.21%
Global REITs	5.00%	5.98%	5.00%	5.98%
Private Real Estate Property	3.00%	3.84%	3.00%	3.84%
Private Equity	7.00%	9.17%	7.00%	9.17%
Hedge Funds - MultiStrategy	15.00%	4.20%	15.00%	4.20%
	<b>100.00%</b>		<b>100.00%</b>	
Assumed Inflation - Mean		2.50%		2.50%
Assumed Inflation - Standard Deviation		1.89%		1.89%
Portfolio Arithmetic Mean Return as per Actuary		7.31%		7.31%
Portfolio Standard Deviation		11.67%		11.67%
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	Long-Term	Target Asset Allocation	Long-Term
		Expected Real Rate of Return		Expected Real Rate of Return
US Core Fixed Income	10.00%	2.11%	100.00%	1.68%
US High Yield Bonds	8.00%	4.32%		
Global Bonds	10.00%	0.82%		
Emerging Markets Bonds	3.00%	5.17%		
US Large Caps	10.00%	5.09%		
US Small Caps	5.50%	6.26%		
Global Equity	10.00%	5.67%		
Foreign Developed Equity	10.00%	6.06%		
Emerging Markets Equity	3.50%	8.21%		
Global REITs	5.00%	5.98%		
Private Real Estate Property	3.00%	3.84%		
Private Equity	7.00%	9.17%		
Hedge Funds - MultiStrategy	15.00%	4.20%		
	<u>100.00%</u>		<u>100.00%</u>	
Assumed Inflation - Mean		2.50%		2.30%
Assumed Inflation - Standard Deviation		1.89%		1.89%
Portfolio Arithmetic Mean Return as per Actuary		7.31%		4.02%
Portfolio Standard Deviation		11.67%		4.64%
Long Term Expected Rate of Return selected by MTA		7.00%		4.00%

Asset Class	NYCERS		NYSLERS	
	Target Asset Allocation	Long-Term	Target Asset Allocation	Long-Term
		Expected Real Rate of Return		Expected Real Rate of Return
U.S. Public Market Equities	32.60%	2.15%	38.00%	7.30%
International Public Market Equities	10.00%	0.70%	13.00%	8.55%
Emerging Public Market Equities	6.90%	0.55%	0.00%	0.00%
Private Market Equities	7.00%	0.69%	10.00%	11.00%
Fixed Income	33.50%	0.90%	18.00%	4.00%
Alternatives (Real Assets, Hedge Funds)	10.00%	0.40%	3.00%	8.65%
Real Estate			8.00%	8.25%
Absolute Return Strategies			3.00%	6.75%
Opportunistic Portfolio			3.00%	8.60%
Cash			2.00%	2.25%
Inflation-indexed Bonds			2.00%	4.00%
	<u>100.00%</u>		<u>100.00%</u>	
Assumed Inflation - Mean		2.50%		2.50%
Long Term Expected Rate of Return		7.00%		7.00%

**Discount Rate**

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

Year ended December 31,	Discount Rate			
	2016		2015	
	Plan Measurement Date	Rate	Plan Measurement Date	Rate
<b>Additional Plan</b>	December 31, 2015	7.00%	December 31, 2014	7.00%
<b>MaBSTOA Plan</b>	December 31, 2015	7.00%	December 31, 2014	7.00%
<b>MNR Cash Balance Plan</b>	December 31, 2015	4.00%	December 31, 2014	4.50%
<b>MTA Defined Benefit Plan</b>	December 31, 2015	7.00%	December 31, 2014	7.00%
<b>NYCERS</b>	June 30, 2016	7.00%	June 30, 2015	7.00%
<b>NYSLERS</b>	March 31, 2016	7.00%	March 31, 2015	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, 2016, based on the December 31, 2015 measurement date, and for the year ended December 31, 2015, based on the December 31, 2014 measurement date, were 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, 2014	\$ 1,602,159	\$ 782,852	\$ 819,307	\$ 3,331,464	\$ 2,265,293	\$ 1,066,171
<b>Changes for fiscal year 2015:</b>						
Service Cost	3,441	-	3,441	77,045	-	77,045
Interest on total pension liability	106,987	-	106,987	232,405	-	232,405
Effect of economic /demographic (gains) or losses	6,735	-	6,735	(68,997)	-	(68,997)
Benefit payments	(157,071)	(157,071)	-	(179,928)	(179,928)	-
Administrative expense	-	(1,218)	1,218	-	(88)	88
Member contributions	-	1,108	(1,108)	-	16,321	(16,321)
Net investment income	-	527	(527)	-	(24,163)	24,163
Employer contributions	-	100,000	(100,000)	-	214,881	(214,881)
<b>Balance as of December 31, 2015</b>	<b>\$ 1,562,251</b>	<b>\$ 726,198</b>	<b>\$ 836,053</b>	<b>\$ 3,391,989</b>	<b>\$ 2,292,316</b>	<b>\$ 1,099,673</b>

	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
<b>Changes for fiscal year 2014:</b>						
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, 2014	\$ 710	\$ 698	\$ 12	\$ 4,099,738	\$ 3,065,220	\$ 1,034,518
<b>Changes for fiscal year 2015:</b>						
Service Cost	-	-	-	124,354	-	124,354
Interest on total pension liability	29	-	29	288,820	-	288,820
Effect of plan changes	-	-	-	6,230	-	6,230
Effect of economic / demographic (gains) or losses	(10)	-	(10)	121,556	-	121,556
Effect of assumption changes or inputs	18	-	18	(76,180)	-	(76,180)
Benefit payments	(113)	(113)	-	(199,572)	(199,572)	-
Administrative expense	-	3	(3)	-	(1,962)	1,962
Member contributions	-	-	-	-	34,519	(34,519)
Net investment income	-	6	(6)	-	(45,122)	45,122
Employer contributions	-	18	(18)	-	221,694	(221,694)
Balance as of December 31, 2015	\$ 634	\$ 612	\$ 22	\$ 4,364,946	\$ 3,074,777	\$ 1,290,169

	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
<b>Changes for fiscal year 2014:</b>						
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, MNR Cash Balance Plan and the MTA Defined Benefit Plan using the discount rate as of each measurement date, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the actual discount rate used for each measurement date:

Measurement Date:	December 31, 2015			December 31, 2014		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
	(in thousands)			(in thousands)		
Additional Plan	\$ 963,427	\$ 836,053	\$ 725,673	\$ 951,790	\$ 819,307	\$ 704,647
MaBSTOA Plan	1,480,961	1,099,673	775,092	1,448,685	1,066,171	740,824
MTA Defined Benefit Plan	1,835,699	1,290,169	830,112	1,554,937	1,034,518	596,266
	1% Decrease (3.0%)	Discount Rate (4.0%)	1% Increase (5.0%)	1% Decrease (3.5%)	Discount Rate (4.5%)	1% Increase (5.5%)
	(in whole dollars)			(in whole dollars)		
MNR Cash Balance Plan	\$ 60,689	\$ 21,847	\$ (12,361)	\$ 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 based on the June 30, 2014 and June 30, 2013 actuarial valuations, rolled forward to June 30, 2016 and June 30, 2015, respectively, and the proportion percentage of the aggregate net pension liability allocated to the MTA:

	NYCERS	
	June 30, 2016	June 30, 2015
	(\$ in thousands)	
MTA's proportion of the net pension liability	23.493%	23.585%
MTA's proportionate share of the net pension liability	\$ 5,708,052	\$ 4,773,787

The following table presents the MTA’s proportionate share of the net pension liability of NYSLERS based on the April 1, 2015 and April 1, 2014 actuarial valuations, rolled forward to March 31, 2016 and March 31, 2015, respectively, and the proportion percentage of the aggregate net pension liability allocated to the MTA:

	NYSLERS	
	March 31, 2016	March 31, 2015
	(\$ in thousands)	
MTA's proportion of the net pension liability	0.303%	0.289%
MTA's proportionate share of the net pension liability	\$ 48,557	\$ 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, 2016 and 2015 and to NYSLERS for the plan’s fiscal year-end March 31, 2016 and 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 and NYSLERS calculated using the discount rate as of each measurement date, 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 or 1-percentage point higher than the actual discount rate used as of each measurement date (\$ in thousands):

Measurement Date:	June 30, 2016			June 30, 2015		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
NYCERS	\$ 7,826,325	\$ 5,708,052	\$ 3,933,870	\$ 6,602,050	\$ 4,773,787	\$ 3,075,494
Measurement Date:	March 31, 2016			March 31, 2015		
	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
NYSLERS	\$ 109,494	\$ 48,557	\$ (2,931)	\$ 65,107	\$ 9,768	\$ (36,952)

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

For the three-month period ended March 31, 2017 and year ended December 31, 2016, the MTA recognized pension expense related to each pension plan as follows (in \$ thousands):

Pension Plan	March 31, 2017	December 31, 2016
Additional Plan	\$ 20,425	\$ 78,604
MaBSTOA Plan	50,189	159,377
MNR Cash Balance plan	-	4
MTA Defined Benefit Plan	68,967	239,927
NYCERS	197,686	691,210
NYSLERS	1,167	17,880
<b>Total</b>	<b>\$ 338,434</b>	<b>\$ 1,187,002</b>

For the three-month period ended March 31, 2017 and year ended December 31, 2016, the MTA reported deferred outflow of resources and deferred inflow of resources for each pension plan as follows (in \$ thousands):

For the Period Ended March 31, 2017	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	\$ -	\$ -	\$ -	\$ 59,108	\$ -	\$ -	107,691	-
Changes in assumptions	-	-	-	-	-	-	-	66,413
Net difference between projected and actual earnings on pension plan investments	52,949	-	174,012	-	19	(6)	266,166	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-	3,230	3,230
Employer contributions to the plan subsequent to the measurement of net pension liability	296,100	-	220,697	-	23	-	282,874	-
Total	\$ 349,049	\$ -	\$ 394,709	\$ 59,108	\$ 42	\$ (6)	\$ 659,961	\$ 69,643

For the Period Ended March 31, 2017	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
Differences between expected and actual experience	\$ -	\$ 162,021	\$ 245	\$ 5,756	\$ 107,936	\$ 226,885
Changes in assumptions	421,322	-	12,949	-	434,271	66,413
Net difference between projected and actual earnings on pension plan investments	308,781	-	28,807	-	830,734	(6)
Changes in proportion and differences between contributions and proportionate share of contributions	(41,334)	(1,352)	2,398	198	(35,706)	2,076
Employer contributions to the plan subsequent to the measurement of net pension liability	408,161	-	12,980	-	1,220,835	-
Total	\$ 1,096,930	\$ 160,669	\$ 57,379	\$ 5,954	\$ 2,558,070	\$ 295,368

For the Year Ended December 31, 2016	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	\$ -	\$ -	\$ -	\$ 59,108	\$ -	\$ -	107,691	-
Changes in assumptions	-	-	-	-	-	-	-	66,413
Net difference between projected and actual earnings on pension plan investments	52,949	-	174,012	-	19	(6)	266,166	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-	-	-	-	3,230	3,230
Employer contributions to the plan subsequent to the measurement of net pension liability	151,100	-	220,697	-	23	-	280,790	-
Total	\$ 204,049	\$ -	\$ 394,709	\$ 59,108	\$ 42	\$ (6)	\$ 657,877	\$ 69,643

For the Year Ended December 31, 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
Differences between expected and actual experience	\$ -	\$ 162,021	\$ 245	\$ 5,756	\$ 107,936	\$ 226,885
Changes in assumptions	421,322	-	12,949	-	434,271	66,413
Net difference between projected and actual earnings on pension plan investments	308,781	-	28,807	-	830,734	(6)
Changes in proportion and differences between contributions and proportionate share of contributions	(41,334)	(1,352)	2,398	198	(35,706)	2,076
Employer contributions to the plan subsequent to the measurement of net pension liability	422,768	-	12,980	-	1,088,358	-
Total	\$ 1,111,537	\$ 160,669	\$ 57,379	\$ 5,954	\$ 2,425,593	\$ 295,368

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, changes in proportion, differences between employer contributions and proportionate share of contributions, and changes in actuarial assumptions, 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	Changes in actuarial assumptions
Additional Plan	1.00	N/A	N/A
MaBSTOA Plan	6.30	N/A	6.30
MNR Cash Balance Plan	0.50	N/A	0.50
MTA Defined Benefit Plan	7.80	7.80	7.80
NYCERS	3.33	3.33	3.33
NYSLERS	5.00	5.00	5.00

For the three-month period ended March 31, 2017 and year ended December 31, 2016, \$1,220.8 and \$1,088.3 were reported as deferred outflows of resources related to pensions resulting from the MTA's contributions subsequent to the measurement date which will be recognized as a reduction of the net pension liability in the year ending December 31, 2017 and December 31, 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions at December 31, 2016 will be recognized as pension expense as follows:

Year Ending December 31:	<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)						
2017	\$ 14,163	\$ 34,463	\$ 3	\$ 77,537	\$ (7,058)	9,726	128,834
2018	14,163	34,463	3	77,537	111,094	9,726	246,986
2019	14,162	34,464	3	77,538	299,123	9,726	435,016
2020	10,461	25,751	4	58,030	124,941	9,267	228,454
2021	-	(10,952)	-	6,119	-	-	(4,833)
Thereafter	-	(3,285)	-	10,683	-	-	7,398
	<u>\$ 52,949</u>	<u>\$ 114,904</u>	<u>\$ 13</u>	<u>\$ 307,444</u>	<u>\$ 528,100</u>	<u>\$ 38,445</u>	<u>\$ 1,041,855</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 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 accepts rollovers from all eligible retirement plans (as defined by the Code), including 401(a), 457, 401(k), 403(b), and rollover IRAs.

**Forfeitures** – Nonvested contributions are forfeited upon termination of employment. Such forfeitures are used to cover a portion of the pension plan’s administrative expenses.

(In thousands)

	<b>December 31,</b>	
	<b>2016</b>	<b>2015</b>
<b>401K contributions:</b>		
Employee 401K contributions, net of loans	\$ 229,222	\$ 226,090
Participant rollovers	21,025	17,449
Employer 401K contributions	3,973	4,878
<b>Total 401K contributions</b>	<b>\$ 254,220</b>	<b>\$ 248,417</b>

## 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 Defined Benefit 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, 2016 is 13 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 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. 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 New York City Transit members, represented MTA Bus members and represented MTA Staten Island Railway 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 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 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, MTA Staten Island Railway and MTA Bus. 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	MTA New York City Transit and MTA Staten Island Railway		MTA Bus	
		< 65	>=65	< 65	>=65
2014	0.0*	7.5	9.5	7.5	8.1
2015	6.0	7.6	9.5	7.6	8.2
2016	6.0	6.7	8.1	6.7	7.3
2017	6.0	6.2	6.8	6.2	6.3
2018	5.3	5.4	5.4	5.4	5.4
2019	5.2	12.1	5.4	11.3	5.4
2024	5.2	6.1	5.4	6.2	5.4
2029	5.5	6.1	5.4	6.1	5.4
2034	6.4	6.1	5.5	6.1	5.5
2039	5.9	5.7	5.2	5.7	5.2
2044	5.7	5.5	5.1	5.5	5.1
2049	5.6	5.4	5.3	5.4	5.3
2054	5.5	5.3	5.3	5.3	5.3

\* Trend not applicable as actual 2015 premiums were valued.

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

### OPEB Participation By Agency at January 1, 2014 (Valuation date for December 31, 2015 and December 31, 2016)

	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	Total
<b>Active Members</b>									
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
<b>Retirees</b>									
Single Medical Coverage	12,400	674	417	612	158	105	19	624	15,009
Employee/Spouse Coverage	16,784	2,314	909	663	329	234	58	893	22,184
Employee/Child Coverage	916	136	54	36	20	23	3	43	1,231
No medical Coverage	867	2,308	2,423	5	8	468	15	126	6,220
Total Number	<u>30,967</u>	<u>5,432</u>	<u>3,803</u>	<u>1,316</u>	<u>515</u>	<u>830</u>	<u>95</u>	<u>1,686</u>	<u>44,644</u>
Average Age	71.9	67.6	74.0	68.9	65.2	67.6	63.9	69.8	71.2
Total Number with Dental/Vision	6,427	857	470	406	445	58	46	85	8,794
Total Number with Vision	25,858	857	470	406	445	58	67	1,529	29,690
Total Number with Supplement Average Monthly Supplement	25,442	1,747	-	910	-	459	22	1,454	30,034
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 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 65% of male and 35% of female eligible members participating in non-NYSHIP programs administered by MTA New York City Transit are assumed to cover a dependent. Actual coverage elections for current retirees are used. If a current retiree’s only dependent is a child, eligibility is assumed for an additional 7 years from the valuation date.

**Demographic Assumptions:**

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

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

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

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

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

<b>Age at Termination</b>	<b>Percent Electing</b>
< 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 three-month period ended March 31, 2017 and year ended December 31, 2016. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

(In millions)	March 31, 2017 (Unaudited)	December 31, 2016
Annual required contribution ("ARC")	\$ 726.8	\$ 2,907.3
Interest on net OPEB obligation	118.7	474.6
Adjustment to ARC	(359.9)	(1,235.5)
OPEB cost	485.6	2,146.4
Payments made	(137.8)	(551.0)
Increase in net OPEB obligation	347.8	1,595.4
Net OPEB obligation — beginning of period	15,155.5	13,560.1
Net OPEB obligation — end of period	\$ 15,503.3	\$ 15,155.5

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, 2016, 2015 and 2014 are as follows (in millions):

Year Ended	Annual OPEB Cost	% of Annual Cost Contributed	Net OPEB Obligation
December 31, 2016	\$ 2,146.4	25.7 %	\$ 15,155.5
December 31, 2015	1,997.2	25.2	13,560.1
December 31, 2014	2,522.9	19.2	12,066.3

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, 2016	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, 2015, December 31, 2016 and March 31, 2017 (in millions):

	Balance December 31, 2015	Additions / Reclassifications	Deletions / Reclassifications	Balance December 31, 2016	Additions / Reclassifications	Deletions / Reclassification	Balance March 31, 2017
						(Unaudited)	(Unaudited)
Capital assets not being depreciated:							
Land	\$ 208	\$ 2	\$ 7	\$ 203	\$ 0	\$ -	\$ 203
Construction work-in-progress	12,949	6,278	2,971	16,256	791	-	17,047
Total capital assets not being depreciated	13,157	6,280	2,978	16,459	791	-	17,250
Capital assets being depreciated:							
Buildings and structures	17,104	354	-	17,458	-	-	17,458
Bridges and tunnels	3,195	121	-	3,316	-	-	3,316
Equipment:							
Passenger cars and locomotives	13,764	102	3	13,863	-	-	13,863
Buses	3,229	217	-	3,446	-	-	3,446
Infrastructure	21,423	661	6	22,078	41	-	22,119
Other	19,356	773	7	20,122	85	-	20,207
Total capital assets being depreciated	78,071	2,228	16	80,283	126	-	80,409
Less accumulated depreciation:							
Buildings and structures	6,194	478	-	6,672	290	-	6,962
Bridges and tunnels	717	29	-	746	7	-	753
Equipment:							
Passenger cars and locomotives	6,427	415	3	6,839	96	-	6,935
Buses	1,782	223	-	2,005	23	-	2,028
Infrastructure	8,075	607	3	8,679	156	-	8,835
Other	6,623	712	52	7,283	52	23	7,312
Total accumulated depreciation	29,818	2,464	58	32,224	624	23	32,825
Total capital assets being depreciated — net	48,253	(236)	(42)	48,059	(498)	(23)	47,584
Capital assets — net	\$ 61,410	\$ 6,044	\$ 2,936	\$ 64,518	\$ 293	\$ (23)	\$ 64,834

Interest capitalized in conjunction with the construction of capital assets for the periods ended March 31, 2017 and December 31, 2016 was \$12.0 and \$57.9, respectively.

Capital assets acquired prior to April 1982 for MTA New York City Transit were funded primarily by NYC with capital grants made available to MTA New York City Transit. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the MTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by MTA New York City

Transit. In certain instances, title to MTA Bridges and Tunnels' real property may revert to NYC in the event the MTA determines such property is unnecessary for its corporate purpose. With respect to MTA Metro-North Railroad, capital assets completely funded by CDOT are not reflected in MTA's financial statements, as ownership is retained by CDOT.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At March 31, 2017 and December 31, 2016, these securities, which are not included in these financial statements, totaled \$101.5 and \$100.5, respectively, and had a market value of \$92.1 and \$95.4, 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 March 31, 2017 and December 31, 2016 are \$726 and \$726, respectively, of which \$0 and \$0 were incurred during the periods ended March 31, 2017 and 2016, respectively. Offsetting these total storm related expenses are estimated insurance recoveries of \$775 under the property insurance policy, with a receivable of \$20 and \$393 as of March 31, 2017 and December 31, 2016, respectively. Additional recoveries under the MTA property insurance policy for Sandy-related damages and losses above that estimated sum are possible. Any additional insurance proceeds for Sandy-related losses in excess of the noted probable recoveries will be recognized for income purposes in future periods when such proceeds are estimable and all related contingencies are removed. For the periods ended March 31, 2017 and 2016, MTA received \$76 and \$432, 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.

## 8. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2016	Issued (Unaudited)	Retired (Unaudited)	March 31, 2017 (Unaudited)
<b>MTA:</b>					
Transportation Revenue Bonds					
1.37%–6.68% due through 2057	\$ 32,211	\$ 21,209	\$ 325	\$ 151	\$ 21,383
Bond Anticipation Notes					
2.0% due through 2018	4,100	948	700	562	1,086
State Service Contract Bonds					
4.125%–5.70% due through 2031	2,395	145	-	38	107
Dedicated Tax Fund Bonds					
2.05%–5.00% due through 2047	10,359	5,009	313	-	5,322
	<u>49,065</u>	<u>27,311</u>	<u>1,338</u>	<u>751</u>	<u>27,898</u>
Net unamortized bond discount and premium		1,345	86	76	1,355
	<b>49,065</b>	<b>28,656</b>	<b>1,424</b>	<b>827</b>	<b>29,253</b>
<b>TBTA:</b>					
General Revenue Bonds					
4.00%–5.77% due through 2050	14,788	6,817	1,203	921	7,099
Subordinate Revenue Bonds					
4.00%–5.77% due through 2032	3,958	1,520	-	163	1,357
	<u>18,746</u>	<u>8,337</u>	<u>1,203</u>	<u>1,084</u>	<u>8,456</u>
Net unamortized bond premium		735	224	11	948
	<b>18,746</b>	<b>9,072</b>	<b>1,427</b>	<b>1,095</b>	<b>9,404</b>
<b>MTA Hudson Rail Yards Trust:</b>					
MTA Hudson Rail Yards Trust Obligations					
1.88%–2.65% due through 2056	1,057	1,057	-	-	1,057
Net unamortized bond premium		137	-	4	133
	<u>1,057</u>	<u>1,194</u>	<u>-</u>	<u>4</u>	<u>1,190</u>
Total	<b>\$ 68,868</b>	<b>\$ 38,922</b>	<b>\$ 2,851</b>	<b>\$ 1,926</b>	<b>\$ 39,847</b>
Current portion		<u>\$ 1,977</u>			<u>\$ 2,006</u>
Long-term portion		<u>\$ 36,945</u>			<u>\$ 37,841</u>

(In millions)	Original Issuance	December 31, 2015	Issued	Retired	December 31, 2016
<b>MTA:</b>					
Transportation Revenue Bonds					
1.37%–6.68% due through 2056	\$ 31,886	\$ 20,728	\$ 3,113	\$ 2,632	\$ 21,209
Bond Anticipation Notes					
2.0% due through 2018	3,400	1,700	1,400	2,152	948
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	1,016	5,009
Certificates of Participation					
5.30%–5.625% due through 2030	807	71	-	71	-
	<u>48,534</u>	<u>27,574</u>	<u>5,681</u>	<u>5,944</u>	<u>27,311</u>
Net unamortized bond discount and premium		564	808	27	1,345
	<b><u>48,534</u></b>	<b><u>28,138</u></b>	<b><u>6,489</u></b>	<b><u>5,971</u></b>	<b><u>28,656</u></b>
<b>TBTA:</b>					
General Revenue Bonds					
1.83%–5.85% due through 2050	13,585	6,750	541	474	6,817
Subordinate Revenue Bonds					
2.39%–5.34% due through 2032	3,958	1,584	-	64	1,520
	<u>17,543</u>	<u>8,334</u>	<u>541</u>	<u>538</u>	<u>8,337</u>
Net unamortized bond premium		656	48	(31)	735
	<b><u>17,543</u></b>	<b><u>8,990</u></b>	<b><u>589</u></b>	<b><u>507</u></b>	<b><u>9,072</u></b>
<b>MTA Hudson Rail Yards Trust:</b>					
MTA Hudson Rail Yards Trust Obligations					
1.88%–2.65% due through 2056	1,057	-	1,057	-	1,057
Net unamortized bond premium		-	132	(5)	137
	<b><u>1,057</u></b>	<b><u>-</u></b>	<b><u>1,189</u></b>	<b><u>(5)</u></b>	<b><u>1,194</u></b>
Total	<b><u>\$ 67,134</u></b>	<b><u>\$ 37,128</u></b>	<b><u>\$ 8,267</u></b>	<b><u>\$ 6,473</u></b>	<b><u>\$ 38,922</u></b>
Current portion		<u>\$ 2,587</u>			<u>\$ 1,977</u>
Long-term portion		<u>\$ 34,541</u>			<u>\$ 36,945</u>

**MTA Transportation Revenue Bonds** — Prior to 2017, MTA issued sixty 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 \$31,230. 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 March 9, 2017, MTA issued \$325.585 MTA Transportation Revenue Green Bonds, Series 2017A. The Series 2017A bonds were issued as \$188.950 MTA Transportation Revenue Green Bonds, Subseries 2017A-1 and \$136.635 MTA Transportation Revenue Green Bonds, Subseries 2017A-2. Proceeds from the transaction were used to pay off a draw on the line of credit that provided interim funding for the existing outstanding 2016A-2 Bond Anticipation Notes, in the amount of \$200 and to refund \$48.090 MTA Transportation Revenue Bonds, Series 2013B and \$88.545 MTA Transportation Revenue Bonds, Series 2013C. The Subseries 2017A-1 bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2057. The Subseries 2017A-2 bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2030.

On March 28, 2017, MTA effectuated a mandatory tender and remarketed \$100 MTA Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002D-2a because its current interest rate period was set to expire by its terms.

**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 February 14, 2017, MTA issued \$700 of MTA Transportation Revenue Bond Anticipation Notes, Series 2017A to generate new money proceeds to finance existing approved transit and commuter projects. The Series 2017A Notes were issued as fixed rate tax-exempt notes with a final maturity of October 2, 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 2017, 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 2017, MTA issued twenty 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 \$9,147. 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 February 23, 2017, MTA issued \$312.825 of MTA Dedicated Tax Fund Green Bonds, Series 2017A to retire \$350 MTA Dedicated Tax Fund Bond Anticipation Notes, Series 2016A-1. The Series 2017A bonds were issued as fixed rate tax-exempt bonds with a final maturity of November 15, 2047.

**MTA Certificates of Participation** — Prior to 2017, 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 Certificates of Participation represented 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.

**MTA Bridges and Tunnels General Revenue Bonds** — Prior to 2017, MTA Bridges and Tunnels issued twenty-seven 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 \$11,922. 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 12, 2017, MTA issued \$300.000 Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2017A and \$902.975 Triborough Bridge and Tunnel Authority General Revenue Refunding Bonds, Series 2017B. The proceeds from the Series 2017A bonds will be used to finance bridge and tunnel

projects. The proceeds from the Series 2017B bonds were used to refund \$37.980 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2007A; \$529.110 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2008A and B; \$223.865 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2008C; \$94.550 of Triborough Bridge and Tunnel Authority General Revenue Bonds, Series 2009A-2; and \$125.935 of Triborough Bridge and Tunnel Authority Subordinate Revenue Bonds, Series 2008D. The Series 2017A bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2047. The Series 2017B bonds were issued as \$33.575 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-1; \$471.630 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-2; \$313.395 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-3; and \$84.375 Triborough Bridge and Tunnel Authority General Revenue Bonds, Subseries 2017B-4. The Series 2017B bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2047.

**MTA Bridges and Tunnels Subordinate Revenue Bonds** — Prior to 2017, 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 \$33,457. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

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

At March 31, 2017 and December 31, 2016, 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.

<b>(In millions)</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<u>(Unaudited)</u>	<u></u>
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	\$ 208	\$ 208
Commuter Facilities Revenue Bonds	214	214
Transit and Commuter Facilities Service Contract Bonds	65	65
Dedicated Tax Fund Bonds	80	80
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	8	15
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	694	735
Special Obligation Subordinate Bonds	115	128
Mortgage Recording Tax Bonds	<u>0</u>	<u>14</u>
<b>Total</b>	<b><u>\$ 1,384</u></b>	<b><u>\$ 1,459</u></b>

For the three months ended March 31, 2017, MTA refunding transactions decreased aggregate debt service payments by \$222 and provided an economic gain of \$156. During the three months ended March 31, 2016, MTA refunding transactions decreased aggregate debt service payments by \$257 and provided an economic gain of \$206.

Unamortized losses related to bond refundings were as follows:

(In millions)	December 31, 2015		December 31, 2016		March 31, 2017
		Net increase/ (decrease)		Net increase/ (decrease)	(Unaudited)
<b>MTA:</b>					
Transportation Revenue Bonds	\$ 335	\$ 222	\$ 557	\$ (26)	\$ 531
State Service Contract Bonds	(5)	(2)	(7)	(1)	(8)
Dedicated Tax Fund Bonds	101	114	215	(3)	212
	<u>431</u>	<u>334</u>	<u>765</u>	<u>(30)</u>	<u>735</u>
<b>TBTA:</b>					
General Revenue Bonds	161	10	171	54	225
Subordinate Revenue Bonds	34	(2)	32	(1)	31
	<u>195</u>	<u>8</u>	<u>203</u>	<u>53</u>	<u>256</u>
Total	<u>\$ 626</u>	<u>\$ 342</u>	<u>\$ 968</u>	<u>\$ 23</u>	<u>\$ 991</u>

**Debt Service Payments** — Future principal and interest debt service payments at March 31, 2017 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 1,789	\$ 1,396	\$ 217	\$ 343	\$ 2,006	\$ 1,739
2018	817	1,351	325	368	1,142	1,719
2019	747	1,303	338	355	1,085	1,658
2020	746	1,261	343	339	1,089	1,600
2021	797	1,218	349	323	1,146	1,541
2022-2026	4,786	5,266	1,996	1,354	6,782	6,620
2027-2031	5,994	3,761	2,355	851	8,349	4,612
2032-2036	5,907	2,607	1,366	456	7,273	3,063
2037-2041	4,488	1,201	812	181	5,300	1,382
2042-2046	1,406	335	288	57	1,694	392
2047-2051	481	162	67	7	548	169
Thereafter	999	52	-	-	999	52
	<u>\$28,957</u>	<u>\$19,913</u>	<u>\$ 8,456</u>	<u>\$ 4,634</u>	<u>\$37,413</u>	<u>\$ 24,547</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 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 2011B* — 3.542% per annum taking into account the interest rate swaps and 4.00% per annum on the unhedged portion
- *Transportation Revenue Bonds, Series 2012A* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2012G* — 3.563% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2015E* — 4.00% per annum
- *Dedicated Tax Fund Bonds, Series 2002B* — 4.00% per annum
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* — 3.316% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *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

**Tax Rebate Liability** — Under the Internal Revenue Code of 1986, the MTA may accrue a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years. No accruals or payments were made during the periods ended March 31, 2017 and December 31, 2016.

**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.

<b>Resolution</b>	<b>Series</b>	<b>Swap</b>	<b>Provider (Insurer)</b>	<b>Type of Facility</b>	<b>Exp. Date</b>
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	Y	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 March 31, 2017 and December 31, 2016, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2016 are as follows:

**Derivative Instruments**

**Summary Information**

(in \$ millions)

Bond Resolution Credit	Underlying Bond Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	As of March 31, 2017	
						Notional Amount	Fair Value
						(Unaudited)	
<b>Cashflow Hedges</b>							
MTA Bridges and Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	191.300	(30.821)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	573.900	(92.465)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	22.765	(3.371)
MTA Bridges and Tunnels Senior Revenue Bonds	2005C (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/5/2016	57.475	(3.566)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	Libor Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	34.150	(2.368)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	328.980	(49.685)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(67.313)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	394.980	(71.998)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	357.500	(83.228)
MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	142.015	(14.153)
MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	56.220	(15.202)
Total						\$ 2,359.285	\$ (434.170)

**Derivative Instruments**

**Summary Information**

(in \$ millions)

Bond Resolution Credit	Underlying Bond Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Hedge Association Date	As of December 31, 2016	
						Notional Amount	Fair Value
<b>Cashflow Hedges</b>							
MTA Bridges and Tunnels Senior Revenue Bonds	2002F & 2003B-2 (Citi 2005B)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	192.200	(31.348)
MTA Bridges and Tunnels Senior Revenue Bonds	2005B-2,3,4	Libor Fixed Payer	Cash Flow	Synthetic Instrument	6/2/2005	576.600	(94.044)
MTA Bridges and Tunnels Senior Revenue Bonds	2005A (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	23.230	(3.524)
MTA Bridges and Tunnels Senior Revenue Bonds	2005C (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/5/2016	70.500	(4.058)
MTA Bridges and Tunnels Subordinate Revenue Bonds	2000ABCD	Libor Fixed Payer	Cash Flow	Synthetic Instrument	8/12/1998	55.800	(3.920)
MTA Dedicated Tax Fund Bonds	2008A	Libor Fixed Payer	Cash Flow	Synthetic Instrument	3/8/2005	328.980	(51.300)
MTA Transportation Revenue Bonds	2002D-2	Libor Fixed Payer	Cash Flow	Synthetic Instrument	7/11/2002	200.000	(67.214)
MTA Transportation Revenue Bonds	2005D & 2005E	Libor Fixed Payer	Cash Flow	Synthetic Instrument	9/10/2004	394.980	(73.319)
MTA Transportation Revenue Bonds	2012G	Libor Fixed Payer	Cash Flow	Synthetic Instrument	12/12/2007	357.500	(83.394)
MTA Transportation Revenue Bonds	2002G-1 (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	155.815	(15.244)
MTA Transportation Revenue Bonds	2011B (COPS 2004A)	Libor Fixed Payer	Cash Flow	Synthetic Instrument	4/1/2016	46.555	(15.442)
					Total	<u>\$ 2,402.160</u>	<u>\$ (442.807)</u>

	Changes In Fair Value		Fair Value at March 31, 2017		Notional (in millions)
	Classification	Amount (in millions)	Classification	Amount (in millions)	
<b>Government activities</b>		(Unaudited)		(Unaudited)	(Unaudited)
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	\$ 8.637	Debt	\$ (434.170)	\$ 2,359.285

### 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 March 31, 2017).

Metropolitan Transportation Authority						
Related Bonds	Notional Amount as of 3/31/17 (Unaudited)	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 3/31/17 (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-)	\$ (67.313)
TRB 2005D & 2005E	296.235	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	UBS AG (A+ / A1 / A+)	(53.999)
TRB 2005E	98.745	11/02/05	11/01/35	Pay 3.561%; receive 67% 1M LIBOR	AIG Financial Products <sup>1</sup> (A- / Baa1 / BBB+)	(17.999)
TRB 2012G	357.500	11/15/12	11/01/32	Pay 3.563%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(83.228)
DTF 2008A	328.980	03/24/05	11/01/31	Pay 3.3156%; receive 67% 1M LIBOR	Bank of New York Mellon (AA- / Aa2 / AA)	(49.686)
<b>Total</b>	<b>\$1,281.460</b>					<b>\$ (272.225)</b>

<sup>1</sup>Guarantor: American International Group, Inc., parent of AIG Financial Products.

MTA Bridges and Tunnels						
Related Bonds	Notional Amount as of 3/31/17 (Unaudited)	Effective Date	Maturity Date	Terms	Counterparty and Ratings (S&P / Moody's / Fitch)	Fair Value as of 3/31/17 (Unaudited)
TBTA 2002F & 2003B-2	\$191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	Citibank, N.A. (A / A1 / A+)	\$ (30.821)
TBTA 2005B-2	191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(30.821)
TBTA 2005B-3	191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	BNP Paribas North America (A / A1 / A+)	(30.821)
TBTA 2005B-4	191.300	07/07/05	01/01/32	Pay 3.076%; receive 67% 1M LIBOR	UBS AG (A+ / A1 / A+)	(30.822)
TBTA 2000ABCD	34.150	01/01/01	01/01/19	Pay 6.08%; receive SIFMA – 15 bp <sup>1</sup>	JPMorgan Chase Bank, NA (A+ / Aa3 / AA-)	(2.368)
TRB 2002G-1 & 2011B, TBTA 2005A & 2001C <sup>2</sup>	139.237 <sup>3</sup>	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	U.S. Bank N.A. (AA- / A1 / AA)	(18.146) <sup>3</sup>
TRB 2002G-1 & 2011B, TBTA 2005A & 2001C <sup>2</sup>	139.238 <sup>3</sup>	04/01/16	01/01/30	Pay 3.52%; receive 67% 1M LIBOR	Wells Fargo Bank, N.A. (AA- / Aa2 / AA)	(18.146) <sup>3</sup>
<b>Total</b>	<b>\$1,077.825</b>					<b>\$ (161.945)</b>

<sup>1</sup>In 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.

<sup>2</sup>Between November 22, 2016 and December 5, 2016, the Variable Rate Certificates of Participation, Series 2004A were redeemed. Corresponding notional amounts from the Series 2004A COPs were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2001C.

<sup>3</sup>Pursuant 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 2016 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 March 31, 2017, 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 March 31, 2017, 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
JPMorgan Chase Bank, NA	A+	Aa3	AA-	\$782,950	33.19%
UBS AG	A+	A1	A+	487,535	20.66
The Bank of New York Mellon	AA-	Aa2	AA	328,980	13.94
Citibank, N.A.	A	A1	A+	191,300	8.11
BNP Paribas North America, Inc.	A	A1	A+	191,300	8.11
U.S. Bank National Association	AA-	A1	AA	139,237	5.9
Wells Fargo Bank, N.A.	AA-	Aa2	AA	139,238	5.9
AIG Financial Products Corp.	BBB+	Baa1	BBB+	98,745	4.19
<b>Total</b>				<b>\$2,359,285</b>	<b>100.00%</b>

*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 were 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.

<b>MTA Transportation Revenue</b>		
<b>Counterparty Name</b>	<b>MTA</b>	<b>Counterparty</b>
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.*

<b>MTA Dedicated Tax Fund</b>		
<b>Counterparty Name</b>	<b>MTA</b>	<b>Counterparty</b>
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.*

<b>MTA Bridges and Tunnels Senior Lien</b>		
<b>Counterparty Name</b>	<b>MTA Bridges and Tunnels</b>	<b>Counterparty</b>
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.*

<b>MTA Bridges and Tunnels Subordinate Lien</b>		
<b>Counterparty Name</b>	<b>MTA Bridges and Tunnels</b>	<b>Counterparty</b>
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:

<b>Associated Bond Issue</b>	<b>Bond Maturity Date</b>	<b>Swap Termination Date</b>
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2001C (swaps with U.S. Bank/Wells Fargo)	January 1, 2032	January 1, 2030
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 March 31, 2017, the aggregate mid-market valuation of the MTA's swaps subject to collateral posting agreements was (\$230.996); as of this date, the MTA was not subject to collateral posting based on its credit ratings (see further details below).

As of March 31, 2017, the aggregate mid-market valuation of MTA Bridges and Tunnels' swaps subject to collateral posting agreements was (\$162.203); 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.

<b>MTA Transportation Revenue</b>		
<b>Counterparty</b>	<b>MTA Collateral Thresholds (based on highest rating)</b>	<b>Counterparty Collateral Thresholds (based on highest rating)</b>
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.*

<b>MTA Dedicated Tax Fund</b>		
<b>Counterparty</b>	<b>MTA Collateral Thresholds</b>	<b>Counterparty Collateral Thresholds (based on highest rating)</b>
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.*

<b>MTA Bridges and Tunnels Senior Lien</b>		
<b>Counterparty</b>	<b>MTA Bridges and Tunnels Collateral Thresholds (based on highest rating)</b>	<b>Counterparty Collateral Thresholds (based on highest rating)</b>
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.*

<b>MTA Bridges and Tunnels Subordinate Lien</b>		
<b>Counterparty</b>	<b>MTA Bridges and Tunnels Collateral Thresholds (based on lowest rating)</b>	<b>Counterparty Collateral Thresholds (based on lowest rating)</b>
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 <i>(note: only applicable as cure for Termination Event)</i>	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.

<b>MTA (in millions)</b>				
Period Ended March 31, 2017	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2017	34.4	51.5	(5.5)	80.4
2018	35.8	50.1	(5.4)	80.6
2019	55.6	48.6	(5.2)	99.0
2020	38.4	46.5	(4.9)	80.0
2021	58.3	44.9	(4.7)	98.5
2022-2026	331.6	186.9	(18.9)	499.6
2027-2031	617.0	351.7	(10.5)	958.3
2032-2035	370.8	152.3	(1.9)	521.2
<b>MTA Bridges and Tunnels (in millions)</b>				
Period Ended March 31, 2017	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2017	59.2	42.2	(6.0)	95.4
2018	62.5	39.7	(6.6)	95.7
2019	43.4	38.0	(6.9)	74.5
2020	25.4	37.0	(6.9)	55.6
2021	26.6	36.0	(6.8)	55.8
2022-2026	175.1	159.6	(32.7)	302.0
2027-2031	543.0	95.3	(22.8)	615.4
2032-2035	184.1	1.5	(0.1)	185.5

## 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 December 31, 2016, the market value of total collateral funds was \$37.1.

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

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.

Minimum rent receipts for ERY and WRY Ground Leases are as follows as of December 31, 2016:

Year	ERY	WRY	Total
2017	8	-	8
2018	9	14	23
2019	18	16	34
2020	19	16	35
2021	19	32	51
Thereafter	906	1,591	2,497
Total	<b>\$ 979</b>	<b>\$ 1,669</b>	<b>\$ 2,648</b>

**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 sublessee, 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 December 31, 2016, certificates of participation outstanding principal amount of \$70.5 was prepaid (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 17.0 and \$15.0 for the periods ended March 31, 2017 and 2016, respectively.

At March 31, 2017, the future minimum lease payments under non-cancelable leases are as follows (in millions):

Years	<u>Operating</u>	<u>Capital</u>
	<u>(Unaudited)</u>	<u>(Unaudited)</u>
2017	\$ 39	\$ 19
2018	45	19
2019	45	22
2020	43	30
2021	42	21
2022–2026	134	140
2027–2031	199	102
2032–2036	226	545
2037–2041	243	139
2042–2046	243	153
Thereafter	485	249
Future minimum lease payments	<u>\$ 1,744</u>	1,439
Amount representing interest		<u>(1,006)</u>
Total present value of capital lease obligations		433
Less current present value of capital lease obligations		<u>4</u>
Noncurrent present value of capital lease obligations		<u>\$ 429</u>

**Capital Leases Schedule**  
For the Period Ended March 31, 2017  
(in millions)

<u>Description</u>	<u>December 31,</u>	<u>Increase</u>	<u>Decrease</u>	<u>March 31,</u>
	<u>2016</u>			<u>2017</u>
		<u>(Unaudited)</u>		<u>(Unaudited)</u>
Sumitomo	\$ 15	\$ -	\$ -	\$ 15
Met Life	5	-	-	5
Met Life Equity	19	-	-	19
Bank of New York	22	-	-	22
Bank of America	34	-	-	34
Bank of America Equity	16	-	-	16
Sumitomo	35	-	-	35
Met Life Equity	50	-	-	50
Grand Central Terminal & Harlem Hudson Railroad Lines	14	-	-	14
2 Broadway Lease Improvement	169	-	-	169
2 Broadway	54	-	-	54
Subway Cars	-	-	-	-
<b>Total MTA Capital Lease</b>	<u>\$ 433</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433</u>
Current Portion Obligations under Capital Lease	<u>4</u>			<u>4</u>
Long Term Portion Obligations under Capital Lease	<u>\$ 429</u>			<u>\$ 429</u>

**Capital Leases Schedule**  
**For the Year Ended December 31, 2016**  
(in millions)

Description	December 31, 2015	Increase	Decrease	December 31, 2016
Sumitomo	\$ 15	\$ -	\$ -	\$ 15
Met Life	5	-	-	5
Met Life Equity	19	-	-	19
Bank of New York	22	-	-	22
Bank of America	32	2	-	34
Bank of America Equity	16	-	-	16
Sumitomo	38	1	4	35
Met Life Equity	47	3	-	50
Grand Central Terminal & Harlem Hudson Railroad Lines	14	-	-	14
2 Broadway Lease Improvement	166	9	6	169
2 Broadway	53	1	-	54
Subway Cars	107	1	108	-
<b>Total MTA Capital Lease</b>	<b>\$ 534</b>	<b>\$ 17</b>	<b>\$ 118</b>	<b>\$ 433</b>
Current Portion Obligations under Capital Lease	9			4
Long Term Portion Obligations under Capital Lease	<u>\$ 525</u>			<u>\$ 429</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-parcel is equal to a net present value as of January 1, 2010 (calculated based on each applicable payment) of the product of that sub-parcel’s percentage of the total gross square footage of permissible development on all six air space sub-parcels multiplied by \$80.

## 11. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the period ended March 31, 2017 and year ended December 31, 2016 is presented below (in millions):

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	
Balance — beginning of year	\$ 3,441	\$ 2,883
Activity during the year:		
Current year claims and changes in estimates	503	1,448
Claims paid	<u>(130)</u>	<u>(890)</u>
Balance — end of year	3,814	3,441
Less current portion	<u>(698)</u>	<u>(415)</u>
Long-term liability	<u>\$ 3,116</u>	<u>\$ 3,026</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*, an operating expense provision and corresponding liability measured at its current value using the expected cash flow method is recognized when an obligatory event occurs. The MTA recognized pollution remediation expenses of \$1 and \$2 for the periods ended March 31, 2017 and

2016, respectively. A summary of the activity in pollution remediation liability at March 31, 2017 and December 31, 2016 were as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>
	<b>(Unaudited)</b>	
Balance at beginning of year	\$ 88	\$ 100
Activity during the year:		
Current year expenses/changes in estimates	1	12
Current year payments	(1)	(24)
Balance at end of year	88	88
Less current portion	23	23
Long-term liability	<u>\$ 65</u>	<u>\$ 65</u>

#### 14. CURRENT AND NON-CURRENT LIABILITIES

Changes in the activity of current and non-current liabilities for the periods ended March 31, 2017 and December 31, 2016 are presented below:

	Balance December 31, 2015	Additions	Reductions	Balance December 31, 2016	Additions	Reductions	Balance March 31, 2017
					(Unaudited)	(Unaudited)	(Unaudited)
<b>Current liabilities:</b>							
Accounts payable	\$ 409	\$ 117	\$ -	\$ 526	\$ 92	\$ -	\$ 618
Interest	210	16	-	226	368	-	594
Salaries, wages and payroll taxes	256	-	(5)	251	63	-	314
Vacation and sick pay benefits	880	31	-	911	12	-	923
Current portion — retirement and death benefits	15	-	-	15	-	(1)	14
Capital accrual	479	-	(43)	436	-	(61)	375
Other accrued expenses	560	202	-	762	-	(90)	672
Unearned revenues	563	8	-	571	48	-	619
<b>Total current liabilities</b>	<b>\$ 3,372</b>	<b>\$ 374</b>	<b>\$ (48)</b>	<b>\$ 3,698</b>	<b>\$ 583</b>	<b>\$ (152)</b>	<b>\$ 4,129</b>
<b>Non-current liabilities:</b>							
Contract retainage payable	\$ 281	\$ 28	\$ -	\$ 309	\$ 8	\$ -	\$ 317
Other long-term liabilities	307	10	-	317	12	-	329
<b>Total non-current liabilities</b>	<b>\$ 588</b>	<b>\$ 38</b>	<b>\$ -</b>	<b>\$ 626</b>	<b>\$ 20</b>	<b>\$ -</b>	<b>\$ 646</b>

## 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	J. Aron & Company	Bank of America Merrill Lynch					
Trade Date	4/29/2015	5/28/2015	6/30/2015	7/30/2015	8/27/2015	9/28/2015	10/29/2015	11/24/2015
Effective Date	1/4/2016	1/5/2016	1/6/2016	1/7/2016	1/8/2016	1/9/2016	1/2/2016	1/11/2016
Termination Date	3/30/2017	4/30/2017	5/31/2017	6/30/2017	7/31/2017	8/31/2017	9/30/2017	10/31/2017
Price/Gal	\$2.0855	\$1.9970	\$2.0130	\$1.8145	\$1.6600	\$1.6950	\$1.7100	\$1.6515
Original Notional Quantity	5,957,391	5,831,540	5,882,999	5,298,402	4,847,240	5,130,241	5,631,317	4,863,189

Counterparty	J. Aron & Company	J. Aron & Company	JPM - Ventures Energy Corp	Macquarie Energy LLC	Macquarie Energy LLC	Macquarie Energy LLC	J. Aron & Company	J. Aron & Company
Trade Date	12/17/2015	1/27/2016	2/23/2016	3/29/2016	4/28/2016	5/26/2016	6/30/2016	7/28/2016
Effective Date	1/12/2016	1/1/2017	1/2/2017	1/3/2017	1/4/2017	1/5/2017	1/6/2017	1/7/2017
Termination Date	11/30/2017	12/31/2017	1/31/2018	2/28/2018	3/31/2018	4/30/2018	5/30/2018	6/30/2018
Price/Gal	\$1.4825	\$1.2760	\$1.3100	\$1.3820	\$1.5535	\$1.6225	\$1.6515	\$1.5020
Original Notional Quantity	4,266,180	3,745,930	3,845,749	3,926,350	4,527,533	4,728,640	4,813,146	4,498,206

Counterparty	Macquarie Energy LLC	J. Aron & Company	Macquarie Energy LLC	J. Aron & Company	J. Aron & Company	JPM - Ventures Energy Corp	Cargill	J. Aron & Company
Trade Date	8/24/2016	9/22/2016	10/26/2016	11/22/2016	12/20/2016	1/26/2017	2/28/2017	3/28/2017
Effective Date	1/8/2017	1/9/2017	1/10/2017	1/11/2017	1/12/2017	1/1/2018	1/2/2018	1/3/2019
Termination Date	7/31/2018	8/31/2018	9/30/2018	10/31/2018	11/30/2018	12/31/2018	1/31/2019	2/29/2020
Price/Gal	\$1.6350	\$1.5975	\$1.6240	\$1.6670	\$1.7657	\$1.7485	\$1.6824	\$1.6090
Original Notional Quantity	4,780,987	4,671,339	4,801,475	4,879,859	5,122,068	5,111,306	4,918,086	4,703,517

The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. At a contract's termination date, the MTA will take delivery of the fuel. As of March 31, 2017, the total outstanding notional value of the ULSD contracts was 54.3 million gallons with a positive fair market value of \$2. 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 financial information for MTA's component units (in millions).

March 31, 2017 (Unaudited)	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
Current assets	\$ 7,386	\$ 219	\$ 210	\$ 517	\$ 521	\$ 2	\$ 8,856
Capital assets	9,235	4,610	5,753	39,880	5,356	-	64,834
Other Assets	10,527	5	-	1	571	(9,989)	1,114
Intercompany receivables	373	76	104	2,070	14	(2,638)	-
Deferred outflows of resources	1,633	232	366	1,929	556	(737)	3,979
<b>Total assets and deferred outflows of resources</b>	<b>\$ 29,155</b>	<b>\$ 5,142</b>	<b>\$ 6,432</b>	<b>\$ 44,397</b>	<b>\$ 7,018</b>	<b>\$ (13,362)</b>	<b>\$ 78,783</b>
Current liabilities	\$ 3,803	\$ 259	\$ 252	\$ 1,813	\$ 736	\$ (4)	\$ 6,860
Non-current liabilities	32,387	1,064	2,229	21,094	10,417	(167)	67,024
Intercompany payables	2,626	75	28	95	252	(3,076)	-
Deferred inflows of resources	55	25	24	741	40	(562)	323
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 38,871</b>	<b>\$ 1,423</b>	<b>\$ 2,532</b>	<b>\$ 23,743</b>	<b>\$ 11,445</b>	<b>\$ (3,809)</b>	<b>\$ 74,206</b>
Net investment in capital assets	\$ (25,403)	\$ 4,595	\$ 5,753	\$ 39,329	\$ 1,162	\$ (98)	\$ 25,337
Restricted	1,965	-	-	-	667	(427)	2,205
Unrestricted	13,708	(876)	(1,852)	(19,058)	(6,256)	(9,015)	(23,349)
<b>Total net position</b>	<b>\$ (9,730)</b>	<b>\$ 3,719</b>	<b>\$ 3,900</b>	<b>\$ 20,271</b>	<b>\$ (4,427)</b>	<b>\$ (9,540)</b>	<b>\$ 4,193</b>
<b>For the period ended March 31, 2017 (Unaudited)</b>							
Fare revenue	\$ 53	\$ 167	\$ 168	\$ 1,062	\$ -	\$ -	\$ 1,451
Vehicle toll revenue	-	-	-	-	422	-	422
Rents, freight and other revenue	18	14	12	105	8	(13)	144
<b>Total operating revenue</b>	<b>71</b>	<b>182</b>	<b>180</b>	<b>1,167</b>	<b>429</b>	<b>(13)</b>	<b>2,017</b>
Total labor expenses	310	244	291	1,851	77	(7)	2,766
Total non-labor expenses	69	88	85	441	79	(50)	712
Depreciation	27	58	82	406	28	-	602
<b>Total operating expenses</b>	<b>406</b>	<b>391</b>	<b>458</b>	<b>2,698</b>	<b>184</b>	<b>(57)</b>	<b>4,080</b>
<b>Operating (deficit) surplus</b>	<b>(335)</b>	<b>(209)</b>	<b>(277)</b>	<b>(1,530)</b>	<b>245</b>	<b>44</b>	<b>(2,063)</b>
Subsidies and grants	-	-	-	-	2	-	2
Tax revenue	780	-	-	478	-	(370)	889
Interagency subsidy	148	100	150	33	-	(431)	0
Interest expense	(313)	(0)	-	-	(78)	(11)	(402)
Other	(48)	27	0	0	0	219	199
<b>Total non-operating revenues (expenses)</b>	<b>567</b>	<b>127</b>	<b>150</b>	<b>512</b>	<b>(76)</b>	<b>(592)</b>	<b>688</b>
<b>Loss before appropriations</b>	<b>232</b>	<b>(82)</b>	<b>(127)</b>	<b>(1,018)</b>	<b>169</b>	<b>(549)</b>	<b>(1,375)</b>
<b>Appropriations, grants and other receipts externally restricted for capital projects</b>	<b>(73)</b>	<b>55</b>	<b>153</b>	<b>237</b>	<b>(147)</b>	<b>118</b>	<b>344</b>
<b>Change in net position</b>	<b>160</b>	<b>(27)</b>	<b>26</b>	<b>(782)</b>	<b>22</b>	<b>(431)</b>	<b>(1,031)</b>
Net position, beginning of period	(9,409)	3,746	3,874	21,435	(4,477)	(9,562)	5,607
<b>Net position, end of period</b>	<b>\$ (9,249)</b>	<b>\$ 3,719</b>	<b>\$ 3,900</b>	<b>\$ 20,654</b>	<b>\$ (4,455)</b>	<b>\$ (9,993)</b>	<b>\$ 4,576</b>
<b>For the period ended March 31, 2017 (Unaudited)</b>							
Net cash (used in) / provided by operating activities	\$ (71)	\$ (121)	\$ (177)	\$ (704)	\$ 327	\$ (2)	(748)
Net cash provided by / (used in) non-capital financing activities	776	127	187	635	(142)	(184)	1,399
Net cash provided by / (used in) capital and related financing activities	79	(7)	(19)	(284)	118	185	72
Net cash (used in) / provided by investing activities	(802)	-	-	340	(375)	(1)	(838)
Cash at beginning of period	524	14	13	61	120	-	732
<b>Cash at end of period</b>	<b>\$ 506</b>	<b>\$ 13</b>	<b>\$ 4</b>	<b>\$ 48</b>	<b>\$ 48</b>	<b>\$ (2)</b>	<b>\$ 617</b>

December 31, 2016	MTA	Metro-North Railroad	Long Island Railroad	New York City Transit Authority	Triborough Bridge and Tunnel Authority	Eliminations	Consolidated Total
Current assets	\$ 7,269	\$ 221	\$ 220	\$ 593	\$ 424	\$ (382)	\$ 8,345
Capital assets	8,982	4,616	5,714	39,906	5,229	71	64,518
Other Assets	10,457	5	-	72	4	(9,501)	1,037
Intercompany receivables	382	70	89	2,124	457	(3,122)	-
Deferred outflows of resources	1,525	231	366	1,402	488	(180)	3,832
<b>Total assets and deferred outflows of resources</b>	<b>\$ 28,615</b>	<b>\$ 5,143</b>	<b>\$ 6,389</b>	<b>\$ 44,097</b>	<b>\$ 6,602</b>	<b>\$ (13,114)</b>	<b>\$ 77,732</b>
Current liabilities	\$ 3,397	\$ 271	\$ 246	\$ 1,719	\$ 812	\$ (328)	\$ 6,117
Non-current liabilities	31,830	1,047	2,207	20,732	9,998	(130)	65,684
Intercompany payables	2,741	54	39	-	259	(3,093)	-
Deferred inflows of resources	56	25	23	210	10	-	324
<b>Total liabilities and deferred inflows of resources</b>	<b>\$ 38,024</b>	<b>\$ 1,397</b>	<b>\$ 2,515</b>	<b>\$ 22,661</b>	<b>\$ 11,079</b>	<b>\$ (3,551)</b>	<b>\$ 72,125</b>
Net investment in capital assets	\$ (25,388)	\$ 4,602	\$ 5,714	\$ 39,809	\$ 911	\$ 108	\$ 25,756
Restricted	1,382	-	-	-	511	(429)	1,464
Unrestricted	14,597	(856)	(1,840)	(18,373)	(5,899)	(9,242)	(21,613)
<b>Total net position</b>	<b>\$ (9,409)</b>	<b>\$ 3,746</b>	<b>\$ 3,874</b>	<b>\$ 21,436</b>	<b>\$ (4,477)</b>	<b>\$ (9,563)</b>	<b>\$ 5,607</b>
<b>For the period ended March 31, 2016 (Unaudited)</b>							
Fare revenue	\$ 53	\$ 161	\$ 166	\$ 1,066	\$ -	\$ (1)	\$ 1,445
Vehicle toll revenue	-	-	-	-	428	(1)	427
Rents, freight and other revenue	22	16	13	105	8	(15)	149
<b>Total operating revenue</b>	<b>75</b>	<b>177</b>	<b>179</b>	<b>1,171</b>	<b>436</b>	<b>(17)</b>	<b>2,021</b>
Total labor expenses	293	228	286	1,738	76	(17)	2,604
Total non-labor expenses	98	80	80	408	42	(20)	688
Depreciation	21	58	85	396	29	-	589
<b>Total operating expenses</b>	<b>412</b>	<b>366</b>	<b>451</b>	<b>2,542</b>	<b>147</b>	<b>(37)</b>	<b>3,881</b>
<b>Operating (deficit) surplus</b>	<b>(337)</b>	<b>(189)</b>	<b>(272)</b>	<b>(1,371)</b>	<b>289</b>	<b>20</b>	<b>(1,860)</b>
Subsidies and grants	217	31	-	-	2	98	348
Tax revenue	2,416	-	-	435	-	(242)	2,609
Interagency subsidy	169	55	135	38	-	(397)	-
Interest expense	(275)	-	-	(2)	(84)	3	(358)
Other	(345)	-	-	1	-	436	92
<b>Total non-operating revenues (expenses)</b>	<b>2,182</b>	<b>86</b>	<b>135</b>	<b>472</b>	<b>(82)</b>	<b>(102)</b>	<b>2,691</b>
<b>Loss before appropriations</b>	<b>1,845</b>	<b>(103)</b>	<b>(137)</b>	<b>(899)</b>	<b>207</b>	<b>(82)</b>	<b>831</b>
<b>Appropriations, grants and other receipts externally restricted for capital projects</b>	<b>(59)</b>	<b>33</b>	<b>106</b>	<b>316</b>	<b>(169)</b>	<b>251</b>	<b>478</b>
<b>Change in net position</b>	<b>1,786</b>	<b>(70)</b>	<b>(31)</b>	<b>(583)</b>	<b>38</b>	<b>169</b>	<b>1,309</b>
<b>Net position, beginning of period</b>	<b>(8,961)</b>	<b>3,699</b>	<b>3,829</b>	<b>21,303</b>	<b>(4,556)</b>	<b>(9,481)</b>	<b>5,833</b>
<b>Restatement of beginning net position</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net position, end of period</b>	<b>\$ (7,175)</b>	<b>\$ 3,629</b>	<b>\$ 3,798</b>	<b>\$ 20,720</b>	<b>\$ (4,518)</b>	<b>\$ (9,312)</b>	<b>\$ 7,142</b>
<b>For the period ended March 31, 2016 (Unaudited)</b>							
Net cash (used in) / provided by operating activities	\$ (322)	\$ (117)	\$ (153)	\$ (615)	\$ 317	\$ 4	(886)
Net cash provided by / (used in) non-capital financing activities	1,018	100	162	588	(187)	(605)	1,076
Net cash provided by / (used in) capital and related financing activities	(132)	16	(9)	(258)	187	693	497
Net cash (used in) / provided by investing activities	(658)	-	-	272	(318)	(92)	(796)
Cash at beginning of period	357	15	5	63	14	-	454
<b>Cash at end of period</b>	<b>\$ 263</b>	<b>\$ 14</b>	<b>\$ 5</b>	<b>\$ 50</b>	<b>\$ 13</b>	<b>\$ -</b>	<b>\$ 345</b>

## 17. SUBSEQUENT EVENTS

On April 27, 2017, MTA executed a 2,887,174 gallon ultra-low sulfur diesel fuel hedge at an all-in price of \$1.5915/gallon. The hedge covers the period from April 2018 through March 2019.

On May 17, 2017, MTA issued \$680.265 of MTA Dedicated Tax Fund ("DTF") Green Bonds, Series 2017B. The Series 2017B bonds were issued as \$309.225 MTA DTF Green Bonds, Series 2017B-1 and \$371.040 MTA DTF Refunding Green Bonds, Series 2017B-2. Proceeds from the transaction were used to pay off the existing outstanding 2016A-2 Bond Anticipation Notes in the amount of \$350 and to refund the following outstanding series of DTF bonds: \$65.035 of Series 20004B-1; \$65.435 of Series 2004B-4; and \$256.425 of Series 2009B. The Series 2017B-1 bonds were issued as tax-exempt fixed rate bonds with a final maturity of November 15, 2057. The Series 2017B-2 bonds were issued as tax-exempt fixed-rate bonds with a final maturity of November 15, 2034.

On May 22, 2017, the MTA Board approved entering into various agreements necessary to effectuate Phase 2 of the Moynihan Station Development Project (the "Project"), which will entail the redevelopment of the James A. Farley Post Office Building (the "Building") to include a new world-class train hall to be shared by National Railroad Passenger Corporation ("Amtrak"), the Long Island Rail Road and Metro-North Commuter Railroad (the "Train Hall"), as well as retail and office space. Such agreements are to be executed in conjunction with the financial close of the Project, and include, but are not limited to: (1) a Phase 2 Project and Force Account Agreement by and among the MTA, LIRR and New York State Urban Development Corporation d/b/a Empire State Development ("ESD") (the "Phase 2 Agreement"), (2) a lease between ESD, as landlord, and the MTA, as tenant (the "MTA Unit Lease"), relating to a condominium unit in the Building to be occupied by the MTA (the "MTA Unit"), (3) certain easement agreements, (4) a Joint Services Agreement, by and among ESD, the MTA, the United States Department of Transportation, acting by and through the Executive Director of the Build America Bureau (the "TIFIA Lender") and a PILOT trustee (the "JSA") in support of Project-related financing under the Transportation Infrastructure Financing Innovation Act ("TIFIA") that ESD is seeking to obtain from the TIFIA Lender (the "ESD Financing"), (5) a Memorandum of Understanding between the MTA, the New York State Division of the Budget (the "Division") and ESD (the "MOU") and (6) an Interagency Agreement among the MTA, LIRR, Metro-North, MTA Bus, NYCT and MaBSTOA relating to reimbursements for amounts expended under the JSA.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

(\$ in thousands)	Additional Plan		MaBSTOA Plan		MNR Cash Balance Plan		MTA Defined Benefit Plan	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>Plan Measurement Date (December 31):</b>								
<b>Total pension liability:</b>								
Service cost	\$ 3,441	\$ 3,813	\$ 77,045	\$ 72,091	\$ -	\$ -	\$ 124,354	\$ 121,079
Interest	106,987	110,036	232,405	223,887	29	32	288,820	274,411
Effect of economic / demographic (gains) or losses	6,735	-	(68,997)	-	(10)	-	121,556	-
Effect of assumption changes or inputs	-	-	-	-	18	-	(76,180)	-
Effect of plan changes	-	-	-	-	-	-	6,230	-
Differences between expected and actual experience	-	-	-	(1,596)	-	-	-	2,322
Benefit payments and withdrawals	(157,071)	(156,974)	(179,928)	(175,447)	(113)	(88)	(199,572)	(191,057)
<b>Net change in total pension liability</b>	<b>(39,908)</b>	<b>(43,125)</b>	<b>60,525</b>	<b>118,935</b>	<b>(76)</b>	<b>(56)</b>	<b>265,208</b>	<b>206,755</b>
<b>Total pension liability—beginning</b>	<b>1,602,159</b>	<b>1,645,284</b>	<b>3,331,464</b>	<b>3,212,529</b>	<b>710</b>	<b>766</b>	<b>4,099,738</b>	<b>3,892,983</b>
<b>Total pension liability—ending(a)</b>	<b>1,562,251</b>	<b>1,602,159</b>	<b>3,391,989</b>	<b>3,331,464</b>	<b>634</b>	<b>710</b>	<b>4,364,946</b>	<b>4,099,738</b>
<b>Plan fiduciary net position:</b>								
Employer contributions	100,000	407,513	214,881	226,374	18	-	221,694	331,259
Member contributions	1,108	1,304	16,321	15,460	-	-	34,519	26,006
Net investment income	527	21,231	(24,163)	105,084	6	41	(45,122)	102,245
Benefit payments and withdrawals	(157,071)	(156,974)	(179,928)	(175,447)	(113)	(88)	(199,572)	(191,057)
Administrative expenses	(1,218)	(975)	(88)	(74)	3	(3)	(1,962)	(9,600)
<b>Net change in plan fiduciary net position</b>	<b>(56,654)</b>	<b>272,099</b>	<b>27,023</b>	<b>171,397</b>	<b>(86)</b>	<b>(50)</b>	<b>9,557</b>	<b>258,853</b>
<b>Plan fiduciary net position—beginning</b>	<b>782,852</b>	<b>510,753</b>	<b>2,265,293</b>	<b>2,093,896</b>	<b>698</b>	<b>748</b>	<b>3,065,220</b>	<b>2,806,367</b>
<b>Plan fiduciary net position—ending(b)</b>	<b>726,198</b>	<b>782,852</b>	<b>2,292,316</b>	<b>2,265,293</b>	<b>612</b>	<b>698</b>	<b>3,074,777</b>	<b>3,065,220</b>
<b>Employer's net pension liability—ending(a)-(b)</b>	<b>\$ 836,053</b>	<b>\$ 819,307</b>	<b>\$ 1,099,673</b>	<b>\$ 1,066,171</b>	<b>\$ 22</b>	<b>\$ 12</b>	<b>\$ 1,290,169</b>	<b>\$ 1,034,518</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>46.48%</b>	<b>48.86%</b>	<b>67.58%</b>	<b>68.00%</b>	<b>96.53%</b>	<b>98.36%</b>	<b>70.44%</b>	<b>74.77%</b>
<b>Covered-employee payroll</b>	<b>\$ 35,282</b>	<b>\$ 43,594</b>	<b>\$ 693,900</b>	<b>\$ 671,600</b>	<b>\$ 1,664</b>	<b>\$ 2,080</b>	<b>\$ 1,620,635</b>	<b>\$ 1,395,336</b>
<b>Employer's net pension liability as a percentage of covered-employee payroll</b>	<b>2369.65%</b>	<b>1879.42%</b>	<b>158.48%</b>	<b>158.75%</b>	<b>1.32%</b>	<b>0.58%</b>	<b>79.61%</b>	<b>74.14%</b>

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.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

(\$ in thousands)

Plan Measurement Date:	NYCERS Plan		NYSLERS Plan	
	June 30, 2016	June 30, 2015	March 31, 2016	March 31, 2015
MTA's proportion of the net pension liability	23.493%	23.585%	0.303%	0.289%
MTA's proportionate share of the net pension liability	\$ 5,708,052	\$ 4,773,787	\$ 48,557	\$ 9,768
MTA's actual covered-employee payroll	\$ 3,245,215	\$ 2,989,480	\$ 87,670	\$ 87,315
MTA's proportionate share of the net pension liability as a percentage of the MTA's covered-employee payroll	175.891%	159.686%	55.386%	11.187%
Plan fiduciary net position as a percentage of the total pension liability	69.568%	73.125%	90.685%	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.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	(\$ in thousands)									
<b>Additional Plan*</b>										
Actuarially Determined Contribution	\$ 83,183	\$ 82,382	\$ 112,513	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	151,100	100,000	407,513	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ (67,917)	\$ (17,618)	\$ (295,000)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 26,880	\$ 35,282	\$ 43,594	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	562.13%	283.43%	934.79%	N/A						
<b>MaBSTOA Plan</b>										
Actuarially Determined Contribution	\$ 220,697	\$ 214,881	\$ 226,374	\$ 234,474	\$ 228,918	\$ 186,454	\$ 200,633	\$ 204,274	\$ 201,919	\$ 179,228
Actual Employer Contribution	220,697	214,881	226,374	234,474	228,918	186,454	200,633	204,274	201,919	179,228
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 724,711	\$ 693,900	\$ 671,600	\$ 582,081	\$ 575,989	\$ 579,696	\$ 591,073	\$ 569,383	\$ 562,241	\$ 519,680
Contributions as a % of Covered Payroll	30.45%	30.97%	33.71%	40.28%	39.74%	32.16%	33.94%	35.88%	35.91%	34.49%
<b>Metro-North Cash Balance Plan*</b>										
Actuarially Determined Contribution	\$ 23	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	23	14	-	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ (14)	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 834	\$ 1,664	\$ 2,080	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	2.72%	0.85%	0.00%	N/A						
<b>MTA Defined Benefit Plan*</b>										
Actuarially Determined Contribution	\$ 290,415	\$ 273,700	\$ 271,523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	280,790	221,694	331,259	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ 9,625	\$ 52,006	\$ (59,736)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 1,797,930	\$ 1,620,635	\$ 1,395,336	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	15.62%	13.68%	23.74%	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**

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

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
	(\$ in thousands)									
<b>NYCERS</b>										
Actuarially Determined Contribution	\$ 797,845	\$ 736,212	\$ 741,223	\$ 736,361	\$ 731,983	\$ 657,771	\$ 574,555	\$ 548,721	\$ 499,603	\$ 406,837
Actual Employer Contribution	797,845	736,212	741,223	736,361	731,983	657,771	574,555	548,721	499,603	406,837
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 3,245,215	\$ 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
Contributions as a % of Covered Payroll	24.59%	22.05%	24.67%	25.02%	25.02%	22.68%	19.90%	19.59%	18.80%	15.96%
<b>NYSLERS **</b>										
Actuarially Determined Contribution	\$ 12,980	\$ 15,792	\$ 13,816	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Actual Employer Contribution	12,980	15,792	13,816	-	-	-	-	-	-	-
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered Payroll	\$ 96,093	\$ 88,071	\$ 85,826	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions as a % of Covered Payroll	13.51%	17.93%	16.10%	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**

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

	Additional Plan		MaBSTOA Plan	
<b>Valuation Dates:</b>	January 1, 2015	January 1, 2014	January 1, 2015	January 1, 2014
<b>Measurement Date:</b>	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
<b>Actuarial cost method:</b>	Entry Age Normal Cost	Entry Age Normal Cost	Frozen Initial Liability (FIL)	Frozen Initial Liability (FIL)
<b>Amortization method:</b>	Period specified in current valuation report (closed 18 year period beginning January 1, 2015) with level dollar payments.	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.	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.
<b>Asset Valuation Method:</b>	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.	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.
<b>Salary increases:</b>	3.00%	3.00%	Varies by years of employment and employment type.	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.
<b>Actuarial assumptions:</b>				
<b>Discount Rate:</b>	7.00%	7.00%	7.00%	7.00%
<b>Investment rate of return :</b>	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.
<b>Mortality:</b>	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.	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.	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA.	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.
<b>Pre-retirement:</b>	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.
<b>Post-retirement Healthy Lives:</b>	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.
<b>Post-retirement Disabled Lives:</b>	N/A	N/A	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.	75% of the rates from the RP-2000 Healthy Annuitant mortality table for males and females.
<b>Inflation/Railroad Retirement Wage Base:</b>	2.50%; 3.50%	2.50%; 3.50%	2.50%	2.50%
<b>Cost-of-Living Adjustments:</b>	N/A	N/A	1.375% per annum	1.375% per annum

**METROPOLITAN TRANSPORTATION AUTHORITY  
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**REQUIRED SUPPLEMENTARY INFORMATION**

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

**(continued)**

	<u>MNR Cash Balance Plan</u>		<u>MTA Defined Benefit Plan</u>	
<b>Valuation Dates:</b>	January 1, 2015	January 1, 2014	January 1, 2015	January 1, 2014
<b>Measurement Date:</b>	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
<b>Actuarial cost method:</b>	Unit Credit Cost	Unit Credit Cost	Entry Age Normal Cost	Entry Age Normal Cost
<b>Amortization method:</b>	One-year amortization of the unfunded liability, if any.	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.	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.
<b>Asset Valuation Method:</b>	Market value of plan 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.	Actuarial value equals market value less unrecognized gains/losses over a 5-year period. Gains/losses are based on market value of assets.
<b>Salary increases:</b>	N/A	There were no projected salary increase assumptions used in the January 1, 2014 valuation as the participants of the Plan were covered under the Management Plan effective January 1, 1989. For participants of the Plan eligible for additional benefits, these benefits were not valued as the potential liability is de minimus.	Varies by years of employment, and employee group.	Varies by years of employment, and employee group.
<b>Actuarial assumptions:</b>				
<b>Discount Rate:</b>	4.00%	4.50%	7.00%	7.00%
<b>Investment rate of return :</b>	4.00%, net of investment expenses.	4.50%, net of investment expenses.	7.00%	7.00%
<b>Mortality:</b>	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA. 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 a general table, it reflects mortality improvements both before and after the measurement date.	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.
<b>Pre-retirement:</b>	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.
<b>Post-retirement Healthy Lives:</b>	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.
<b>Post-retirement Disabled Lives:</b>	N/A	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.	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.
<b>Inflation/Railroad Retirement Wage Base:</b>	2.30%	2.50%	2.50%; 3.50%	2.50%; 3.00%
<b>Cost-of-Living Adjustments:</b>	N/A	N/A	55% of inflation assumption or 1.375%, if applicable.	55% of inflation assumption or 1.375%, if applicable.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

**(continued)**

	NYCERS Plan		NYSLERS Plan	
<b>Valuation Dates:</b>	June 30, 2014	June 30, 2013	April 1, 2015	April 1, 2014
<b>Measurement Date:</b>	June 30, 2016	June 30, 2015	March 31, 2016	March 31, 2015
<b>Actuarial cost method:</b>	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost	Entry Age Normal Cost
<b>Amortization method:</b>	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.	Increasing Dollar for Initial Unfunded; Level Dollar for Post 2010 Unfunded.	Evenly over the remaining working lifetimes of the active membership.	Evenly over the remaining working lifetimes of the active membership.
<b>Asset Valuation Method:</b>	The Plan Fiduciary Net Positions are based on the Market Values of Assets at the Measurement Dates with certain adjustments.	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.	5-year level smoothing of the difference between the actual gain and the expected gain using the assumed investment rate of return.
<b>Salary increases:</b>	3% per annum.	3% per annum.	3.80%	4.90%
<b>Actuarial assumptions:</b>				
<b>Discount Rate:</b>	7.00%	7.00%	7.00%	7.50%
<b>Investment rate of return :</b>	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.00%, net of investment expenses.	7.5%, net of investment expenses.
<b>Mortality:</b>	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.	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.	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.
<b>Pre-retirement:</b>	N/A	N/A	N/A	N/A
<b>Post-retirement Healthy Lives:</b>	N/A	N/A	N/A	N/A
<b>Post-retirement Disabled Lives:</b>	N/A	N/A	N/A	N/A
<b>Inflation/Railroad Retirement Wage Base:</b>	2.50%	2.50%	2.50%	2.70%
<b>Cost-of-Living Adjustments:</b>	1.5% and 2.5% per annum for certain Tiers.	2.5% per annum.	1.3% 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**

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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)**

<b>Year Ended</b>	<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets {a}</b>	<b>Actuarial Accrual Liability (AAL) {b}</b>	<b>Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}</b>	<b>Funded Ratio {a} / {b}</b>	<b>Covered Payroll {d}</b>	<b>Ratio of UAAL to Covered Payroll {c} / {d}</b>
December 31, 2016	January 1, 2014	\$ 300	\$ 18,472	\$ 18,172	1.60 %	\$ 4,669.8	389.1 %
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

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**METROPOLITAN TRANSPORTATION AUTHORITY**  
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**SUPPLEMENTARY INFORMATION**

**SCHEDULE OF CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN  
AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2017**

**(\$ in millions)**

**(Unaudited)**

<b>Category</b>	<b>Financial Plan Actual</b>	<b>Statement GAAP Actual</b>	<b>Variance</b>
<b>REVENUE:</b>			
Farebox revenue	\$ 1,449	\$ 1,451	\$ 2
Vehicle toll revenue	422	422	-
Other operating revenue	178	144	(34)
Total revenue	<u>2,049</u>	<u>2,017</u>	<u>(32)</u>
<b>OPERATING EXPENSES:</b>			
<b>Labor:</b>			
Payroll	1,247	1,243	(4)
Overtime	219	222	3
Health and welfare	289	286	(3)
Pensions	322	335	13
Other fringe benefits	229	225	(4)
Postemployment benefits	549	537	(12)
Reimbursable overhead	(97)	(83)	14
Total labor expenses	<u>2,758</u>	<u>2,765</u>	<u>7</u>
<b>Non-labor:</b>			
Electric power	116	116	-
Fuel	39	39	-
Insurance	3	3	-
Claims	87	87	-
Paratransit service contracts	93	93	-
Maintenance and other	124	121	(3)
Professional service contract	92	54	(38)
Pollution remediation project costs	1	1	-
Materials and supplies	150	150	-
Other business expenses	47	49	2
Total non-labor expenses	<u>752</u>	<u>713</u>	<u>(39)</u>
Depreciation	632	602	(30)
Other Expenses Adjustment	9	-	(9)
Total operating expenses	<u>4,151</u>	<u>4,080</u>	<u>(71)</u>
<b>NET OPERATING LOSS</b>	<u>\$ (2,102)</u>	<u>\$ (2,063)</u>	<u>\$ 39</u>

# METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

## SUPPLEMENTARY INFORMATION

### SCHEDULE OF CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS FOR THE PERIOD ENDED MARCH 31, 2017

(\$ in millions)

(Unaudited)

	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
<b>Accrued Subsidies</b>				
Mass transportation operating assistance	\$ 1,668	\$ -	\$ (1,668)	{1}
Mass transit trust fund subsidies	77	144	67	{1}
Mortgage recording tax 1 and 2	108	108	-	{1}
MRT transfer	-	(1)	(1)	{1}
Urban tax	109	109	-	{1}
Station maintenance	41	41	-	{1}
Connecticut Department of Transportation (CDOT)	25	27	2	{1}
Subsidy from New York City for MTA Bus and SIRTOA	118	107	(11)	{1}
Build American Bonds Subsidy	-	2	2	{1}
Mobility tax	392	527	135	{1}
Other non-operating income	-	24	24	{2}
	<u>2,538</u>	<u>1,088</u>	<u>(1,450)</u>	
Total accrued subsidies				
Net operating deficit before subsidies and debt service	(2,102)	(2,063)	39	
Debt Service	(645)	(402)	243	
Conversion to Cash basis: Depreciation	632	-	(632)	
Conversion to Cash basis: OPEB Obligation	398	-	(398)	
Conversion to Cash basis: GASB 68 pension adjustment	(1)	-	1	
Conversion to Cash basis: Pollution & Remediation	1	-	(1)	
	<u>1</u>	<u>-</u>	<u>(1)</u>	
Total net operating surplus/(deficit) before appropriation, grants and other receipts restricted for capital projects	<u>\$ 821</u>	<u>\$ (1,377)</u>	<u>\$ (2,198)</u>	

{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 MARCH 31, 2017**

**(\$ in millions)**

**(Unaudited)**

Financial Plan Actual Operating Loss at March 31, 2017	<u>\$ (2,102)</u>
<b>The Financial Plan Actual Includes:</b>	
Higher other operating expense adjustments	9
<b>The Audited Financial Statements Includes:</b>	
Lower OPEB expense based on the most recent actuarial calculations	12
Higher pension expense based on most recent actuarial calculations	(13)
Higher labor expense primarily from fringe benefits	(9)
Lower non-labor expense	29
Intercompany eliminations and other adjustments	<u>11</u>
<b>Total Operating Reconciling Items</b>	<u>39</u>
Unaudited Financial Statement Operating Loss	<u><u>\$ (2,063)</u></u>
Financial Plan Actual Surplus after Subsidies and Debt Service at March 31, 2017	<u>\$ 821</u>
<b>The Financial Plan Actual Includes:</b>	
Debt Service Bond Principal Payments	243
Adjustments for non-cash liabilities:	
Depreciation	(632)
Unfunded OPEB Expense	(398)
Unfunded GASB 68 Pension adjustment	1
Unfunded Pollution Remediation Expense	<u>(1) (1,030)</u>
<b>The Audited Financial Statements Includes:</b>	
Higher subsidies and other non-operating revenues	(1,450)
<b>Total Operating Reconciling Items</b>	<u>39</u>
Financial Statements Loss Before Appropriations	<u><u>\$ (1,377)</u></u>

# Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Report on Consolidated Financial Statements as of and for the Years Ended December 31, 2016 and 2015, Required Supplementary Information, Supplementary Information, for the Year Ended December 31, 2016 and Independent Auditors' Reports on Internal Controls and Compliance, and Schedule of Expenditures of Federal Awards and Schedule of State of New York Department of Transportation Assistance Expended Schedule of Findings and Questioned Costs, and Summary Schedule of Prior Audit Year Findings for the Year Ended December 31, 2016

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

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**METROPOLITAN TRANSPORTATION AUTHORITY**  
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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of  
Metropolitan Transportation Authority

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of net position of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2016 and 2015, and the related consolidated statements of revenues, expenses and changes in net position and consolidated cash flows for the years then ended, and the related notes to the consolidated financial statements, which collectively comprise the MTA's consolidated financial statements as listed in the table of contents.

#### *Management's Responsibility for the Consolidated Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated net position of the MTA as of December 31, 2016 and 2015, and the respective changes in consolidated net position and consolidated cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

#### *Emphasis of Matters*

As discussed in Note 1 to the consolidated financial statements, the MTA is a component unit of the State of New York. The MTA requires significant subsidies from, and has material transactions with, the City of New York, the State of New York, and the State of Connecticut, and depends on certain tax revenues that are economically sensitive. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 22, the Schedules of Changes in the MTA's Net Pension Liability and Related Ratios for the Single Employer Pension Plans on page 116, the Schedule of the MTA's Proportionate Share of Net Pension Liabilities of Cost-Sharing Multiple-Employer Pension Plans on Page 117, the Schedule of the MTA's Contributions for All Pension Plans pages 118-119, and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 124 be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audits of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated financial statements. The Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements, Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements, and Schedule of Financial Plan to Financial Statements Reconciliation are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated June XX, 2017 on our consideration of the MTA's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering MTA's internal control over financial reporting and compliance.

June XX, 2017

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

To The Members of the Board of  
Metropolitan Transportation Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, which comprise the consolidated statement of net position, as of December 31, 2016, and the related consolidated statements of revenues, expenses and changes in net position, consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated **June XX**, 2017, which contains explanatory paragraphs regarding the MTA requiring significant subsidies from other governmental entities.

### **Internal Control over Financial Reporting**

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

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

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

## Compliance and Other Matters

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

We noted certain matters that we reported to the Audit Committee and management of the MTA in a separate letter dated June xx, 2017.

### Purpose of this Report

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

June xx, 2017

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

To The Members of the Board of  
Metropolitan Transportation Authority:

### **Report on Compliance for Each Major Federal Program**

We have audited the Metropolitan Transportation Authority's (the "MTA"), a component unit of the State of New York, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the MTA's major federal programs for the year ended December 31, 2016. The MTA's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditors' Responsibility***

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

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

### **Opinion on Each Major Federal Program**

In our opinion, the MTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

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

### **Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal controls over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001, that we consider to be a significant deficiency.

The MTA's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The MTA's response was not subjected to the

auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

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

We have audited the consolidated financial statements of the MTA as of and for the year ended December 31, 2016, and have issued our report thereon dated June xx, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

June xx, 2017

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2016**

<u>Federal CFDA Number</u>	<u>Federal Agency/Program Description/Grant Title</u>	<u>Pass-through Identifying Number</u>	<u>Grant Agreement Date</u>	<u>Pass-through to subrecipient</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Transportation/Federal Transit Administration</b>					
<b>DIRECT - U.S. Department of Transportation/Federal Transit Administration:</b>					
<b>Federal Transit Cluster:</b>					
20.500	Federal Transit—Capital Investment Grants—Section 3 Discretionary Grants				
	MTA CCC East side Access (Cont'd)	NY-03-0344	8/1/2007		\$ 210,202,750
	Second Avenue Subway Final Design	NY-03-0408	8/4/2006		73,781,386
	CNG BUSES	NY-04-0064	8/16/2011		2,363
	MTA NYCT Bus Radio & Command Center	NY-04-0086	9/12/2012		9,992,003
	Intergrated Whole Life Asset Mgmt System	NY-04-0091	9/25/2013		(424,795)
	SGR Bus Purchase	NY-04-0092	9/13/2013		687,578
	SGR Bus Purchase	NY-04-0093	6/19/2013		42,814,258
	MTA FY10 FGM LIRR/MNR/NYCT Projects	NY-05-0113	6/30/2010		6,956,482
	MTA FY11 FGM LIRR/MNR/NYCT Projects	NY-05-0115	2/23/2012		22,275,623
	MTA FY12 FGM LIRR/MNR/NYCT Projects	NY-05-0116	11/6/2012	-	22,300,725
	Subtotal Federal Transit—Capital Investment Grants—Section 3 Discretionary Grants			-	388,588,373
20.507	Federal Transit—Formula Grants (Urbanized Area Formula Program)—Section 9 and 9A				
	Formula Grants and Operating Assistance Grants				
<b>DIRECT - U.S. Department of Transportation/Federal Transit Administration:</b>					
	MTA Bus Sec 5307 FFY06 and 07/Security Projects	NY-90-X594	9/24/2008		4,847,481
	MTA Bus 5307 FFY08 and FFY 09	NY-90-X620	9/1/2010		4,774,625
	MTA FY10 §5307 LIRR/MNR/NYCT Projects	NY-90-X663	9/13/2011		8,483,060
	MTA FY11 §5307 LIRR/MNR/NYCT Projects	NY-90-X674	7/10/2012		46,102,340
	MTA Bus FY13 Formula	NY-90-X703	7/10/2013		4,230,936
	MTA FY 12 5307 LIRR/MN/NYCT Projects	NY-90-X722	9/19/2013		81,861,965
	MTA FY 12 5307 LIRR/MN/NYCT Projects	NY-90-X727	7/31/2014		95,476,026
	MTA Bus Radio Cmd Ctr (Cont'd)	NY-90-X738	9/19/2014		2,295,048
	MTA FY14 §5307 LIRR/MNR/NYCT Projects	NY-90-X749	3/13/2015		41,240,009
	MTA FY15 §5307 LIRR/MNR/NYCT	NY-90-X755	9/10/2015		48,828,591
	Transit/Commuter Flexible Funded Projects FFY 2007	NY-95-X002	9/14/2007		257,385
	MTA Flex Funding FFY 2011	NY-95-X029	2/23/2012		9,075,289
	MTA FLEX FFY 2012	NY-95-X037	1/4/2013		17,950,442
	MTA FLEX FFY 2013	NY-95-X042	11/1/2013		11,080,954
	MTA Flex FFY 2014	NY-95-X051	5/27/2015	-	2,556,375
	Subtotal Federal Transit—Formula Grants (Urbanized Area Formula Program)—Section 9 and 9A Formula Grants and Operating Assistance Grants			-	379,060,526
20.525	Federal Transit Administration—State of Good Repair Grants Program				
<b>DIRECT - U.S. Department of Transportation/Federal Transit Administration:</b>					
	MTA FY 13 SGR LIRR/MNR/NYCT §5337	NY-54-0001	5/7/2014		81,015,474
	MTA FY14 SGR LIRR/MNR/NYCT §5337	NY-54-0004	3/3/2015		46,318,618
	MTA FY15 SGR LIRR/MNR/NYCT §5337	NY-54-0005	8/24/2015	-	13,613,546
	Subtotal Federal Transit Administration—State of Good Repair Grants Program			-	140,947,639
	<b>Total Federal Transit Cluster</b>			-	<b>908,596,538</b>

(Continued)

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2016**

<u>Federal CFDA Number</u>	<u>Federal Agency/Program Description/Grant Title</u>	<u>Pass-through Identifying Number</u>	<u>Grant Agreement Date</u>	<u>Pass-through to Subrecipients</u>	<u>Federal Expenditures</u>
<b>U.S. Department of Transportation/Federal Railroad Administration (Continued)</b>					
<b>Pass-Through - State of New York Department of Transportation:</b>					
20.319	ARRA—High-Speed Rail Corridors and Intercity Passenger Rail Service— Capital Assistance Grants—passthrough NYSDOT	X935.93.371	8/22/2011	-	\$ 121,190,460
20.316	Railroad Rehabilitation and Improvement Financing - Positive Train Control Project	Z-C 2015X RRIF	5/5/2015	-	146,472,065
20.321	The Advanced Civil Speed Enforcement System (ACSES)	UMFR-TEC-0005	1/3/2011	-	2,822,938
<b>Direct - U.S. Department of Transportation/Federal Transit Administration:</b>					
20.514	Wheel/Rail Character Monitor & Analyt	NY-26-7113	8/5/2015	-	564,197
20.521	GCT Elevator	NY-57-X018	9/10/2010	-	445,419
20.523	ARRA Capital Assistance Program for Reducing Energy Consumption and Greenhouse Gas Emissions-MTA NYCT Wayside Batteries	NY-88-0001	1/24/2012	-	206,448
20.527	Public Transportation Emergency Relief Program				
	NY MTA Hurricane Sandy Relief 5324	NY-44-X001	4/5/2013		(1,670,963)
	NY MTA Hurricane Sandy Relief 5324	NY-44-X007	1/28/2014		57,023,149
	NY MTA Hurricane Sandy Relief 5324	NY-44-X008	9/23/2014		188,992,110
	NY MTA Hurricane Sandy Relief 5324	NY-44-X011	5/11/2015		143,718,762
	NY MTA Hurricane Sandy Relief 5324	NY-44-X012	2/12/2015		39,804,028
	MNR Power&Signals Resiliency Improvement	NY-44-X015	8/18/2015		2,564,236
	Emergency Communications Enhancements	NY-44-X016	9/2/2015		1,073,898
	Internal Station Hardening NYCT	NY-44-X017	9/2/2015		370,833
	Total Public Transportation Emergency Relief Program			-	431,876,054
20.Unknown	Lower Manhattan Recovery Office Grant: (PL 107-206) Fulton Street Transit Center	NY-43-0001	6/5/2006	-	1,128,715
<b>TOTAL FROM U.S. DEPARTMENT OF TRANSPORTATION</b>					<b>1,613,302,833</b>
<b>U.S. Department of Homeland Security:</b>					
<b>Pass-Through - State of New York Department of Emergency Management:</b>					
97.036	Disaster Grants—Public Assistance (Presidentially Declared Disasters)—IRENE 2015	FEMA 4020 DRNY	11/29/2011	-	274,571
	Disaster Grants—Public Assistance (Presidentially Declared Disasters)—SANDY 2015	FEMA 4085 DRNY	1/20/2015	-	43,846,487
	Total Disaster Grants—Public Assistance (Presidentially Declared Disasters) program			-	44,121,058
97.067	Urban Areas Security Initiative	FEUASI C157243	6/24/2016	-	1,600,000
97.039	Hazard Mitigation Grant Program	FEMA 1391 DRNY	4/11/2003	-	577,322
<b>Direct - U.S. Department of Homeland Security:</b>					
97.075	Rail and Transit Security Grant program	FE2014-RA-00017	10/30/2014	7,841,270	11,010,798
		FE2015-RA-00018	9/30/2015	3,706,827	10,651,951
	Total Rail and Transit Security Grant Program			11,548,097	21,662,749
<b>TOTAL FROM U.S. DEPARTMENT OF HOMELAND SECURITY</b>					<b>11,548,097</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b>\$11,548,097</b>	<b>\$1,681,263,961</b>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

(Concluded)

# METROPOLITAN TRANSPORTATION AUTHORITY

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

### NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED DECEMBER 31, 2016

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#### 1. BASIS OF ACCOUNTING

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

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

#### **Metropolitan Transportation Authority and Related Groups (Component Units):**

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- First Mutual Transportation Assurance Company (“FMTAC”) provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.
- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.

- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

The subsidiaries and affiliates, considered component units of the MTA, are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s consolidated financial statements as blended component units because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board (a reference to “MTA Board” means the board of MTAHQ and/or the boards of the other MTA Group entities that apply in the specific context, all of which are comprised of the same persons). Under accounting principles generally accepted in the United States of America (“GAAP”), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organizations as a whole. The 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.

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

## 2. BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule”) includes the federal award activity of the Metropolitan Transportation Authority (the “MTA”), a component unit of the State of New York under programs of the federal government for the year ended December 31, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (“Uniform Guidance”). Because the Schedule presents only a selected portion of the operations of the MTA, it is not intended to and does not present the financial position, changes in net position, or cash flows of the MTA.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

## 4. PASS-THROUGH PROGRAMS

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

**5. INDIRECT RATE**

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

**6. OTHER FEDERAL ASSISTANCE**

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

**7. RELATIONSHIP TO FEDERAL AND STATE FINANCIAL REPORTS**

The regulations and guidelines governing the preparation of Federal and state financial reports vary by state and Federal agency and among programs administered by the same agency. Accordingly, the amounts reported in the Federal and state financial reports do not necessarily agree with the amounts reported in the accompanying Schedule of Expenditures of Federal Awards, which is prepared as explained in Note 3 above.

**8. RAILROAD REVITALIZATION AND REGULATORY REFORM ACT OF 1976 LOAN (RRIF PROGRAM)**

The RRIF program provides direct loans and loan guarantees to State and local governments, interstate compacts consented to by Congress under section 410(a) of the Amtrak Reform and Accountability Act of 1997 ( 49 U.S.C. 24101 ). During 2016, MTA expended \$146 million under the RRIF Program, which is administrated by U.S. Department of Transportation, Federal Railroad Administration. The opening balance and transactions relating to this program is included in the MTA’s consolidated financial statement. Loan outstanding at the beginning of the year and loans made during the year included in the federal expenditures presented in the Schedule of Expenditures of Federal Awards. The balance of loans outstanding at December 31, 2016 consists of:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Outstanding Balance at December 31, 2016</u>
20.316	Railroad Rehabilitation and Improvement Financing - Positive Train Control Project	\$146,472,065

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED DECEMBER 31, 2016**

---

**1. SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued:

Unmodified

*Internal control over financial reporting:*

Material weakness(es) identified

     Yes          No

Significant deficiency(ies) identified?

     Yes     None Reported

Noncompliance material to financial statements noted?

     Yes          No

**Federal Awards**

*Internal Control over major programs:*

Material weakness(es) identified

     Yes          No

Significant deficiency(ies) identified?

     Yes         None Reported

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

Unmodified

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

     Yes              No

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)**  
**YEAR ENDED DECEMBER 31, 2016**

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**2. SUMMARY OF AUDITORS' RESULTS—(CONTINUED)**

**Identification of major programs:**

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program</u></b>
20.527	Public Transportation Emergency Relief Program
20.316	Positive Train Control Project
20.321	The Advanced Civil Speed Enforcement System (ACSES)
20.Unknown	Lower Manhattan Recovery Office Grant: (PL 107-206) Fulton Street Transit Center
97.067	Urban Areas Security Initiative

Dollar threshold used to distinguish between Type A and Type B programs \$5,043,792

Auditee qualified as low-risk auditee? Yes

**Major Federal Financial Assistance Programs**

For the MTA's purposes, a Type A Federal financial assistance program, as defined by Uniform Guidance, is any program that exceeds \$5,043,792 when the total Federal Expenditures of the reporting entity exceeds \$1 billion. Total expenditures of Federal awards for all the MTA programs were \$1,681,263,961. As a result, all programs with expenditures of \$5,043,792 or more were classified as Type A programs. All other programs were categorized as Type B.

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

None.

**4. FINDINGS AND QUESTIONED COSTS RELATING TO FEDERAL AWARDS**

See accompanying pages 143 through 144.

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

**PROGRAM: RAILROAD REVITALIZATION AND REGULATORY REFORM ACT (CFDA 20.316)**  
**STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION**  
**FEDERAL AGENCY: U.S. DEPARTMENT OF TRANSPORTATION/ FEDERAL RAILROAD**  
**ADMINISTRATOR**  
**REFERENCE: 2016-01 (SIGNIFICANT FINDING)**

---

**1. TOPIC SENTENCE— Procurement contracts did not conform to applicable Federal law and Regulations.**

**CRITERIA—Procurement**—The Railroad Revitalization and Regulatory Reform Act of 1976 (45 U.S.C. 821, et seq.), 45 U.S.C 821-(RRIF) – 2015-0036 - Financing Agreement dated May 5, 2015 between the MTA and the United States of America represented by Secretary of Transportation acting through the Federal Railroad Administrator – Positive train control Project -**Section 4.17 Competitive Contracting** states that – “Costs for any work performed on the Positive Train Control Project by an outside contractor, rather than by Borrower or another Related Entity with its own employees, shall be considered Allowable Costs only if the contractor is selected in accordance with the procurement standards set forth in 2 C.F.R. 200.317.

**2 CFR - §200.317 Procurements by states.** - When procuring property and services under a Federal award, a state must follow the same policies and procedures it uses for procurements from its non-Federal funds. The state will comply with §200.322 Procurement of recovered *materials* and ensure that every purchase order or other contract includes any clauses required by section §200.326 Contract provisions. All other non-Federal entities, including subrecipients of a state, will follow §§200.318 General procurement standards through 200.326 Contract provisions.

**2. CONDITION/CONTEXT**

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

During our testing at the MTA, we reviewed the contracts and procurement packages related to Four Procurement selections. We noted the following during our testing of the procurement files selected for review:

- For two Procurement files, there were no contracts.
- For three Procurement files, there were no Vendor Responsibility Form (including documentation that vendor is not debarred).
- For one Procurement file, there was no Procurement Staff Summary/ Execution Checklist.

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

**PROGRAM: RAILROAD REVITALIZATION AND REGULATORY REFORM ACT**  
**STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION**  
**FEDERAL AGENCY: U.S. DEPARTMENT OF TRANSPORTATION/ FEDERAL RAILROAD**  
**ADMINISTRATOR**  
**REFERENCE: 2016-01 (SIGNIFICANT FINDING)**

---

**3. CAUSE**

The MTA did not comply with the federal requirements above and did not ensure that documents were properly maintained or file to be available for review.

**4. EFFECT**

Improper purchases being made by MTA may not supported by necessary documentation.

**5. RECOMMENDATION**

We recommend the MTA ensure its federally funded programs are in compliance with Federal procurement requirements.

**6. QUESTIONED COST**

Cannot be determined.

**7. VIEWS OF RESPONSIBLE OFFICIAL**

[Pending from management]

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS**  
**YEAR ENDED DECEMBER 31, 2016**

---

The following schedule contains the finding reference number and title for each of the findings included in the December 31, 2015 report. The letters under the heading Corrective Action indicates the following:

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

<u>Reference Number</u>	<u>Grant</u>	<u>Corrective Action</u>
2015-001	Federal Transit Cluster (CFDA #20.500/20.507)	F

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

To the Members of the Board of  
Metropolitan Transportation Authority:

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

We have audited the Metropolitan Transportation Authority's (the "MTA"), a component unit of State of New York, compliance with the types of compliance requirements described in the *Part 43 of the New York State Codification of Rules and Regulations* ("NYSCRR") that could have a direct and material effect on each of the MTA's major State of New York Department of Transportation assistance program for the year ended December 31, 2016. The MTA's major State of New York Department of Transportation assistance program is identified in the summary of auditor's results section of the accompanying State of New York Department of Transportation assistance expended schedule of findings and questioned costs.

#### ***Management's Responsibility***

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

#### ***Auditors' Responsibility***

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

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

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

In our opinion, the MTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State of New York Department of Transportation assistance program for the year ended December 31, 2016.

### Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with NYSCRR and which is described in the accompanying schedule of findings and questioned costs as item 2016-01S. Our opinion on each major State of New York Department of Transportation assistance program is not modified with respect to these matters.

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

### Report on Internal Control over Compliance

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

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

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

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

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

We have audited the consolidated financial statements of the MTA as of and for the year ended December 31, 2016, and have issued our report thereon dated June XX, 2017, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of State of New York Department of Transportation Assistance Expended is presented for purposes of additional analysis as required by the NYSCRR and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of State of New York Department of Transportation Assistance Expended is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

June XX, 2017

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

**STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION**  
**SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION**  
**ASSISTANCE EXPENDED**  
**YEAR ENDED DECEMBER 31, 2016**

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

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

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

**NOTES TO SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE  
EXPENDED  
YEAR ENDED DECEMBER 31, 2016**

---

**1. BASIS OF PRESENTATION**

**a. Reporting Entity—General**

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

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

**b. Program Tested**

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

**c. Indirect Costs**

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

**2. BASIS OF ACCOUNTING**

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

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

**Operating Assistance**— The MTA Group receives, subject to annual appropriation, New York State ("NYS") operating assistance funds that are recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from The City of New York and the seven other counties within the MTA's service area.

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

**NOTES TO SCHEDULE OF STATE OF NEW YORK DEPARTMENT OF TRANSPORTATION ASSISTANCE  
EXPENDED  
YEAR ENDED DECEMBER 31, 2016 (CONTINUED)**

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Although the MTA Group collects fares for the transit and commuter service, they provide and receive revenues from other sources, such as the leasing out of real property assets, and the licensing of advertising. Such revenues, including forecast-increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such services. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Non-operating subsidies to the MTA Group for transit and commuter service for the year ended December 31, 2016 totaled \$6.0 billion.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS — STATE OF NEW YORK DEPARTMENT OF  
TRANSPORTATION ASSISTANCE EXPENDED  
YEAR ENDED DECEMBER 31, 2016**

---

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

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

Material weakness(es) identified Yes  No

Significant deficiency(ies) identified? Yes  None Reported

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

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

Identification of State of New York Department of Transportation Assistance Program tested:

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

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

See Pages 155 through 156.

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

**PROGRAM: STATEWIDE MASS TRANSPORTATION OPERATING ASSISTANCE**  
**STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION**  
**REFERENCE: 2016-01S**

---

1. **TOPIC SENTENCE**—Service Payment Application reports were not submitted to New York State Department of Transportation on a timely basis.

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

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

2. **CONDITION**

The Metropolitan Transportation Authority (“MTA”) is responsible for monitoring compliance with State Transportation Assistance laws and regulation. MTA has policies and procedures in place to monitor such laws and provision. During our testing, we reviewed all quarterly reports submitted to the State of New York Department of Transportation during calendar year 2016 by the MTA.

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

3. **CAUSE**

MTA’s key personnel did not ensure the required reports were submitted timely as required by the NYSDOT.

4. **EFFECT**

MTA is not in compliance with the NYSDOT reporting compliance requirement.

5. **RECOMMENDATION**

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

6. **QUESTIONED MILEAGE**

None

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

**PROGRAM: STATEWIDE MASS TRANSPORTATION OPERATING ASSISTANCE**  
**STATE AGENCY: NEW YORK STATE DEPARTMENT OF TRANSPORTATION**  
**REFERENCE: 2016-01S (CONTINUED)**

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**7. VIEWS OF RESPONSIBLE OFFICIAL**

The report for the first quarter of 2016 was submitted to NYSDOT one day late, on Monday April 18, 2016. Subsequent to that submission, MTA implemented changes to its procedures – as the result of last year’s audit findings, to ensure all submissions will be received by NYSDOT by the quarterly deadline. Submissions for the second, third and fourth quarter for 2016, and for the first quarter of 2017, have all been received by NYSDOT prior to their deadlines, and MTA will continue to follow these procedures.

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

**SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS—STATE OF NEW YORK**  
**DEPARTMENT OF TRANSPORTATION ASSISTANCE EXPENDED**  
**YEAR ENDED DECEMBER 31, 2016**

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The following schedule contains the finding reference number and title for each of the findings included in the December 31, 2015 report. The letters under the heading Corrective Action indicates the following:

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

<u>Reference Number</u>	<u>Grant</u>	<u>Corrective Action</u>
2015-01S	Statewide Mass Transportation Operating Assistance	R

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of  
Metropolitan Transportation Authority

Dear Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated financial statements of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, which comprise the consolidated statement of net position as of December 31, 2016, and the related consolidated statement of revenues, expenses and changes in net position and statement of consolidated cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June XX, 2017, which expresses an unmodified opinion and includes an emphasis-of-matter paragraph that the Authority requires significant subsidies from other governmental entities.

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

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

June XX, 2017

**The Metropolitan Transportation Authority**  
**Report to Management**  
**Year Ended December 31, 2016**

June 12, 2017  
The Audit Committee  
Metropolitan Transportation Authority  
New York, New York

And

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

Dear Members of the Audit Committee and Management:

In connection with our audits of the consolidated financial statements of the Metropolitan Transportation Authority (the “Authority”) and of the financial statements of the First Mutual Transportation Assurance Company, Long Island Rail Road Company, Metro-North Commuter Railroad Company, MTA Bus Company, New York City Transit Authority, Staten Island Rapid Transit Operating Authority and the Triborough Bridge and Tunnel Authority (collectively the “MTA”) as of and for the year ended December 31, 2016 (on which we have issued our reports dated April 28, 2017 for MTA Bus Company and Metro-North Commuter Railroad Company, our report dated May 3, 2017 for Long Island Rail Road Company, our report dated May 12, 2017 for First Mutual Transportation Assurance Company, and expect to issue our reports dated on or about June 16, 2017 for the Metropolitan Transportation Authority, New York City Transit Authority, Staten Island Rapid Transit Operating Authority, and Triborough Bridge and Tunnel Authority, which contain explanatory paragraphs that the MTA requires significant subsidies from other governmental entities), performed in accordance with auditing standards generally accepted in the United States of America (generally accepted auditing standards), we considered the MTA’s internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MTA’s internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting. However, in connection with our audits, we have identified, and included in the attached Appendix A, deficiencies related to the MTA’s internal control over financial reporting and other matters as of December 31, 2016, that we wish to bring to your attention.

We also plan to issue a separate report to the audit committee and management, dated on or about June 16, 2017, which includes certain matters involving the New York City Transit Authority, Staten Island Rapid Transit Operating Authority and the Triborough Bridge and Tunnel Authority’s internal control over financial reporting that we consider to be material weaknesses or significant deficiencies under generally accepted auditing standards.

We also plan to issue our reports dated on or about June 16, 2017, in accordance with *Government Auditing Standards* and the U.S. Office of Management and Budget (“OMB”) audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit*

*Requirements for Federal Awards* (“OMB Uniform Guidance”) which will include (1) Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* and (2) Independent Auditors’ Report on Compliance for Each Major Federal Program; and Report on Internal Control Over Compliance Required by OMB Uniform Guidance.

The definitions of a deficiency is set forth in the attached Appendix B

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

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

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

Sincerely,

*Deloitte & Touche LLP*

**THE METROPOLITAN TRANSPORTATION AUTHORITY  
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**APPENDIX A**

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS**

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS  
CURRENT YEAR COMMENTS- DEFICIENCIES-2016**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the Metropolitan Transportation Authority-Headquarters' ("MTA" or "MTAHQ") internal control over financial reporting for the year ended December 31, 2016, that have not been previously communicated in writing or orally, by others within the MTA, or by us.

**1. Accrued Capital Expenses**

***Criteria:***

MTA-HQ evaluates accrued capital expenses on an annual basis. A report is run from IMPACT to list all capital invoices that came in after year-end and are evaluated based on service end date to determine if an accrual should be recorded as of December 31<sup>st</sup>.

***Condition:***

As some invoices related to services provided over multiple periods, not all invoices that pertained to 2016 were properly accrued for at December 31, 2016.

***Cause:***

MTA-HQ's process over accrued expenses is not designed effectively. Evaluating the invoice by only the invoice date does not account for invoices that contain multi-period services, of which a portion should be accrued for at the end of the accounting period.

***Effect:***

During the 2016 audit, we noted four instances totaling approximately \$2.3 million in known errors. All of these instances were for invoices that spanned multiple accounting periods but contained an end date in 2017. An accrual was not recorded at December 31, 2016 for the capital expenses received prior to December 31, 2016. Based on an audit recommendation, MTA-HQ reviewed all subsequent invoices received through March 2017, resulting in an increase in accrued capital expenses and construction work-in-progress of \$74 million. This was corrected by management in the 2016 consolidated financial statements.

***Recommendation:***

As an enhancement to the process over accrued capital expenses, it is recommended that management revise the process to consider both the beginning and end dates for services. By including the beginning service date in the evaluation, all invoices over multiple periods would be considered.

***Financial Statement Impact:***

Prior to the correcting entry made by Management, accrued capital expenses and construction work-in-progress were both understated in the 2016 consolidated financial statements.

***Management Response:***

Management has reviewed the capital accrual process to properly account for beginning and ending service dates. The capital accrual query has been modified to capture this additional criteria and the appropriate pro-ration calculation has been implemented. The capital accrual query was modified and put into effect for the December 31, 2016 financial reporting period.

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS  
CURRENT YEAR COMMENTS- DEFICIENCIES-2016**

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**2. Accounts Receivable**

***Criteria:***

MTA-HQ receives funding from grants as part of their operations. When funding is received in advance of expenses being incurred, MTA-HQ investigates the purpose for the funding and begins allocating funding to applicable expenses. As part of MTA-HQ's year end procedures, unspent grant receipts need to be evaluated to determine whether they meet the requirements of GASB Statement No. 65 paragraph 10 for accounting as either deferred inflow or unearned revenue at December 31<sup>st</sup>.

***Condition:***

When grant funding is received in advance, it is not being properly allocated to the proper expenses, resulting in accounts receivables being recorded when the funding has already been received. In addition, the unspent receipts are in a clearing account until it is determined how they should be allocated, and GASB Statement No. 65 was not considered for proper classification in the December 31, 2016 Statement of Net Position.

***Cause:***

MTA-HQ's process over grant advances is not designed or implemented effectively. Classification of the funding being received is not being done in a timely manner and is not being adequately reviewed by management.

***Effect:***

During the 2016 audit, we noted one instance totaling approximately \$1.6 million in known errors where a receivable had been recorded for grant advances already received. Based on an audit recommendation, MTA-HQ reviewed all invoices in this account, resulting in a decrease in accounts receivable and capital contributions of \$68 million. This was corrected by management in the 2016 consolidated financial statements.

***Recommendation:***

As an enhancement to the process over accounts receivable, it is recommended that management revise the process when grant advances are received. Upon receipt of grant advances, MTA-HQ should determine what expenses are to be applied to the funds. Once expenses are incurred, there should be a process to match the expense to the grant and ensure all grant criteria are met. At the end of the year, any unspent receipts should be evaluated based on GASB Statement No. 65 paragraph 10 and determine if the criteria for unearned revenue or deferred inflows are met.

***Financial Statement Impact:***

Prior to the correcting entry made by Management, accounts receivable and capital contributions were overstated in the 2016 financial statements.

***Management Response:***

Management is in agreement with this recommendation and will correct the accounting templates for capital grant funds received in advance of capital expenditures.

**METROPOLITAN TRANSPORTATION AUTHORITY- HEADQUARTERS  
PRIOR YEAR COMMENT- OTHER MATTER-2015**

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**OTHER MATTER**

We identified, and have included below, an Other Matter related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2016, related to the Metropolitan Transportation Authority- Headquarters' ("MTA" or "MTAHQ") that we wish to bring to your attention. The Other Matter listed below was identified during our 2015 audit and remains open as of December 31, 2016.

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No impact noted.

***Management Response (2015):***

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

***Status Update (2016):***

A GFOA Checklist was not completed at MTA-HQ in 2016. As such, this comment remains open.

***Management Response (2016):***

Management is in agreement with this recommendation. Management does follow the GFOA checklist for the preparation and submission of the annual CAFR report to GFOA. Going forward, we will formally document our use of the GFOA checklist for the 2017 financial reporting period.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY (“IT”) DEPARTMENT**

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2016**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the MTA Consolidated IT Department's internal control over financial reporting for the year ended December 31, 2016, that have not been previously communicated in writing or orally, by others within the MTA, or by us.

**1. eTix Application Password Parameters**

***Agency:***

Long Island Rail Road Company ("LIRR")

***Criteria:***

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

***Condition:***

D&T noted that passwords for the eTix application are not in compliance with MTA security policies or industry best practices as the current password settings lack requirements for password age, history and lockout attempts. [This exception is related to the eTix interface used by LIRR management and is not related to the front end interface used by LIRR customers.](#)

***Cause:***

The security policies and guidelines were not appropriately implemented for the eTix application.

***Effect:***

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access to the eTix application which could potentially lead to inappropriate changes to the application or underlying data.

***Recommendation:***

We recommend that LIRR management align the password parameters for the eTix application with LIRR security policies and industry best practices.

***Financial Statement Impact:***

No impact – risk associated with this deficiency is mitigated by other controls and factors.

***Management Response (2016):***

eTix is a vendor written and maintained application. By Q3, 2017 MTA IT will engage the vendor (Masabi) to provide a plan/proposal to provide the updated functionality.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2016**

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**2. CSS Application – Terminated User Access**

***Agency:***

Metro-North Commuter Railroad Company (“MNCR”)

***Criteria:***

The security administrator is notified of employees who have been terminated by Human Resources. Access privileges of such employees are immediately disabled.

***Condition:***

D&T noted that the sampled terminated user retained access to the CSS application following termination from the organization.

***Cause:***

This deficiency was caused due to an oversight on behalf of the control performers as security administrators did not remove access for terminated users in a timely manner.

***Effect:***

Accounts belonging to terminated employees remain active in production which could lead to inappropriate access. As such, this inappropriate access could be exploited, resulting in unauthorized changes to the application or underlying data.

***Recommendation:***

We recommend that MNCR management reinforce security policies to reduce the likelihood of a similar situation in the future.

***Financial Statement Impact:***

No impact – risk associated with this deficiency is mitigated by other controls and factors.

***Management Response (2016):***

MTA IT applications and security teams will review process to identify where improvements can be made to prevent similar situation - Q4 2017

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2016**

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**3. Change Management – Access to Production – CSS Application**

***Agency:***

Metro-North Commuter Railroad Company (“MNCR”)

***Criteria:***

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

***Condition:***

D&T noted that Scheidt & Bachman, owners and developers of CSS source code, have an administrator account with update access to production.

***Cause:***

Management has not appropriately segregated logical access as the developers of the source code have the ability to make changes in the production environment.

***Effect:***

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

***Recommendation:***

Management should either restrict access to system accounts maintained by the vendor or implement additional monitoring controls that would address the risk arising from this deficiency.

***Financial Statement Impact:***

No impact – risk associated with this deficiency is mitigated by other controls and factors.

***Management Response (2016):***

The Scheidt & Bachman staff that has installs the software updates at MNR are not the software developers.

Scheidt & Bachman support staff from East Coast Service Center (ECSC) located in White Plains, NY are responsible for installing software updates at MNR. Scheidt & Bachman GmbH staff located in Germany are responsible for software development and maintain the source code.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2016**

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**3. AMS Application – Terminated User Access**

***Agency:***

Metro-North Commuter Railroad Company (“MNCR”)

***Criteria:***

The security administrator is notified of employees who have been terminated by Human Resources. Access privileges of such employees are immediately disabled.

***Condition:***

D&T noted that terminated users retained access to the AMS application following termination from the organization.

***Cause:***

This deficiency was caused due to an oversight on behalf of the control performers as security administrators did not remove access for terminated users in a timely manner.

***Effect:***

Accounts belonging to terminated employees remain active in production which could lead to inappropriate access. As such, this inappropriate access could be exploited, resulting in unauthorized changes to the application or underlying data.

***Recommendation:***

We recommend that MNCR management reinforce security policies to reduce the likelihood of a similar situation in the future.

***Financial Statement Impact:***

No impact – risk associated with this deficiency is mitigated by other controls and factors.

***Management Response (2016):***

MTA IT Infrastructure Team and Security Teams will review the process to identify where improvements can be made to prevent similar situation - Q4 2017.

#### **4. eTix Application Password Parameters**

***Agency:***

Metro-North Commuter Railroad Company (“MNCR”)

***Criteria:***

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

***Condition:***

D&T noted that passwords for the eTix application are not in compliance with MTA security policies or industry best practices as the current password settings lack requirements for password age, history and lockout attempts. [This exception is related to the eTix interface used by MNCR management and is not related to the front end interface used by MNCR customers.](#)

***Cause:***

The security policies and guidelines were not appropriately implemented for the eTix application.

***Effect:***

Security mechanisms are inadequate, ineffective, or inconsistent due to lack of established security policies and standards. This increases the risk of unauthorized access to the eTix application which could potentially lead to inappropriate changes to the application or underlying data.

***Recommendation:***

We recommend that MNCR management align the password parameters for the eTix application with MNCR security policies and industry best practices.

***Financial Statement Impact:***

No impact – risk associated with this deficiency is mitigated by other controls and factors.

***Management Response (2016):***

eTix is a vendor written and maintained application. By Q3 2017 MTA IT will engage the vendor (Masabi) to provide a plan/proposal to provide the updated functionality.

**MTA CONSOLIDATED INFORMATION TECHNOLOGY DEPARTMENT  
CURRENT YEAR COMMENTS- DEFICIENCIES- 2016**

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**5. NYCT Network Access**

***Agency:***

New York City Transit Authority

***Criteria:***

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

***Condition:***

D&T noted that a terminated user retained access to an elevated privileged account on the Transit Authority network.

***Cause:***

This deficiency was caused due to an oversight on behalf of the control performers as security administrators did not remove access for the terminated user in a timely manner, resulting in one account with the ability to make modifications to overall system security parameters, security roles or security configuration remaining active.

***Effect:***

Accounts belonging to terminated employees remain active in production which could lead to inappropriate access. As such, this inappropriate access could be exploited, resulting in unauthorized changes to the application or underlying data.

***Recommendation:***

We recommend that MNCR management reinforce security policies to reduce the likelihood of a similar situation in the future.

***Financial Statement Impact:***

No impact – risk associated with this deficiency is mitigated by other controls and factors.

***Management Response (2016):***

MTA IT Infrastructure is in the middle of a complete replacement of the core network infrastructure with supports NYCT. The Next Generation Network (NGN) security model is based on Radius and integrated into Active Directory. This integration provides controls such that when an employee is terminated and their credential are removed from AD they will no longer have access to the NGN environment. The NGN project is scheduled to be completed in 2018 – Q2 2018.

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

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**6. Impact Application Password Parameters**

***Agency:***

Metropolitan Transportation Authority- Headquarters

***Criteria:***

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

***Condition:***

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

***Cause:***

Headquarters did not follow security policies and procedures guidelines.

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No Impact

***Management Response (2015):***

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

***Status Update (2016):***

The identified observation still remains open. Impact application password parameters continue to not be in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements. We reiterate our prior recommendations.

***Management Response (2016):***

We have taken steps to mitigate the compliance of the IMPACT password parameter issue. 1) Approval of all security is done by a representative of the user management based on job responsibility. 2) Users are decommissioned based on an automated job provided by the PeopleSoft system. 3) Password aging and complexity has been implemented for all users.

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

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**7. TSS Application Password Parameters**

***Agency:***

Long Island Rail Road Company (“LIRR”)

***Criteria:***

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

***Condition:***

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

***Cause:***

LIRR did not follow security policies and procedures guidelines.

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No Impact

***Management Response (2015):***

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

***Status Update (2016):***

The identified observation still remains open. TSS application password parameters continue to not be in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements. We reiterate our prior recommendations.

***Management Response (2016):***

The application vendor, Scheidt & Bachmann (S&B), has incorporated password age and history in the application. These features are implemented in production. S&B agreed to implement password complexity. Password complexity, for all but one system user, is currently being tested and is scheduled to be moved to production in August, 2017. Complexity for the final user will be part of the S&B software release scheduled to be delivered for testing by Q4, 2017.

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

***Agency:***

Long Island Rail Road Company (“LIRR”)

***Criteria:***

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

***Condition:***

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

***Cause:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No Impact

***Management Response (2015):***

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

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

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

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

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**8. Change Management - Access to Production – CAMS-FS Application (continued)**

***Status Update (2016):***

The identified observation still remains open. D&T noted that management has not appropriately segregated logical access for developers; they are granted access to both development and production environments without sufficient monitoring controls. We reiterate our prior recommendations as management should restrict programmer access to the production environment or implement additional monitoring controls that would address the risk arising from this segregation of duties deficiency.

***Management Response (2016):***

MTA-IT management agrees with this finding as is it has in many previous audits. In addition to the mitigating controls implemented, MTA-IT will designate one employee from the CAMS-FS team as the system administrator to perform the production implementation tasks. Additionally, a resources outside of the CAMS-FS staff, but within the same application development section, will be trained as a back-up. The anticipated completion date is 4Q/2017.

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

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**9. CSS Application Password Parameters**

***Agency:***

Metro-North Commuter Railroad Company (“MNCR”)

***Criteria:***

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

***Condition:***

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

***Cause:***

MNCR did not follow security policies and procedures guidelines.

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No Impact

***Management Response (2015):***

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

***Status Update (2016):***

The identified observation still remains open. CSS application password parameters continue to not be in compliance with MTA security policies or industry best practices as the current password settings lack complexity, password age, password history, and lockout requirements. We reiterate our prior recommendations.

***Management Response (2016):***

The application vendor, Scheidt & Bachmann (S&B), has incorporated password age and history in the application. These features are implemented in production. S&B agreed to implement password complexity. Password complexity, for all but one system user, is currently being tested and is scheduled to be moved to production in August, 2017. Complexity for the final user will be part of the S&B software release scheduled to be delivered for testing by Q4, 2017.

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

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**10. Data Center Access**

***Agency:***

New York City Transit Authority

***Criteria:***

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

***Condition:***

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

***Cause:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No Impact

***Management Response:***

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

***Status Update (2015):***

The identified observation still remains open.

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

We reiterate our prior recommendations.

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

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**11. Data Center Access (continued)**

***Management's Response (2015):***

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

***Status Update (2016):***

The identified observation still remains open. Access to the data center was not appropriately restricted to a reasonable amount of appropriate IT individuals as an excessive quantity (greater than 200 distinct individuals) had access to the data center supporting AFC and the New York City Transit. We reiterate our prior recommendations.

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***Management's Response (2016):***

Data Center Access Policy is in place and Access request forms are required to get access to the data centers. A manual recertification was conducted with an e-mail and access request forms sent to all persons with current access and all MTA IT staff on September 29, 2015. A second and final email was sent out on January 11, 2016, indicating that all current persons with access will be disallowed on February 1, 2016. On February 1, 2016, all access was revoked and a new database was effective with those who completed the new access form. This recertification was completed on February 1, 2016 resulting in a 20% reduction of data center individual access rights. (There are more than 1000 MTA IT employees and other people (Building Engineers, HVAC Engineers, electricians, MTA Police, Building Security and vendors) who have been approved for access and who are required to maintain the systems and the environments that are required for the safe and stable data center. The number of is accurate and approved. MTA IT Security is in the process of creating and automated recertification process (workflow).

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY**

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY  
CURRENT YEAR COMMENTS- DEFICIENCIES-2016**

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**DEFICIENCIES**

We identified, and included below, deficiencies involving the First Mutual Transportation Assurance Company's ("FMTAC") internal control over financial reporting for the year ended December 31, 2016, that have not been previously communicated in writing or orally, by others within FMTAC, or by us.

**1. Controls related to the Cash Flow Statement and Management Reviews**

***Criteria:***

Internal controls should be designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with the applicable financial reporting framework.

***Condition:***

Certain controls surrounding recording of purchases and sales/maturities of investments on the cash flow statement need improvement and strengthening. In addition, while certain controls are in place related to journal entries, bank reconciliations, and data reported to the actuaries, the signoff by a reviewer is not maintained as evidence of review.

***Cause:***

During 2016, there were breakdown in controls in the following areas.

1. Purchases of investments and sales and maturities of investments recorded in the cash flow statement are not calculated correctly. Currently, the monthly income earned reports are used to calculate the total investment purchase and sales activity for the year; however the monthly reports do not capture all cancelled transactions.
2. Evidence of review of journal entries, bank reconciliations or data reported to the actuaries is not maintained.

***Effect:***

1. During the 2016 audit, purchases of investments and sales and maturities of investments recorded on the cash flow statement were both overstated by \$54.977 million. Based on an audit recommendation, this was corrected by management in the 2016 financial statements.
2. There is no formal evidence that FMTAC management is performing reviews of journal entries, bank reconciliations, or data reported to the actuaries.

***Recommendation:***

1. Management should use the Year-To-Date income earned report as of December 31<sup>st</sup> to ensure all cancelled transactions are captured in the cash flow statement.
2. It is suggested that to further strengthen controls FMTAC management should formally document management's review over the key areas such as bank reconciliations and data reported to the actuaries. In addition, management should maintain evidence of their review of all journal entries posted to the general ledger.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY  
CURRENT YEAR COMMENTS- DEFICIENCIES-2016**

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**1. Controls related to the Cash Flow Statement and Management Reviews**

***Financial Statement Impact:***

Prior to the correcting entry made by management, investment purchases and sales were overstated in the financial statements.

***Management Response:***

Management agrees with both recommendations and will implement them.

**FIRST MUTUAL TRANSPORTATION ASSURANCE COMPANY  
CURRENT YEAR COMMENTS- DEFICIENCIES-2016**

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**2. Unearned Premium**

***Criteria:***

Insurance premium related to the Owners Controlled Insurance Program (“OCIP”) is calculated based on the percentage of completion for related OCIP capital projects. Actual expended project costs are compared to the estimated budgeted project costs to determine the percentage of completion for the project. This percentage is then used to determine how much of the OCIP premium is earned versus unearned at December 31<sup>st</sup>. Properly tracking the expended costs ensures proper determination of earned and unearned OCIP premium.

***Condition:***

Incorrect parameters were used to calculate actual expended project costs related to the OCIP project.

***Cause:***

While determining the actual expended project costs related to OCIP for 2016, the incorrect parameters were set in PeopleSoft. Amounts were pulled related to 2015 expended amounts as well as 2016. In addition, key-in errors were noted when comparing amounts from the client provided scheduled back to the PeopleSoft system. This resulted in duplicate amounts being included on the client schedules and transposition errors.

***Effect:***

During our testing of unearned premium, we noted 23 instances where the actual expended project costs were overstated, resulting in unearned revenue being understated and revenue being overstated. Based on an audit recommendation, FMTAC reviewed all 2016 actual expended projects costs related to OCIP, resulting in an increase of \$1.6 million in unearned premium and decrease of \$1.6 million in premium revenue. This was corrected by management in the 2016 financial statements.

***Recommendation:***

As an enhancement around the process for recording OCIP expended project costs, it is recommended that management correctly sets parameters when pulling the information from PeopleSoft/IMPACT to only include payments that occurred in the current fiscal year. In addition, it is recommended that FMTAC uses IMPACT to pull the information in replacement of PeopleSoft, so they are able to download the information into excel and minimize the risk of transposition errors.

***Financial Statement Impact:***

Prior to the correcting entry made by management, unearned premium was understated and revenue was overstated in the financial statements.

***Management Response:***

Management agrees and this process has already been implemented.

### **3. Reinsurance Receivables**

***Criteria:***

FMTAC records reinsurance receivables based upon agreements made with 3<sup>rd</sup> party reinsurance companies. All agreements are assessed by Metropolitan Transportation Authority (“MTA”) Risk Management and once approved, the MTA Accounting, FMTAC’s external management company, and FMTAC’s external actuary are informed to determine the actuarial and financial implications of the agreements.

***Condition:***

In 2016, there was a global settlement relating to the Hurricane Sandy property claim. As part of this global settlement, the original claim was reduced from \$775 million to \$675 million.

***Cause:***

The relevant accounting and actuarial parties were not informed of this global settlement, and as a result were unable to determine the impact on FMTAC’s financial statements or actuarial reports.

***Effect:***

The reinsurance receivable (asset) and reinsurance reserve (liability) were both overstated by \$100 million. Based on an audit recommendation, this was corrected by management in the 2016 financial statements.

***Recommendation:***

As an enhancement around the reinsurance recoverable process, it is recommended that FMTAC strengthens their communication process so all relevant parties (MTA Risk Management, MTA Accounting, external management company, and external actuary) are informed when a transaction occurs that would impact the financial statements or actuarial reports. This should be a part of the quarterly close process.

***Financial Statement Impact:***

Prior to the correcting entry made by Management, reinsurance receivable and reinsurance reserve were both overstated in the financial statements.

***Management Response:***

Management agrees and the process has already been implemented.

**LONG ISLAND RAIL ROAD COMPANY**

**LONG ISLAND RAIL ROAD COMPANY  
CURRENT YEAR COMMENT-OTHER MATTER- 2016**

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**OTHER MATTER**

We identified, and have included below, an Other Matter related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2016, related to the Long Island Rail Road Company (“LIRR”) that we wish to bring to your attention.

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

As an enhancement to the financial closing and reporting process by LIRR, it is recommended that management complete the GFOA checklist annually to ensure the accuracy and completeness of the amounts and disclosures in the annual financial statements. LIRR should document the completion of this checklist as part of their financial closing and reporting process.

***Financial Statement Impact:***

No impact noted.

***Management Response:***

Management accepts this recommendation. Long Island Rail Road will incorporate the GFOA checklist as part of the annual financial closing and reporting process.

**METRO-NORTH COMMUTER RAILROAD COMPANY**

**METRO-NORTH COMMUTER RAILROAD COMPANY  
CURRENT YEAR COMMENTS- DEFICIENCY-2016**

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**DEFICIENCY**

We identified, and included below, a deficiency involving the Metro-North Commuter Railroad Company's ("MNR") internal control over financial reporting for the year ended December 31, 2016, that have not been previously communicated in writing or orally, by others within MNR, or by us.

**1. Materials and Supplies**

***Criteria:***

Metro-North Railroad has multiple warehouses that store materials and supplies ("inventory"). Warehouses can be actual storerooms that house materials and virtual satellite storerooms which are located on the right of way. Warehouses are selected for audit sampling for inventory counts and testing procedures using the Stock Inventory Balance Report which lists all warehouses and their inventory at December 31<sup>st</sup>.

***Condition:***

As materials and supplies relating to track are used, they are not charged out timely by track department personnel. Periodic inventory counts are not properly reviewed by supervisors.

***Cause:***

Metro-North controls around inventory counts and charge outs, specifically at virtual satellite storerooms, are not operating effectively. Periodic inventory counts are not reviewed by supervisors and items are not recounted by supervisors to ensure that inventory counts are performed correctly and adjustments are made, if necessary. Charge outs of inventory are not being performed timely and supervisors are not following up with personnel when no charge outs have been made after a certain number of days.

***Effect:***

During the 2016 audit, virtual satellite storeroom 166-GCT was chosen for cycle count procedures. Errors were noted in 26 instances relating to sheet-to-floor, floor-to-sheet, and cycle count performance procedures resulting in known errors of \$42,479 and extrapolated errors of \$6,746,976. These errors were due to charge-outs not being made timely at this location resulting in Materials and Supplies being overstated and Materials and Supplies Expense being understated as of and for the year ended December 31, 2016. Based on an audit recommendation, management made a correcting entry in the 2016 financial statements.

***Recommendation:***

As an enhancement to the controls around Materials and Supplies at Metro-North Railroad, it is recommended that management perform a review of the periodic inventory counts to ensure the inventory is recorded accurately. In addition, it is recommended that Internal Audit perform an audit of these virtual satellite storerooms as part of their inspection processes. Further, we propose that track supervisors review charge-outs weekly to ensure that materials are being charged out timely.

***Financial Statement Impact:***

As a result of the audit recommendation, an entry was made to decrease Material and Supplies and increase Materials and Supplies Expense for the extrapolated error resulting in no Financial Statement impact.

**METRO-NORTH COMMUTER RAILROAD COMPANY  
CURRENT YEAR COMMENTS- DEFICIENCY-2016**

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**1. Materials and Supplies (continued)**

***Management Response:***

Management agrees with this recommendation. MNR has implemented new Operating Procedures effective May 17, 2017 which ensures that track supervision, up to and including the Director of Track and Structures, are provided relevant and timely information regarding the status of their virtual satellite storerooms for review. Weekly, the Track Department is provided with a transaction history for each satellite storeroom, detailing both materials charged out from and issued to each individual storeroom, and monthly they are provided with the total inventory of each storeroom. Additionally, Maintenance of Way Materials Management has three Managers of Work Stock Materials Oversight who are assisting the Track Department in performing the random monthly cycle counts outlined in the Operating Procedure. A process is being developed to document these results and will be in place not later than July 2017. The results of those counts will also be furnished to the Track Department supervision and any discrepancies will be reviewed and adjusted accordingly.

**METRO-NORTH COMMUTER RAILROAD COMPANY  
CURRENT YEAR COMMENTS-OTHER MATTER- 2016**

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**OTHER MATTER**

We identified, and have included below, an Other Matter related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2016, related to the MNR that we wish to bring to your attention.

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

As an enhancement to the financial closing and reporting process by Metro-North Railroad, it is recommended that management complete the GFOA checklist annually to ensure completeness of the disclosures in the annual financial statements. Metro-North Railroad should document the completion of this checklist as part of their financial closing and reporting process.

***Financial Statement Impact:***

No impact noted.

***Management Response:***

Management agrees with this recommendation. Metro-North Railroad will annually incorporate the GFOA checklist as part of the financial closing and reporting process.

**MTA BUS COMPANY**

**OTHER MATTER**

We identified, and have included below, an Other Matter related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2016, related to the MTA Bus Company (“MTA Bus”) that we wish to bring to your attention.

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No impact noted.

***Management Response:***

Management accepts the recommendation to complete the GFOA checklist annually.

**NEW YORK CITY TRANSIT AUTHORITY**

**OTHER MATTER**

We identified, and have included below, an Other Matter related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2016, related to the New York City Transit Authority (“NYCTA”) that we wish to bring to your attention.

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No impact noted.

***Management Response:***

Management concurs. The Authority will establish procedures to incorporate and document completion of the GFOA checklist as part of the annual financial reporting process.

**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY**

**STATEN ISLAND RAPID TRANSIT OPERATING AUTHORITY  
CURRENT YEAR COMMENT-OTHER MATTER- 2016**

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**OTHER MATTER**

We identified, and have included below, an Other Matter related to our observations concerning operations, compliance with laws and regulations, and best practices involving internal control over financial reporting as of December 31, 2016, related to the Staten Island Rapid Transit Operating Authority's ("SIRTOA") that we wish to bring to your attention.

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No impact noted.

***Management Response:***

Management concurs. SIRTOA management will establish procedures to incorporate and document completion of the GFOA checklist as part of the annual financial reporting process.

**TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY**

**TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY  
CURRENT YEAR COMMENT-OTHER MATTER- 2016**

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**OTHER MATTER**

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

**1. GFOA Checklist**

***Criteria:***

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

***Condition:***

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

***Effect:***

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

***Recommendation:***

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

***Financial Statement Impact:***

No impact noted.

***Management Response:***

Managements accepts this recommendation. Management will review the Government Finance Officers Association ("GFOA") checklist and start implementing the recommendation as part of its annual financial closing and reporting process.

## **2. Succession Planning**

### ***Observation:***

This comment has been tailored for the TBTA from the best practices issued by the Government Finance Officers Association (“GFOA”), as we feel it is applicable. Many governments face the challenge of ensuring continuity and consistency of service delivery due to employee turnover. In instances where large numbers of government employees are eligible to retire, there is a concern that not enough qualified or available workers will be prepared to replace them. In addition, many governments face the challenge of offering competitive compensation packages to entice strong candidates to come work for them.

### ***Background:***

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

- Develop an integrated approach to succession management. Organizations with an integrated, rather than “just-in-time,” approach to succession management experience higher retention rates, increased employee morale, and an environment that stimulates innovation and organizational change. There are some positions in an organization that are more critical than others. A successful succession plan should place a high priority on planning for a smooth change in such positions. Key components of an integrated succession management approach include: workforce planning, succession planning, knowledge management practices, and recruitment and retention practices.
- Continually assess potential employee turnover. Making career planning discussions a part of a regular and ongoing performance review process assists in assessing potential turnover. Department heads are a good resource in helping to identify employees that may be planning to leave.
- Provide a formal, written succession plan as a framework for succession initiatives. Without a formal plan, workforce/succession planning tends to take place in a haphazard fashion. A formal plan identifies risks and strategies, thereby providing a guiding framework for specific succession initiatives, including how employees are eligible to participate and what being part of the succession plan means. Plans that have been thoughtfully articulated and communicated to the organization are more likely to be successful. Additionally, having a formal plan indicates organization and leadership commitment to succession management, which is critical for success and for sustaining successful planning across political and leadership transitions.
- Develop written policies and procedures to facilitate knowledge transfer. Knowledge transfer is a critical component of succession management. There should be written procedures in place to formalize the knowledge transfer. A meeting should be held with departing staff to document job responsibilities.
- Design of better recruitment and retention practices may aid in the succession process. Making sure pay levels are competitive with the market place is a critical means of retaining employees. Providing career advancement opportunities for employees is another means of retention.
- If early retirement programs are offered by your entity, it should be done in conjunction with a succession plan. GFOA strongly recommends that governments use considerable caution when considering the implementation of early retirement plans (see GFOA’s Advisory: Evaluating the Use of Early Retirement Incentives). If an early retirement program is offered, that might provide a window of opportunity to look at technology, potential to streamline, or rethinking the way services are provided, managed, and/or administered.

**TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY  
PRIOR YEAR COMMENT- OTHER MATTER-2012**

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**2. Succession Planning (continued)**

***Background:***

- Consider non-traditional hiring strategies. Options such as part-time work, job-sharing, volunteers, and flexible schedules and flexible-place arrangements are providing mechanisms to both meet the needs of the organization and employees.

***References:***

- GFOA's Generational Change Task Force Report:  
[http://www.gfoa.org/downloads/GFOA\\_GenChangeReportFINAL.pdf](http://www.gfoa.org/downloads/GFOA_GenChangeReportFINAL.pdf)
- GFOA Advisory: Evaluating the Use of Early Retirement Incentives, 2004.  
Approved by the GFOA's Executive Board, February, 2011.

***Recommendation:***

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

***Management Response (2012):***

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

- 1) TBTA is identifying mission critical positions that are hard to fill because of the requirements of job or may become vacant due to retirements.
- 2) TBTA is conducting an age/years-of-service analysis by Department and by individual to project upcoming attritions due to retirements.
- 3) TBTA is reviewing the structure of several Departments, to create a pipeline of high potential employees to fill critical positions identified in "1" above. This restructuring, to be reviewed with MTAHQ as appropriate will facilitate the transfer of knowledge and enable additional employees to develop high-level relationships and authority both within the Agency as well as with relevant external stakeholders. In another effort to facilitate knowledge transfer, all Departments will begin a review of their policies and procedures in 2013, updating where necessary.
- 4) TBTA is reviewing Managerial Position Questionnaires (MPQs) to ensure they are appropriately evaluated and to ensure that salaries for the positions allow for the attraction and retention of agency talent.
- 5) Continue to work with MTA HQ and the Business Service Center on the development of a Talent Management System that identifies high potential employees not only within the TBTA but within other MTA entities to fill positions as they are identified. This system will leverage existing PeopleSoft modules.
- 6) TBTA has begun a Management Associates Program in which high potential entry level employees, identified in a competitive process, rotate through five different Departmental assignments in six month blocks and receive regular management training. At the end of the program, they will compete for open positions within the Agency.

**TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY  
PRIOR YEAR COMMENT- OTHER MATTER-2012**

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**2. Succession Planning (continued)**

***Status Update (2013):***

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

***Management Response (2013):***

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

***Status Update (2014):***

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

***Management Response (2014):***

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

***Status Update (2015):***

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

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

***Management Response (2015):***

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

***Status Update (2016):***

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

***Management Response (2016):***

TBTA managements agrees and will continue to include succession planning in its list of critical priorities.

**PRIOR YEAR COMMENTS ADDRESSED**

## **PRIOR YEAR COMMENTS ADDRESSED**

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### **MTA Business Service Center**

1. Invoices Not Paid Timely – 2011

### **MTA Consolidated Information Technology Department**

1. Oracle Database Password Parameters – 2015- MTABSC
2. Oracle Database Password Parameters (TSS) – 2015- LIRR
3. Change Management – Access to Production – TSS Application – 2015-LIRR
4. CAMS-FS Application Password Parameters- LIRR
5. Oracle Database Password Parameters (CAMS-FS) – 2015-LIRR
6. Mail&Ride Application Password Parameters – 2015- LIRR
7. Oracle Database Password Parameters (Mail&Ride) – 2015- LIRR
8. Mail&Ride Application Password Parameters – 2015- MNR
9. AMS Application Password Parameters – 2015- MNR
10. Oracle Database Password Parameters (AMS) – 2015- MNR
11. ETC Application Password Parameters – 2015- TBTA

### **New York City Transit Authority**

1. Review and approval of claims files (to be archived and/or destroyed)-2015
2. Reconciliation of Claims Paid (for health benefits)

### **Staten Island Rapid Transit Operating Authority**

1. Inventory Tagging – 2015

### **Triborough Bridge and Tunnel Authority**

1. Internal Control Over Financial Reporting- 2015
2. Classification of Liabilities-2015

## **APPENDIX B**

### **DEFINITION**

The definition of a deficiency is as follows:

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

## APPENDIX C

### MANAGEMENT'S RESPONSIBILITY FOR, AND THE OBJECTIVES AND INHERENT LIMITATIONS OF, INTERNAL CONTROL OVER FINANCIAL REPORTING

The following comments concerning management's responsibility for internal control over financial reporting and the objectives and inherent limitations of internal control over financial reporting are included in generally accepted auditing standards.

#### Management's Responsibility

The Company's management is responsible for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America. In this regard, the Company's management is also responsible for designing, implementing and maintaining effective internal control over financial reporting.

#### Objectives of Internal Control over Financial Reporting

*[Insert definition of internal control over financial reporting used in management's report, e.g.: An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with [applicable financial reporting framework, e.g.: accounting principles generally accepted in the United States of America]. An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.]*

#### Inherent Limitations of Internal Control over Financial Reporting

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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# Enterprise Risk Management Committee Status Report

Report to the Audit Committee  
June 19, 2017



# Executive Summary

## Period Snapshot

All Agencies are Currently at Various Stages of Testing and Documenting Risks & Controls

Working on Annual Internal Controls Certifications and Summary Reports – To Be Presented at the November 2017 Audit Committee Meeting

All Agencies Working on Closing Open Material Weakness / Significant Deficiencies

ERM Committee Met During the Period to Discuss Significant Issues and MTA Organizational Changes

RFP issued for Governance Risk and Compliance (GRC) System replacement

Currently, All Agencies are participating in the roll out of the Fraud Risk Assessment with initial roll out in the Procurement Area

## Strategy/Internal Driven Risk Change

Procurement Consolidation

IT Transformation

Treasury Transformation

GRC Migration

## Summary of Control Activities

1,910 Total Business Processes

888 Total Significant Business Processes of which 513 Were Reviewed

Approximately 4,765 Total Risks (all business processes)

Approximately 6,125 Total Controls (all business processes)

5 Total Material Weakness / Significant Deficiencies Are Still Pending

## External Driven Risk Change

New Standards for Internal Controls in New York State Government – Office of the State Comptroller

COSO 2013

NYS Comptroller Guidelines



# Year to Year Comparison

	June 2017	June 2016	Change (+/-)	Change (+/-)
<b>Significant Business Processes</b>	888	753	135	17.9%
<b>Total Activities / Business Process</b>	1,910	1837	73	4.0%
<b>Total Risks</b>	4,765	4,012	753	18.8%
<b>Total Controls</b>	6,125	6,208	-83	-1.3%



## Open Corrective Action Plans Status

	November 2016 Reported	Closed	New	June 2017 Open
<b>TOTAL</b>	20	15	0	5



# Open Corrective Action Plans Status

## Total Controls Vs. % of Material Weakness / Significant Deficiencies

Agency	Total Controls	Open Material Weakness / Significant Deficiencies June 2016	% Total Material Weakness / Significant Deficiencies to Total Controls
B&T	353	-	0.00%
MTA HQ	529	-	0.00%
LIRR	1,422	1	0.07%
MNR	715	4	0.56%
MTA Bus	159	-	0.00%
MTA CC	519	-	0.00%
NYCT	2,428	0	0.00%
<b>Enterprise</b>	<b>6,125</b>	<b>5</b>	<b>0.08%</b>



## Open Corrective Action Plans Status

Overall Risk Ranking	LIRR	MNR	Total
Medium	-	-	-
High	-	-	-
Very High	1	4	5
<b>TOTAL</b>	<b>1</b>	<b>4</b>	<b>5</b>



## Open Corrective Action Plans

ERM Risk Category	Very High	High	Medium	Total
Safety	4	1	-	5
<b>Total</b>	<b>4</b>	<b>1</b>	<b>-</b>	<b>5</b>



June 2017

### Top Agency Risks

### Enterprise-Wide Risks

#### Risk Process

- Safety - Employee and Customer
- Security
- Infrastructure and Equipment Maintenance
- Succession Planning
- Cyber Security

#### Risk Process

- Safety
- Succession Planning
- Institutional Transformation
- Cyber Security



# Ethics and Compliance Program Update

Report to the Audit Committee

June 19, 2017



# AGENDA

- ❖ EXECUTIVE SUMMARY
- ❖ COMPLIANCE PROGRAM OVERVIEW
  - ❖ Program Objectives
  - ❖ Strategic Alignment
  - ❖ Program Structure
- ❖ COMPLIANCE DETAILS
  - ❖ Inquiries and Issues
  - ❖ Training
  - ❖ Communications
- ❖ Compliance Program Future Initiatives
  - ❖ Policy Management
  - ❖ E-Code of Ethics



# Executive Summary

## 2016-17 Snapshot

Over 2,076 Matters Handled

Training /Certification Completions  
90% Completion Rate up 27% increase Over Last Year

51 Policies Under Review or Development with Compliance

Compliance Coordination Increasing among Agencies

Ethics Committee Met During the Year to Discuss Significant Issues

## Strategy/Internal Driven Change

Policy Lifecycle Management

Replacement  
Governance Risk and Compliance (GRC) System

MTA Organizational Changes

Global Benchmarking

## External Driven Change

Increase in Number of FDS filers

New JCOPE FDS and Training Management Systems



## Compliance Program Overview

## Objectives

- ❖ To **develop, maintain, and/or revise** the MTA Code of Ethics and
- ❖ To help **develop, maintain, and/or revise** all MTAHQ and agency policies and procedures.
- ❖ To **initiate educational programs** that enable MTA employees to understand the importance of compliance issues.
- ❖ To **act as a channel of communication** to receive compliance-related inquiries and direct those inquiries to appropriate resources within the MTA or other oversight agencies for investigation and resolution.
- ❖ To **act as a final internal resource** with which concerned parties may communicate after other formal channels and resources have been exhausted.
- ❖ To **respond to alleged violations** of rules, regulations, policies, procedures and Code of Ethics by evaluating or recommending the initiation of investigative procedures.

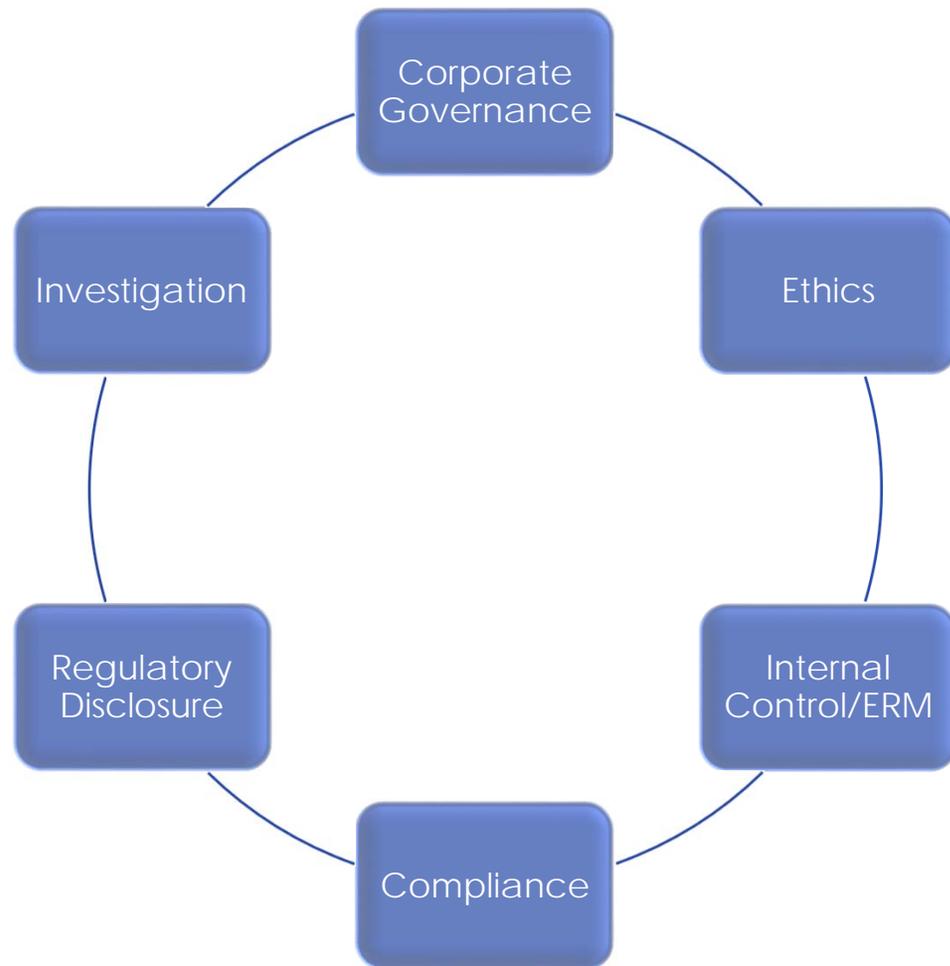


## Compliance Program Overview

## Objectives

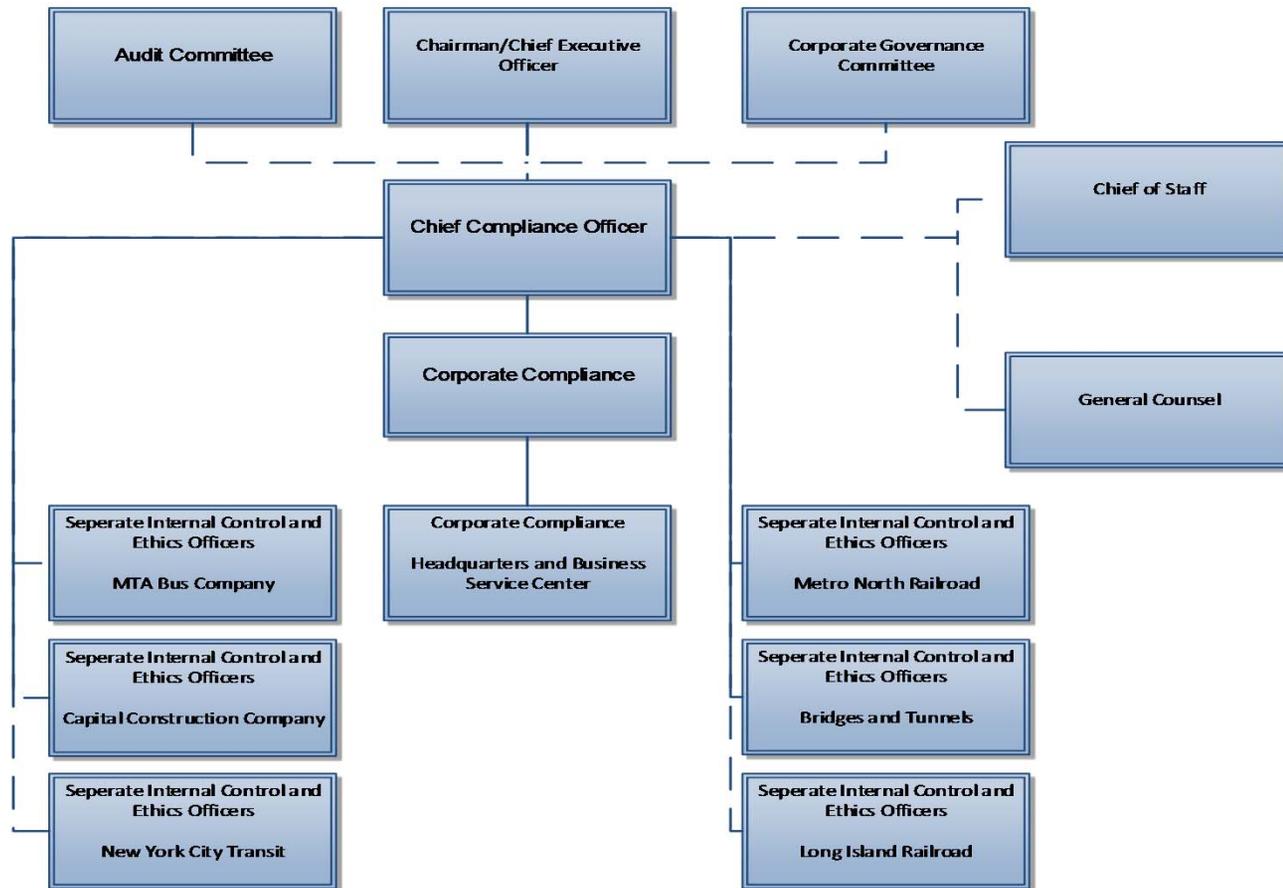
- ❖ To **develop and oversee** an Authority system for uniform handling of ethics violations. To act as an independent review and evaluation body to ensure that compliance issues and concerns within the MTA are appropriately evaluated, investigated and resolved.
- ❖ To **identify potential areas of compliance vulnerability and risk** via Internal Controls and provide general guidance on how to avoid or handle similar situations in the future.
- ❖ To **ensure proper reporting of violations or potential violations** to duly authorized enforcement agencies as appropriate and/or required.
- ❖ To **establish an Ethics Helpline** and provide for its direction and management.
- ❖ To **institute and maintain an effective compliance communication program** for the MTA, including promoting (a) use of the Ethics Helpline; (b) heightened awareness of the Code of Ethics, and (c) understanding of new and existing compliance issues and related policies and procedures.
- ❖ To **develop an effective ethics and compliance training program**, including appropriate introductory training for new employees as well as ongoing training for all employees and managers.





# Compliance Program Overview

# Structure



Corporate Compliance

Coordination



Compliance Details

Inquiries and Issues

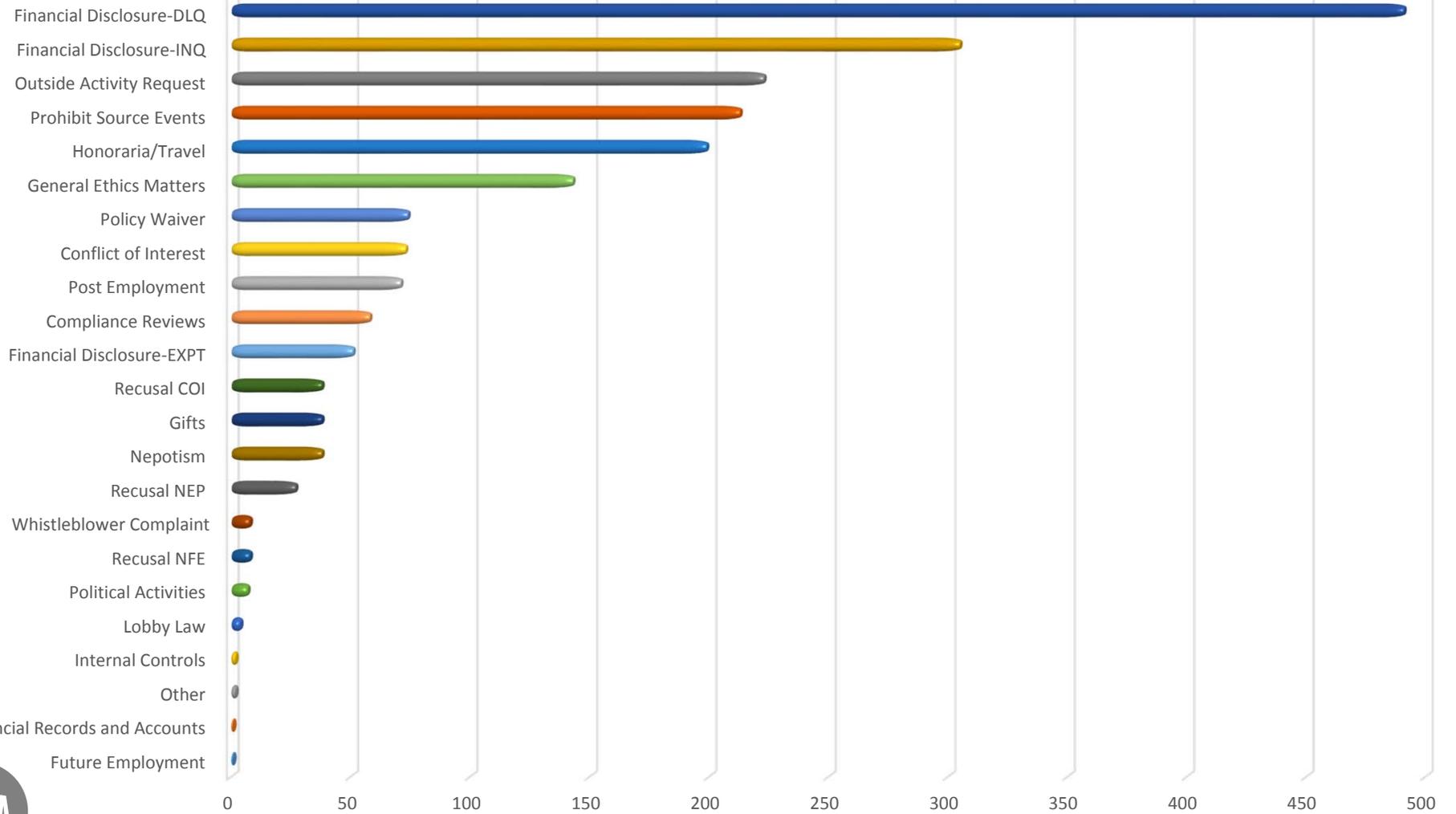
Issue and Inquiries:

Over 2,076 handled during reporting period



# Compliance Details

# Inquiries and Issues

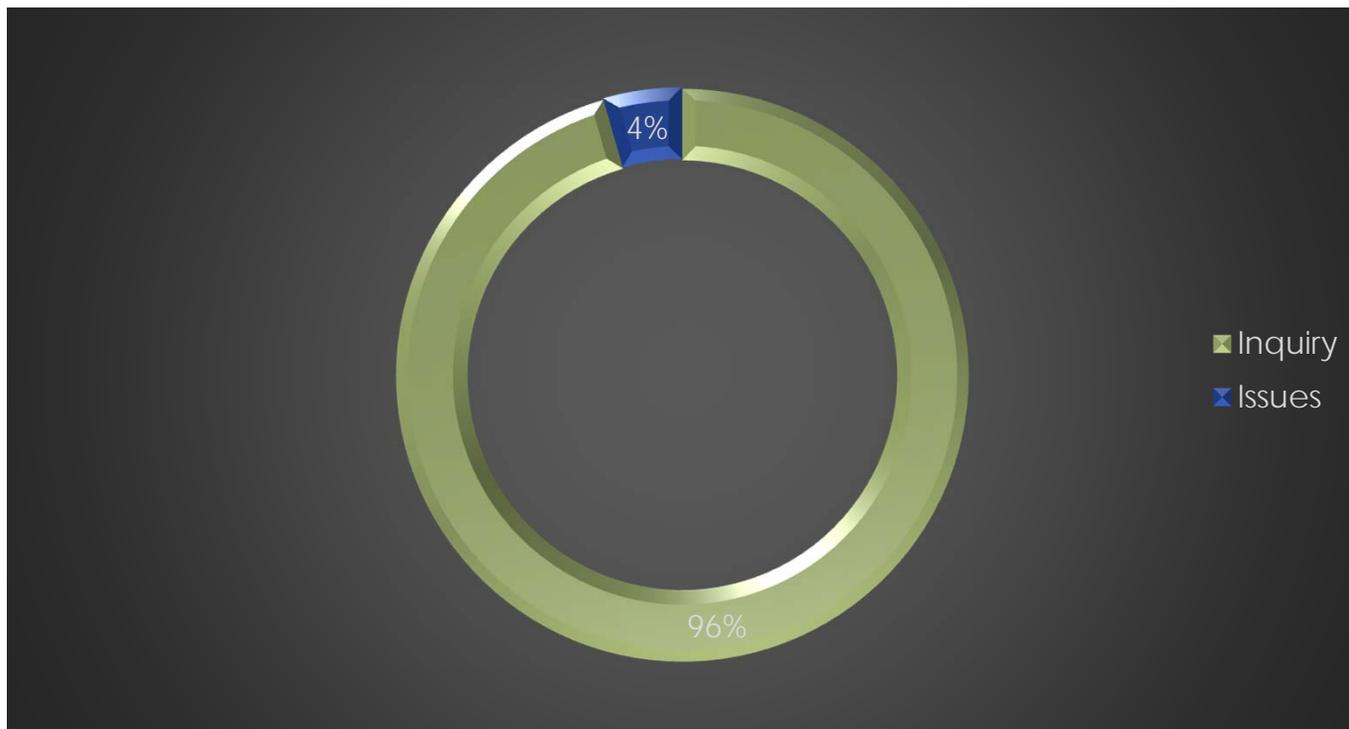


Compliance Details

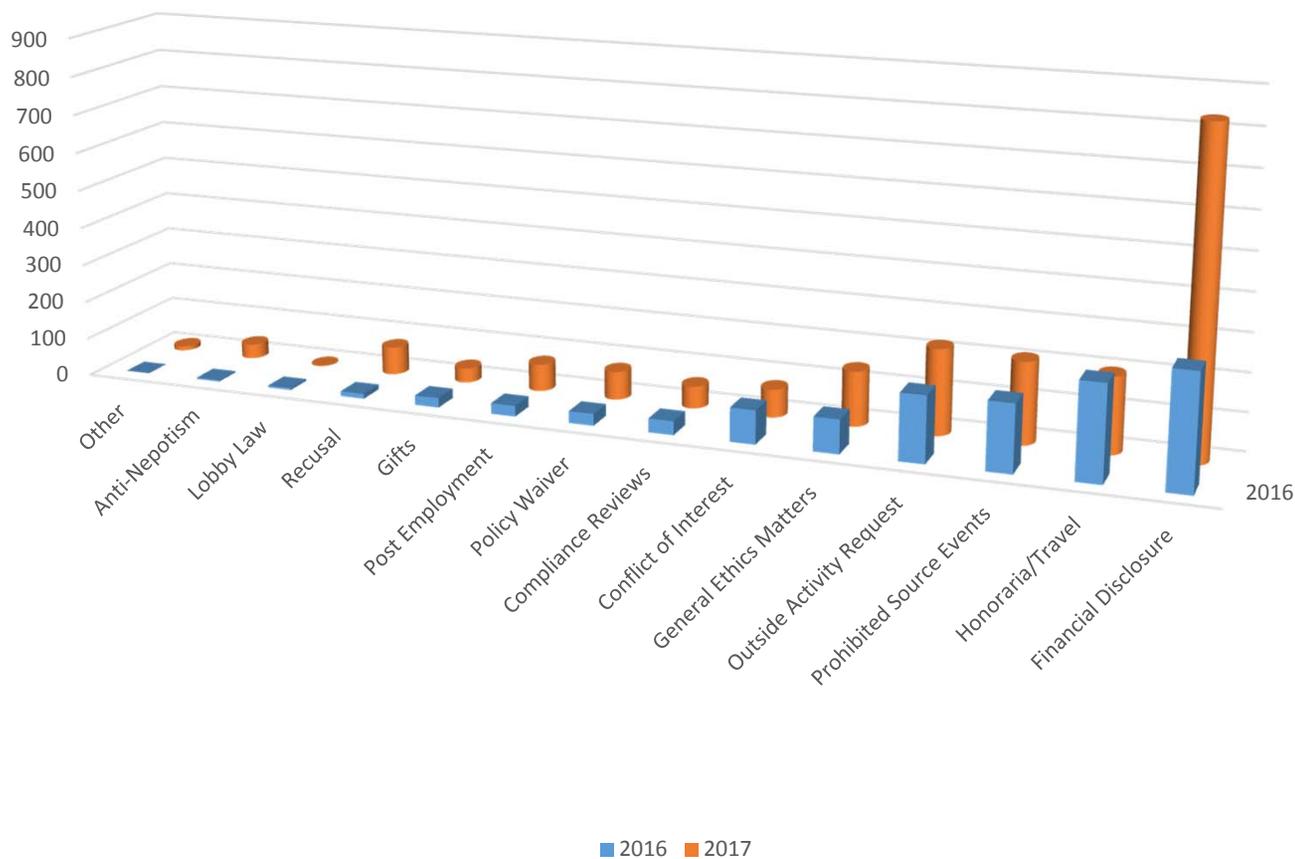
Inquiries and Issues

### Inquiries v. Issues

Inquiry	1982
Issues	92



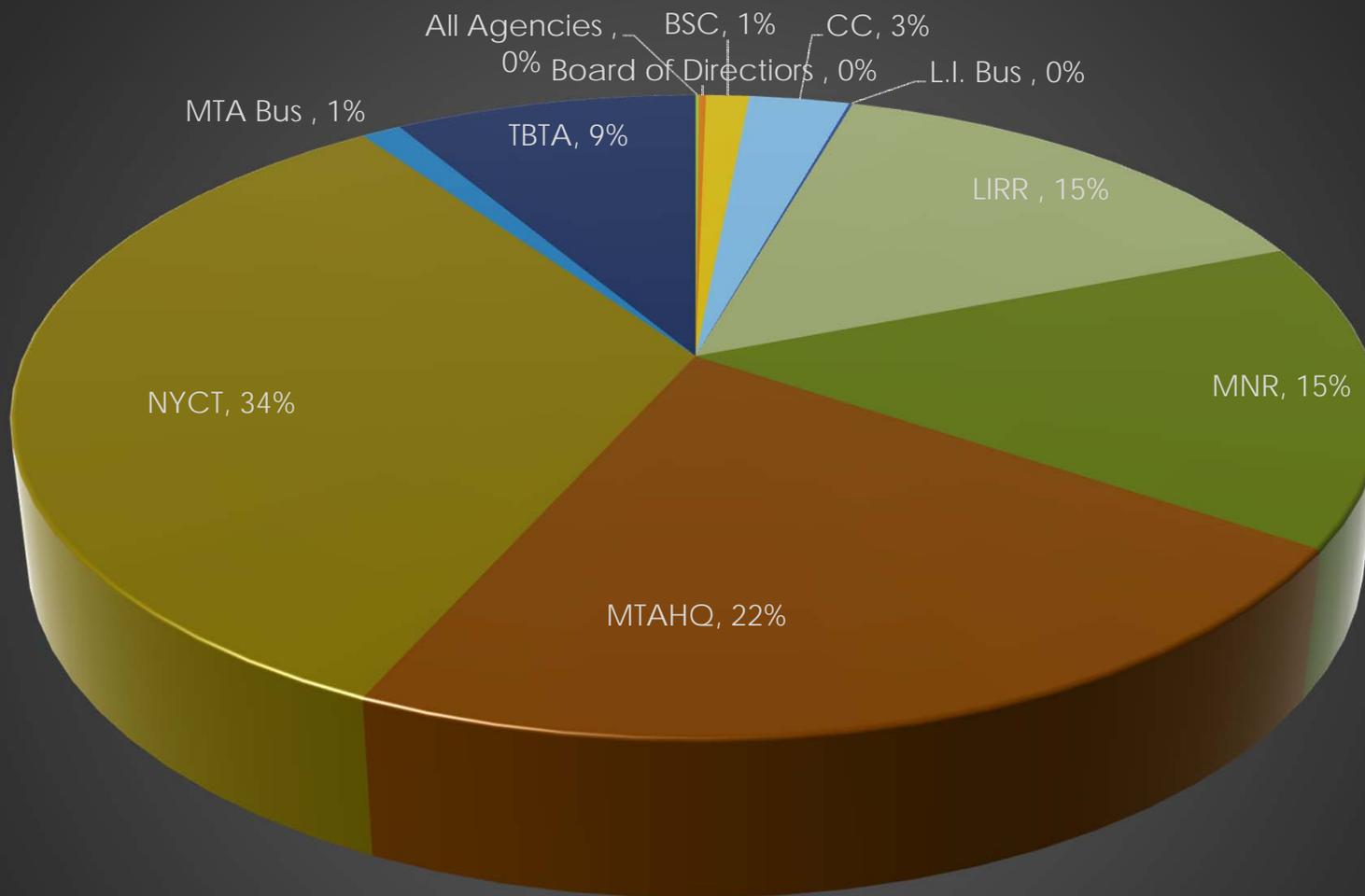
From 14 categories to 20 for greater understanding of compliance risk and program effectiveness.



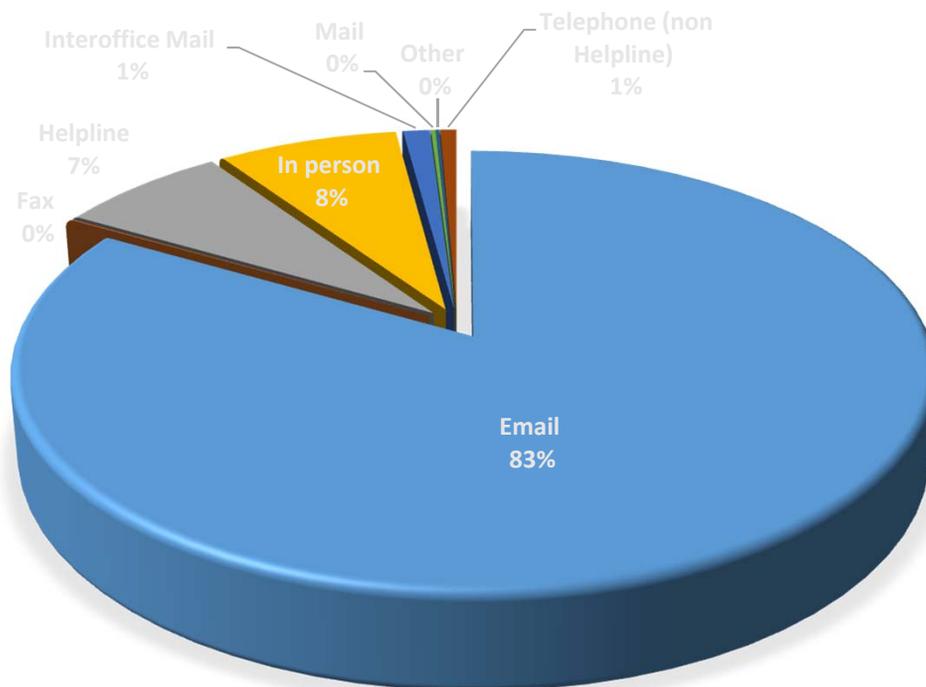
Compliance Details

Inquiries and Issues

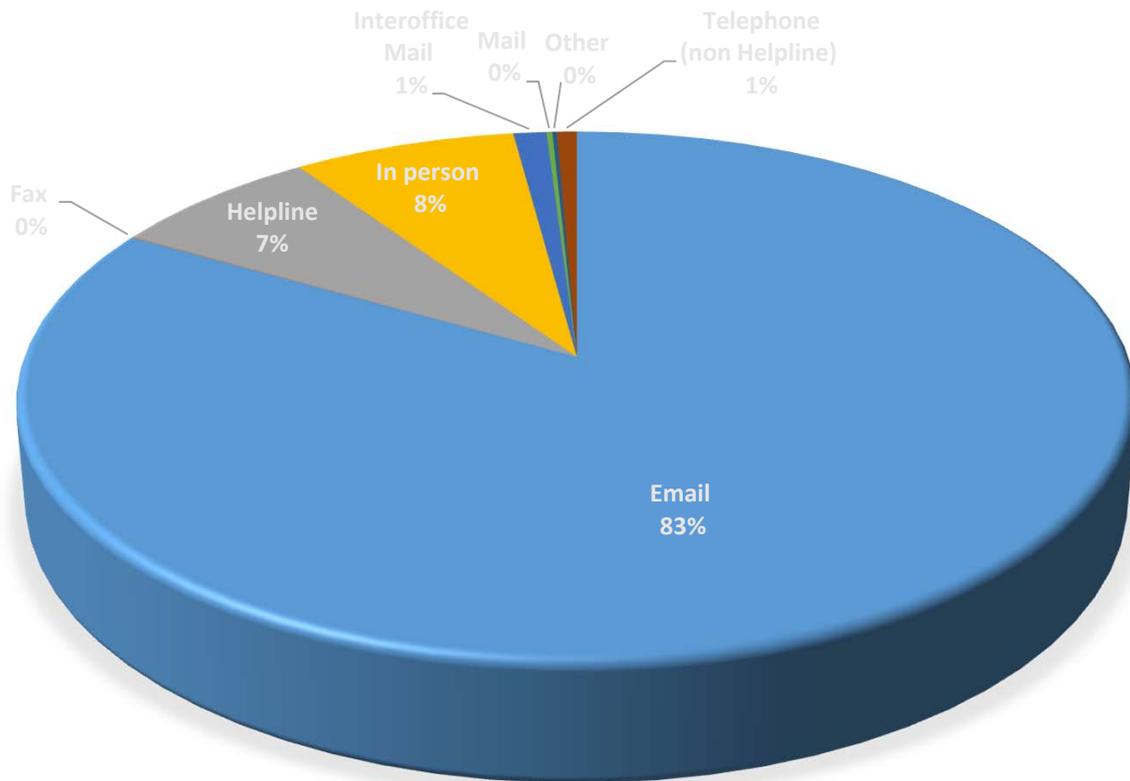
### Issues and Inquiries by Agency



Reporting Method: This graph provides insight into employee awareness about available communication methods and which method they use the most in engaging with Compliance.



Reporting Method: In addition only 22 individuals requested anonymity out of over approximately 2,076 contacts with Compliance.



Compliance Details

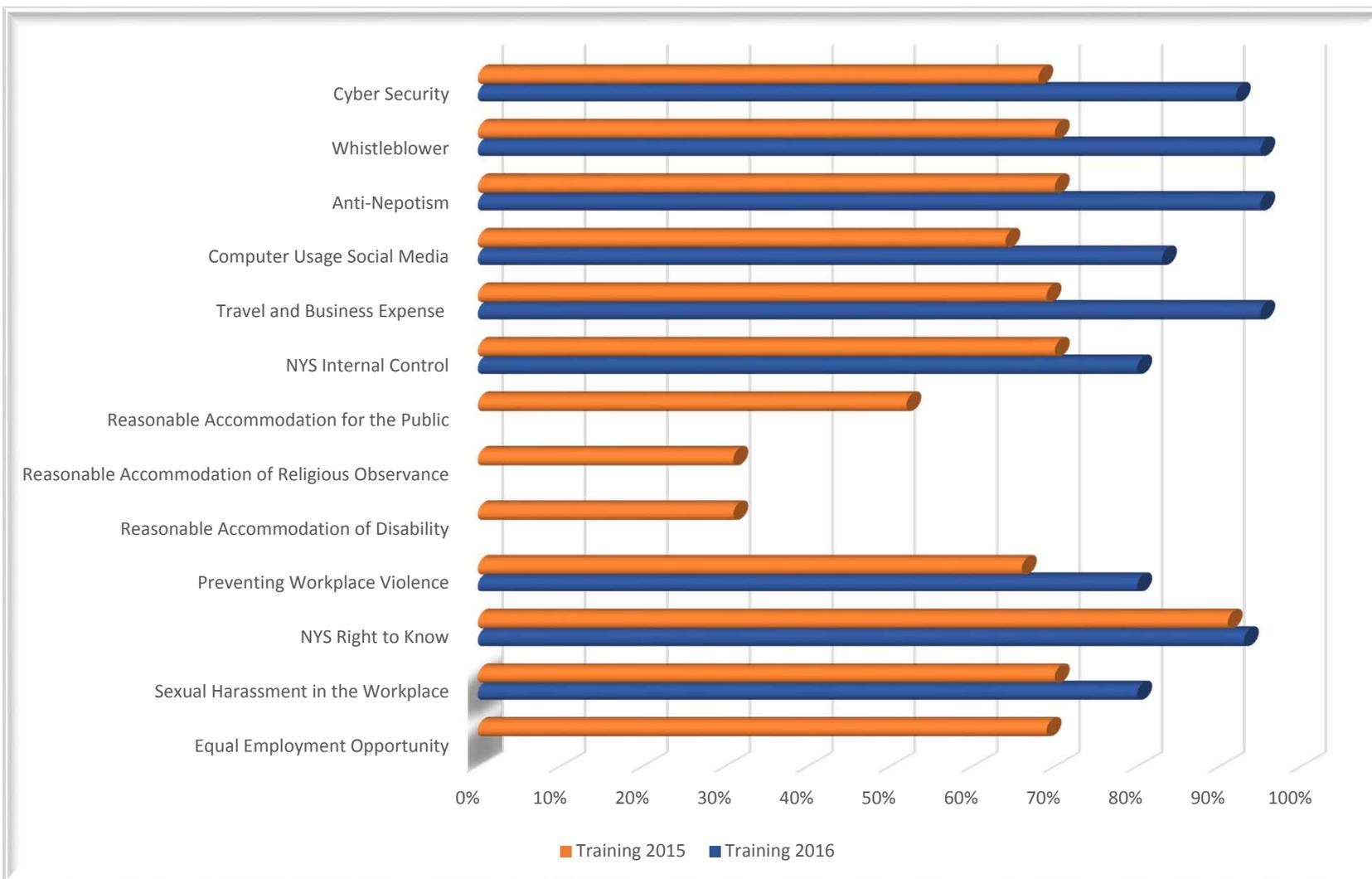
Training

90% Completion Rate Mandated Compliance Training and Certifications



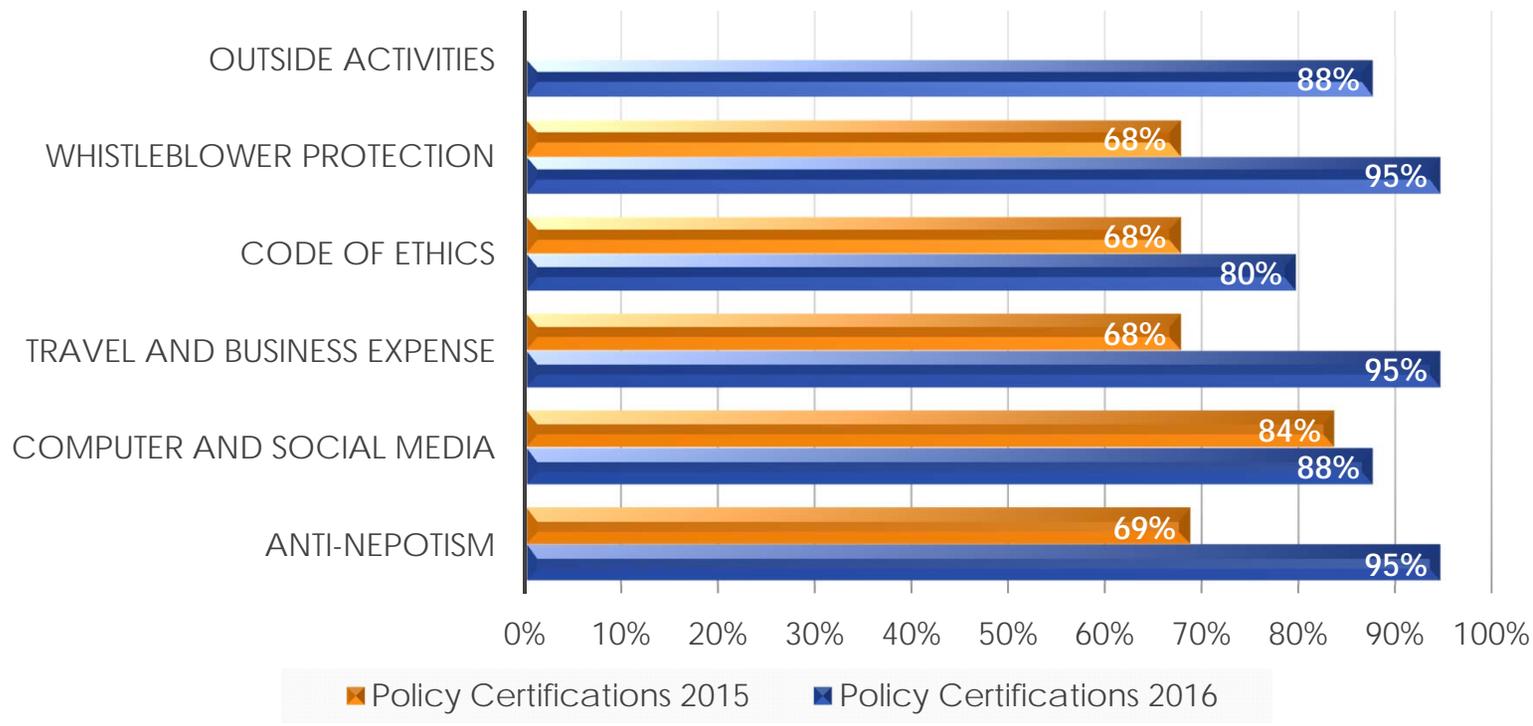
# Compliance Details

# Training



We have seen an overall increase in completion rate from year to year in each of the required certifications.

### Policy Certification Completion Rates



Compliance Details

Training

## 65% Completion Rate JCOPE Ethics Training

Enrolled 8,382 employees

5,428 employees enrolled completed the course

(what effects compliance rate: number of employee separating after enrollment, change in FDS status after enrollment, etc.)



Compliance Details

Communications

## How we Communicate



March 15, 2017 Good Morning!

**mta today** 

Tools | Benefits/Programs | Policies | MTA Departments | Corporate Info | Agency Intranets

**Hello, Can I Help You? The People at the Other End of the MTA Ethics Helpline.**

On the 16th floor of 2 Broadway, when the MTA Ethics Helpline rings, it's usually Andrea Abaquin who picks up first, ready to help and experienced enough to expect anything.

Abaquin, manager, Ethics and Compliance, at MTA Corporate Compliance, has been with the department almost from its creation in 2006. After 11 years of picking up the helpline, she's honed her knack for patient listening and ironclad confidentiality. Which is a good thing, considering the range of inquiries handled by Abaquin and her colleague Yhozoty (Gio) Carey, a compliance coordinator.

*"You'd be surprised," says Abaquin, who for obvious reasons can't divulge specifics. "Most of our callers are just looking for basic help with ethics or training questions. Some of them are upset, worried they missed the deadline for mandated training or filing a financial disclosure statement. But we also get unrelated calls from employees or even relatives of employees who don't know where else to go."*

Ready to help! Andrea Abaquin, left, and Yhozoty (Gio) Carey handle thousands of calls each year on the MTA Ethics Helpline.

**NOMINATE NOW!**  
THE SUSAN L. KUPPERMAN AWARD FOR EXCELLENCE IN PUBLIC SERVICE

**Notices** [Feedback](#)

**New MTA Request Form for Outside Activities** ^  
If you are seeking approval for outside activities, you'll find a [new all-agency request form here](#) and accessible through the BSC portal under the "BSC Forms" section in the "Employment" folder.

**Defensive Driving Courses** v  
HQ employees interested in taking [defensive driving classes offered by](#)

**Quick Links**

[EAM SharePoint](#)  
[Employee Assistance Program \(EAP\)](#)  
[PeopleSoft 9.2 Upgrade](#)

- One day each month dedicated to Ethics and Compliance Issues
  - Provide Ethics guidance
  - Utilizing entertaining videos to engage employee interest



# ETHICS & COMPLIANCE INSIGHTS



A message from MTA Corporate Compliance

## Risks, Internal Controls...and You

If I buy stock in that upstart company, what are the odds I'll lose my money? If I decide to try skiing, how likely is it that I'll break a leg?

That's how we usually think of risk – as the "ifs" and outcomes of our personal choices. We manage those risks by weighing decisions, seeking advice, or simply developing prudent habits.

But is the concept of risk the same for a large organization like the MTA?

Clearly, the MTA confronts many layers of risk. Not only in the daily operation of our subways, buses, and railways, but in construction, purchasing, communications, safety...in every aspect of our business. And who is ultimately responsible for mitigating such complex, broadly distributed risks?

### Surprise: You are!

If you thought otherwise, then you are not fully aware of the requirements of the New York State Internal Control Act and the guidelines issued by the MTA Board. It's time to learn more.

Adopted in its current form in 2011 and based on the COSO framework, the MTA Enterprise Risk Management and Internal Control Guidelines require the MTA to maintain a system of controls that identifies, monitors, and mitigates risk in its organization. It also calls for the MTA to inform every employee of the "generally applicable managerial policies and standards with which he or she is expected to comply...." and to emphasize that it is "the responsibility of management and employees to foster a system of effective internal controls.

So there you have it! Each of us is responsible, within the context of our jobs, for "effective internal controls" to minimize risks to the MTA.

### Tall order.

Fortunately, much of this is already entailed in performing our daily jobs in an effective, prudent manner. We follow policies and procedures, weigh options, and strive to make the best decisions. Providing a coherent framework for evaluating those decisions is the function of the MTA's eight-step Enterprise Risk Management/Internal Controls process.

Overseen by MTA Chief Compliance Officer Lamond W. Kearse, the process provides reasonable assurance that the MTA's internal control objectives will be reached in four key areas – strategy, operations, reporting, and compliance. The process consists of the following:

- ✓ Setting objectives – defining what we want to accomplish.
- ✓ Determining risks – identifying events, both internal and external, that might negatively affect and

# Ethics and Compliance Insights



## Communications: E-mail Distributions

- Ethikos Magazine-Distributed to all senior management
- Tone at the Top-Distributed to all senior management



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## Compliance Program Future Initiatives

WHERE ARE WE GOING FROM HERE



- High Level Goals
  - Common policy taxonomy, terminology and framework
  - Policies are identified and placed in common repository
  - Outdated policies are reviewed
  - Obsolete policies are rescinded
  - Every policy is assigned a specific lifecycle
  - Better integration with risk management process
  - Reduction in redundant policies
  - Elimination of inconsistencies between All Agency and Agency policies
  - Optimize opportunities for single All Agency Policies



Compliance Program Future Initiatives

Training

## Additional Possible Training 2018

Financial Disclosure

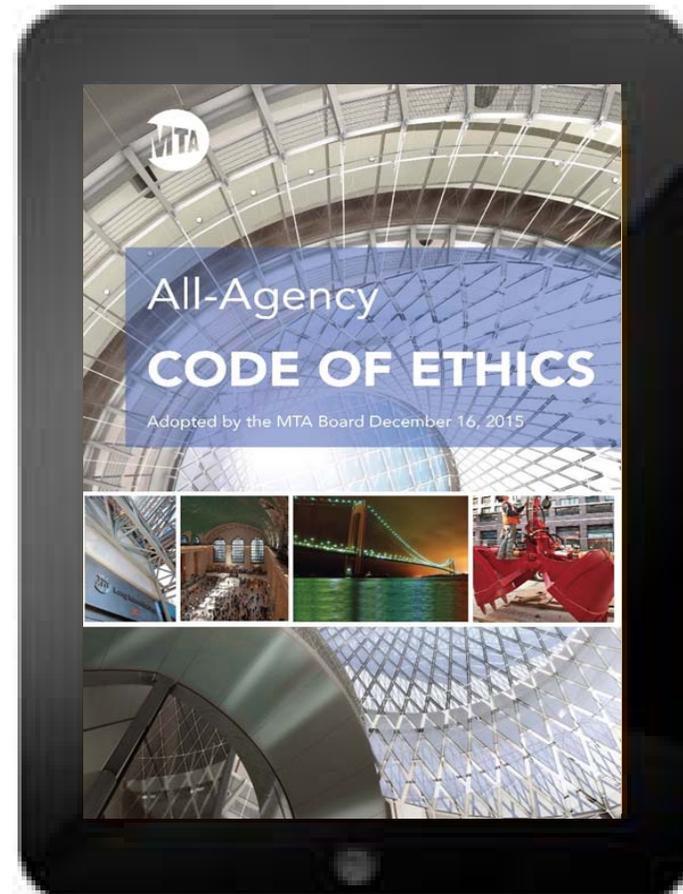
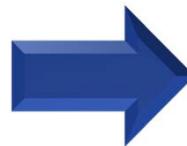
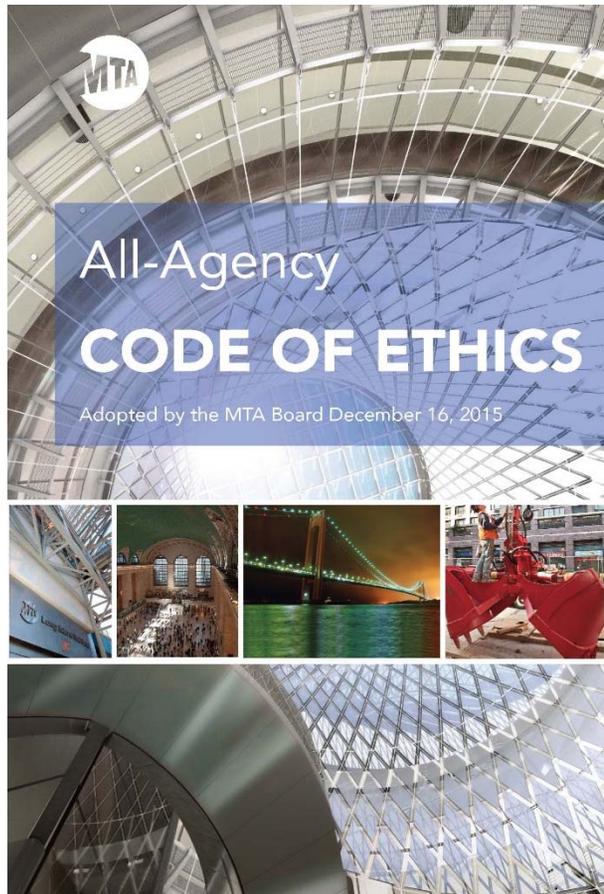
Lobby Law

Fraud Awareness



Compliance Program Future Initiatives

E Code of Ethics



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## Compliance Program

Questions ?



# Metropolitan Transportation Authority

## MTA Audit Services

2017 AUDIT PLAN STATUS

June 19, 2017



# 2017 – Plan Summary

## Financial/Operational/Technology

- Projects Completed	=	67
- Recommendations	=	243
- Savings/Cost Efficiencies	=	\$ 34.1 M

## Contracts

- Projects Completed	=	65
- Pre-Award OH Reviews	=	141
- \$ Audited	=	\$ 710.9 M
- Questioned Costs	=	\$ 25.5 M

**Total = \$ 59.6 Million**



# 2017 - Highlights

- ❑ **Superstorm Sandy**
- ❑ **PeopleSoft – Pension & Upgrades**
- ❑ **NYC Transit Workers Compensation**
- ❑ **Track Inspections & Maintenance**
- ❑ **NYC Transit Inventory Obsolescence**
- ❑ **MTA Software Licenses**



## Superstorm Sandy Audits

- **Total Grant Expenditures** = **\$1.49 Billion**
- **Total Audited** = **\$303 Million**
- **Projects Completed** = **81**
- **Recommendations** = **217**
- **Recommendations implemented** = **156 (72%)**
- **Total Cost Adjustments** = **\$ 58.1 M**



# Looking Ahead

- ❑ **Complete the 2017 Audit Plan**
- ❑ **Continue to Support activities related to:**
  - **Enterprise Asset Management Project**
  - **PeopleSoft Upgrades**
  - **PeopleSoft Pension – Phase 2**
- ❑ **Continue to coordinate audit activities with:**
  - **External Auditors**
  - **City/State Controller’s Office**
  - **MTA Chief Compliance Office**
  - **MTA Inspector General Office**
- ❑ **Prepare for the External Quality Assurance Review**



# QUESTIONS?

