

Metro-North Commuter Railroad Company Cash Balance Plan

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

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan net position as of December 31, 2014 and 2013, and the respective changes in Plan net position for the

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

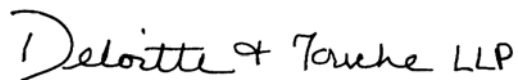
Emphasis of Matter

As discussed in Note 2, in 2014, the Plan adopted Governmental Accounting Standards Board ("GASB") Statement No. 67, *Financial Reporting for Pension Plans- an amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6, Schedule of Changes in the Employer's Net Pension Liability and Related Ratios- Schedule I on page 20, Schedule of Employer Contributions- Schedule II on pages 21 through 22, and Schedule of Investment Returns- Schedule III on page 23 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 25, 2016

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

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

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

Overview of Basic Financial Statements

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

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

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

Financial Highlights

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

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

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

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

FINANCIAL ANALYSIS

Plan Net Position

December 31, 2014, 2013, and 2012

(Dollars in thousands)

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

CHANGES IN PLAN NET POSITION

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

Changes in Plan Net Position

For the Years Ended December 31, 2014, 2013 and 2012

(Dollars in thousands)

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

The Plan is a closed plan and currently has 15 active members as of January 1, 2014. Investments are primarily in bonds and asset backed securities to minimize exposure to market fluctuations.

INVESTMENTS

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

Investment Summary (Dollars in thousands)

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

Contact Information

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

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

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

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

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY

CASH BALANCE PLAN

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

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

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY CASH BALANCE PLAN

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

1. PLAN DESCRIPTION

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

General

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

Plan Administration

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

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

Benefits Provided

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

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

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

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

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

Membership

Membership of the Plan consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

Active Plan Members	15
Retirees and beneficiaries receiving benefits	26
Vested formerly active members not yet receiving benefits	19
Total	<u>60</u>

Contributions

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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

Use of Estimates

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

Investment Valuation and Income Recognition

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

Benefits

Benefits are recognized when paid.

Administrative Expenses

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

Federal Income Tax Status

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

New Accounting Standards

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

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

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

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

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

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

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

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

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

Subsequent Events

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

3. INVESTMENTS

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

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

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

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

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

Rate of Return

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

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

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

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

Credit Risk

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

December 31, 2014 S&P Quality Rating	Fair Value	Percentage of Portfolio
AAA	\$ 23,468	3.38%
AA+	10,078	1.45
AA	10,083	1.45
A+	10,405	1.50
A	32,549	4.68
AA-	6,489	0.93
A-	83,595	12.03
BBB+	45,535	6.55
BBB	45,398	6.53
BBB-	26,425	3.80
Not Rated	<u>20,164</u>	<u>2.90</u>
Total credit risk debt securities	314,189	
U.S. government & agency securities*	<u>380,775</u>	<u>54.79</u>
Total investment portfolio	<u>\$ 694,964</u>	<u>100.00%</u>

December 31, 2013	Fair	Percentage of
S&P Quality Rating	Value	Portfolio
AAA	\$ 39,516	5.31%
AA+	20,229	2.72
AA	10,179	1.37
A+	10,433	1.40
A	41,121	5.52
A-	61,583	8.27
BBB+	34,835	4.68
BBB	32,978	4.43
BBB-	29,639	3.98
Not Rated	<u>25,031</u>	<u>3.36</u>
Total credit risk debt securities	305,544	
U.S. government & agency securities*	<u>439,146</u>	<u>58.97</u>
Total investment portfolio	<u>\$ 744,690</u>	<u>100.00%</u>

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

Custodial Credit Risk

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

Interest Rate Risk

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

December 31, 2014	Fair	Percentage of	
Investment Type	Value	Portfolio	Duration
U.S. government & agency securities	\$ 285,775	41.12%	5.17
Corporate bonds & asset backed securities	296,665	42.69	5.89
Other Bonds & fixed income securities	7,514	1.08	9.06
Short-term investments	<u>105,010</u>	<u>15.11</u>	0.02
Total investment	<u>\$ 694,964</u>	<u>100.00%</u>	
Portfolio average duration			<u>4.74</u>

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

Foreign Currency Risk

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

4. NET PENSION LIABILITY

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

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

The total pension liability was determined by an actuarial valuation as of the valuation date (January 1, 2014 for the year ended December 31, 2014 and January 1, 2013 for the year ended December 31, 2013), calculated based on the discount rate and actuarial assumptions below and was then projected forward to the measurement date. There have been no significant changes between the valuation date and the Plan year end.

Actuarial Methods and Assumptions

The significant actuarial methods and assumptions used in the January 1, 2014 valuation were as follows:

Valuation Date: January 1, 2014
Actuarial cost method: Entry Age Normal

Amortization method: One-year period
Asset valuation method: Market value of plan assets

Actuarial assumptions:

Investment rate of return: 4.5%
Inflation: 2.5%
Projected salary increases: N/A
COLAs: N/A

Interest: 4.5% per annum, compounded annually.
Benefit Escalator: 3.00% per annum, compounded annually.
Provision for Expenses: None assumed payable from Plan assets.

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

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

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

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

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

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

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

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

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

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

Changes in Actuarial Assumptions Since Prior Valuation: None

Expected Rate of Return on Investments

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

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

Discount Rate

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

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

Sensitivity Analysis

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

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

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule I

Required Supplementary Information (Unaudited)

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

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

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

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule II

Required Supplementary Information (Unaudited)
Schedule of Employer Contributions

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2005	\$ 6,592	\$ 6,592	\$ -	\$ 7,610,907	N/A
2006	13,010	13,010	-	7,925,225	N/A
2007	9,666	9,666	-	6,842,884	N/A
2008	13,683	13,683	-	6,798,416	N/A
2009	330	330	-	5,936,288	N/A
2010	1,837	11,875	(10,038)	4,496,148	N/A
2011	-	-	-	-	N/A
2012	-	-	-	-	N/A
2013	-	-	-	-	N/A
2014	4,977	14,124	(9,147)	2,080,077	0.68%

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule II (continued)

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

Actuarial Methods and Assumptions Used for Funding Policy

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

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

Schedule III

Required Supplementary Information (Unaudited)
Schedule of Investment Returns

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

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