

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

**Employees' Deferred Compensation Plan
Annual Financial Statements**

Years Ended December 31, 2023 and 2022

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**Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan**

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December 31, 2023 and 2022**

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Independent Auditor's Report

To the Participants and Management of
Metropolitan Transit Authority Employees' Deferred Compensation Plan:

Opinion

We have audited the financial statements of Metropolitan Transit Authority Employees' Deferred Compensation Plan (the "Plan"), which comprise the Statements of Fiduciary Net Position as of December 31, 2023, and 2022, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related notes to the financial statements, which collectively comprise the basic financial statements (financial statements), as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of December 31, 2023, and 2022, 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 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 basic financial statements. Such information is the responsibility of management and, 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 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 financial statements, and other knowledge we obtained during our audit of the 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
September 9, 2024

Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan
Management's Discussion and Analysis (Unaudited)
December 31, 2023 and 2022

Management's Discussion and Analysis (Unaudited)

This discussion and analysis section provide an overview of the performance of the Metropolitan Transit Authority (METRO) Employees' Deferred Compensation 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, deferred compensation plan which is designed to assist full-time employees to defer their salary to save for retirement in future years. The Plan became effective for full-time employees on January 1, 1989. Employees become eligible to participate in the Plan on the date on which the employee first performs an hour of service for METRO. During the last three calendar years, participant counts have increased to 5,472 for 2023, 5,000 for 2022 and 4,690 for 2021. Contributions are deposited into individual employee accounts maintained by a third-party record-keeper. Investment options consist of multiple funds listed on pages 6 and 7.

Employees can contribute to the Plan through salary deferments up to the Internal Revenue Code (IRC) 402(g) limits. The Plan also allows catch-up contributions for employees who are aged 50 or over. For 2023, these limits were \$22,500 and \$7,500, respectively. Employee contributions and their earnings are tax deferred. Contributions from the employees are deposited into individual employee accounts, maintained by a third-party record-keeper, either weekly or semi-weekly depending on the related payroll cycle.

METRO also offers a 401(a) defined contribution plan (401(a) DC Plan) for new full-time employees not covered by the Labor Agreement between METRO & Transport Workers Union of America, Local 260 hired after September 30, 2007, and September 30, 2012, for those covered by the agreement. This Plan also includes employees who were participants of METRO's Union and Non-Union Defined Benefit Pension Plans (Pension Plans) but changed status from a union position to a non-union one or vice versa after the Pension Plans closed for new employees. METRO matches up to four (4) percent of an employee's compensation based on their contributions to their Deferred Compensation Plan account.

This match also encourages participants of the 401(a) DC Plan to contribute to their Deferred Compensation account in addition to deferring income taxation on retirement savings.

In May 2021, METRO established a committee responsible for the investment and administration of the Plan and adopted a Committee Charter. The Chief Executive Officer of METRO appoints members to serve on the Committee for three-year terms. METRO Chief Financial Officer and EVP/Chief Human Resources Officer 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, 2023:

| | | |
|----------------|-----------------|----------------|
| George Fotinos | Tracy Jackson | Karen Kauffman |
| 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) Defined Contribution Plan, Defined Benefit Union and Non-Union Pension Plans and a 401(a) Savings 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
Employees' Deferred Compensation Plan
Management's Discussion and Analysis (Unaudited)
December 31, 2023 and 2022

Financial Highlights

The summary of fiduciary net position and changes in fiduciary net position lists the additions and deductions that when netted equals the total assets/fiduciary net position. The values and related changes during the last three plan years consist of:

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|--|-----------------------|-----------------------|-----------------------|
| <u>Summary of fiduciary net position:</u> | | | |
| Assets: | | | |
| Investments, at fair value | \$ 145,948,418 | \$ 125,440,831 | \$ 142,349,529 |
| Notes receivable from participants | 8,586,478 | 7,014,582 | 6,877,037 |
| Total assets / fiduciary net position | <u>\$ 154,534,896</u> | <u>\$ 132,455,413</u> | <u>\$ 149,226,566</u> |
| <u>Changes in fiduciary net position:</u> | | | |
| Additions /(Reductions): | | | |
| Investment Income | | | |
| Net appreciation/(depreciation) in fair value of investments | \$ 11,353,011 | \$ (28,863,141) | \$ 3,874,654 |
| Interest and dividend income | 6,687,222 | 9,394,373 | 12,705,273 |
| Total investment gain/(loss) | 18,040,233 | (19,468,768) | 16,579,927 |
| Contributions from participants | 15,522,072 | 13,157,268 | 14,051,074 |
| Interest on notes receivable from participants | 512,865 | 369,483 | 366,409 |
| Total additions/(reductions) | <u>34,075,170</u> | <u>(5,942,017)</u> | <u>30,997,410</u> |
| Deductions: | | | |
| Benefit payments | (11,775,414) | (10,660,559) | (11,494,788) |
| Administrative expenses | (220,273) | (168,577) | (185,843) |
| Total deductions | <u>(11,995,687)</u> | <u>(10,829,136)</u> | <u>(11,680,631)</u> |
| Changes in fiduciary net position | 22,079,483 | (16,771,153) | 19,316,779 |
| Beginning of the year | <u>132,455,413</u> | <u>149,226,566</u> | <u>129,909,787</u> |
| End of the year | <u>\$ 154,534,896</u> | <u>\$ 132,455,413</u> | <u>\$ 149,226,566</u> |

Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan
Management's Discussion and Analysis (Unaudited)
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Active employees elect the amount or percentage of their salary/wages to contribute to their deferred compensation account each pay period which totaled \$15.5 million for 2023 and \$13.2 million for 2022. The changes in contributions in the last three years relate to the amount employees elect to contribute from their payroll. Benefit payments increased during 2023 by \$1.1 million or 10.5 percent and decreased during 2022 by \$0.8 million or 7.3 percent. The changes in the benefit payment amounts over the last three years relate to the number of participants terminating employment with METRO and transferring their balances to other retirement accounts or participants taking a hardship withdrawal. The changes in these employees' account balances are also related to the market performance of their investments and the size of the amount that is withdrawn.

Total assets / plan fiduciary net position increased during 2023 by \$22.1 million or 16.7 percent and decreased during 2022 by \$16.8 million or 11.2 percent. The changes over the last three years in total assets/plan fiduciary net position generally relate to investment returns which were driven by significant changes in market conditions, contributions and offset by benefit payments/withdrawals.

Notes Receivable from Participants

The loan activity consists of new loans, interest, payments and distributed (defaulted) loans that when netted equal the ending balance. New loans issued increased by \$1.8 million or 42.0 percent and distributed loans decreased by \$83 thousand or 16.5 percent in 2023. The change in loans was primarily due to loans maturing or defaulting and participants taking new loans. More information on participant loans is located in the Notes on Page 12.

The following table presents information of participant loans during plan years ending December 31, 2023, 2022 and 2021:

| | <u>2023</u> | <u>2022</u> | <u>2021</u> |
|---------------------------------|---------------------|---------------------|---------------------|
| Beginning balance – January 1st | \$ 7,014,582 | \$ 6,877,037 | \$ 6,619,908 |
| New loans issued | 5,996,575 | 4,221,683 | 4,388,108 |
| Interest assessed | 512,865 | 369,483 | 366,409 |
| Loan payments | (4,514,208) | (3,946,865) | (3,796,484) |
| Distributed loans | (423,336) | (506,756) | (700,904) |
| Ending balance – December 31st | <u>\$ 8,586,478</u> | <u>\$ 7,014,582</u> | <u>\$ 6,877,037</u> |

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Fund Performance

The investment line-up that participants can invest in consists of twenty-one mutual funds, nine 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-year comparison of investment returns:

| Investment Name | Ticker | 2023 | | 2022 | | 2021 | |
|---|--------|---------------|------------------|---------------|------------------|---------------|------------------|
| | | 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 | 10.69% | N/A | -11.95% | N/A | 8.85% | N/A |
| Great-West Lifetime 2020 Fund Inst | MXAKX | 11.30% | N/A | -12.61% | N/A | 9.60% | N/A |
| Great-West Lifetime 2025 Fund Inst | MXQBX | 12.18% | N/A | -13.43% | N/A | 10.52% | N/A |
| Great-West Lifetime 2030 Fund Inst | MXAYX | 13.34% | N/A | -14.29% | N/A | 12.00% | N/A |
| Great-West Lifetime 2035 Fund Inst | MXTBX | 14.91% | N/A | -15.29% | N/A | 13.83% | N/A |
| Great-West Lifetime 2040 Fund Inst | MXBGX | 16.10% | N/A | -16.00% | N/A | 15.52% | N/A |
| Great-West Lifetime 2045 Fund Inst | MXWEX | 17.19% | N/A | -16.54% | N/A | 16.39% | N/A |
| Great-West Lifetime 2050 Fund Inst | MXBSX | 17.43% | N/A | -16.65% | N/A | 16.59% | N/A |
| Great-West Lifetime 2055 Fund Inst | MXZHX | 17.52% | N/A | -16.90% | N/A | 16.54% | N/A |
| <u>International stock funds</u> | | | | | | | |
| American Funds New Perspective R6 | RNPGX | 25.01% | 18.24% | -25.61% | -14.45% | 18.10% | 11.26% |
| American Funds New World R6 | RNWGX | 16.22% | 18.24% | -21.75% | -14.45% | 5.13% | 11.26% |
| Great-West International Value Inst | MXJVX | N/A | 18.24% | -14.90% | -14.45% | 11.26% | 11.26% |
| MFS International Diversification R6 | MDIZX | 14.44% | 18.24% | -17.02% | -14.45% | 7.78% | 11.26% |
| MFS International Growth R6 | MGRDX | N/A | 18.24% | -15.02% | -14.45% | 9.65% | 11.26% |
| Franklin Mutual Global Discovery R6 | FMDRX | N/A | 18.24% | -4.68% | -14.45% | 19.84% | 11.26% |
| Vanguard Total Intl Stock Index Admiral | VTIAX | N/A | 18.24% | -16.01% | -14.45% | 8.62% | 11.26% |
| <u>Specialty funds</u> | | | | | | | |
| Franklin Gold & Precious Metals Adv. | FGADX | 2.24% | N/A | -23.24% | N/A | -3.52% | N/A |
| MFS Technology R6 | MTCLX | N/A | N/A | -35.97% | N/A | 13.74% | N/A |
| Nuveen Real Estate Securities I | FARCX | N/A | N/A | -24.70% | N/A | 41.32% | N/A |
| Vanguard Real Estate Index Adm | VGSLX | N/A | N/A | -26.20% | N/A | 40.40% | N/A |
| Neuberger Berman Real Estate R6 | NRREX | 12.10% | N/A | -26.98% | N/A | 42.10% | N/A |
| <u>Domestic stock funds</u> | | | | | | | |
| Fidelity Small Cap Index | FSSNX | 17.12% | 16.93% | -20.27% | -20.44% | 14.71% | 14.82% |
| Columbia Small Cap Index A | NMSAX | N/A | 16.93% | -16.52% | -20.44% | 26.07% | 14.82% |
| Janus Henderson Venture N | JVTNX | -24.07% | 16.93% | -24.07% | -20.44% | 7.79% | 14.82% |
| Undiscovered Mgrs Behavioral Value R6 | UBVFX | -1.10% | 16.93% | -1.10% | -20.44% | 34.50% | 14.82% |
| Fidelity Mid Cap Index | FSMDX | 17.21% | 16.44% | -17.28% | -13.06% | 22.56% | 24.76% |
| Ariel Appreciation Fund | CAAPX | N/A | 16.44% | -12.43% | -13.06% | 25.86% | 24.76% |
| iShare Russell Mid-Cap Index | BRMAX | N/A | 16.44% | -17.48% | -13.06% | 22.18% | 24.76% |
| Janus Enterprise Fund T | JAENX | 17.81% | 16.44% | -16.14% | -13.06% | 17.22% | 24.76% |
| Vanguard Mid Cap Index Admiral | VIMAX | N/A | 16.44% | -18.71% | -13.06% | 24.51% | 24.76% |
| Allspring Special Mid Cap Value R6 | WFPRX | 9.62% | 16.44% | -4.50% | -13.06% | 28.80% | 24.76% |
| AB Large Cap Growth Z | APGZX | 35.11% | 26.29% | -28.73% | -18.11% | 28.98% | 28.71% |
| Columbia Contrarian Core Instl 3 | COFYX | N/A | 26.29% | -18.45% | -18.11% | 24.45% | 28.71% |
| Columbia Dividend Income Adv | CVIRX | 10.49% | 26.29% | -4.96% | -18.11% | 26.28% | 28.71% |
| Fidelity 500 Index | FXAIX | 26.29% | 26.29% | -18.13% | -18.11% | 28.69% | 28.71% |

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| Investment Name | Ticker | 2023 | | 2022 | | 2021 | |
|---|--------|---------------|------------------|---------------|------------------|---------------|------------------|
| | | Annual Return | Market Benchmark | Annual Return | Market Benchmark | Annual Return | Market Benchmark |
| Great-West S&P 500 Index Fund Inv | MXVIX | N/A | 26.29% | -18.55% | -18.11% | 28.20% | 28.71% |
| Pioneer Fundamental Growth K | PFKX | N/A | 26.29% | -20.47% | -18.11% | 23.86% | 28.71% |
| Schwab R US Large-Cap Growth | SWLGX | N/A | 26.29% | -19.16% | -18.11% | 27.53% | 28.71% |
| <u>Balanced funds (equity and fixed income)</u> | | | | | | | |
| American Funds American Balanced R6 | RLBGX | 14.37% | N/A | -11.83% | N/A | 16.11% | N/A |
| Fidelity Puritan | FPURX | N/A | N/A | -17.24% | N/A | 18.94% | N/A |
| <u>Bond funds</u> | | | | | | | |
| BlackRock High Yield Bond Portfolio K | BRHYX | 13.68% | 5.53% | -10.34% | -13.01% | 5.88% | -1.54% |
| Fidelity Total Bond K6 | FTKFX | 7.09% | 5.53% | -12.55% | -13.01% | N/A | -1.54% |
| Columbia Quality Income Instl 3 | CUGYX | N/A | 5.53% | -16.78% | -13.01% | 0.22% | -1.54% |
| Fidelity Inflation Protected Bond Index | FIPDX | N/A | 5.53% | -12.05% | -13.01% | 5.93% | -1.54% |
| JPMorgan Global Bond Opportunities R6 | GBONX | 7.00% | 5.53% | -5.89% | -13.01% | 1.52% | -1.54% |
| Metropolitan West Total Return Bond Pl | MWTSX | N/A | 5.53% | -14.69% | -13.01% | -1.11% | -1.54% |
| MFS Emerging Markets Debt R6 | MEDHX | 10.59% | 5.53% | -14.73% | -13.01% | -2.30% | -1.54% |
| Vanguard Inflation-Protected Secs Adm | VAIPX | 3.79% | 5.53% | -11.89% | -13.01% | 5.68% | -1.54% |
| Vanguard Interm-Term Investment-Grade | VFIDX | N/A | 5.53% | -13.78% | -13.01% | -1.14% | -1.54% |
| Vanguard Total Bond Market Index Adm | VBTLX | 5.70% | 5.53% | -13.16% | -13.01% | -1.67% | -1.54% |
| <u>Interest fund</u> | | | | | | | |
| Great-West Guaranteed Interest Fund | N/A | 1.95% | N/A | 1.75% | N/A | 1.40% | N/A |

Plan Fees

The Plan charges fees to participants' accounts 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, Plan record-keeper, as of December 31, 2023, and 2022, the estimated fees were as follows:

December 31, 2023

| Service | Annual Estimate | Estimated Average Cost Per Participant | Estimated Percentage of Total Assets |
|----------------------------------|-----------------|--|--------------------------------------|
| Payments to Investment Providers | \$ 538,982 | \$ 98 | 0.35% |
| Payments to Recordkeeper | 258,787 | 47 | 0.17% |
| Payments to Others | 106,126 | 19 | 0.07% |
| Total Payment Estimate | \$ 903,895 | \$ 164 | 0.59% |

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December 31, 2022

| Service | Annual Estimate | Estimated Average Cost Per Participant | Estimated Percentage of Total Assets |
|----------------------------------|-------------------|--|--------------------------------------|
| Payments to Investment Providers | \$ 496,490 | \$ 99 | 0.37% |
| Payments to Recordkeeper | 229,606 | 46 | 0.17% |
| Payments to Others | 158,814 | 32 | 0.12% |
| Total Payment Estimate | \$ 884,910 | \$ 177 | 0.66% |

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
Employees' Deferred Compensation Plan
Statements of Fiduciary Net Position
December 31, 2023 and 2022

| Assets: | <u>2023</u> | <u>2022</u> |
|------------------------------------|-----------------------|-----------------------|
| Investments, at fair value | \$ 145,948,418 | \$ 125,440,831 |
| Notes receivable from participants | <u>8,586,478</u> | <u>7,014,582</u> |
| Total assets | <u>154,534,896</u> | <u>132,455,413</u> |
| | | |
| Fiduciary net position: | | |
| Restricted for pensions | <u>\$ 154,534,896</u> | <u>\$ 132,455,413</u> |

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

Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan
Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|--|----------------|----------------|
| Additions/(Reductions): | | |
| Investment income: | | |
| Interest and dividend income | \$ 6,687,222 | \$ 9,394,373 |
| Net appreciation/(depreciation) in fair value of investments | 11,353,011 | (28,863,141) |
| Total investment income/(loss) | 18,040,233 | (19,468,768) |
| Contributions from participants | 15,522,072 | 13,157,268 |
| Interest on notes receivable from participants | 512,865 | 369,483 |
| Total additions/(reductions) | 34,075,170 | (5,942,017) |
| Deductions: | | |
| Benefit payments | (11,775,414) | (10,660,559) |
| Administrative expenses | (220,273) | (168,577) |
| Total deductions | (11,995,687) | (10,829,136) |
| Changes in fiduciary net position | 22,079,483 | (16,771,153) |
| Fiduciary net position – restricted for pensions: | | |
| Beginning of the year | 132,455,413 | 149,226,566 |
| End of the year | \$ 154,534,896 | \$ 132,455,413 |

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

**Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan**

Notes to the Basic Financial Statements

December 31, 2023 and 2022

1. DESCRIPTION OF THE PLAN

The following description of Metropolitan Transit Authority (METRO) Deferred Compensation Plan (the "Plan" or "457(b) account") 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, employees' deferred compensation plan that is an eligible governmental plan within the meaning the Internal Revenue Code (the "IRC") 457(e)(1)(a). The Plan is not covered by the Employee Retirement Income Security Act of 1974.

Eligibility

METRO established this Plan to assist full-time employees to defer their salary to save for retirement in future years. The Plan became effective for full-time employees on January 1, 1989. New full-time employees become eligible to participate in the Plan on the date on which the employee first performs an hour of service for METRO.

The following table presents information of Plan participants during plan years ended December 31, 2023, and 2022:

| Participants | 2023 | 2022 |
|---|-------------|-------------|
| Participants – January 1st | 5,000 | 4,690 |
| Less: Terminated participants who removed funds | (373) | (426) |
| Add: New participants | 845 | 736 |
| Participants – December 31st | 5,472 | 5,000 |

Contributions by Participants

Contributions to the Plan participants 457(b) account are only made by employees through salary deferral based on employee authorizations. The employee elects the amount or percentage of their salary to defer and the date when deferrals start. Participants can revoke or change deferral amounts or percentages anytime.

Participants of the 401(a) defined contribution plan (401(a) DC Plan) are encouraged to contribute to their 457(b) account. Only METRO contributes to the participants 401(a) DC Plan account. The 401(a) DC Plan includes METRO's match up to four (4) percent of the employee's compensation based on their contribution to their 457(b) account. The employees' contributions are deposited into the employee's 457(b) individual account during the normal weekly or bi-weekly payroll cycle. Participants who are no longer employed at METRO can remain in the Plan but no longer make contributions to their account.

Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan

Notes to the Basic Financial Statements

December 31, 2023 and 2022

Participants' Accounts

Each participant has an individual 457(b) account with the record-keeper which tracks contributions made by employees, investments they purchased/sold and related fees. Participants control how funds in their accounts are invested in the available investment line-up and can allocate contributions between thirty-one (31) investment options established under the Plan. If new participants do not select any investment options during account set-up, they will be automatically invested in a target date fund based on their date of birth.

Vesting

The Participants are immediately vested in their contributions.

Notes Receivable from Participants

The Plan permits participant loans. Only active employees may request a Plan loan but must have a minimum account balance of \$2,000 to be eligible. The minimum loan amount is \$1,000 with a maximum amount of \$50,000 or 50 percent of account balance whichever is less. If a participant has an outstanding loan, the maximum loan amount available must be reduced by the highest loan balance during the past 12 months. A participant may have up to two loans at one time if the loan repayments are submitted via payroll deduction and are identified separately. The Plan charges an initial and monthly fee and interest which are paid during the normal weekly or bi-weekly payroll cycle.

The loans are secured by the balance in the participant's account. Two types of loans are available: (1) general purpose loan with a term of one to five years and (2) a principal residence loan with a term of six to fifteen years. Loans bear interest at a fixed rate equal to 2 percent over the Prime Rate published in the Wall Street Journal on the first business day of the month before the loan is originated for the life of the loan. Interest paid by the participant on loans are contributed to the participant's account.

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.

The Plan contracted HUB Retirement & Wealth Management to provide investment advisory services to the Committee whose fees are paid by METRO.

Payment of Benefits

A participant's deferred compensation account balance is available upon severance from METRO's service, attainment of age 72, or death. 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 72, funds may be rolled over into an eligible retirement plan (as defined in the Code), or an IRA.

Metropolitan Transit Authority of Harris County, Texas Employees' Deferred Compensation Plan

Notes to the Basic Financial Statements

December 31, 2023 and 2022

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements of the Plan are presented in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) established by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employee contributions are reported when deducted from their payroll check, while investment income (net of investment and administrative fees) is reported when earned. Payments made to participants upon termination or retirement are reported when paid.

Investment Policy

The Plan's investment policy is focused on providing resources for participants to save for retirement. Participants can choose from thirty mutual funds and one fixed income fund that covers a wide range of investment strategies and customizes their investment portfolio based on their personal risk tolerance levels and financial goals. To assist participants, implement and monitor their long-term investment strategy, online administrative and investment tools are provided by the Plan's record-keeper and service provider Empower Retirement.

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 a Participant's account relate to contributions by the participant, 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 Plan's financial statements in conformity with U.S GAAP requires management to make certain estimates and assumptions that affect amounts reported in the Plan's financial statements. Actual results could differ from those estimates.

Metropolitan Transit Authority of Harris County, Texas
Employees' Deferred Compensation Plan

Notes to the Basic Financial Statements

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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 and guaranteed funds' asset custodians in the Plan's name and therefore, are not exposed to custodial credit risk.

4. FAIR VALUE MEASUREMENTS

The Plan categorizes its fair value hierarchy as established by U.S. GAAP. 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 in mutual funds are actively traded on a nationally recognized stock exchange and are therefore considered Level 1.

Investments disclosed as Level 2 represents funds invested in Great-West Guaranteed Interest Fund (the Fund) whose investment value represents contributions made by participants to the Fund, plus earnings, less participant withdrawals and administrative expenses.

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.

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

December 31, 2023 and 2022

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, 2023, and December 31, 2022:

2023 Fair Value Measurement Based on Reporting Hierarchy

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------------|----------------------|-------------|-----------------------|
| Mutual funds: | | | | |
| Domestic stock | \$ 43,085,497 | \$ - | \$ - | \$ 43,085,497 |
| International stock | 10,165,629 | - | - | 10,165,629 |
| Balanced | 6,756,542 | - | - | 6,756,542 |
| Target retirement date | 53,535,845 | - | - | 53,535,845 |
| Specialty | 2,083,849 | - | - | 2,083,849 |
| Bond | 12,019,309 | - | - | 12,019,309 |
| Great-West Guaranteed Certificate Fund | - | 2 | - | 2 |
| Great-West Guaranteed Interest Fund | - | 18,301,745 | - | 18,301,745 |
| Total investments, at fair value | <u>\$ 127,646,671</u> | <u>\$ 18,301,747</u> | <u>\$ -</u> | <u>\$ 145,948,418</u> |

2022 Fair Value Measurement Based on Reporting Hierarchy

| | Level 1 | Level 2 | Level 3 | Total |
|--|-----------------------|----------------------|-------------|-----------------------|
| Mutual funds: | | | | |
| Domestic stock | \$ 32,069,891 | \$ - | \$ - | \$ 32,069,891 |
| International stock | 7,501,351 | - | - | 7,501,351 |
| Balanced | 7,902,803 | - | - | 7,902,803 |
| Target retirement date | 43,329,507 | - | - | 43,329,507 |
| Specialty | 4,649,956 | - | - | 4,649,956 |
| Bond | 10,492,299 | - | - | 10,492,299 |
| Great-West Guaranteed Certificate Fund | - | 2 | - | 2 |
| Great-West Guaranteed Interest Fund | - | 19,495,022 | - | 19,495,022 |
| Total investments, at fair value | <u>\$ 105,945,807</u> | <u>\$ 19,495,024</u> | <u>\$ -</u> | <u>\$ 125,440,831</u> |

5. UNALLOCATED PLAN ASSET ACCOUNT

Settlement payments and other amounts received by the Plan and the record-keeper cannot quickly transfer to a participant's account are transferred to an unallocated plan asset account within the Plan until the record-keeper determines where the funds should be transferred. On December 31, 2023, and 2022, the Plan's unallocated Plan asset account balance was \$48,670 and \$47,797, respectively.

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6. TERMINATED PARTICIPANTS

As of December 31, 2023, and 2022, the Plan had 1,567 and 1,477 terminated participants who had account balances totaling \$34,712,335 and \$35,888,748, respectively. These participants no longer contribute to their account and their 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 fees 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 Service 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. METRO also has the right to add or eliminate any investment option, in whole or in part.

10. 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.

11. SUBSEQUENT EVENTS

The Plan's management has evaluated subsequent events through September 9, 2024; 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.