

**Metropolitan Transit Authority  
of Harris County, Texas**

**Defined Contribution Plan  
Annual Financial Statements**

**Years Ended December 31, 2021, and 2020**

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**Metropolitan Transit Authority of Harris County, Texas  
Defined Contribution Plan**

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**December 31, 2021 and 2020**

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## Independent Auditor's Report

To the Participants and Management of  
Metropolitan Transit Authority Defined Contribution Plan:

### *Opinion*

We have audited the financial statements of Metropolitan Transit Authority Defined Contribution Plan (the "Plan"), which comprise the Statements of Fiduciary Net Position as of December 31, 2021 and 2020, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related notes to the Plan's financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

In our opinion, the accompanying basic financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2021 and 2020, and the changes in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America (US GAAP).

### *Basis for Opinion*

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Plan's Basic Financial Statements* section of our report. We are required to be independent of the Plan, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Responsibilities of Management for the Plan's Basic Financial Statements*

Management is responsible for the preparation and fair presentation of the Plan's basic financial statements in accordance with US GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Plan's basic financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Plan's basic financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for twelve months beyond the Plan's basic financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.



*Auditor's Responsibility for the Audit of the Plan's Basic Financial Statements*

Our objectives are to obtain reasonable assurance about whether the Plan's basic financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the Plan's basic financial statements.

In performing an audit in accordance with US GAAS, we:

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material misstatement of the Plan's basic financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the Plan's basic financial statements.
- obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the Plan's basic financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Plan's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audits.



***Required Supplementary Information***

US GAAP requires that the management's discussion and analysis be presented to supplement the Plan's basic financial statements. Such information is the responsibility of management and, although not a part of the Plan's 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 Plan's 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 US GAAS, 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 Plan's basic financial statements, and other knowledge we obtained during our audit of the Plan's 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.

*McConnell & Jones LLP*

Houston, Texas  
December 22, 2022

**Metropolitan Transit Authority of Harris County, Texas**  
**Defined Contribution Plan**  
**Management’s Discussion and Analysis (Unaudited)**  
**December 31, 2021, and 2020**

**Management’s Discussion and Analysis (Unaudited)**

This discussion and analysis section provides an overview of the performance of the Metropolitan Transit Authority (METRO) Defined Contribution Pension Plan (Plan) and should be read in conjunction with the basic financial statements and other information found in this report.

The Plan is a single employer, 401(a) defined contribution pension plan which is designed to assist full-time employees in accumulating resources for their retirement. This Plan became effective for new full-time employees not covered by the collective bargaining agreement on September 30, 2007 and on September 30, 2012 for those covered by the agreement. It also includes employees who were participants of METRO’s Union and Non-Union Pension Plans (Pension Plans) but changed their status from a union position to a non-union or vice versa after the Pension Plans closed for new employees. This is the only retirement plan available to new full-time employees and during the last three calendar years the number of participants increased to 3,677 for 2021, 3,366 for 2020 and 3,107 for 2019.

METRO contributes two (2) percent of the employee’s compensation and matches up to four (4) percent of employee’s compensation based on their contributions to their 457(b) Deferred Compensation Plan account. Contributions from METRO are deposited into individual employee accounts, maintained by a third-party record-keeper, either weekly or semi-weekly depending on the related payroll cycle. Vesting rates on METRO’s contributions are forty percent after the second year and twenty percent annually thereafter, one hundred percent vesting occurs after five years. Pension contributions are authorized each year by METRO’s Board of Directors (Board) as part of the annual budgeting process.

In May 2021, METRO established a committee responsible for the administration and investment of the Plan and adopted a Committee Charter. The Chief Executive Officer of METRO appoints members to serve on the Committee with a three-year term. METRO Chief Financial Officer and Chief Human Resources Officers are standing members of the Committee until otherwise determined by the Board. Members of the Committee are dedicated professionals and included the following as of December 31, 2021:

Arthur C. Smiley III, Chair	Karen Kauffman	Tracy Jackson
Kylie Loya	Eduardo Miranda	Larry Wood

The discussion and analysis provide additional information regarding the activities of the Plan. Additional retirement programs include a 401(a) Savings Plan, Defined Benefit Union and Non-Union Pension Plans and a 457(b) Deferred Compensation Plan. For additional financial information or any questions, please contact the Office of the Controller, Metropolitan Transit Authority of Harris County, Texas, P.O. Box 61429 Houston, Texas 77208-1429.



**Metropolitan Transit Authority of Harris County, Texas**  
**Defined Contribution Plan**

**Management's Discussion and Analysis (Unaudited)**

**December 31, 2021, and 2020**

**Financial Highlights**

Following is the Plan's summary of fiduciary net position and changes in fiduciary net position for the current and past three plan years:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b><u>Summary of fiduciary net position:</u></b>			
Assets:			
Investments, at fair value	\$ 60,034,748	\$ 49,175,938	\$ 36,642,345
Contribution receivable from METRO	256,186	169,029	81,585
Total assets / fiduciary net position	<u>\$ 60,290,934</u>	<u>\$ 49,344,967</u>	<u>\$ 36,723,930</u>
 <b><u>Changes in fiduciary net position:</u></b>			
Additions:			
Investment Income			
Net (depreciation)/ appreciation in fair value of investments	\$ (7,074)	\$ 2,756,982	\$ 2,393,966
Interest and dividend income	7,214,884	3,245,533	3,443,300
Total investment income	<u>7,207,810</u>	<u>6,002,515</u>	<u>5,837,266</u>
Contributions from METRO	6,284,538	8,091,581	7,412,215
Total additions	<u>13,492,348</u>	<u>14,094,096</u>	<u>13,249,481</u>
Deductions:			
Benefit payments	(2,440,197)	(1,384,242)	(1,671,516)
Administrative expenses	(106,184)	(88,817)	(47,799)
Total deductions	<u>(2,546,381)</u>	<u>(1,473,059)</u>	<u>(1,719,315)</u>
Changes in fiduciary net position	10,945,967	12,621,037	11,530,166
Beginning of the year	<u>49,344,967</u>	<u>36,723,930</u>	<u>25,193,764</u>
End of the year	<u>\$ 60,290,934</u>	<u>\$ 49,344,967</u>	<u>\$ 36,723,930</u>

METRO contributes to active participants' defined contribution account each pay period which totaled \$6.3 million for 2021 and \$8.1 million for 2020. The 2021 decrease in contributions primarily relates to METRO using \$1.9 million from the forfeiture account to offset METRO's contribution and reduce the balance of this account. Benefit payments increased during 2021 by \$1.1 million or 76.3 percent and decreased during 2020 by \$0.3 million or 17.2 percent. The changes over the last three years in the benefit payments relates to the number of participants terminating employment with METRO and transferring their balances to other retirement accounts.

# Metropolitan Transit Authority of Harris County, Texas

## Defined Contribution Plan

### Management's Discussion and Analysis (Unaudited)

**December 31, 2021, and 2020**

Total assets/fiduciary net position increased during 2021 by \$10.9 million or 22.2 percent and during 2020 by \$12.6 million or 34.4 percent. The changes over the last three years in total assets/fiduciary net position generally relates to investment returns which were driven by significant changes in market conditions, contributions and offset by benefit payments/withdrawals.

#### Fund Performance

The investment line-up that participants can invest consists of thirty-three mutual funds, 9 target date funds and one guaranteed interest fund. Each fund has its own investment objectives and strategies. The funds also provide an asset allocation strategy designed to meet their individual investment goals and strategies. The investment returns generally followed the related markets during the last three years. The following table provides a three-years comparison of investment returns:

Investment Name	Ticker	2021		2020		2019	
		Annual Return	Market Benchmark	Annual Return	Market Benchmark	Annual Return	Market Benchmark
<u>Target retirement date funds</u>							
Great-West Lifetime 2015 Fund Inst	MXNYX	8.85%	N/A	11.47%	N/A	15.53%	N/A
Great-West Lifetime 2020 Fund Inst	MXAKX	9.60%	N/A	11.72%	N/A	16.80%	N/A
Great-West Lifetime 2025 Fund Inst	MXQBX	10.52%	N/A	12.67%	N/A	18.43%	N/A
Great-West Lifetime 2030 Fund Inst	MXAYX	12.00%	N/A	12.99%	N/A	20.52%	N/A
Great-West Lifetime 2035 Fund Inst	MXTBX	13.83%	N/A	13.84%	N/A	22.58%	N/A
Great-West Lifetime 2040 Fund Inst	MXBGX	15.52%	N/A	14.01%	N/A	24.18%	N/A
Great-West Lifetime 2045 Fund Inst	MXWEX	16.39%	N/A	14.33%	N/A	25.14%	N/A
Great-West Lifetime 2050 Fund Inst	MXBSX	16.59%	N/A	14.30%	N/A	25.28%	N/A
Great-West Lifetime 2055 Fund Inst	MXZHX	16.54%	N/A	14.33%	N/A	25.19%	N/A
<u>International stock funds</u>							
American Funds New Perspective R6	RNPGX	18.10%	11.26%	33.81%	7.82%	30.48%	22.01%
American Funds New World R6	RNWGX	5.13%	11.26%	25.30%	7.82%	28.03%	22.01%
Great-West International Value Inst	MXJVX	11.26%	11.26%	10.21%	7.82%	22.43%	22.01%
Franklin Mutual International R6	FIMFX	N/A	11.26%	N/A	7.82%	14.89%	22.01%
MFS International Growth R6	MGRDX	9.65%	11.26%	15.82%	7.82%	27.31%	22.01%
Franklin Mutual Global Discovery R6	FMDRX	19.84%	11.26%	-4.27%	7.82%	24.80%	22.01%
Oppenheimer International Growth I	OIGIX	N/A	11.26%	N/A	7.82%	29.16%	22.01%
Vanguard Total Intl Stock Index Admiral	VTIAX	8.62%	11.26%	11.28%	7.82%	21.51%	22.01%
<u>Specialty funds</u>							
Franklin Gold & Precious Metals Adv.	FGADX	-3.52%	N/A	43.99%	N/A	51.87%	N/A
MFS Technology R6	MTCLX	13.74%	N/A	46.56%	N/A	36.23%	N/A
Nuveen Real Estate Securities I	FARCX	41.32%	N/A	-6.12%	N/A	25.56%	N/A
Vanguard Real Estate Index Adm	VGSLX	40.40%	N/A	-4.65%	N/A	28.94%	N/A
<u>Domestic stock funds</u>							
Columbia Small Cap Index A	NMSAX	26.07%	14.82%	10.92%	19.96%	22.30%	25.52%
Janus Henderson Venture N	JVTNX	7.79%	14.82%	31.81%	19.96%	30.98%	25.52%
Undiscovered Mgrs Behavioral Value R6	UBVFX	34.50%	14.82%	3.62%	19.96%	23.34%	25.52%
Ariel Appreciation Fund	CAAPX	25.86%	24.76%	7.36%	13.66%	24.60%	26.20%
Janus Enterprise Fund T	JAENX	17.22%	24.76%	20.15%	13.66%	35.06%	26.20%
Vanguard Mid Cap Index Admiral	VIMAX	24.51%	24.76%	18.24%	13.66%	31.03%	26.20%
Columbia Contrarian Core Instl 3	COFYX	24.45%	28.71%	22.44%	18.40%	33.08%	31.49%
Columbia Dividend Income Adv	CVIRX	26.28%	28.71%	7.77%	18.40%	28.17%	31.49%
Great-West S&P 500 Index Fund Inv	MXVIX	28.20%	28.71%	17.77%	18.40%	30.84%	31.49%
Pioneer Fundamental Growth K	PGKX	23.86%	28.71%	27.51%	18.40%	34.40%	31.49%

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Defined Contribution Plan**

**Management's Discussion and Analysis (Unaudited)**

**December 31, 2021, and 2020**

Investment Name	Ticker	2021		2020		2019	
		Annual Return	Market Benchmark	Annual Return	Market Benchmark	Annual Return	Market Benchmark
<u>Balanced funds</u>							
American Funds American Balanced R6	RLBGX	16.11%	N/A	11.22%	N/A	19.55%	N/A
Fidelity Puritan	FPURX	18.94%	N/A	20.56%	N/A	21.25%	N/A
<u>Bond funds</u>							
BlackRock High Yield Bond Portfolio K	BRHYX	5.88%	-1.54%	5.93%	7.51%	15.58%	8.72%
Columbia US Government Mortgage Instl	CUGYX	N/A	-1.54%	N/A	7.51%	6.97%	8.72%
Columbia Quality Income Instl 3	CUGYX	0.22%	-1.54%	6.14%	7.51%	N/A	8.72%
JPMorgan Global Bond Opportunities R6	GBONX	1.52%	-1.54%	7.92%	7.51%	10.73%	8.72%
Metropolitan West Total Return Bond Pl	MWTSX	-1.11%	-1.54%	9.18%	7.51%	9.23%	8.72%
MFS Emerging Markets Debt R6	MEDHX	-2.30%	-1.54%	8.11%	7.51%	14.17%	8.72%
Vanguard Inflation-Protected Secs Adm	VAIPX	5.68%	-1.54%	10.96%	7.51%	8.16%	8.72%
Vanguard Interm-Term Investment-Grade	VFIDX	-1.14%	-1.54%	10.41%	7.51%	10.49%	8.72%
Vanguard Total Bond Market Index Adm	VBTLX	-1.67%	-1.54%	7.72%	7.51%	8.71%	8.72%
<u>Interest fund</u>							
Great-West Guaranteed Interest Fund	N/A	1.40%	N/A	1.50%	N/A	1.75%	N/A

**Plan Fees**

The Plan charges fees to participants' account for investment management, advisory and record-keeping services that are directly offset from the investment funds' earnings. The fees vary by investment fund and are calculated based on the fund's daily asset value. According to the Fee Disclosure Report provided by Empower as of December 31, 2021, and 2020, the estimated fees were as follows:

**December 31, 2021**

Service	Annual Estimate	Estimated Average Cost Per Participant	Estimated Percentage of Total Assets
Payments to Investment Providers	\$ 304,783	\$ 83.00	0.51%
Payments to Recordkeeper	54,282	15.00	0.09%
Payments to Others	21,988	6.00	0.04%
Total Payment Estimate	\$ 381,053	\$ 104.00	0.64%

**December 31, 2020**

Service	Annual Estimate	Estimated Average Cost Per Participant	Estimated Percentage of Total Assets
Payments to Investment Providers	\$ 241,723	\$ 72.00	0.49%
Payments to Recordkeeper	47,615	14.00	0.10%
Payments to Others	16,550	3.00	0.03%
Total Payment Estimate	\$ 305,888	\$ 89.00	0.62%

For a copy of the complete Fee Disclosure Report, please contact the Plan Administrator, Metropolitan Transit Authority of Harris County, Texas, P.O. Box 61429, Houston, Texas 77208-1429.

## **BASIC FINANCIAL STATEMENTS**

**Metropolitan Transit Authority of Harris County, Texas**  
**Defined Contribution Plan**

**Statements of Fiduciary Net Position**  
**December 31, 2021, and 2020**

Assets:	<u>2021</u>	<u>2020</u>
Investments, at fair value	\$ 60,034,748	\$ 49,175,938
Employer contribution receivable	256,186	169,029
Total assets	<u>60,290,934</u>	<u>49,344,967</u>
 Fiduciary net position:		
Restricted for pensions	<u>\$ 60,290,934</u>	<u>\$ 49,344,967</u>

*The accompanying notes are an integral part of the Plan's basic financial statements.*

**Metropolitan Transit Authority of Harris County, Texas**  
**Defined Contribution Plan**

**Statements of Changes in Fiduciary Net Position**  
**Years Ended December 31, 2021, and 2020**

	<b>2021</b>	<b>2020</b>
Additions:		
Investment income:		
Interest and dividend income	\$ 7,214,884	\$ 3,245,533
Net depreciation/(appreciation) in fair value of investments	(7,074)	2,756,982
Total investment income	7,207,810	6,002,515
Contributions from METRO	6,284,538	8,091,581
Total additions	13,492,348	14,094,096
Deductions:		
Benefit payments	(2,440,197)	(1,384,242)
Administrative expenses	(106,184)	(88,817)
Total deductions	(2,546,381)	(1,473,059)
Changes in fiduciary net position	10,945,967	12,621,037
Fiduciary net position – restricted for pensions:		
Beginning of the year	49,344,967	36,723,930
End of the year	\$ 60,290,934	\$ 49,344,967

*The accompanying notes are an integral part of the Plan's basic financial statements.*

**Metropolitan Transit Authority of Harris County, Texas**  
**Defined Contribution Plan**

**Notes to the Basic Financial Statements**

**December 31, 2021, and 2020**

**1. DESCRIPTION OF THE PLAN**

The following description of Metropolitan Transit Authority (METRO) Defined Contribution 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, 401(a) defined contribution pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the “IRC”) and is also a governmental plan under Section 414(d) of the IRC. The Plan is not covered by the Employee Retirement Income Security Act of 1974.

Eligibility

The Plan was established with the objective of assisting METRO’s employees in accumulating resources for their retirement. The Plan became effective for new full-time employees who were not covered under the collective bargaining agreement and hired after September 30, 2007. Subsequently, the Plan also became effective for new employees who were covered under the collective bargaining agreement and hired after September 30, 2012. It also includes employees who were participants of METRO’s Union and Non-Union Pension Plans (Pension Plans) but changed their status from union position to a non-union or vice versa after the Pension Plans closed for new employees. Full-time employees are eligible to participate in the Plan upon their employment with METRO. The following table presents information of Plan participants during plan years ended December 31, 2021, and 2020:

<b>Participants</b>	<b>2021</b>	<b>2020</b>
Eligible participants – January 1st	3,366	3,107
<u>Less:</u> Terminated participants who removed funds	124	150
<u>Add:</u> New participants	435	409
Eligible participants – December 31st	3,677	3,366

Contributions to Participants 401(a) Account

Only METRO contributes to the participants 401(a) Defined Contribution Plan account. METRO’s Board of Directors authorized these contributions and are included in the annual operating budget. The base contribution is two (2) percent of the participant’s compensation as defined under the Plan’s provisions. In addition to the base contribution, METRO matches up to four (4) percent of the employee’s compensation based on their contribution to their 457(b) Deferred Compensation Plan account.

METRO’s contributions are deposited into the employee’s 401(a) Defined Contribution Plan individual account during the normal weekly or bi-weekly payroll cycle. Terminated employees can remain in the Plan but will no longer receive employer contributions.

Participants’ Accounts

Each participant has an individual 401(a) Defined Contribution Plan account which tracks contributions made by METRO, investments they purchased/sold and related fees. New participants are automatically invested in a target date fund based on their date of birth and can reallocate those contributions between

**Metropolitan Transit Authority of Harris County, Texas**  
**Defined Contribution Plan**

**Notes to the Basic Financial Statements**

**December 31, 2021, and 2020**

43 investment options established under the Plan. Ultimately, participants control how funds in their account are invested in the available investment line-up.

Vesting

Participant's vesting in the employer contributions is based on years of service and the vesting rate which is forty (40) percent after the second year of service, and twenty (20) percent annually thereafter. Participants are one hundred (100) percent vested after the fifth year of service. A year of service means a twelve-consecutive-month period during which the employee completes at least one thousand hours of service.

Participant Loans

The Plan does not permit participant loans.

Plan Administration and Fees

METRO is the Plan Administrator with the general administration and record keeping services provided by Empower Retirement, a subsidiary of Great-West Life & Annuity Insurance Company. Fees associated with administration, recording keeping, money managers and discretionary managed account services are paid from the participants' accounts.

Payment of Benefits

A participant's 401(a) defined contribution pension account balance is available upon severance from METRO's service, attainment of age 65, or death based on their vesting level. 401(a) Plan participants aged 65 and older are eligible to take distributions, without penalty, from their 401(a) accounts while still in service with METRO. A participant may elect to receive: 1) a single lump sum amount equal to the value of their account, 2) a partial lump-sum payment of a specified amount, with the balance payable in installment payments for a period of years, 3) annuity payments payable either monthly, quarterly, or annually over a period not exceeding the life expectancy of the participant, or, in certain circumstances, the joint life expectancy of the participant and a "designated beneficiary" (as defined in the Internal Revenue Code (Code), or 4) installment payments for a period of years. Upon termination from METRO, or attainment of age 70 and a half, funds may be rolled over into an eligible retirement plan (as defined in the Code), or an IRA.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation

The accompanying basic financial statements of the Plan are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are reported when payments become due from METRO, the Plan sponsor, while investment income (net of investment and administrative fees) are reported when earned. Payments made to participants upon termination or retirement are reported when paid.



**Metropolitan Transit Authority of Harris County, Texas**  
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Investment Policy

The investment policy focuses on the participant and their goal of saving resources for retirement. Some of the major topics in the policy comprising investment objectives, roles and responsibilities, performance evaluation, investment options, and related education for participants.

Investment options included in the policy consist of 40 mutual funds that cover a wide range of investment strategies that include risk levels and asset classes. Participants can select among these investment options when customizing an investment portfolio that meets their risk tolerance levels and financial goals. To implement and monitor their long-term investment strategy, participants can use the online administrative and investment tools provided by the Plan's record-keeper and service provider Empower Retirement, previously known as Great-West Life & Annuity Insurance Company.

Investment Valuation

The Plan's investments are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Participants Accounts and Income Recognition

Changes in the value of Participant's account relate to contributions from METRO, interest, dividends, investments sales and change in market value. Purchases and sales of securities are recorded on a trade-date basis. Dividends are processed the evening of the execution date and recorded with a drop date on the next business day. Interest is credited to participant-guaranteed accounts based on the rate communicated by Empower. Share values of mutual funds are received from the National Security Clearing Corporation, Interactive Data Corporation or the mutual fund company.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the Plan's financial statements. Actual results could differ from those estimates.

**3. CUSTODIAL CREDIT RISK**

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of their investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty trust department. All Plan's investments are held by the individual mutual funds' asset custodians in the Plan's name and therefore, are not exposed to custodial credit risk.

**Metropolitan Transit Authority of Harris County, Texas**  
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**Notes to the Basic Financial Statements**

**December 31, 2021, and 2020**

**4. FAIR VALUE MEASUREMENTS**

The Plan categorizes its fair value hierarchy as established by U.S. 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. In determining fair value, the Plan utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Following is a description of the valuation methodologies used for assets measured at fair value:

Investments disclosed as Level 1 includes individual mutual funds and those that invest in multiple mutual funds (fund to funds) when the underlying fund is actively traded on a nationally recognized stock exchange. Investments that guarantee a return based on the purchase of governmental securities are disclosed as Level 2.

All investments are recorded at their net asset value (unit value) and calculated daily after the close of the current trading day by each mutual fund. This value is used to calculate the daily ending investment balance for each participant and to price investment transactions settling at the end of the day.

The following tables set forth by level, within the fair value hierarchy, a summary of the Plan's investments measured at fair value as of December 31, 2021, and December 31, 2020:

2021 Fair Value Measurement Based on Reporting Hierarchy

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic stock funds	\$ 5,635,788	\$ -	-	\$ 5,635,788
International stock funds	3,914,202	-	-	3,914,202
Balanced fund	765,703	-	-	765,703
Target retirement date funds	45,143,387	-	-	45,143,387
Specialty funds	1,259,779	-	-	1,259,779
Bond funds	2,431,073	-	-	2,431,073
Great-West Guaranteed Interest Funds	-	884,816	-	884,816
Total investments, at fair value	<u>\$ 59,149,932</u>	<u>\$ 884,816</u>	<u>\$ -</u>	<u>\$ 60,034,748</u>

2020 Fair Value Measurement Based on Reporting Hierarchy

	Level 1	Level 2	Level 3	Total
Mutual funds:				
Domestic stock funds	\$ 4,397,887	\$ -	-	\$ 4,397,887
International stock funds	2,502,483	-	-	2,502,483
Balanced fund	408,025	-	-	408,025
Target retirement date funds	36,777,330	-	-	36,777,330
Specialty funds	868,504	-	-	868,504
Bond funds	1,525,362	-	-	1,525,362
Great-West Guaranteed Interest Funds	-	2,696,347	-	2,696,347
Total investments, at fair value	<u>\$ 46,479,591</u>	<u>\$ 2,696,347</u>	<u>\$ -</u>	<u>\$ 49,175,938</u>

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**5. FORFEITURE ACCOUNT**

Participant account balances are transferred to a forfeiture account within the Plan when a participant separates from service prior to being one hundred percent vested. Per the Plan document, METRO may use the forfeited funds to first offset Plan expenses, then to reduce its contributions, and then to reallocate any remainder balance to participants in the same manner as METRO's contributions are allocated.

The following table summarizes transactions that occurred within the forfeiture account during plan year 2021 and 2020 as well as the Plan's forfeiture account balance as of December 31, 2021, and 2020:

	<b>2021</b>	<b>2020</b>
Beginning balance	\$ 2,092,151	\$ 1,780,030
Non-vested transfers	398,654	323,545
Investment income	18,213	31,338
Administrative Expenses	(36,410)	(42,762)
Offset METRO's contributions	(1,959,989)	-
Ending balance	\$ 512,619	\$ 2,092,151

**6. TERMINATED PARTICIPANTS**

As of December 31, 2021, and 2020, the Plan had 45 and 59 terminated vested participants who had account balances totaling \$570,119 and \$578,354, respectively. These participants no longer receive contributions from METRO and their account balances are adjusted only for fees, investment earnings and withdrawals.

**7. RELATED PARTY TRANSACTIONS**

The costs of administering the Plan are paid with the monthly administrative fee charged to participant accounts, an annualized asset-based fee assessed to the Plan's investment funds, and interest earned on assets held in the Plan's custodial account which is administered by the Plan's custodian.

**8. INCOME TAX STATUS**

The Plan has not obtained a determination letter from the Internal Revenue Services since METRO adopted a pre-approved prototype plan from Great-West Retirement Services and has not made any extensive modifications to such prototype plan. The Plan Administrator believes that the Plan complies with the applicable requirements of the Internal Revenue Code and, therefore, qualifies as a tax-favored Plan.

**9. PLAN TERMINATION**

METRO as Plan Sponsor has the right to amend, suspend, or terminate the Plan if the amounts of the Participant's balances are not affected. Upon termination of the Plan, Participants or their beneficiaries would become fully vested in their accounts as provided in the Plan's controlling document. METRO also has the right to discontinue contributions and add or eliminate any investment option, in whole or in part.

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**11. RISKS AND UNCERTAINTIES**

The Plan provides for participant directed investments that are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments and the level of uncertainty related to the changes in the value of investments, it is at least reasonably possible, that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position.

**12. SUBSEQUENT EVENTS**

In February 2022, four index funds: iShares Russell Mid Cap Index Fund, Fidelity 500 Index Fund, Fidelity Inflation Protected Bond Index Fund, and Schwab US Large Cap Growth Index Fund, were added to the investment line-up.

In May 2022, the Plan was amended to include any eligible full-time union employee who is a member of the Metropolitan Transit Authority Transport Workers Union Pension Plan, Local 260, AFL-CIO that elected to commence benefits while continuing to be employed by METRO.

The Plan's management has evaluated subsequent events through December 22, 2022; the date the Plan's financial statements were available to be issued. No changes were made, or are necessary to be made, to the Plan's financial statements, as a result of this evaluation.