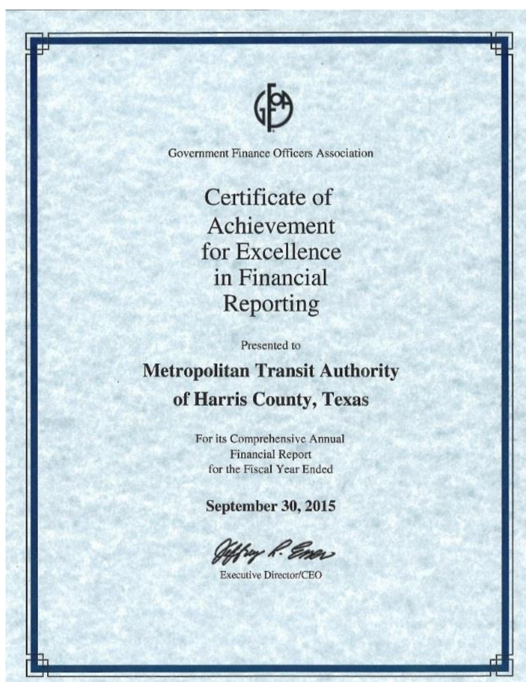
Metropolitan Transit Authority of Harris County, Texas
Comprehensive Annual Financial Report
For the Years Ending
September 30, 2016 and 2015
(October 1, 2015 to September 30, 2016)

Focusing on Our Customers is the Key to Building a
Transit System That Meets Their Needs Today and Tomorrow

METRO's Finance Department is proud to have earned both the Traditional Finances and Debt Obligations Transparency Stars from the Texas Comptroller of Public Accounts as well as the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association.


Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Transit Authority of Harris County, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2015

Executive Director/CEO

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Introductory Section

This section provides an overview of METRO's financial activities during the year and discusses management's responsibilities for quality financial reporting. This section is more useful when read in conjunction with the rest of the report.

Please visit METRO's Web site where you can read more about METRO and its work on improving regional mobility.

March 10 2017

To the Board of Directors,
Metropolitan Transit Authority of Harris County, Texas (METRO)
and members of METRO's Service Area

I am pleased to present METRO's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2016 (FY2016). This report represents the highest form of external financial reporting and has been developed by the Office of the Controller with support from other groups within METRO. METRO's management is responsible for the information presented in this report.

METRO was established under Texas Law in 1977 to develop, maintain, and operate a public transportation system primarily in Harris County, Texas. The agency began operation in 1979. METRO's service area comprises 4.3 million potential customers and includes Houston, the nation's fourth largest city, as well as 14 smaller incorporated cities and parts of unincorporated Harris County.

METRO is the region's largest public transit provider offering safe, reliable, and affordable transportation services. Approximately 90 million boarding occurred during FY2016. In addition to operating 1,394 buses and 54 rail cars on METRO's new bus network, METRO also provides other service, which include METRO STAR Vanpool, METROLift, High Occupancy Vehicle/High Occupancy Toll Lanes, Bikes-on-Bus/Train program, Park & Ride Lots, and funding for road improvement/congestion mitigation programs. METRO's revenue sources include a 1% local sales tax imposed across the service area, fares, and federal grants. During 2012, voters approved a referendum, which continues the General Mobility Program through 2025. Under this program, 25% of the annual sales tax proceeds, adjusted for certain limits established in FY2014, will be used to fund general mobility projects of local governments. The limits established in FY2014 are projected to provide additional money for non-rail transit activities.

METRO continues to focus on providing cost effective, efficient and enjoyable transportation services to its customers. One of our methods is to work with governmental agencies, local leaders and our customers in developing integrated transportation and mobility programs that meet the needs of the region and our customers. This was another exciting year and some of the highlights include:

- Improved the quality of METRO's new bus network by working with and making changes based on customers' recommendations.
- Issued body cameras to METRO's Police Officers as part of their regular uniforms.
- Implemented mobile ticketing and made the Qualified Veterans Pass a permanent part of METRO's fares.
- Placed into service fifty new buses powered by compressed natural gas (CNG).
- Opened the Burnett Transit Center which allows commuters to easily connect with multiple bus routes and the Redline light rail line.
- Refunded $233.1 million of bonds (including premium) which reduces future interest expense.

Financial Transparency, a key to good governence

METRO's commitment to financial transparency goes beyond monthly Board/Committee meetings and is reflected in the type, quality and location of financial information, including awards, listed on METRO's web page. Financial reporting awards include the certificate of achievement for excellence in financial reporting for METRO's comprehensive annual financial report for twenty four consecutive years and four consecutive years for METRO's two defined benefit pension plans.

In addition, METRO has earned the highest grade available from the Texas Controller Leadership Circle program on traditional finances transparency for the past five years and this year also earned the debt obligations transparency.

Financial Information and Certificate of Achievement for Excellence in Financial Reporting

In addition to providing high quality financial information, METRO's Department of Finance supports long-term strategic planning, investment/cash management, Grants, Q Card administration, issues quality financial information, and ensures compliance with various federal and state laws, rules, and regulations.

One of our main goals at METRO is to enhance and maintain our status as a trusted community partner by establishing and adhering to financial policies that inspire public trust. The recognition of our independent peers goes far in helping us demonstrate to the public that we are committed to achieving that goal.

For the fifth consecutive year, the Department of Finance earned the Texas Comptroller's top award for financial transparency. METRO also continued to earn Certificate of Achievement for Excellence in Financial Reporting for METRO's CAFR and the two separate defined benefit pension plans' CAFRs.

METRO is not a component unit and the accompanying financial statements include all activities for which it is financially accountable as defined by Governmental Accounting Standard No. 14, *The Financial Reporting Entity* and Standard No. 61. *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statement No 14 and No. 34.* METRO's principal operating and capital resources are derived from a 1% sales tax levied in its service area, user fees for transit service, investment income, and federal capital/operating grants. METRO's expenditures relate primarily to transit operations, local infrastructure improvements, traffic management, and various capital projects.

The responsibility for accuracy, reliability, and fairness of presentation of the financial information and related disclosures in the CAFR rests with METRO's management. All disclosures that are necessary to enable the reader to gain an understanding of METRO's financial activities have been included. METRO's management is also responsible for ensuring that an adequate internal control structure is in place for preparation of financial information, safeguarding of assets, effective and efficient use of resources, and compliance with applicable laws and regulations. The internal control structure has been designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of cost and benefits requires estimates and judgment by management. In addition, METRO is required by state and federal laws to have independent certified public accountants perform audits and issue reports in accordance with generally accepted auditing standards, the Single Audit Act of 1996, and U.S. Office of Management and Budget Super Circular for Federal Awards. These reports are filed annually with the appropriate state and federal agency.

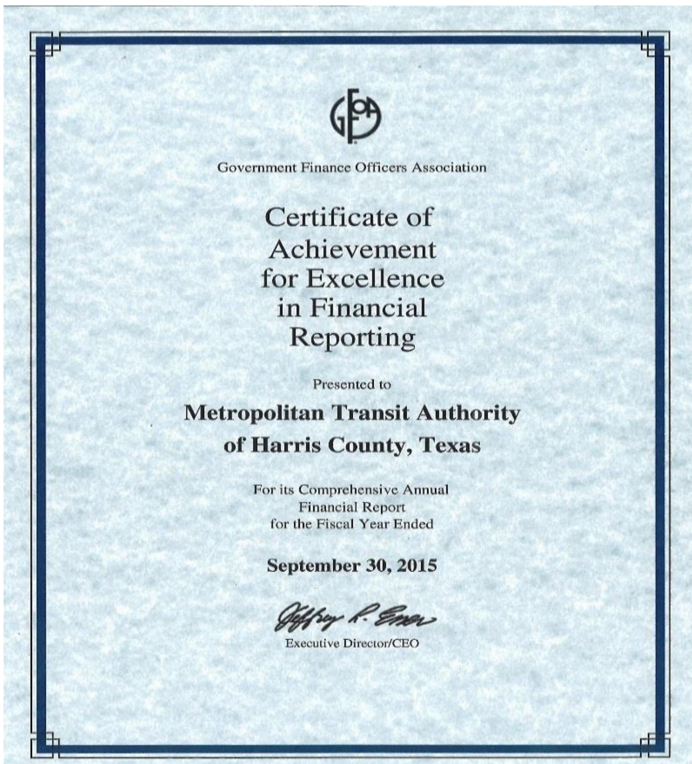
METRO uses a single fund to account for all financial activity, which includes transit operations, traffic management, infrastructure assistance (which includes General Mobility) capital programs, grant revenues, sales tax, and related activity.

METRO's cash and investment policy is used to monitor and adjust, on a daily basis, its cash balance and investment portfolio while investing in only those securities that have been legally authorized by the Texas Public Fund Investment Act and approved by the Board of Directors as listed in Note 2 of the financial section.

METRO is self-insured, except for property risk insurance, for which it pays an annual premium to a third-party insurance company.

Other Information

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to METRO for its CAFR for the year ended September 30, 2015. This is the 24th consecutive year this prestigious award was received. In order to be awarded a Certificate of Achievement, METRO must publish an easily readable and efficiently organized CAFR. This report must also satisfy both generally accepted accounting principles and applicable legal requirements.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The Certificate of Achievement is valid for a period of one year. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

Contact Information

If you have questions about this report or need additional financial information, contact the Department of Finance, Metropolitan Transit Authority of Harris County, Texas 1900 Main Street, Houston, TX 77208-1429.

METRO's financial statements have been audited by KPMG LLP.

Acknowledgments

METRO's management expresses its appreciation to the employees and the Board of Directors for their commitment in making this one of the best transit agencies in the nation. Additional analysis can be found in the Management's Discussion and Analysis section, which starts on page 10.

Arthur C. Smiley III
Chief Financial Officer

METRO Board of Directors

The Board of Directors has nine members. Five are nominated by the Mayor of Houston and confirmed by the Houston City Council. Two are appointed by the mayors of METRO's 14 other member cities. Two are nominated by the Harris County Judge and confirmed by the County Commissioners.

Carrin F. Patman,
Chair (C)

Jim Robinson, CFE
First Vice-Chair (H)

Cindy Siegel
Second Vice-Chair (M)

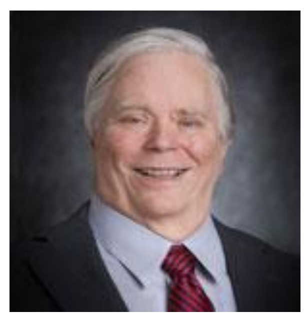
Troi Taylor, Secretary (C)

Lisa Gonzales Castañeda, P.E.
(H)

Sanjay Ramabhadran
(Ram), P.E. (C)

Christof Spieler, (C)

Don Elder Jr. (M)



Lex Frieden (C)

(C) Nominated by the Mayor of the City of Houston and Confirmed by Houston's City Council
(H) Nominated by the Harris County Judge and Confirmed by Harris County Commissioners Court
(M) Appointed by the Mayors of the 14 member cities in METRO's service area

EXECUTIVE LEADERSHIP TEAM

- **BOARD OF DIRECTORS**
  - **President and CEO**
    Thomas C. Lambert
    - **Director Board Support**
      Rosa Diaz
    - **Chief of Staff**
      Russ Frank
    - **Chief Financial Officer**
      Arthur C. Smiley III
    - **General Counsel**
      Alva Treviño
    - **Vice President and Senior Press Office**
      Jerome Gray
    - **Vice President Audit**
      James Carroll
    - **Executive Vice President Operations, Public Safety, & Customer Service**
      Tim Kelly
    - **Executive Vice President & Chief Innovation Officer Office of Innovation**
      Terence Fontaine
    - **Deputy CEO**
      Thom Jasien
    - **Executive Vice President Planning, Engineering, & Construction**
      Roberto Treviño
    - **Executive Vice President Administration**
      Debbie Sechler

Comprehensive Financial Section

The Governmental Accounting Standards Board (GASB) believes that every governmental entity should prepare and publish, as a matter of public record, a comprehensive annual financial report (CAFR). The CAFR is designed to provide financial information that is useful in evaluating METRO's financial condition, results of operations, cash flows, and compliance with finance-related laws, rules, and regulations that have a direct and material effect on the financial statements. The CAFR is prepared using generally accepted accounting principles and is posted on METRO's Web Site.

Some of the compliance reporting requirements includes the following:

- *State law, which requires METRO to issue each year independently audited financial statements and file those statements with state oversight agencies as well as state and local governmental leaders*
- *Federal regulations, which require these audited statements be included with the annual filing of the independently audited Single Audit Report (grant expenditures), which is used to evaluate compliance with grant agreements and evaluate future eligibility for grant funds*
- *METRO's creditors, which require audited financial statements be prepared and posted on the Electronic Municipal Market Access (EMMA) Web site to ensure compliance with continuing disclosure requirements*

KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

The Board of Directors
Metropolitan Transit Authority
Harris County, Texas:

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority), as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Authority'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 U.S. generally accepted accounting principles; 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 and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 financial position of the Metropolitan Transit Authority of Harris County, Texas as of September 30, 2016 and 2015, and the changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1 of the financial statements, effective October 1, 2015, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2017 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Houston, Texas
March 10, 2017

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Management's Discussion and Analysis (MD&A)
(Unaudited)

Governmental Accounting Standard No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Government, requires externally issued financial reports that are prepared in accordance with generally accepted accounting principles to include an MD&A section. This section is to provide an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions. MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and the negative aspects of the comparison with the prior year. Governments are encouraged to use charts, graphics, and tables to enhance the understandability of the information presented.

This section of the CAFR presents a discussion and analysis of METRO's financial performance during the fiscal years ending September 30, 2016, 2015, and 2014. Please read it in conjunction with the introductory section of the report and METRO's financial statements, which immediately follow this section. Numbers presented in the Management's Discussion and Analysis tables are rounded and may differ slightly from the financial statements.

FINANCIAL HIGHLIGHTS

METRO's net position declined by $302.2 million during the last three years with $178.0 million or 58.9% of the decline coming from implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* in FY2015. The remaining $124.2 million is from expected increases in operating cost as METRO implemented more and better transportation services to the community, made additional payments to local infrastructure assistance projects while simultaneously experiencing a decline in sales tax collections due to lower oil prices. Additional information on these items as well as other financial activities are discussed on the following pages.

- *Total Resources,* as reported on schedule A-1, declined during the last three years as major capital projects supported by grants from the FTA were completed, changes to the transportation fares policy provided transit riders more options at reduced cost, and lower than expected sales tax receipts due to declining oil prices.

- *Total Operating Expenses,* as reported on schedule A-1, continue to increase, as expected, during the last three years. The largest increase occurred in FY2016 as METRO experienced a full year of operating the three additional light-rail lines, the new bus network, all five HOT lanes, and increased service to METROLift customers.

- *Total Nonoperating Expenses,* as reported on schedule A-1, increased during the last three years and is primarily from the additional funding provided to local infrastructure assistance activities and interest cost which can no longer be capitalized since most major construction projects are completed.

- *Total Assets and Deferred Outflows,* as reported on schedule A-2, increased over the last three years with FY2015 reaching a high of $3,881.1 million. The increases during the last three years are the result of several major capital expansion projects which included: three new light-rail lines, adding two more HOT lanes, expansion of the light-rail maintenance facility, adding a new light-rail storage facility, and upgrading several bus operating facilities. METRO also replaced older buses, increased the number of light-rail vehicles and implemented several new computer applications. Declines to assets were generally related to depreciation, sale of surplus land, and an asset impairment in FY2014. The increases in deferred outflows consisted of new activity which included the deferred pension outflow, the refunding of certain outstanding debt, reduced by the decline in the value of outstanding diesel fuel hedges.

- *Total Liabilities and Deferred Inflows,* as reported on schedule A-2, increased during the last three years. This increase relates to issuing new debt obligations with the proceeds used to purchase replacement buses and new light-rail vehicles, growth in the postemployment benefit liability as METRO funds these benefits on a pay-as-you go basis, and in FY2015 reporting, for the first time, the net pension liability for the two defined benefit pension plans as required by the new pension standard issued by GASB.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of four parts: management's discussion and analysis, the basic financial statements, the notes to the financial statements, and the required supplementary information. METRO's financial statements are prepared in conformity with U.S. generally accepted accounting principles

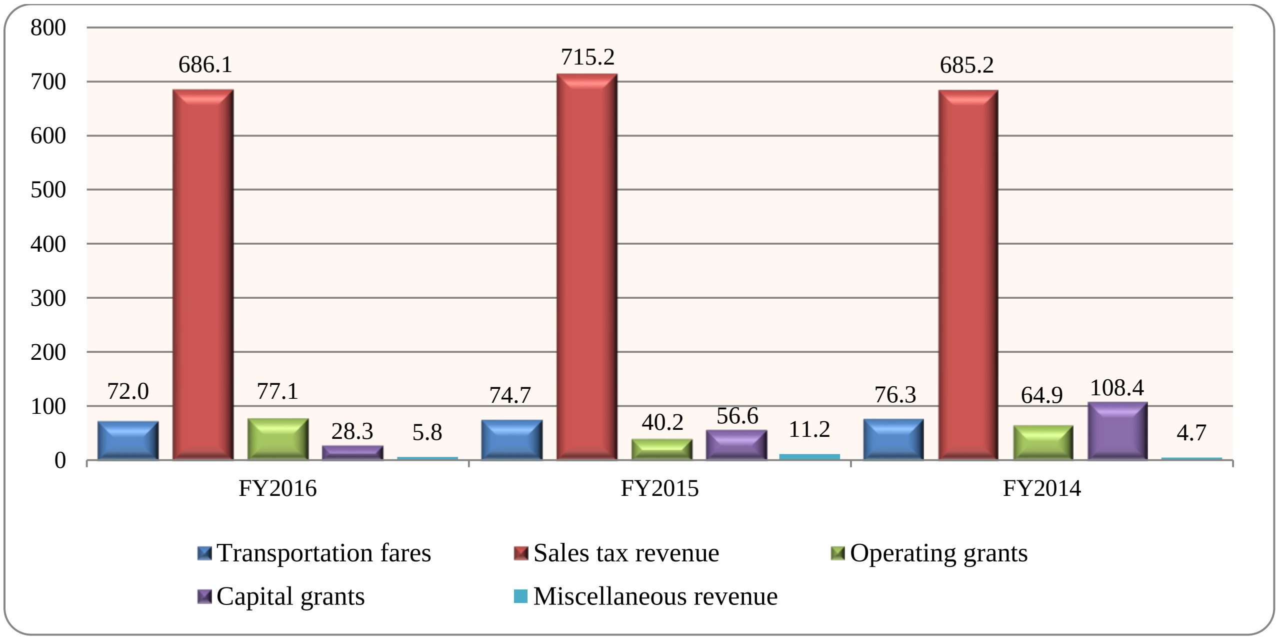
(GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statements of Revenues, Expenses, and Changes in Net Position.

FINANCIAL ANALYSIS OF METRO

Summarized Changes in Net Position
(in millions) A-1

	FY2016	FY2015	Change	% Change	FY2014
Resources					
Transportation fares	$ 72.0	$ 74.7	$ (2.7)	(3.6) %	$ 76.3
Sales tax	686.1	715.2	(29.1)	(4.1) %	685.2
Investment income	1.2	0.6	0.6	100.0 %	0.3
Intergovernmental revenue	2.0	1.8	0.2	11.1 %	1.8
Other income	2.6	8.8	(6.2)	(70.5) %	2.6
Grant proceeds (includes capital grants used for maintaining assets)	77.1	40.2	36.9	91.8 %	64.9
Grant proceeds (capital)	28.3	56.6	(28.3)	(50.0) %	108.4
Total resources	869.3	897.9	(28.6)	(3.2) %	939.5
Expenses					
Operating					
Scheduled service	375.4	337.9	37.5	11.1 %	312.6
Nonscheduled service	70.0	66.3	3.7	5.6 %	62.4
Service support	76.9	71.5	5.4	7.6 %	64.8
Organizational support	48.5	45.6	2.9	6.4 %	42.0
Depreciation	212.3	173.5	38.8	22.4 %	160.0
Total operating expenses	783.1	694.8	88.3	12.7 %	641.8
Nonoperating expenses					
Noncapitalized interest cost	43.1	14.5	28.6	197.2 %	10.7
Loss on sale of assets/impairment	7.2	3.1	4.1	132.3 %	105.0
Funds passed to subrecipients	1.9	2.1	(0.2)	(9.5) %	3.4
Local infrastructure assistance	209.5	149.5	60.0	40.1 %	161.5
Total nonoperating expenses	261.7	169.2	92.5	54.7 %	280.6
Total expenses	1,044.8	864.0	180.8	20.9 %	922.4
Change in net position	(175.5)	33.9	(209.4)	(617.7) %	17.1
Net position - beginning of the year after FY2015 restated (Note 1)	1,983.1	1,949.2	33.9	1.7 %	2,109.8
Net position, end of the year	$ 1,807.6	$ 1,983.1	$ (175.5)	(8.8) %	$ 2,126.9

Increases to Net Position (Revenues) with Related Discussions



In millions

Transportation fares include transit user and HOT lanes revenues. The decline during the last three years primarily relates to changes in fare policy which provides riders more options at reduced cost, promotional activities where customers could ride METRO's light-rail lines at reduced rates to special events and changes in ridership patterns due to the weakened local economy.

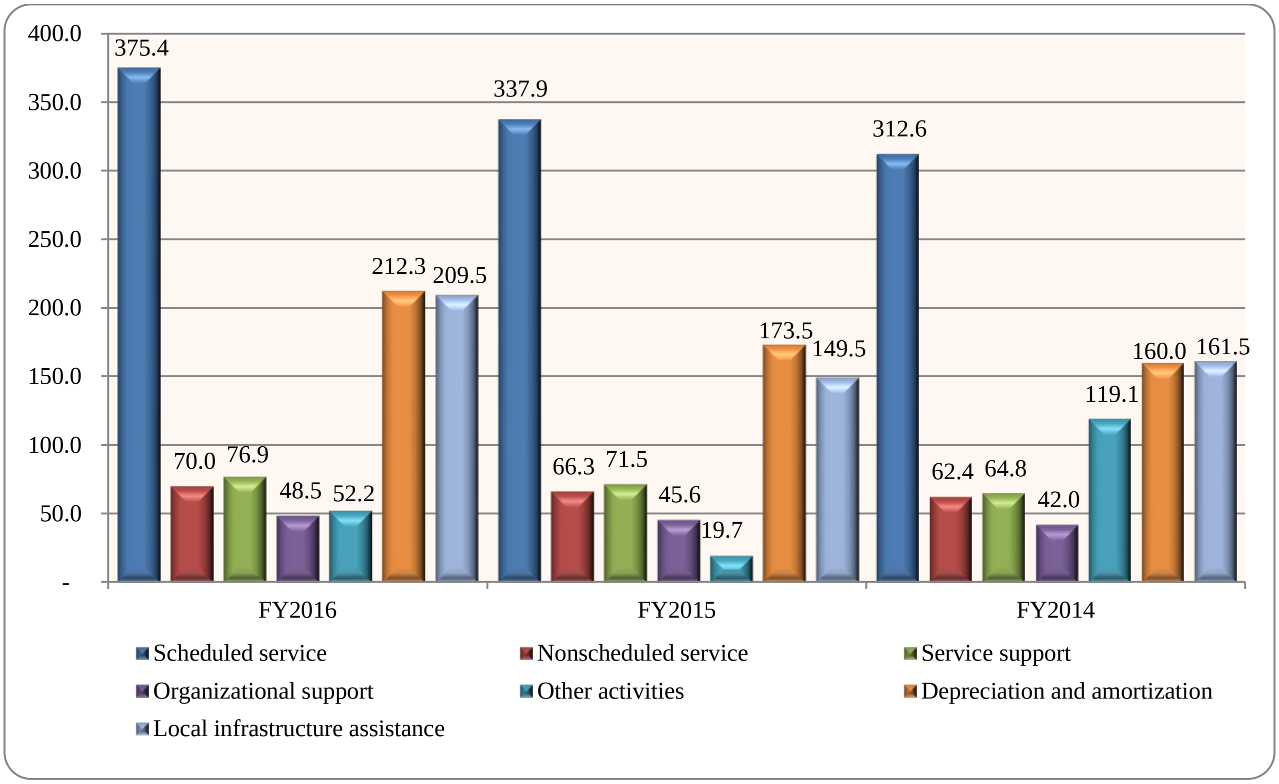
Sales tax revenue is 1% of taxable sales within METRO's service area and is collected by the Texas Comptroller Office and wired monthly to METRO. Sales tax increased between FY2014 and FY2015 but declined in FY2016 largely due to the impact that lower oil prices were having on the local economy.

Operating grants (includes capital grants authorized by the FTA for use in maintaining capital assets) are provided by the FTA and used to offset the cost of maintaining the revenue fleet and operating specific transit programs such as METROLift and METRO STAR Van Pool. Grants funds are contingent on appropriations from the federal government and subsequent award of grant dollars by the FTA, which is METRO's primary federal oversight agency. Collection of grant proceeds increased during FY2016 as delays in passing certain appropriation bills by the Federal government were resolved.

Capital grants are provided by the FTA and used to help fund the design, construction, purchase, and enhancement of capital assets. Grants funds are contingent on appropriations from the Federal government and subsequent award of grant dollars by the FTA. The decline during the last three years relates to the progress made in completing several major capital programs that were receiving funds from the FTA.

Miscellaneous revenues consist of investment income, intergovernmental revenue, real estate, and other nonoperating activities. Activities during the last three years were consistent with the exception of the $6 million payment received in FY2015 for the settlement of the 2010 BP oil spill in the Gulf of Mexico and higher returns on investment earnings. The money received from the BP settlement was used to fund additional contributions to both defined benefit pension plans.

Decreases to Net Position (Expenses) and Related Discussions



In millions

Scheduled service consists of bus/light-rail services and includes vehicle operations, maintenance, safety, and training. Increases during the last three years generally came from preventive maintenance, contract services, operations of three new light-rail lines, and expanding/improving bus and light-rail service by designing and implementing METRO's new bus network and the settlement of unfavorable fuel hedges.

Nonscheduled service includes METROLift, METRO START Vanpool, and HOT lanes. Increases during the last three years generally came from expansion of METROLift services and costs related to operating HOT lanes.

Service support includes planning, marketing, transit security, insurance, fare collection, and facility maintenance. Increases during the last three years were generally from developing and implementing METRO's New Bus Network, additional insurance cost for the new light-rail lines, and additional maintenance to the operating facilities due to their age.

Organizational support includes business, community/governmental development, administrative, finance, personnel, information systems, purchasing, executive oversight, audit, and legal. Total cost for this category was relatively consistent for the last three years with increases related to supporting METRO's commitment to expanding transportation services to the community.

Other activities consist of noncapitalized interest expense, funds passed to grant subrecipients, and loss on sale of assets/impairment. Changes during the last three years primarily related to asset impairment of $105 million in FY2014 and increases in noncapitalized interest expense as capital construction programs were completed and interest capitalization was reduced.

Depreciation and amortization increased over the last three years as multiple major capital projects were completed and their assets placed into service. This included three light-rail lines, two additional HOT lanes, new buses and light-rail cars, and various facility upgrades.

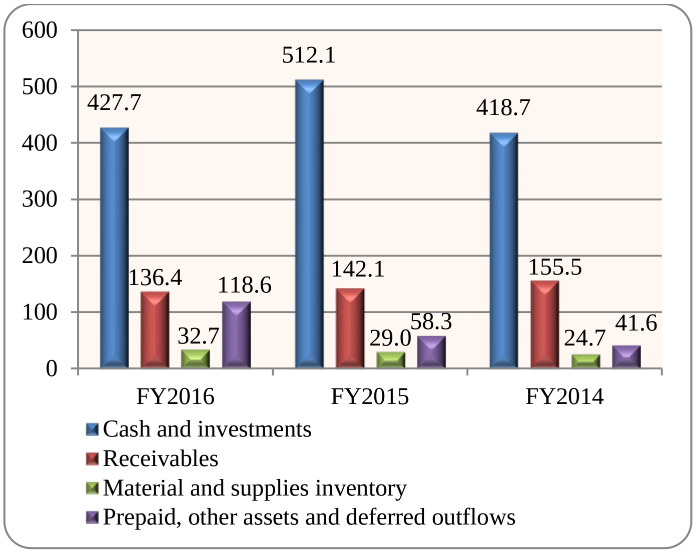
Local infrastructure assistance provides funding for street, sidewalks, bridges, and congestion mitigation activities within METRO's service area. This voter approved program established a cap of 25% of FY2014 sales tax revenues with any sales tax growth shared equally between METRO and the local governments. Additional information is located in note 7 to the financial statements.

Funds disbursed for this program will vary each year depending on reimbursement requests submitted by local governments for infrastructure projects and amounts that are paid for congestion mitigation services, which are based on sales tax receipts and related Interlocal governmental agreements. The FY2016 expense increased to $209.5 million as local governments submitted more funding requests as various infrastructure projects were completed. In addition, sales tax receipts collected but not yet disbursed totaled $65.8 million and is included as part of investments reported on the statement of net assets as of September 30, 2016.

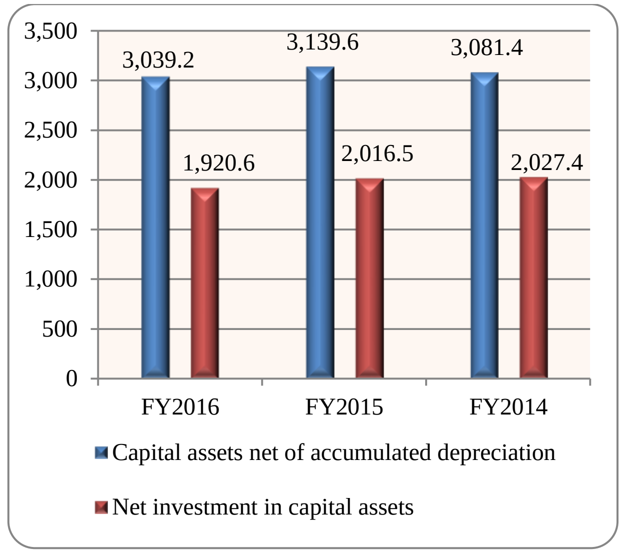
Summarized Statement of Net Position
(in millions)
A-2

	FY2016	FY2015	Amount of Change	Percentage Change	FY2014
Assets and deferred outflows					
Cash and investments	$ 427.7	$ 512.1	$ (84.4)	(16.5) %	$ 418.7
Receivables	136.4	142.1	(5.7)	(4.0) %	155.5
Material and supplies inventory	32.7	29.0	3.7	12.8 %	24.7
Capital assets net of depreciation	3,039.2	3,139.6	(100.4)	(3.2) %	3,081.4
Prepaid and other assets	7.9	10.9	(3.0)	(27.5) %	39.7
Deferred outflows – diesel fuel swaps	1.4	15.0	(13.6)	(90.7) %	1.9
Deferred outflows – defined pension plans	92.3	32.4	59.9	184.9 %	–
Deferred outflows – debt refunding	17.0	–	17.0	100.0 %	–
Total assets and deferred outflows	3,754.6	3,881.1	(126.5)	(3.3) %	3,721.9
Liabilities and deferred inflows					
Trade payables	114.0	114.4	(0.4)	(0.3) %	83.3
Commercial paper	117.4	121.3	(3.9)	(3.2) %	183.4
Capital leases and debt payables	1,141.5	1,174.0	(32.5)	(2.8) %	1,067.8
Other liabilities and deferred inflows	61.3	80.1	(18.8)	(23.5) %	58.5
Defined benefit pension plans	252.0	178.0	74.0	41.6 %	–
Other postemployment benefits	260.8	230.2	30.6	13.3 %	202.0
Total liabilities and deferred inflows	1,947.0	1,898.0	49.0	2.6 %	1,595.0
Net position:					
Net investment in capital assets	1,920.6	2,016.5	(95.9)	(4.8) %	2,027.4
Restricted assets, debt payments	85.7	79.1	6.6	8.3 %	65.7
Unrestricted assets	(198.7)	(112.5)	(86.2)	76.6 %	33.8
Total net position	$ 1,807.6	$ 1,983.1	$ (175.5)	(8.8) %	$ 2,126.9

Assets and Net Investments in Capital Assets



In millions



In millions

Cash and investments consist of demand deposits and investments. Changes during the last three years are primarily related to the timing of various activities which include: cash receipts from sales tax collections, issuance of new debt, and grant reimbursements from the FTA, less payments for operating, capital, and local infrastructure assistance. More information about cash and investments is located in note 2 to the financial statements.

Receivables include sales tax, grants, transportation fares, and miscellaneous activities. The decline during the last three years primarily relates to lower FTA receivables and lower sales tax collections for FY2016.

Material and supplies inventory consists of diesel fuel, bus, light-rail, and non-revenue vehicle parts used to maintain the various fleets. Increases during the last three years are from parts that will be used to maintain the three new light-rail lines and the additional rail cars that are needed to effectively operate the light-rail system.

Prepaid, other assets include deferred rental payments, insurance, and prepaid rent. The decline during the last three years relates to the amortization of several prepaid rental agreements, and the elimination in FY2015 of the prepaid pension asset totaling $26.1 million as part of the GASB Statement No. 68 implementation. Additional information on the deferred rental agreements are reflected in note 7 to the financial statements.

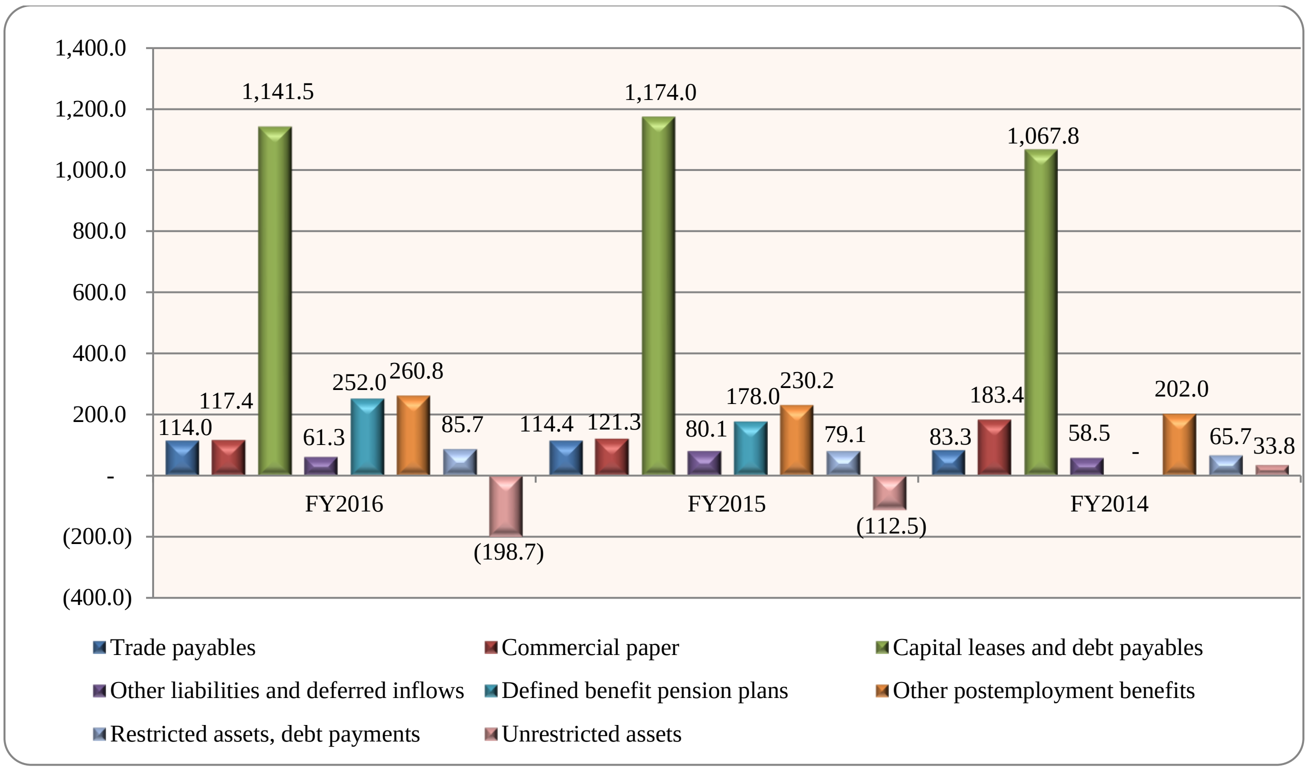
Deferred outflows – diesel fuel swap represents the estimated amounts owed by METRO to the counterparties and is based on the difference between market price of individual swaps as of September 30 of each year and their fixed future payment price. Due to the dramatic decline in oil prices, the outstanding diesel fuel swaps had a negative ending value of $1.4 million for FY2016, $15.0 million for FY2015, and $1.9 million for FY014. The offset to these amounts is reported in other liabilities. The final payment price is calculated monthly as individual swaps are settled which increased operating cost by $15.0 million for FY2016, $10.2 million for FY2015 and reduced operating cost by $1.0 million in FY2014. Additional information is located in note 7 to the financial statements.

Deferred outflows –pension plans was first reported in FY2015 as required by GASB 68 and totaled $32.4 million. The ending balance for FY2016 totaled $92.3 million for an increase of $59.9 million. This increase is due to lower than expected investment returns, changes in actuarial assumptions and the difference between expected and actual economic/demographic experience. Additional information is located in note 4 to the financial statements.

Capital assets net of accumulated depreciation declined slightly in FY2016 as several major capital expansion programs were completed and placed into service during FY2015. Increases in the previous two years relate to several ongoing construction programs which included, light-rail expansion, two additional HOT lanes, facilities upgrades, replacement of buses and other capital activity reduced by depreciation, retirements, and asset impairments. Changes by asset category are reflected in note 3 to the financial statements.

The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of bonds, contractual obligations, capital leases, and other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The slight decline in FY2016 is related to the completion in FY2015 of several major capital programs while increases in the previous two years relate to the construction of capital assets that were purchased with local dollars or funds provided by the FTA.

Liabilities and Net Position for Restricted and Unrestricted Assets



In millions

Trade payables are amounts owed to vendors who have provided goods or services. During the last three years, the amount owed has varied significantly depending on the timing of major capitals projects such as HOT lanes, light-rail expansion and subsequent payments to vendors.

Commercial paper was used primarily to fund general mobility payments due to local governments. Commercial paper outstanding has declined by $66 million since FY2014. This decline resulted from payments of $6 million using local proceeds and $60 million from the issuance of the Sales and Use Tax Bond Series 2015A. Additional information on debt and the commercial paper program is reflected in note 7 of the financial statements.

Capital leases and debt payables consist of capital leases, bonds, contractual obligations, accrued interest and related premiums that were used to fund light-rail expansion and bus replacements. The net increases during the last three years totaled $73.7 million and relates to six new debt obligations of which four were used to refund previous obligations, including commercial paper, and two of which were used to fund rail car expansion and bus replacements. METRO continues to make all principal and interest payment on time and received a debt rating of

Aa2 by Moody's Investors Service, Inc. and AA+ by Standard & Poor's Ratings Services on its FY2016 debt issues. Additional information on outstanding debt and related changes are reflected in note 7 to the financial statements.

Other liabilities and deferred inflows include accrued payroll, injuries and damages, deferred rental payments, deferred Q Card revenue, scheduled payments for deferred inflows-diesel fuel swaps, and other miscellaneous liabilities. The net increase during the last three years totaled $2.8 million and primarily relates to increases in accrued payroll, injury and damages and deferred Q Card revenue as METRO expanded service and hired additional team members. These increases were mostly offset by the amortization of deferred rental payments.

Defined benefit pension plans liability first appeared on METRO's Statement of Net Position in FY2015 as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* The initial amount reported totaled $178.0 million and increased during FY2016 to $252.0 million. This $74.0 million increase relates to moving both plans to the RP2014 Mortality Table and updating several actuarial assumptions based on the individual plan's experience study. Both plans are closed to new members and additional information is located in note 1 and note 4 to the financial statements.

Other postemployment benefits (OPEB) consist of two plans which provide medical, dental, and life insurance benefits for eligible retirees and are discussed in note 4 to the financial statements. The plan covering postemployment benefits for nonunion employees was closed January 1, 2010 while the plan for employees covered by the collective bargaining agreement (union) remains open to new participants. During the last three years the OPEB liability increased by $58.8 million as METRO funds these benefits on a pay-as-you-go basis. The increase relates to $5.1 million for nonunion and $53.7 million for the union plan.

Restricted assets - debt payments consist of funds held by the Trustee, Wells Fargo Bank, N.A., and was established as part of METRO's debt agreements. These funds will be used to make principal and interest payments and to protect lenders in case of default. METRO requires the Trustee to invest these funds in local government investment pools that are authorized under the Texas Public Funds Investment Act. Increases during the last three years are due to additional sinking fund accounts that were created because of new debt issues and the related timing of cash receipts and subsequent disbursements.

Unrestricted assets is calculated by adding total assets, plus deferred outflows; reduced by total liabilities, total inflows, investments in capital assets-net of related debt, and restricted assets-debt payments. Amounts reported as unrestricted must be reviewed in conjunction with estimated future cash flows to determine what funds are available to expand or implement new programs. The negative unrestricted assets balance for FY2016 and FY2015 is due to implementing GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* which reduced the FY2015 beginning net positon by $178.0 million and additional operating expenses that were not offset due to the decline in sales tax revenues.

OUTSTANDING COMMITMENTS

METRO has various contracts and purchase orders, some of which extend over several fiscal years. During the last three years, they amounted to $596 million for FY2016, $402 million in FY2015, and $598 million in FY2014. The changes between fiscal years generally represent replacing contracts that were expiring.

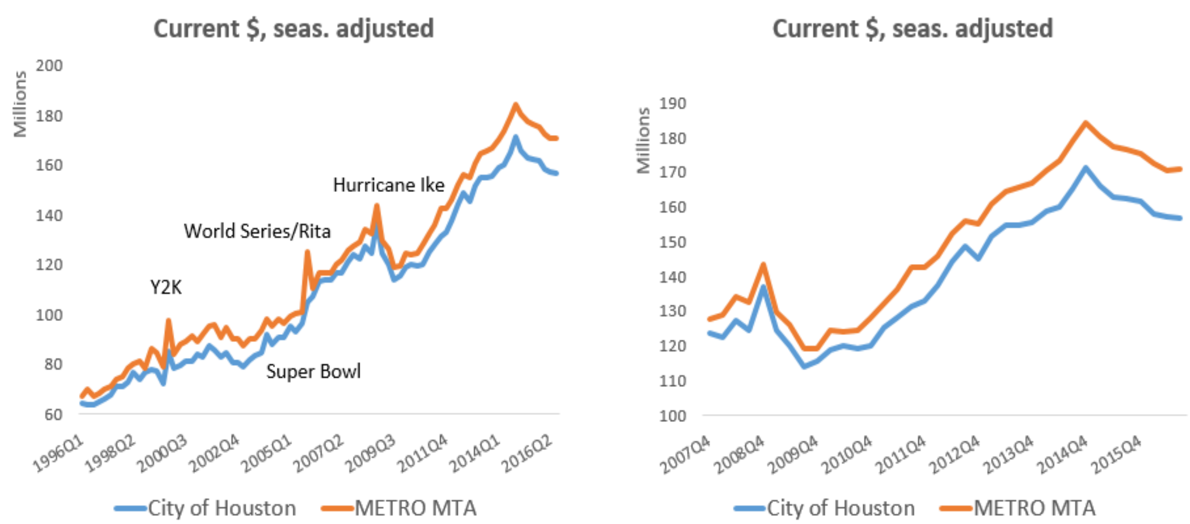
The following excerpt was taken from a report dated 1/2/2017 and prepared by:

Dr. Robert. W. "Bill" Gilmer
University of Houston
C.T. Bauer College of Business/Institute

The Current Outlook for METRO's Sales Tax Revenues: 2017-2021

For the first time in two years, the METRO sales tax revenue forecast contains good news: the seasonally-adjusted third quarter allocations turned up by small amount; the forecast says there is a good chance the we are approaching or passing the cyclical trough in revenue; and there is growing confidence that an improving Houston economy can keep revenues moving in the right direction. Figure 18 shows the recent allocations from the Texas Comptroller for both METRO and the City of Houston. They are seasonally-adjusted current dollar allocations by the date of the economic event that triggered the tax liability. METRO revenues rose 0.2 percent in the third quarter, the first increase since 2014. The City of Houston revenue fell by 0.3 percent, but the rate of decrease is clearly slowing. Since the fourth quarter of 2016, METRO allocations are down 7.3 percent, and the City is lower by 8.6 percent.

Figure 18: METRO and City of Houston Allocations Looking for a Bottom in 2016Q3

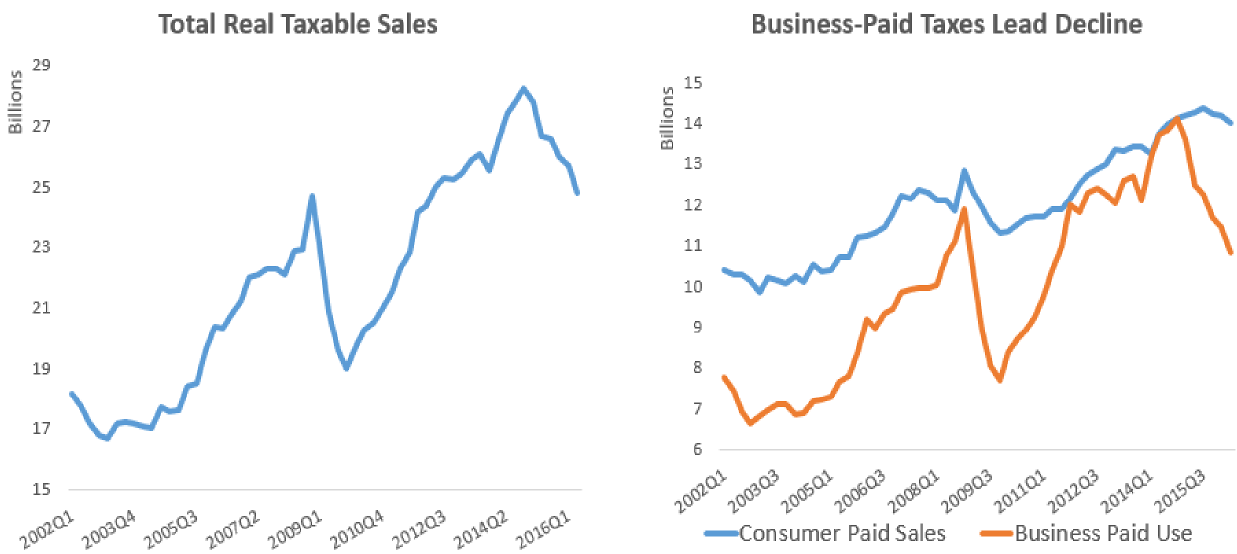


The data in Figure 19 are not allocations to METRO or the City, but they are taxable sales for the Houston metropolitan area. The data are deflated to 2015 dollars, seasonally adjusted, and available only from 2002Q1 to 2016Q2. They show no sign of finding a bottom yet because they end at mid-year, and because real revenues are still declining at current rates of inflation. The point we want to make with this chart is simple: Houston sales tax revenues generally, certainly including METRO revenues, are very dependent on the oil sector. After all, how do we have very little or no payroll job loss, and still find these large declines in taxable sales? The decline in total real taxable sales after 2014Q1, shown in the left panel, is 12.2 percent.

In the right panel, we broke out taxable sales into those sectors where most of the sales are to the consumer in retail, food service, hospitality, recreation and entertainment, and selected services. The remainder are purchases primarily made by business, such as construction, manufacturing, finance, transportation, etc., and generally subject to the use tax. The consumer sales have been much more stable in the metropolitan area than the business sales, but even the consumer began to sag in late 2015 under the weight of the drilling collapse. By mid-2016, these taxable transactions were down 1.5 percent.

The business-paid taxes fall heavily on capital, and tend to be highly cyclical. These sales were down 20.2 percent by 2016Q2. Remember that a collapse in the rig count is a collapse in producer capital spending, and the huge oil service, machinery, and fabricated metal complex in Houston was certainly at the heart of this large drop in business-related activity.

Figure 19: Real Taxable Sales in the Houston Metropolitan Area through 2016 Q2



The fracking boom shifted Houston's taxable sales to be more heavily dependent on the cyclical use tax revenues. Business-paid sales made up only 42.7 percent of the total in 2002, but had risen to a 50.0 percent share when the fracking bust began in 2014Q4. Note that the same pattern of use-tax cyclicality dominated the taxable sales decline in 2008-09, in the middle of the fracking boom.

Figure 20 shows the forecast of current-dollar allocations annually from 2016 to 2021. They are by date of allocation. The high, medium, and low allocation forecasts are built on the three Houston employment forecasts presented earlier. The weighted 40/50/10 forecast is the best single estimate, but like the employment forecasts, the weights can be shifted as events require in coming months.

The high forecast for 2017 is for a strong turn-around year, with allocations up 3.4 percent year-over-year; the medium forecast is up only 0.5 percent; and the low falls 1.0 percent. The weighted-average outlook is an increase of 1.9 percent. All three forecasts find a trough in revenues before the year is out. Following the pattern of the employment forecast, revenue recovery is well underway by 2018, while the low forecast has smaller revenue gains.

Figure 20: Sales Tax Allocations for METRO MTA

(millions of dollars by calendar year)

	High	Medium	Low	40/50/10
2015	$719.1	$719.1	$719.1	$719.1
q4/q4	4.3%	4.3%	4.3%	4.3%
y/y	-1.3%	-1.3%	-1.3%	-1.3%
2016	$689.9	$689.9	$689.9	$689.9
y/y	-4.1%	-4.1%	-4.1%	-4.1%
q4/q4	-3.0%	-3.0%	-3.0%	-3.0%
2017	$713.2	$699.6	$691.3	$704.2
y/y	3.4%	1.4%	0.2%	2.1%
q4/q4	4.4%	0.5%	-1.0%	1.9%
2018	$754.4	$713.7	$691.3	$727.8
y/y	5.8%	2.0%	0.0%	3.3%
q4/q4	8.8%	6.3%	3.5%	7.0%
2019	$819.3	$767.7	$724.6	$784.0
y/y	8.6%	7.6%	4.8%	7.7%
q4/q4	7.8%	7.8%	5.1%	7.5%
2020	$872.6	$817.2	$763.7	$834.0
y/y	6.5%	6.5%	5.4%	6.4%
q4/q4	6.3%	5.7%	5.7%	5.9%
2021	$929.2	$866.6	$809.5	$885.9
y/y	6.5%	6.0%	6.0%	6.2%
q4/q4	6.7%	6.4%	6.0%	6.5%

Note: Revenues by date of allocation

Figure 21 compares the current forecast to that of last June, and to earlier editions of the forecast as well. Just as with the employment forecast, the December 2015 outlook failed to see the extent of the collapse and capitulation of oil markets in early 2016. As we have continued to move to greater certainty that oil markets are beginning to rebalance, and that the health of the local oil industry will improve, we have been able to pull forward the growth in revenues, and to allow it to grow more strongly in the out years.

Figure 21: Sales Tax Allocations for METRO MTA

(forecast of millions of dollars by calendar year)

	December 2016	June 2016	March 2016	December 2015
	40/50/10	30/50/20	30/50/20	40/40/20
2015	$719.10	$719.1	$719.1	$710.1
2016	$689.9	$693.6	$680.6	$667.5
2017	$704.2	$690.7	$686.2	$710.8
2018	$727.8	$705.5	$712.5	$760.3
2019	$784.0	$761.5	$769.9	$815.8

Allocations in 2017 include a one-time increase in revenue of $7.2 to $7.5 million for the 2017 Super Bowl. Several events in Houston's history have caused a one-time quarterly spike in local sales tax revenue: Y2K in 1999Q4, the 2004Q1 Super Bowl, the 2005Q4 combination of Hurricane Rita and the World Series, and 2008Q4 Hurricane Ike. See Figure 18. The increase in 2004Q1 METRO revenues from the Super Bowl was a statistically significant 4.4 percent, or about $5.1 million in today's dollars. We applied the 4.4 percent to the expected 2017Q1 revenues of $164.1 to $169.2 million dollars to get the approximately $7 million estimate.

Basic Financial Statements

Generally Accepted Accounting Principles

Generally accepted accounting principles (GAAP) are uniform minimum standards of and guidelines to financial accounting and reporting. Adherence to GAAP assures that financial reports of all state and local governments regardless of jurisdictional legal provisions and customs contain the same types of financial statements and disclosures, for the same categories and types of funds and activities, based on the appropriate measurement and classification criteria.

Adherence to GAAP is essential to assuring a reasonable degree of comparability among the financial reports of state and local governmental units. Governmental accounting systems thus must provide data that permit reporting on the financial status and operations of a government in conformity with GAAP.

GAAP establishes standards for preparing a comprehensive annual financial report, which includes Management's Discussion and Analysis (MD&A), basic financial statements, notes to the financial statements, required supplementary and statistical information.

Metropolitan Transit Authority of Harris County, Texas
Statements of Net Position
September 30, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash	$ 6,290,165	$ 5,426,047
Investments	321,815,619	410,462,331
Investments – restricted	57,233,949	45,240,619
Receivables		
Sales tax	114,167,276	117,212,671
Federal government - Federal Transit Administration	11,844,152	12,041,883
Bus passes and other receivables	10,408,552	12,855,952
Total receivables	136,419,980	142,110,506
Material and supplies inventory	32,775,189	28,996,881
Total current assets	554,534,902	632,236,384
Noncurrent assets		
Investments – restricted	42,358,586	50,949,645
Capital assets, net of depreciation	3,039,197,023	3,139,596,631
Other noncurrent assets	3,450,057	3,645,852
Prepaid rental payments	4,426,306	7,246,855
Total noncurrent assets	3,089,431,972	3,201,438,983
Total assets	3,643,966,874	3,833,675,367
Deferred outflow of resources		
Diesel fuel	1,394,262	15,041,432
Pensions	92,324,541	32,384,271
Debt refunding	16,991,634	–
Total deferred outflows of resources	110,710,437	47,425,703
Liabilities		
Current liabilities		
Trade payables	114,035,870	114,457,190
Accrued compensation and benefits	29,491,550	30,140,189
Liabilities for injuries and damages	4,800,475	4,866,124
Other current liabilities	10,574,928	13,385,191
Capital lease obligations	77,311	8,951,781
Debts payable	44,155,000	28,155,000
Debt interest payable	19,579,295	20,429,616
Derivative instrument-diesel fuel swaps	1,394,262	15,041,432
Total current liabilities	224,108,691	235,426,523
Noncurrent liabilities		
Liabilities for injuries and damages	8,466,099	9,390,567
Commercial paper	117,400,000	121,300,000
Deferred rental payments	4,426,306	7,246,855
Capital lease obligations	–	57,614,124
Debts payable	1,077,655,925	1,058,832,615
Other postemployment benefits	260,783,392	230,234,947
Defined benefit pension plans	252,037,793	177,961,819
Total noncurrent liabilities	1,720,769,515	1,662,580,927
Total liabilities	1,944,878,206	1,898,007,450
Deferred inflow pension plan	2,168,916	–
Net position		
Net investment in capital assets	1,920,547,528	2,016,537,016
Restricted assets – debt payments	85,736,440	79,101,851
Unrestricted assets	(198,653,779)	(112,545,247)
Total net position	$ 1,807,630,189	$ 1,983,093,620

The accompanying notes are an integral part of the financial statements.

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
for the Years Ended September 30, 2016 and 2015

	2016	2015
Operating revenues		
Transportation fares	$ 72,052,304	$ 74,651,045
Operating expenses		
Scheduled services - fixed route		
Bus and rail operations – direct	232,306,521	202,944,079
Contract service	47,355,960	49,839,742
Material distribution	7,042,407	6,244,556
Preventative maintenance	60,753,228	54,180,889
Central shop and maintenance support	23,567,262	21,073,250
Safety and training	4,433,619	3,612,522
Subtotal scheduled services - fixed route	375,458,997	337,895,038
Nonscheduled services –special		
METROLift	55,892,156	52,171,593
METRO STAR Vanpool	5,947,081	5,475,396
HOT lanes and special events	8,200,762	8,610,185
Subtotal non-scheduled services – special	70,039,999	66,257,174
Service support		
Service planning and evaluation	4,376,730	4,947,792
Marketing	10,383,266	9,728,386
Transit security and traffic management	22,149,262	21,118,036
Insurance and claims	5,614,731	5,754,471
Ticket and fare collection	4,208,388	3,562,149
Facility maintenance	30,168,111	26,414,559
Subtotal service support	76,900,488	71,525,393
Organizational support		
Business, community, and governmental development	3,343,274	2,894,550
Administrative, financial, and personnel	16,352,030	14,334,333
Information systems	18,228,842	17,684,558
Purchasing	3,697,391	3,217,201
Oversight, audit, and legal	6,850,065	7,490,093
Subtotal organizational support	48,471,602	45,620,735
Depreciation and amortization	212,338,159	173,469,603
Total operating expenses	783,209,245	694,767,943
Operating loss	(711,156,941)	(620,116,898)
Nonoperating revenues (expenses)		
Sales tax	686,101,655	715,160,213
Investment income	1,220,156	597,015
Intergovernmental revenue	1,956,596	1,841,467
Noncapitalized interest expense	(43,109,587)	(14,501,373)
Other income	2,585,147	8,841,043
Grant proceeds	77,117,133	40,230,897
Local infrastructure assistance	(209,464,879)	(149,505,814)
Funds passed to subrecipients	(1,887,750)	(2,097,344)
Gain (loss) on sale or disposal of assets	(7,155,654)	(3,130,847)
Total nonoperating revenues (expenses)	507,362,817	597,435,257
Net decrease before capital grants	(203,794,124)	(22,681,641)
Capital grant proceeds	28,330,693	56,584,181
Changes in net position	(175,463,431)	33,902,540
Net position beginning of the year (as restated, note 1)	1,983,093,620	1,949,191,080
Net position end of the year	$ 1,807,630,189	$ 1,983,093,620

The accompanying notes are an integral part of the financial statements.

Metropolitan Transit Authority of Harris County, Texas
Statements of Cash Flows
for the Years Ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Receipts from transportation fares	$ 74,808,023	$ 74,694,665
Payments to employees	(328,107,019)	(293,164,556)
Payments to suppliers for goods and services	(206,691,365)	(190,767,056)
Net cash used in operating activities	(459,990,361)	(409,236,947)
Cash flows from noncapital financing activities:		
Sales tax	689,499,508	717,839,256
Proceeds from grants	75,229,383	38,133,553
Receipts from miscellaneous income	2,321,739	8,816,485
Payments for local infrastructure assistance	(232,726,509)	(143,292,240)
Net cash provided by noncapital financing activities	534,324,121	621,497,054
Cash flows from capital and related financing activities:		
Proceeds from grants	25,438,090	72,825,801
Proceeds from the issuance of sales tax contractual obligation	246,962,941	133,703,345
Principal payments related to commercial paper	(3,900,000)	(62,100,000)
Principal payments related to debts	(291,958,018)	(22,463,263)
Interest payments related to debts	(49,715,590)	(50,886,131)
Purchase of investment from the issuance of sales tax contractual obligation	(87,477,494)	(93,759,658)
Sale of investments relating to sales tax contractual obligation	83,319,060	96,415,905
Interest rebates from Build America Bonds	2,777,099	1,841,467
Proceeds from sale of assets	12,368,747	19,788,142
Capital purchases	(100,898,533)	(212,171,140)
Net cash flows used in capital and related financing activities	(163,083,698)	(116,805,532)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	770,437,846	411,893,381
Purchase of investments	(681,200,484)	(506,264,439)
Interest income	376,694	671,422
Net cash flows used in investing activities	89,614,056	(93,699,636)
Net change in cash	864,118	1,754,939
Cash at beginning of year	5,426,047	3,671,108
Cash at end of year	$ 6,290,165	$ 5,426,047
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (711,156,941)	$ (620,116,898)
Depreciation and amortization	212,338,159	173,469,603
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	1,714,028	(2,017,812)
Increase in inventory and other assets	(4,228,946)	(5,156,208)
Increase in net pension liability	74,075,974	26,212,267
Increase in deferred outflows – pension plans	(59,940,270)	(32,384,271)
Increase in deferred inflow – pension plans	2,168,916	–
(Decrease) increase in accrued compensation benefits	(648,639)	3,217,802
Increase in other postemployment benefits	30,548,445	28,189,135
(Decrease) increase in liabilities for injuries and damages	(990,117)	3,402,851
(Decrease) increase in trade payables and other liabilities	(3,870,970)	15,946,584
Net cash used in operating activities	$ (459,990,361)	$ (409,236,947)
Noncash investing activities:		
Net (increase) decrease in fair value of investments	$ (590,649)	$ (82,781)
Inflows from reissuance of commercial paper	645,600,000	541,400,000
Outflows from reissuance of commercial paper	(645,600,000)	(541,400,000)

The accompanying notes are an integral part of the financial statements.

1. Summary of Significant Accounting Policies

The Metropolitan Transit Authority of Harris County, Texas (METRO) prepares its financial statements in accordance with generally accepted accounting principles established or approved by the Governmental Accounting Standards Board (GASB), the more significant of which are described below:

Reporting Entity

METRO is a stand-alone governmental entity as defined by GASB Statement No. 14, *The Financial Reporting Entity,* amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-An Amendment of GASB Statement No. 14 and No. 34.*

METRO is a political subdivision of the state of Texas established in 1977. METRO began operations in 1979 to develop, maintain, and operate a public mass transportation system, principally within Harris County, Texas, and is governed by a nine-member Board of Directors (the Board). Five are nominated by the Mayor of the City of Houston and confirmed by the City Council. Two are nominated by the Harris County Judge and confirmed by the Harris County Commissioners Court, and two are elected by the Mayors of the 14 cities other than Houston within METRO's service area.

Related Organizations

The City of Houston, Texas (the City), provides governmental services as authorized or required by its charter. While the City appoints a voting majority of METRO's board members, it is not financially accountable for the actions of METRO since it is unable to impose its will, and a financial benefit or burden relationship does not exist.

Nature of Operating and Nonoperating Activities

Operating

METRO uses the flow of economic resources measurement focus and accrual basis of accounting when preparing financial statements. Under this approach, revenues are recognized when earned and expenses are recognized when incurred.

Operating revenue includes transit fares and HOT lanes usage fee while operating expenses consist of transit operations, traffic management, and organizational support.

Transit operations provide the public with a high-quality and cost-effective public transportation system. Transit operations include designing/constructing maintenance facilities, light-rail lines, transit centers, Park & Ride lots, and bus storage facilities; selecting bus/rail routes; purchasing buses/rail equipment; maintaining equipment; and hiring/training personnel who deliver transit services and provide security.

Traffic management activities assist in improving regional mobility by providing traffic and transportation law enforcement activities in order to increase safety for the area's motorists and pedestrians.

Organizational support provides METRO with oversight, direct assistance, and community/business development opportunities.

Nonoperating

Nonoperating revenue and expenses include the 1% sales tax levied in METRO's service area, investment income, intergovernmental revenue, non-transit related lease arrangements, operating grants, local infrastructure assistance, and loss on sale or disposal of assets.

Cash and Investments Activities Including Compliance with the Texas Public Fund Investment Act (TPFIA)

Cash consists of amounts maintained in demand deposit and petty cash accounts.

METRO's deposit and investment activities comply with policies established by the Board of Directors and the TPFIA. The TPFIA requires, as part of the annual financial statement audit, the independent auditor perform compliance reviews some of which include: the Board of Directors has: adopted a written investment policy and strategies that comply with TPFIA, the policy and investment strategies are reviewed at least annually, and adequately trained investment officers have been designated and ensure that investment activity is reported, reviewed, and accepted by the Board of Directors at least quarterly. The investment policy must also include a listing of authorized investments, which can include: Obligations of the United States of America, its agencies, and instrumentalities, money market mutual funds, commercial paper, fully collateralized repurchase agreements, local government investment pools, certificates of deposit, and other investments authorized by the TPFIA. The Board of Directors may also place additional limits on investment options.

All investments are reported at fair value with investments from borrowing reflected as restricted investments in the Statements of Net Position. Restricted assets reflected as current will be used to pay amounts reported as current liabilities.

Receivables

Receivables generally consist of amounts due from customers, grantor agencies, cost-sharing agreements, employees, warranties, and miscellaneous activities.

Inventories of Materials and Supplies

Inventories are valued using a weighted average costing method and consist principally of diesel fuel, repair parts, and other supplies that are used to maintain buses, light-rail cars, facilities and related equipment.

Capital Assets

METRO's overall capitalization policy requires expenditures to be capitalized when they exceed $5,000 and (a) the useful life of the asset acquired exceeds one year and/or (b) the useful life of an existing asset is increased beyond its original useful life. Depreciation of such property and equipment is calculated using the straight-line method over the following estimated useful lives:

Park & Ride lots	4 - 30 years
Buses	3 - 12 years
Other property and equipment	3 - 10 years
Transitways	4 - 30 years
Rail cars	4 - 25 years
Rail infrastructure	4 - 50 years
Buildings and improvements	4 - 40 years

Capital assets, including capital leases, are recorded at historical cost and expenditures relating to normal repair and maintenance are expensed as incurred. The cost and accumulated depreciation of assets retired or sold are removed from the accounts with any gain or loss reported as part of nonoperating revenues (expenses) on the Statements of Revenues, Expenses, and Changes in Net Position. Liabilities relating to capital leases are reflected separately in the Statements of Net Position.

Compensated Absences

Compensated absences are earned by full-time and part-time employees with part-time employees earning benefits at a reduced rate based on hours worked.

Employees covered by the collective bargaining agreement earn vacation hours each December 31 based on years of service. A maximum of 200 vacation hours per year can be earned. Earned vacation hours must be used in the next calendar year or paid to the employees upon their termination. These employees also accumulate 8 sick hours per month up to a maximum of 240 hours based on date of hire and years of service. Accumulated sick pay in excess of 64 hours may be sold each September 30 back to METRO at various rates based on attendance. Vacation and sick pay for these employees are expensed when earned, with unpaid balances being reported as part of accrued compensation and benefits (a liability) on the Statements of Net Position.

Full-time employees not covered by the collective bargaining agreement can earn vacation hours up to 16.67 each month and can accumulate up to 600 hours based on years of service and hire date. Vacation expense is recorded when earned, with the unused balance being reported as part of accrued compensation and benefits (a liability) in the Statements of Net Position. Employees are paid for their unused vacation time upon termination. In addition, these employees receive 80 hours of sick leave per year at the beginning of each calendar year. Unused sick leave cannot be carried forward to subsequent years and there is no payment at the end of a calendar year or when the employee terminates. Sick leave for Non-Union employees is expensed when incurred.

Pension Plans

METRO has two defined benefit pension plans and one defined contribution plan. Accounting and financial reporting standards for defined benefit pensions plans require including the net pension liability, deferred outflows/inflows of resources, pension expense, and information about the Plans' fiduciary net position in METRO's financial statements. The amounts reported were determined on the same basis as reported by the individual pension plans. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms and investments are reported at fair value. Individual pension plans comprehensive annual financial reports (CAFR) for the defined benefit pension plans, are located on METRO's Web site with certain information taken from these CAFRs located in note 4.

Commercial Paper

Obligations for the issuance of tax-exempt commercial paper are reported as a current liability unless they are supported by a non-cancellable, revolving credit, and term loan agreement that exceeds one year as of the date of the Statements of Net Position. In addition, the agreement must be issued by an organization with the financial capacity to support their commitment. Obligations that meet these requirements have been reported as a noncurrent liability in the Statements of Net Position.

Sales Tax

Revenue from the 1% sales tax is recognized when taxable sale transactions occur within METRO's service area. The Comptroller of the State of Texas collects and distributes these amounts to the appropriate governmental organizations with funding normally occurring within 60 days from date of the sale. The amount reported is net of a 2% collection and distribution service fee withheld by the State.

Use of Estimates

The preparation of financial statements in conformity with U. S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

New Accounting and Reporting Standards

During FY2015 METRO implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and *No.71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. These standards require restating the beginning net position balance for FY2015 by removing the prepaid pension asset and recording the deferred outflows and a net pension liability. These changes are reflected in the following schedule.

Adjustments to the Beginning Net Position	October 1, 2014
Net position beginning of the year, as previously reported	$ 2,126,970,627
Adjustments to beginning net position	
Recording deferred outflows	16,843,980
Removal of prepaid pension asset	(26,091,075)
Recognition of net pension liability	
TWUPP	(110,621,674)
Non-Union pension plan	(57,910,778)
Total adjustments to beginning net position	(177,779,547)
Restated net position , beginning of the year FY2015	$ 1,949,191,080

New GASB statements that are being evaluated include	Effective
Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*	FY2017
Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	FY2018
Statement No. 77, Tax Abatement Disclosures	FY2017
Statement No. 80, *Blending Requirements for Certain Component Units*	FY2017

New GASB statements that were implemented during FY2016 include:

Statement No. 72, *Fair Value Measurement and Application*

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*

Statement No. 79, *Certain External Investment Pools and Pool Participants*

The new standards that were implemented during FY2016 did not change METRO's method of reporting expenses, assets or liabilities. However, GASB No. 72 *Fair Value Measurement and Application* did modify the method of disclosing the fair value of investments as reflected in note 2.

2. **Deposits and Investment Securities**:

Deposits and Investments Including Compliance with the Texas Public Fund Investment Act (TPFIA)

METRO's deposit and investment activity complies with the TPFIA or policies (if more restrictive) established by the Board of Directors. Some items required by the TPFIA include written investment policies, designation of adequately trained investment officers, submissions (at least quarterly) of investment reports to the Board of Directors, and compliance reviews performed annually by the external auditors as part of the financial statement audit. In addition, the investment policy must be approved by the Board of Directors annually, which includes a list of authorized broker/dealers and investments, which are limited to obligations of the United States of America, its agencies; instrumentalities; money market mutual funds; commercial paper; fully collateralized repurchase agreements; local government investment pools; certificates of deposit; and other investments authorized by the TPFIA.

Interest Rate and Credit Risk

METRO's investment policy is to minimize interest rate and credit risk by investing a majority of the portfolio in short-term investments such as commercial paper, money market mutual funds, instrumentalities, agencies, and obligations of the United States with maturities generally less than two years. Investments not issued by a government or sponsored agency must be rated not less than AAAm, A-1, P-1, F-1, or equivalent by a nationally recognized rating organization.

Custodial Credit Risk

METRO's investment policy requires bank deposits to be insured by Federal Deposit Insurance Corporation or collateralized at least 102 percent of value with the collateral held by a nonaffiliated, federally insured financial institution. Investment securities are registered in METRO's name and held by an independent custodian.

Concentration of Credit Risk

METRO's investment policy requires a diversified portfolio that minimizes the risk of loss resulting from overconcentration of assets in specific maturity, issuer, or class of securities while placing limits on the allocation of funds between investment types.

Investments issued or explicitly guaranteed by the U.S. government, its agencies, or instrumentalities; money market mutual funds; and investment pools are not subject to concentration of credit risk disclosure and represented $401,408,154 or 95.3% of total investments.

Investments in a single issuer that were not explicitly guaranteed by the U.S government and exceeded 5% of the investment portfolio included:

Investments in Government Sponsored Enterprises	Amount	Percentage of Investment Portfolio
Federal Home Loan Banks	$ 79,803,908	18.9%
Federal Home Loan Mortgage Corporation	40,278,550	9.6%
Federal National Mortgage Association	30,160,292	7.1%
Total	$ 150,242,750	

Deposits

METRO's checking accounts and book balances for cash as of September 30, 2016 and 2015 were:

	Fiscal 2016	Fiscal 2015
Unrestricted		
Bank balances	$ 5,786,977	$ 5,049,075
Book balances	6,290,165	5,426,047

Investments

Fair Value Measurement

METRO categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. METRO uses information provided by Wells Fargo Bank, N.A., the asset custodian, when reporting the fair value of it's investments.

Fair value of METRO's investments for FY2016 and FY2015 using the reporting hierarchy are:

	FY2016 Fair Value Measurement Based on Reporting Hierarchy			
Investments	Fair Value as of September 30, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. treasury notes	$ 30,134,550	$ 30,134,550	$ –	$ –
U.S. agencies	164,240,460	–	164,240,460	–
Certificate of deposits	20,000,000	–	20,000,000	–
Total debt securities	214,375,010	$ 30,134,550	$ 184,240,460	$ –
Investments measured at the net asset value				
Local government investment pool	207,033,144			
Total investments measured at fair value	$ 421,408,154			

Investments	Fair Value as of September 30, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	FY2015 Fair Value Measurement Based on Reporting Hierarchy			
Debt securities				
U.S. treasury notes	$ –	$ –	$ –	$ –
U.S. agencies	106,859,360	–	106,859,360	–
Municipal commercial paper	30,000,000	–	30,000,000	–
Certificate of deposits	20,000,000	–	20,000,000	–
Total debt securities	156,859,360	$ –	$ 156,859,360	$ –
Investments measured at the net asset value				
Local government investment pool	349,793,235			
Total investments measured at fair value	$ 506,652,595			

The fair value of METRO's investments held at September 30, 2016 and 2015 are indicative of the type of investments made by METRO during each fiscal year and consist of the following:

	Fiscal 2016 Fair Value	Fiscal 2015 Fair Value	Fiscal 2016 Credit Ratings
Unrestricted investments			
U.S. treasury notes	$ 30,134,550	$ –	
U.S. agencies	164,240,460	106,859,360	Aaa/AA+
Local government investment pool	107,440,609	253,602,971	AAAm
Municipal commercial paper	-	30,000,000	A-1, P-1,F-1
Certificate of deposit	20,000,000	20,000,000	Collateral =Aaa
Total unrestricted investments	321,815,619	410,462,331	
Restricted investments			
Local government investment pool	99,592,535	96,190,264	AAAm
Total Investments	$ 421,408,154	$ 506,652,595	

Investment by type and weighted average maturity as of September 30, 2016 and 2015 consisted of the following:

	Fiscal 2016 Fair Value	Less Than 1 Year	More Than 1 Year	Average Maturity
Investment securities:				
U.S. treasury notes	$ 30,134,550	$ 19,999,200	$ 10,135,350	407 days
U.S. agencies	164,240,460	119,844,958	44,395,502	336 days
Local government investment pool	207,033,144	207,033,144	–	43 days
Certificate of deposits	20,000,000	20,000,000	–	273 days
	$ 421,408,154	$ 366,877,302	$ 54,530,852	

	Fiscal 2015 Fair Value	Less Than 1 Year	More Than 1 Year	Average Maturity
Investment securities:				
U.S. agencies	$ 106,859,360	$ 106,859,360	$ –	214 days
Local government investment pool	349,793,235	349,793,235	–	43 days
Municipal commercial paper	30,000,000	30,000,000	–	34 days
Certificate of deposits	20,000,000	20,000,000	–	110 days
	$ 506,652,595	$ 506,652,595	$ –	

Investments measured at the net asset value (NAV) consist of funds on deposit with Texas Short Term Asset Reserve Program ("*TexSTAR") Cash Reserve Fund.* This is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code.

TexSTAR participants have daily access to their funds with no penalties. Interest is accrued daily and paid monthly. There is no minimum balance required and no limit on the number of individual accounts. TexSTAR offers local governments the technology to carry out their duties with the greatest level of efficiency. Participants can initiate wire transactions until 4:00 p.m. Central Time for same day settlement and ACH transactions until 4:00 p.m. Central Time for next date settlement. In addition, transactions can be preloaded for settlement using the TexSTAR internet systems up to 10 business days in advance 24 hours a day. The fund is rated AAAm by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security.

Funds placed with TexSTAR will be used to pay principal and interest payments on outstanding debt and General Mobility Program payments.

3. Capital Assets

Changes in capital assets for fiscal year 2016 were as follows:

	October 1, 2015	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2016
Capital assets not depreciated:					
Land	$ 280,190,888	$ –	$ (15,118,679)	$ 4,704,962	$ 269,777,171
Construction in progress	59,804,208	131,968,141	(355)	(84,608,732)	107,163,262
Total capital assets not depreciated	339,995,096	131,968,141	(15,119,034)	(79,903,770)	376,940,433
Capital assets depreciated:					
Administration and operating facilities	441,586,428	–	–	2,698,297	444,284,725
Park and ride lots and transit centers	297,091,183	–	–	(1,837,613)	295,253,570
Buses and equipment	839,276,489	–	(43,559,732)	53,268,349	848,985,106
Rail cars	257,833,514	–	–	19,859,850	277,693,364
Rail infrastructure	1,957,208,345	–	–	(2,608,920)	1,954,599,425
Transitways/HOT lanes	578,916,708	–	–	697,267	579,613,975
Other property and equipment	54,362,491	–	(11,252,361)	7,826,540	50,936,670
Total capital assets depreciated	4,426,275,158	–	(54,812,093)	79,903,770	4,451,366,835
Less accumulated depreciation and amortization:					
Administration and operating facilities	(268,253,543)	(17,617,536)	–	–	(285,871,079)
Park &Ride lots and transit centers	(196,632,860)	(8,936,137)	–	–	(205,568,997)
Buses and equipment	(555,034,286)	(72,435,552)	38,652,437	–	(588,817,401)
Rail cars	(58,449,572)	(28,212,902)	–	–	(86,662,474)
Rail infrastructure	(140,471,407)	(56,941,962)	–	–	(197,413,369)
Transitways/HOT lanes	(371,356,704)	(21,248,090)	–	–	(392,604,794)
Other property and equipment	(36,475,251)	(6,945,980)	11,249,100		(32,172,131)
Total accumulated depreciation and amortization	(1,626,673,623)	(212,338,159)	49,901,537	–	(1,789,110,245)
Total capital assets being depreciated, net	2,799,601,535	(212,338,159)	(4,910,556)	79,903,770	2,662,256,590
Total capital assets, net	$ 3,139,596,631	$ (80,370,018)	$ (20,029,590)	$ –	$ 3,039,197,023

Total interest cost incurred, including the amortization of the premium and discount, for the current and previous two fiscal years were $45,949,405, $45,849,975, and $43,596,097 of which $2,839,818, $31,348,602 and $32,872,267 was capitalized. The significant decline in interest capitalization for FY2016 relates to the completion of several major rail construction programs near the end of FY2015.

Changes in capital assets for fiscal year 2015 were as follows:

	October 1, 2014	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2015
Capital assets not depreciated:					
Land	$ 300,060,651	$ –	$ (24,470,541)	$ 4,600,778	$ 280,190,888
Construction in progress	1,202,923,837	257,921,754	–	(1,401,041,383)	59,804,208
Total capital assets not depreciated	1,502,984,488	257,921,754	(24,470,541)	(1,396,440,605)	339,995,096
Capital assets depreciated:					
Administration and operating facilities	434,027,120	–	(2,625,765)	10,185,073	441,586,428
Park and ride lots and transit centers	281,758,241	–	(2,352,937)	17,685,879	297,091,183
Buses and equipment	808,902,366	–	(56,432,913)	86,807,036	839,276,489
Rail cars	130,560,691	–	(362,727)	127,635,550	257,833,514
Rail infrastructure	815,330,972	–	–	1,141,877,373	1,957,208,345
Transitways/HOT lanes	573,968,934	–	–	4,947,774	578,916,708
Other property and equipment	55,675,411	–	(8,614,840)	7,301,920	54,362,491
Total capital assets depreciated	3,100,223,735	–	(70,389,182)	1,396,440,605	4,426,275,158
Less accumulated depreciation and amortization:					
Administration and operating facilities	(252,953,827)	(17,443,325)	2,143,609	–	(268,253,543)
Park &Ride lots and transit centers	(190,176,622)	(8,794,459)	2,338,221	–	(196,632,860)
Buses and equipment	(537,511,122)	(72,674,952)	55,162,720	(10,932)	(555,034,286)
Rail cars	(40,878,634)	(17,944,597)	362,727	10,932	(58,449,572)
Rail infrastructure	(112,383,462)	(28,087,945)	–	–	(140,471,407)
Transitways/HOT lanes	(349,067,324)	(22,289,380)	–	–	(371,356,704)
Other property and equipment	(38,850,671)	(6,234,946)	8,610,366	–	(36,475,251)
Total accumulated depreciation and amortization	(1,521,821,662)	(173,469,604)	68,617,643	–	(1,626,673,623)
Total capital assets being depreciated, net	1,578,402,073	(173,469,604)	(1,771,539)	1,396,440,605	2,799,601,535
Total capital assets, net	$ 3,081,386,561	$ 84,452,150	$ (26,242,080)	$ –	$ 3,139,596,631

4. Retirement Plans

METRO has three pension plans and two postemployment healthcare plans. Two of the pension plans are noncontributory, single-employer, defined-benefit plans and one is a defined contribution plan. The postemployment healthcare plans are single-employer, defined benefit plans that are available to eligible retirees.

Pension and postemployment healthcare contributions are authorized by METRO’s Board of Directors during the annual budgeting process. METRO’s funding policy, for both pension plans, is to contribute each year the annual, actuarially determined contribution in equal payments over a 12 month period.

The monthly pension contributions are placed into separate trust accounts and will be used to fund pension payments as they become due. Other postemployment benefits are funded on a pay-as-you-go basis. Independently audited financial statements are available for both defined-benefit pension plans on METRO’s Web site. METRO has no access to pension plan assets as they are kept in separate trust accounts and managed by two separate administrative committees. The Plans’ asset custodian and disbursing agent is State Street Bank, which is responsible for executing/recording all investment transactions authorized by the plans, paying operating expenses, and issuing monthly checks to retirees.

Calculating amounts used in financial reporting and management of the Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP) and the Non-Union Pension Plan (NUPP), the two defined benefit retirement plans, requires the use of actuarial assumptions. These assumptions reflect a long-term perspective in determining liabilities and expenses. Each year these assumptions are reviewed with the plans' actuary and adjusted based on actual performance. The amount ultimately paid may vary significantly from the amounts currently reported since retirement liabilities are based on long-term estimates and actuarial projections.

During FY2016 METRO updated several actuarial assumptions used for the TWUPP and the Non-Union Pension Plan (NUPP). These changes included the disability, withdrawal and retirement rates which were based on an experience study dated June 22, 2016 and a change to the mortality tables for both plans as reflected below.

From	To
RP-2000 Mortality Table for employees healthy annuitants and disabled annuitants with projection to 2014 per Scale AA	RP2014 Mortality Table adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015

These changes increased the net pension liability for the TWUPP by $22,899,218 and by $18,953,325 for the NUPP. The related increase in deferred outflows will be amortized, using the straight-line method, and reported as part of pension expense in the current and over the next four years.

The net pension liability for both defined benefit pension plans was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated January 1, 2015. The actuarial valuation was based on the discount rate and actuarial assumptions listed on the next page and projected forward to the measurement date, September 30, 2016, in accordance with GASB Statement No. 68.

The discount rate used to determine the total pension liability for both defined benefit pension plans was 6.75% which is the same as the long-term expected investment rate of return. The use of the same rate is only appropriate when the depletion analysis, which covers the life of the individual plan, has projected cash inflows from contributions and investment earnings which will equal or exceed the projected outflows for expenses and benefit payments.

The projected long-term expected rate of return on pension plan investments was determined using a building-block method in which the best-estimate ranges of expected future real rates of returns (expected returns, net of pension plan investment expense and inflation) were developed for each major asset class. These ranges are combined to produce the projected long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The best estimates of the projected arithmetic, real rates of return for each major asset class included in the Plan's target asset allocation as of January 1, 2015 are reflected in the individual plans section of this report.

Changes in the combined net pension liability for both defined benefit pension plans as of September 30, 2016 and September 30, 2015 was:

Net Pension Liability	TWUPP	NUPP	Total
Ending September 30, 2015	$ 116,911,315	$ 61,050,504	$ 177,961,819
Current year changes	42,296,862	31,779,112	74,075,974
Ending September 30, 2016	$ 159,208,177	$ 92,829,616	$ 252,037,793

Net Pension Liability	TWUPP	NUPP	Total
Ending September 30, 2014	$ 110,621,674	$ 57,910,778	$ 168,532,452
Current year changes	6,289,641	3,139,726	9,429,367
Ending September 30, 2015	$ 116,911,315	$ 61,050,504	$ 177,961,819

The ending net pension liabilities is measured each December 31 and reported nine months later on METRO's September 30, Statement of Net Positon. METRO's contributions for the period January 1 through September 30, of each year, are reported as part of the deferred outflows as listed below.

The combined deferred outflows for both defined benefit pension plans as of September 30, 2016 and September 30, 2015 were:

Deferred outflows	TWUPP	NUPP	Total
Contributions between January 1, 2016 through September 30, 2016	$ 12,423,960	$ 8,385,852	$ 20,809,812
Difference between expected and actual economic/demographic experience	–	4,955,728	4,955,728
Change of assumption	20,030,910	9,020,358	29,051,268
Net difference between projected and actual earnings on pension investments	22,066,007	15,441,726	37,507,733
Total deferred outflows September 30, 2016	$ 54,520,877	$ 37,803,664	$ 92,324,541

Deferred outflows	TWUPP	NUPP	Total
Contributions between January 1, 2015 through September 30, 2015	$ 15,209,896	$ 9,020,858	$ 24,230,754
Net difference between projected and actual earnings on pension investments	4,454,275	3,699,242	8,153,517
Total deferred outflows September 30, 2015	$ 19,664,171	$ 12,720,100	$ 32,384,271

Only the TWUPP experienced a deferred inflow which originated in FY2016 for $2,168,916. This amount relates to the difference between expected and actual economic/demographic experience. The NUPP has not incurred any deferred inflows through FY2016.

Significant actuarial assumptions used in calculating the net pension liability and related pension expense for the defined benefit pension plans are listed below:

	TWUPP	NUPP
Valuation date	January 1, 2015	January 1, 2015
Cost method	Entry age normal	Entry age normal
Inflation rate	2.3% per year IRS salary limit	2.3% per year IRS salary limit
Investment rate of return	6.75% per annum	6.75% per annum
Funding policy	Meeting the ADC requirements	Meeting the ADC requirements
Cost-of-living adjustments	None	None
Projected salary increase	2.5% per annum	2.5% per annum
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for ages 60 through 70	Varying percentage ranging from 20% to 100% for ages 55 through 70
Mortality and disabled mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015
Amortization of gains/losses:		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	28 years closed	28 years closed
Open to new members	No (as of October 1, 2012)	No (as of October 1, 2007)

<u>TWUPP Defined Benefit Pension Plan</u>

METRO established the TWUPP for the purpose of accumulating funds to pay retirement benefits and certain related administrative costs. The Plan, closed to new members on October 1, 2012, is a single employer, noncontributory defined benefit pension plan which is for employees covered by the collective bargaining agreement. Retirement benefits are established during periodic negotiations with the Transport Workers Union of America, AFL-CIO and Local 260 of the Transport Workers Union of America, AFL-CIO (Union). Postemployment health care costs are not included in the TWUPP.

TWUPP provides for monthly normal retirement benefits based on the participant's years of service, but not less than $500 each month. The calculation for the monthly normal retirement benefit is based on the designated dollar amount times the number of credited years of service. The designated dollar amount used to determine the monthly normal retirement benefit is based on date of retirement and as allowed by the Union labor agreement. The most current monthly amounts paid for recent retirees are as follows:

August 1, 2002 through July 31, 2003	$ 50
August 1, 2003 through July 31, 2004	51
August 1, 2004 through July 31, 2005	52
August 1, 2005 through July 31, 2006	52
August 1, 2006 through July 31, 2007	53
August 1, 2007 through January 31, 2009	54
February 1, 2009 through present	60

Participants can only receive monthly distributions unless their balance is $5,000 or less, then the participant can elect to receive a lump-sum payment. TWUPP participants are 100% vested after five years of credited service. Participants become eligible to receive benefits at the earlier of 28 years of credit services or at age 60 with 5 years of credited service. The requirements for early retirement with reduced benefits are that an employee reaches age 55 with 25 years of credited service. In addition, TWUPP provides for disability retirement benefits with the requirement of having 5 years of credit service. Additional requirements include five years of vesting service for vested deferred retirement benefits and for preretirement spousal benefits.

Changes in plan participants between January 1, 2015 and January 1, 2014 were:

Participants	2015	2014	Change
Active	2,108	2,241	(133)
Terminated and vested	560	555	5
Retired	986	1,018	(32)
Disabled	209	175	34
Beneficiaries	247	177	70
Total for all participants	4,110	4,166	(56)

Changes in the Net Pension Liability for the TWUPP is based on a measurement date of December 31 with the amounts reported on METRO's September 30 financial statements. Activities for the last two years consisted of:

	For the Years Ending September 30, (Reporting Dates)	
	2016	2015
Total pension liability		
Changes for the year:		
Service cost	$ 5,549,985	$ 5,435,165
Interest on total pension liability	24,786,145	22,446,888
Changes of benefit terms	–	–
Difference between expected and actual experience	(2,780,567)	–
Changes of assumption	25,679,785	–
Benefit payments	(16,567,409)	(15,923,974)
Net change in total pension liability	36,667,939	11,958,079
Total pension liability beginning	346,901,384	334,943,305
Total pension liability ending	383,569,323	346,901,384
Plan fiduciary net position :		
Contributions from the employer	19,062,423	13,477,182
Net investment income	(7,809,891)	8,434,984
Benefit payments	(16,567,409)	(15,923,974)
Administrative expenses	(314,046)	(319,754)
Net change in plan fiduciary net position	(5,628,923)	5,668,438
Plan fiduciary net position - beginning	229,990,069	224,321,631
Plan fiduciary net position - ending	224,361,146	229,990,069
METRO's net pension liability	$ 159,208,177	$ 116,911,315

Sensitivity Analysis Schedule, provided below, is used to evaluate the effect on the total pension liability and related net pension liability for a 1% change in the discount rate as of September 30, 2016.

	1% Decrease to 5.75%	Current Discount Rate 6.75%	1% Increase to 7.75%
Net pension liability	$ 204,048,793	$ 159,208,177	$ 121,453,380

The best estimates of the projected arithmetic, real rates of return for each major asset class included in TWUPP target asset allocation as of January 1, 2015 are listed below:

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	4.99%	0.65%
Core Fixed Income	Barclays Aggregate	33.00%	2.12%
Large Cap U.S. Equities	S&P 500	29.48%	3.95%
Small Cap U.S. Equities	Russell 2000	10.02%	4.35%
Developed Foreign Equities	MSCI EAFE	22.57%	4.45%
Assumed Inflation – Mean			2.30%
Assumed Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			6.60%
Portfolio Standard Deviation			11.39%
Long-Term Expected Rate of Return			6.75%

Pension Plan Expense and Deferred Outflows and Inflows

Pension expense for FY2016 and FY2015 totaled $ 25,885,559 and $15,312,548, respectively, and was reported on the statement of changes in net position for each fiscal year. The increase in pension expense for FY2016 primarily relates to the amortization of deferred outflows and interest on the total pension liability.

A deferred outflow of $54,520,877 and a deferred inflow of $2,168,916 was reported on the statement of net position as of September 30, 2016. Included in the deferred outflow are contributions, by METRO, totaling $12,423,960 for the period January 1, 2016 through September 30, 2016. These contributions will be reflected in next year's actuarial report when determining financial information including pension expense. The deferred outflows, and inflows, excluding the contributions previously discussed, will be amortized using the straight-line method over the next four years and reported as a part of pension expense as follows:

Fiscal Year	Amount
2017	$ 10,832,118
2018	10,832,118
2019	10,832,117
2020	7,431,648
Total	$ 39,928,001

NUPP Defined Benefit Pension Plan

METRO established the NUPP during December 1975 for the purpose of accumulating funds to pay retirement benefits and certain related administrative costs. The Plan, closed to new participants on October 1, 2007, is a single employer, noncontributory (since March 1, 1984) defined benefit pension plan which covers full-time police officers and administrative staff. Retirement benefits are established and can be amended by METRO's Board of Directors. Postemployment healthcare costs are not included in the Plan.

The Plan participants are 100% vested after 5 years and can retire at age 65 (normal retirement age) or with reduced benefits after age 55 with 15 years of credited service. Monthly benefits are calculated using three factors, which include employee's average earnings for the last three years, number of service years, and the retirement factor. The minimum monthly normal retirement benefit is $300 for those who retire at or after age 65 and with five years of credited service. The NUPP offers several annuity options and a discounted lump-sum payment.

To receive a lump sum payment, vested employees must withdraw their funds by the end of the year following their termination. After this time they must select one of the annuity options upon their eligible retirement date. Employees who are totally disabled will continue to earn service years until their normal retirement age with their compensation, as of their disability date, used to calculate their benefits.

Changes in plan participants between January 1, 2015 and January 1, 2014 were:

Participants	2015	2014	Change
Active	621	657	(36)
Terminated and vested	87	98	(11)
Retired	210	193	17
Disabled	–	12	(12)
Beneficiaries	44	24	20
Total participants	962	984	(22)

Pension Plan Expense and Deferred Outflows and Inflows

Pension expense for FY2016 and FY2015 totaled $17,309,213 and $8,446,785 and was reported on the statement of changes in net position for each fiscal year. The increase in pension expense for FY2016 primarily relates to the amortization of deferred outflows and interest on the total pension liability. A deferred outflow of $37,803,664 was reported on the statement of net position as of September 30, 2016. Included in the deferred outflow are contributions, by METRO, totaling $8,385,852 for the period January 1, 2016 through September 30, 2016. These contributions will be reflected in next year's actuarial report when determining financial information including pension expense. The deferred, excluding the contributions previously discussed, will be amortized using the straight-line method over the next four years and reported as a part of pension expense as follows

Fiscal Year	Amount
2017	$ 9,068,873
2018	9,068,873
2019	8,113,244
2020	3,166,822
Total	$ 29,417,812

Changes in the Net Pension Liability for the NUPP is based on a measurement date of December 31 with amounts reported on METRO's September 30 financial statements. Activities for the last two years consisted of:

	For the Years Ending September 30, (Reporting Dates) 2016	2015
Total pension liability		
Changes for the year		
Service cost	$ 2,782,533	$ 2,753,593
Interest on total pension liability	15,165,652	13,384,981
Changes of benefit terms	–	–
Difference between expected and actual experience	6,720,589	–
Changes of assumption	12,232,736	–
Benefit payments	(8,777,750)	(8,704,519)
Net change in total pension liability	28,123,760	7,434,055
Total pension liability beginning	207,257,676	199,823,621
Total pension liability ending	235,381,436	207,257,676
Plan fiduciary net position		
Contributions from the employer	11,248,671	9,006,301
Net investment income	(5,890,916)	4,217,106
Benefit payments	(8,777,750)	(8,704,519)
Administrative expenses	(235,357)	(224,559)
Net change in plan fiduciary net position	(3,655,352)	4,294,329
Plan fiduciary net position – beginning	146,207,172	141,912,843
Plan fiduciary net position – ending	142,551,820	146,207,172
METRO's net pension liability ending	$ 92,829,616	$ 61,050,504

Sensitivity Analysis Schedule, provided below, is used to evaluate the effect on the total pension liability and related net pension liability for a 1% change in the discount rate as of September 30, 2016.

	1% Decrease to 5.75%	Current Discount Rate of 6.75%	1% Increase to 7.75%
Net pension liability	$ 109,830,684	$ 92,829,616	$ 78,116,339

The best estimates of the projected arithmetic, real rates of return for each major asset class included in the Plan's target asset allocation as of January 1, 2015, are listed below.

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	4.26%	0.65%
Core Fixed Income	Barclays Aggregate	32.47%	2.12%
Large Cap U.S. Equities	S&P 500	45.60%	3.95%
Small Cap U.S. Equities	Russell 2000	10.50%	4.35%
Developed Foreign Equities	MSCI EAFE	7.22%	4.45%
Assumed Inflation – Mean			2.30%
Assumed Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			6.53%
Portfolio Standard Deviation			11.49%
Long-Term Expected Rate of return			6.75%

Defined Contribution Pension Plan (DCPP)

The NUPP was closed October 1, 2007 and the TWUPP was closed October 1, 2012 to new employees. Individuals hired after those dates are placed into a DCPP. As part of DCPP, METRO will contribute 2% of the employee's annual salary and will match up to an additional 4% of their contributions. All contributions are placed into a third-party trust account. Employee's vesting rates are 40% after the second year and 20% annually thereafter. Contributions by METRO for the current and previous two fiscal years were $4,113,297, $2,954,478, and $1,964,943, with employees contributing $3,356,028, $2,406,028, and $1,654,991 respectively.

Other Postemployment Benefits Other Than Pension

METRO sponsors two single-employer, defined benefit Other Postemployment Healthcare Plans, which include the Transport Workers Union Metropolitan Transit Authority Health & Welfare Trust (Trust) and the Non-Union Plan. These plans cover medical, dental, and life insurance for retirees with a retiree's contribution being based on years of service for the Non-Union Plan. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of cost sharing between the employer and plan members. METRO is on a pay-as-you-go funding basis for these benefits.

The Trust is a separate legal entity that is managed by four Trustees who are responsible for managing resources and establishing benefits. Payments to the Trust are irrevocable with METRO's responsibility limited to monthly payments that are based on the number of eligible participants times a standard amount that is established during contract negotiations. To qualify for this retirement benefit, an employee must be 60 years old with 5 years of credited services, any age with 28 years of credited services, or 55 years old with 25 years of credited services or meet disability qualifications. Actual contributions made to the Trust for retirees for the current and previous two fiscal years were $10,748,776, $9,194,420, and $8,574,434 respectively.

The Non-Union Plan is administered by METRO and covers full-time employees with payments made as services are provided. To qualify for this benefit, an employee must be 55 years or older with 5 years of credited services. Employees hired after December 31, 2009 are not eligible for postretirement medical and dental benefits but remain eligible for life insurance with a maximum benefit of $14,000. Effective October 1, 2012, METRO moved post-65 retirees and spouses to Extend Health. This plan is capped at $2,801 per person annually and includes medical, dental, vision, and pharmacy. Actual contributions for the current and previous two fiscal years were $3,101,140, $3,078,282, and $2,767,380, respectively.

Significant actuarial assumptions used in METRO's Other Postemployment Plans valuations are listed the following page.

	Trust	Non-Union
Valuation date	Biennially on January 1st	Biennially on January 1st
Cost method	Projected unit credit	Projected unit credit
Healthcare cost trend rate	3%	Varying from 8% declining to 4.6% after 2083
Investment rate of return without prefunding	3.75% per annum	4.0% per annum
Funding policy	Pay-as-you-go	Pay-as-you-go
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for age 55 through 70	Varying percentage ranging from 20% to 100% for ages 55 through 70
Inflation assumption	2.5% per annum, compound annually	2.75% per annum, compound annually
Mortality basis after normal retirement	The RP-2014 Mortality adjusted backwards to 2006 with MP-2014 projected forward (fully generational) with MP2015. Separate tables were used for males/females disabled lives (sex distinct)	Healthy or disabled lives (sex distinct) RP-2000 Combined Mortality Table projected to 2015 using projection Scale AA
Amortization of gains and loss		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	30 years closed	30 years closed
Open to new members	Yes	No (as of January 1, 2010)

The following calculations for Other Postemployment Benefit (OPEB) Cost, Net OPEB Obligation, and Funded Status of the plans are based on independent actuarial reports. The Non-Union report was dated January 1, 2015 while the Trust was dated January 1, 2016.

	Fiscal Year 2016		Fiscal Year 2015	
	Trust	Non-Union	Trust	Non-Union
Annual required contributions	$42,192,802	$ 6,609,938	$ 36,787,050	$ 6,609,938
Interest on prior year net post-employment benefit obligation	6,425,278	2,254,416	4,663,896	2,254,416
Adjustment to annual required Contributions	(9,831,809)	(3,252,264)	(6,601,199)	(3,252,264)
Other postemployment cost	38,786,271	5,612,090	34,849,747	5,612,090
Contribution	10,748,776	3,101,140	9,194,420	3,078,282
Change in net postemployment benefit obligation	28,037,495	2,510,950	25,655,327	2,533,808
Beginning net postemployment benefit obligation	171,340,745	58,894,202	145,685,418	56,360,394
Ending net postemployment benefit obligation	$199,378,240	$ 61,405,152	$171,340,745	$ 58,894,202
Percentage of postemployment benefit cost contributed	27.71%	55.26%	26.38%	54.85%

OPEB cost and Net OPEB obligations for the last three years are:

	Annual OPEB Cost	Percentage of OPEB Funded	Year-End Net OPEB Obligation
Trust			
2014	34,849,747	24.60%	145,685,418
2015	34,849,747	26.38%	171,340,745
2016	38,786,271	27.71%	199,378,240
Non-Union			
2014	9,478,144	29.20%	56,360,394
2015	5,612,090	54.85%	58,894,202
2016	5,612,090	55.26%	61,405,152

No assets have been accumulated for the OPEB liability since METRO funds on a pay-as-you-go basis. The schedule of funding progress as calculated by an independent actuary (in thousands) was:

Actuarial Valuation Date	OPEB Plan	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio Percentage
October 1, 2016	Trust	–	$ 446,704	$ 446,704	–
October 1, 2015	Non-Union	–	108,927	108,927	–

5. Self-Insurance

The Risk Management Department is responsible for developing and implementing safety/training programs, purchasing insurance policies, and establishing a self-insured liability for workers' compensation and third-party property and bodily injury claims. This self-insured liability is adjusted annually based on an independent actuarial study. Prior to the next actuarial update, the Risk Management Department will make monthly adjustments to the self-insured liability balance for cash payments, new claims, and estimated amounts for incurred but not yet reported claims. The increase in claims and changes in estimates, since September 30, 3014, relates to the new light-rail lines, METRO's new bus network and the method used to establish estimated number of future claims.

The purchased insurance policies cover property risk, some of which include premises, fiduciary, commercial crime, windstorm, national flood insurance (at certain locations), railroad, and pollution. Settlements for these activities have not exceeded METRO's insurance coverage for any of the past three fiscal years.

METRO is protected by governmental immunity, except as provided by the Texas Tort Claims Act (TTCA). Under the TTCA, METRO's liability is capped at $100,000 per person and $300,000 per accident for property damage, personal injury, and death proximately caused by wrongful act or omission or the negligence of an employee acting within his scope of employment.

Balance and related changes for the self-insured liability for FY2016 and FY2015 were:

	Balance at the Beginning of the Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at the End of the Fiscal Year
October 1, 2015 - September 30, 2016	$ 14,256,691	$ 3,810,358	$ (4,800,475)	$ 13,266,574
October 1, 2014 - September 30, 2015	10,853,840	8,268,975	(4,866,124)	14,256,691

METRO's ultimate liability for claims may be more or less than the amount accrued; however, management believes the differences will not materially affect its financial position.

6. Public/Private Development and Partnership

<u>Development</u>

During FY2006, METRO leased 11.5 acres of land for 99 years to A-S 90 HWY 290-Skinner, L.P. (lessee), the right (a ground lease) to develop, construct, operate, and maintain a mixed-use residential and commercial facility. METRO maintains a continuing financial interest in the property and must grant prior approval for certain activities, sales, assignments, transfers, and subleasing by the lessee.

As part of the development program, METRO paid $16,630,466 to the lessee for the construction of a multilevel parking garage. The garage provides parking for tenants and Park & Ride patrons and is maintained by METRO with up to 20% of certain expenses billed to the lessee. The lessee is responsible for maintaining the grounds and may bill METRO up to 33.89% of the cost to maintain the drainage facilities/detention pond and certain common areas. The remaining cost associated with the property and improvement (excluding the garage) is paid by the lessee with most payments being included when calculating METRO's 25% share of cash flow participation rent.

METRO receives $50,000 annually in base rent, paid monthly, and cash flow participation rent calculated as 25% of the net cash flows of the leases less most expenses, reasonable reserves, and the base rent. Upon certain payment events, METRO will receive participation payments calculated as 25% of the net proceeds. These payment events include sale, casualty, condemnation action, or permanent financing of the project. All cash flow participation rent will cease if the lessee sells its interest to a third party. No cash flow participation rents or payment events have been received by METRO through FY2016.

Partnership

METRO entered into a taxable limited partnership (Wellington Fisher, Ltd.) during FY2005 for the acquisition and development of certain land for transit-related projects. METRO is the limited partner with Wellington Fisher One LLC acting as the general partner. During FY2016 the partnership sold its land to the University of Houston and disbursed funds totaling $12.1 million to METRO. The cost of the land along with the cash remittance from the partnership was included as part of other income for FY2016. It is anticipated the Wellington Fisher, Ltd. Partnership will be terminated during FY2017.

7. Commitments and Contingencies

In addition to the retirement plans discussed in note 4, METRO has various commitments and contingencies as listed below:

Outstanding Value of Contracts

METRO has various contracts for materials, services, and construction activities some of which cover multiple fiscal years. The outstanding value of contracts as of September 30, 2016 was approximately $596 million. Payments to vendors will be made from sales tax collections, transit fares, debt proceeds, and grants.

Agreements to Fund Local Infrastructure Improvements and Mobility Programs through September 30, 2014 (Extended by Voters in the November 2012 Referendum to December 31, 2025)

METRO makes payments to or on behalf of Harris County, the City of Houston, and the 14 cities (Multi-cities) within METRO's service area for infrastructure improvement and mobility programs. These payments were reauthorized during a special election held during FY2004, which designated 25% of METRO's sales tax through September 30, 2014. Unspent funds remain with the program until used or reallocated by the Board. The voters approved, on November 6, 2012, continuing the program through December 31, 2025 with modifications to the allocation method. The program established a cap using FY2014 sales tax 25% allocated amount with any growth shared equally between METRO and the program. Final distribution of funds to local governments will be based on interlocal agreements as approved by the Board of Directors. Funds held and not yet disbursed at the end of FY2016 totaled $65,813,062.

Expenses related to these agreements are reported as local infrastructure assistance in the Statements of Revenues, Expenses, and Changes in Net Position as funding requests are received and accepted by METRO.

Lease/Sublease Agreements for Operating Facilities and Buses

During FY2016 the transit buses lease expired with the fare boxes/radios buses expiring during FY2018

	Lease Expiration Date	Amortization Period (Years)
Fare boxes/radios	Jan 1, 2018	16

	September 30, 2015 Unamortized Balance	Current Year Amortization	September 30, 2016 Unamortized Balance
Transit buses	$ 607,395	$ 607,395	$ –
Fare boxes/radios	6,639,460	2,213,154	4,426,306
Total	$ 7,246,855	$ 2,820,549	$ 4,426,306

	September 30, 2014 Unamortized Balance	Current Year Amortization	September 30, 2015 Unamortized Balance
Transit buses	$ 1,214,787	$ 607,392	$ 607,395
Fare boxes/radios	8,852,614	2,213,154	6,639,460
Total	$ 10,067,401	$ 2,820,546	$ 7,246,855

Debt

Debt consists of commercial paper, capital leases, bonds, and contractual obligations, which are supported by sales and use taxes revenues. Commercial paper is reported as current or long-term depending on credit support arrangements, which allows for financing on a long-term basis if needed.

Commercial Paper

METRO is authorized to issue up to $400 million in Sales and Use Tax Revenue Commercial Paper Notes (CP). These notes are supported by pledging 75% of METRO's Sales and Use Tax Revenue and interest earned on related investments. To support the CP program in case of a remarketing failure, METRO has two revolving credit and term loan agreements totaling $165 million. A-1 is for $100 million with JPMorgan Chase Bank, National Association, which expires June 6, 2018. A-3 is for $65 million with State Street Bank and Trust Company, which expires June 6, 2018. Commercial paper is reported as a long-term liability on the Statements of Net Position since both revolving credit and term loan agreements expire more than one year after September 30, 2016. In the event of a remarketing failure, the credit line will be invoked to fund maturities and will incur interest costs as follows:

Period	Bank Rate
Day 1 through Day 14	Initial Base Rate
Day 15 through Day 90	Base Rate
Day 91 through Day 180	Base Rate plus 2.00% per annum
Day 181 through the day the amount	Term Out Rate

Where the *"Initial Base Rate"* means for any day the higher of (a) the Banks' (as discussed above) U.S. prime commercial lending rate in effect for such day (as such U.S. prime commercial lending rate is announced from time to time by the Bank at its principal New York office) and (b) the sum of 1.00% per annum plus the Federal Funds Rate for such day (it being understood that each change in such Initial Base Rate is to be effective for purposes of this agreement on the day on which such change is effective for the Bank's purposes). Each determination of the Initial Base Rate by the Bank will be conclusive and binding on METRO and the Bank, absent manifest error; *"Base Rate"* means for any day the higher of (a) the Bank's U.S. prime commercial lending rate in effect for such day (as such U.S. prime commercial lending rate is announced from time to time by the Bank at its principal New York office) plus 2.00% per annum (b) the sum of 3.00% per annum plus the Federal Funds Rate for such day (it being understood that each change in such Base Rate is to be effective for purposes of this Agreement on the day on which such change is effective for the Bank's purposes), and (c) 9.00% per annum. Each determination of the Base Rate by the Bank will be conclusive and binding on METRO and the Bank, absent manifest error; where "*Term Out Rate*" shall never exceed the *"Maximum Interest Rate"* meaning the lesser of (a) maximum non-usurious interest rate that may, under applicable federal law and applicable state law (including specifically Chapter 1204, *Texas Government Code*), be contracted for, charged, or received under such laws and (b) 25% per annum. METRO is also required to pay an annual commitment fee of 1.20% for funds that are available, whether used or unused.

Proceeds from CP were used to make payments for General Mobility expenditures, or eliminating outstanding notes of the same series. Changes and outstanding CP by series as of September 30, 2016 were as follows:

Series	October 1, 2015	Proceeds	Repayments	September 30, 2016
A-1	$ 98,300,000	$ 507,600,000	$ (511,500,000)	$ 94,400,000
A-3	23,000,000	138,000,000	(138,000,000)	23,000,000
Total	$ 121,300,000	$ 645,600,000	$ (649,500,000)	$ 117,400,000

Series	Amount Issued	Maturity Date	Remaining Days Outstanding	Nominal Rate %
A-1	$ 30,650,000	10/06/2016	6	0.50
A-1	34,350,000	10/18/2016	18	0.52
A-1	29,400,000	11/04/2016	35	0.75
	94,400,000			
A-3	14,000,000	10/06/2016	6	0.50
A-3	9,000,000	10/18/2016	18	0.52
	23,000,000			
Total	$ 117,400,000			

Changes for CP by series for FY 2015 were as follows:

Series	October 1, 2014	Proceeds	Repayments	September 30, 2015
A-1	$ 160,400,000	$ 495,400,000	$ (557,500,000)	$ 98,300,000
A-3	23,000,000	46,000,000	(46,000,000)	23,000,000
Total	$ 183,400,000	$ 541,400,000	$ (603,500,000)	$ 121,300,000

Capital Leases, Bonds, and Contractual Obligations

During FY2016 METRO completed five refundings which totaled $233,133,786 (including premium) of its outstanding debts. Proceeds from the refundings were placed into an irrevocable trust which purchased governmental securities that will be used to make all interest and principal payments as they come due. Activity related to the FY2016 in-substance defeased debt refunding, including deferred outflows, is reflected in the following schedule.

	Sales and Use Tax Refunding Bonds Series 2016A	Sales and Use Tax Refunding Contractual Obligations Series 2016B	Sales and Use Tax Bonds Series 2016C	Total Amounts for In-substance Defeased Debt
In-substance defeased debt				
Sales and Use Tax Bonds, Series 2009A	$ 54,000,000	$ –	$ –	$ 54,000,000
Premium	3,259,749	–	–	3,259,749
Sales and Use Tax Bonds, Series 2011A	81,980,000	–	–	81,980,000
Premium	7,454,163	–	–	7,454,163
Contractual Obligations Series 2009B	–	28,365,000	–	28,365,000
Premium	–	538,061	–	538,061
Master Lease Purchase Finance Program Series 2008A	–	–	29,910,000	29,910,000
Premium	–	–	463,839	463,839
Master Lease Purchase Finance Program Series 2008B	–	–	26,525,000	26,525,000
Premium	–	–	637,974	637,974
Total amount of defeased debt	146,693,912	28,903,061	57,536,813	233,133,786
Other related activity				
Issuance cost	953,975	301,642	195,000	1,450,617
Proceeds of debt service funds	(3,390,589)	(1,315,460)	(4,709,643)	(9,415,692)
Total other related activity	(2,436,614)	(1,013,818)	(4,514,643)	(7,965,075)
Total amount of defeased debt and other related activity	144,257,298	27,889,243	53,022,170	225,168,711
Replacement debt				
Par value	126,245,000	25,635,000	55,330,000	207,210,000
Premium	33,707,249	6,045,692	–	39,752,941
Total replacement debt and premium	159,952,249	31,680,692	55,330,000	246,962,941
Deferred outflows from in-substance debt refunding	15,694,951	3,791,449	2,307,830	21,794,231
Less current year amortization	3,124,404	805,371	872,821	4,802,596
Ending balance of deferred outflows as of September 30, 2016	$ 12,570,547	$ 2,986,078	$ 1,435,009	$ 16,991,634

Net present value savings	$ 12,418,539	$ 2,896,102	$ 2,354,606	$ 17,669,247
Interest rate used in the net present value calculation	1.98%	1.98%	1.60%	

Total future payments for capital leases, bonds, and contractual obligations are as follows:

Capital Leases

During FY2016 METRO issued the Sales and Use Tax Bonds Series 2016C which completed the refunding for the Series 2008A and 2008B debts that were issued during FY2008 under the Master Lease Purchase Finance Program (MLPFP). This refunding is being reported as an in-substance defeased debt since the proceeds from the 2016C debt were placed into an irrevocable trust which purchased governmental securities that will be used to make all principal and interest payment as they come due.

The remaining capital lease amount totals $77,311 and relates to improvements made by the lessor on leased property for a Park & Ride Lot that will be fully depreciated in FY2017.

Changes during the last two years for capital lease obligations are as follows:

	Balance of Capital Leases October 1, 2015	Principal Payments Including Refunding Amounts to Retire Leases	Current Year Amortization Including Refunding	Balance of Capital Leases September 30, 2016
MLPFP:				
Series A	$ 35,155,000	$ (35,155,000)	$ –	$ –
Premium	463,839	–	463,839	–
Series B	30,155,000	(30,155,000)	–	–
Premium	637,974	–	637,974	–
Park & Ride land improvements	154,092	(76,781)	–	77,311
Total	$ 66,565,905	($65,386,781)	$ 1,101,813	$ 77,311

Please see the refunding schedule on page 50 for additional information.

	Balance of Capital Leases October 1, 2014	Principal Payment	Current Year Amortization of Premium	Balance of Capital Leases September 30, 2015
MLPFP:				
Series A	$ 40,150,000	$ (4,995,000)	$ –	$ 35,155,000
Premium	530,102	–	(66,263)	463,839
Series B	33,630,000	(3,475,000)	–	30,155,000

Premium	729,113	–	(91,139)	637,974
Park & Ride land improvements	227,355	(73,263)	–	154,092
Total	$ 75,266,570	$ (8,543,263)	$ (157,402)	$ 66,565,905

Bonds and Contractual Obligations

Interest and principal payments for bonds and contractual obligations are guaranteed from sales tax receipts that are deposited directly by the bank each month into a third-party trust account. Funds deposited in the third-party trust account or debt proceeds not yet disbursed are reported as Investments – restricted in the Statements of Net Position.

Scheduled payments over the remaining life of the bonds and contractual obligations are:

Sales and Use Tax Bonds and Contractual Obligations

	Bonds Series 2009A (Rail Construction)		Contractual Obligations Series 2009B (Rail Vehicles)		Build America Bonds Series 2009C (Rail Construction)	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 3,795,000	$ 956,375	$ 1,330,000	$ 268,600	$ –	$ 5,675,656
2018	3,990,000	761,750	1,385,000	214,300	–	5,675,656
2019	4,195,000	557,125	1,440,000	157,800	–	5,675,656
2020	4,410,000	342,000	1,500,000	99,000	–	5,675,656
2021	4,635,000	115,875	–	69,000	–	5,675,656
2022-2026	–	–	1,725,000	103,500	–	28,378,281
2027-2031	–	–	–	–	7,620,000	28,116,344
2032-2036	–	–	–	–	43,655,000	18,523,828
2037-2041	–	–	–	–	31,280,000	3,289,688
2042-2046	–	–	–	–	–	–
	$ 21,025,000	$ 2,733,125	$ 7,380,000	$ 912,200	$ 82,555,000	$ 106,686,421

Sales and Use Tax Bonds and Contractual Obligations

	Contractual Obligations Series 2009D (Buses)		Contractual Obligations Series 2010A (Buses)		Bonds Series 2011A (Rail Construction)	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2017	$ 2,915,000	$ 803,175	$ 3,195,000	$ 1,177,625	$ 8,050,000	$ 18,367,250
2018	3,030,000	684,275	3,350,000	1,014,000	8,465,000	17,954,375
2019	3,160,000	558,500	3,525,000	859,750	8,895,000	17,520,375
2020	3,290,000	423,413	3,660,000	697,750	9,355,000	17,064,125
2021	3,445,000	267,375	3,845,000	510,125	9,835,000	16,584,375
2022-2026	3,625,000	90,625	8,280,000	419,000	32,635,000	76,035,625
2027-2031	–	–	–	–	15,100,000	73,156,250
2032-2036	–	–	–	–	93,585,000	58,617,875
2037-2041	–	–	–	–	144,710,000	30,652,000

2042-2046	–	–	–	–	40,740,000	1,018,500
	$19,465,000	$ 2,827,363	$ 25,855,000	$ 4,678,250	$ 371,370,000	$ 326,970,750

Sales and Use Tax Bonds and Contractual Obligations

Fiscal Year	Contractual Obligations Series 2011B (Buses) Principal	Contractual Obligations Series 2011B (Buses) Interest	Contractual Obligations Series 2014 (Rail Vehicles) Principal	Contractual Obligations Series 2014 (Rail Vehicles) Interest	Sales and Use Tax Series 2015A (Refunding of Paper) Principal	Sales and Use Tax Series 2015A (Refunding of Paper) Interest
2017	$ 3,830,000	$ 1,443,800	$ 6,300,000	$ 6,073,000	$ –	$ 2,628,750
2018	3,985,000	1,287,500	6,625,000	5,749,875	8,755,000	2,628,750
2019	4,150,000	1,124,800	6,965,000	5,410,125	17,525,000	2,191,000
2020	4,320,000	955,400	7,320,000	5,053,000	26,295,000	1,314,750
2021	4,495,000	779,100	7,700,000	4,677,500	–	–
2022-2026	14,720,000	1,103,850	44,825,000	17,046,125	–	–
2027-2031	–	–	44,875,000	4,627,875	–	–
	$ 35,500,000	$ 6,694,450	$124,610,000	$ 48,637,500	$ 52,575,000	$ 8,763,250

Sales and Use Tax Bonds and Contractual Obligations

Fiscal Year	Contractual Obligations Series 2015B (Buses) Principal	Contractual Obligations Series 2015B (Buses) Interest	Sales and Use Tax Refunding Bonds Series 2016A Principal	Sales and Use Tax Refunding Bonds Series 2016A Interest	Sales and Use Tax Refunding Contractual Obligations Series 2016B Principal	Sales and Use Tax Refunding Contractual Obligations Series 2016B Interest
2017	$ 3,915,000	$ 3,006,800	$ –	$ 6,382,386	$ –	$ 1,261,791
2018	4,095,000	2,826,125	–	6,312,250	–	1,247,925
2019	4,305,000	2,616,125	–	6,312,250	–	1,247,925
2020	4,525,000	2,395,375	–	6,312,250	–	1,247,925
2021	4,760,000	2,163,250	–	6,312,250	1,390,000	1,213,175
2022-2026	27,710,000	6,896,000	47,645,000	27,490,875	6,515,000	5,193,000
2027-2031	13,175,000	666,875	78,600,000	8,104,503	10,300,000	3,042,537
2032-2036	–	–	–	–	7,430,000	569,500
	$ 62,485,000	$ 20,570,550	$ 126,245,000	$ 67,226,764	$ 25,635,000	$ 15,023,778

Sales and Use Tax Bonds and Contractual Obligations

	Sales and Use Tax Bonds Series 2016C (Refunding) Principal	Sales and Use Tax Bonds Series 2016C (Refunding) Interest	Total Principal	Total Interest	Total Total
2017	$ 10,825,000	$ 760,122	$ 44,155,000	$ 48,805,330	$ 92,960,330
2018	10,890,000	696,819	54,570,000	47,053,600	101,623,600
2019	11,030,000	557,426	65,190,000	44,788,857	109,978,857
2020	11,195,000	391,976	75,870,000	41,972,620	117,842,620
2021	11,390,000	205,020	51,495,000	38,572,701	90,067,701
2022-2026	–	–	187,680,000	162,756,881	350,436,881
2027-2031	–	–	169,670,000	117,714,384	287,384,384

2032-2036	–	–	144,670,000	77,711,203	222,381,203
2037-2041	–	–	175,990,000	33,941,688	209,931,688
2042-2046	–	–	40,740,000	1,018,500	41,758,500
	$ 55,330,000	$ 2,611,363	$ 1,010,030,000	$ 614,335,764	$ 1,624,365,764
Unamortized Net Premium			111,780,925		
Total			$ 1,121,810,925		

The Build America Bonds Series 2009C receives a special interest rebate each year from the federal government, which was reduced starting in FY2014 as part of the sequestration. The amount to be received will range from $1.8 million in FY2015 to $130 thousand in FY2039. The rebate is reported as Intergovernmental revenue in the Statements of Revenues, Expenses, and Changes in Net Position. Interest cost reported in this schedule has not been reduced for this rebate.

During FY2016 METRO issued two additional debts which included the Sales and Use Tax Refunding Bonds Series 2016A and the Sales and Use Tax Refunding Contractual Obligations Series 2016B. Proceeds from these new debt issues were used to refund portions of the Sales and Use Tax Bonds Series 2009A, the Sales and Use Tax Bonds Series 2011A, and the Contractual Obligations Series 2009B. This refunding activity is reported as an in-substance defeased debt since the proceeds from the new debts were placed into an irrevocable trust for the purchase of governmental securities that will be used to pay principal and interest payments as they come due. Additional information is located on page 50.

Changes for FY2016 and FY2015 are reflected below:

	Changes in Bonds and Contractual Obligations			Changes in Premium or Discount		
Series	October 1, 2015 Principal	Additions	Principal Payments * Including Refunding to Retire Bonds	October 1, 2015 Unamortized Premium or Discount	Current Year Amortization *Including Related Premium or Discount of Refunded Debt	Combined Balance September 30, 2016
2009A	$ 78,635,000	$ –	$ (57,610,000) *	$ 4,528,937	$ (3,513,587) *	$ 22,040,350
2009B	37,020,000	–	(29,640,000) *	678,052	(558,060) *	7,499,992
2009C	82,555,000	–	–	(859,718)	37,379	81,732,661
2009D	22,280,000	–	(2,815,000)	1,591,035	(198,879)	20,857,156
2010A	28,975,000	–	(3,120,000)	2,169,163	(361,527)	27,662,636
2011A	461,010,000	–	(89,640,000) *	41,221,578	(9,142,534) *	403,449,044
2011B	39,180,000	–	(3,680,000)	4,340,301	(542,537)	39,297,764
2014	130,605,000	–	(5,995,000)	19,609,504	(1,508,423)	142,711,081
2015A	52,575,000	–	–	7,765,353	(1,553,071)	58,787,282
2015B	62,485,000	–	–	10,623,410	(885,284)	72,223,126
2016A	–	126,245,000	–	33,707,249	(1,240,110)	158,712,139
2016B	–	25,635,000	–	6,045,692	(172,998)	31,507,694
2016C	–	55,330,000	–	–	–	55,330,000
Total	$ 995,320,000	$ 207,210,000	$ (192,500,000)	$ 131,420,556	$ (19,639,631)	$ 1,121,810,925

	Changes in Bonds and Contractual Obligations			Changes in Premium (Discount)		
Series	October 1, 2014 Principal	Additions	Payments to Retire Bonds	Unamortized Premium (Discount)	Current Year Amortization of Premium or Discount	Combined Balance September 30, 2015
2009A	$ 82,065,000	$ –	$ (3,430,000)	$ 4,852,433	$ (323,496)	$ 83,163,937
2009B	38,245,000	–	(1,225,000)	715,722	(37,670)	37,698,052
2009C	82,555,000	–	–	(897,097)	37,379	81,695,282
2009D	25,010,000	–	(2,730,000)	1,789,914	(198,879)	23,871,035
2010A	31,975,000	–	(3,000,000)	2,530,690	(361,527)	31,144,163
2011A	461,010,000	–	–	42,807,023	(1,585,445)	502,231,578
2011B	42,715,000	–	(3,535,000)	4,882,838	(542,537)	43,520,301
2014	130,605,000	–	–	21,117,927	(1,508,423)	150,214,504
2015A	–	52,575,000	–	7,824,303	(58,950)	60,340,353
2015B	–	62,485,000	–	10,819,042	(195,632)	73,108,410
Total	$ 894,180,000	$ 115,060,000	$ (13,920,000)	$ 96,442,795	$ (4,775,180)	$ 1,086,987,615

Operating Lease

METRO leases land, office space, transit center, and software under various operating leases. Actual rental expenses for FY2016 and FY2015 were $5,899,452 and $5,842,251 respectively. Future payments for operating leases assume a 2% annual increase from the current year expense and consist of the following:

Fiscal Year Ending	Total Minimum Operating Leases Payments
2017	$ 6,017,441
2018	6,137,790
2019	6,260,546
2020	6,385,757
2021	6,513,472
Total	$ 31,315,006

Fuel Hedge Policy

The Board adopted a fuel hedge policy. As part of this policy, METRO can develop and implement a plan through physical forward contracts and/or financial contracts, which will provide fuel price certainty for up to 24 months of expected consumption. The tactics to achieve this goal may include: Fixed Price Future Delivery Contracts, Guaranteed Price Contracts (Swaps), Maximum/Minimum Price Contracts (Collars), and Maximum Price Contracts (Caps). Credit risk is minimized because all counterparties of contracts shall either have a minimum long-term rating of A3 or A- by at least two of the three nationally recognized rating agencies or have collateral posting requirements for entities with ratings below this level. Fuel purchases and related swap agreements cover the same time period and use the same index, which is the Platts U.S. Gulf Coast Ultra Low Sulfur Diesel. No up-front cash is received or paid by METRO when entering into any of these transactions. Diesel fuel swaps are considered effective with the positive or negative fair value being reflected in the Statements of Net Position as either a deferred inflow or outflow with a related current asset or current liability. No derivatives were reclassified during the previous two years from a hedging derivative to an investment derivative. METRO has adequate on-site diesel fuel storage facilities and expects to purchase all related hedged diesel fuel.

Outstanding Diesel Fuel Swaps

METRO had 49 diesel fuel swaps totaling 19,950,000 gallons outstanding as of September 30, 2016 of which 31 swaps totaling 9,996,000 gallons will settle in FY2017, 17 swaps totaling 9,282,000 gallons will settle in FY2018, and one swap totaling 672,000 gallons which will settle in FY2019. The outstanding swaps for FY2017 and FY2018 represent a significant amount of the anticipated diesel fuel requirements for those years.

METRO had 60 diesel fuel swaps totaling 19,740,000 gallons outstanding as of September 30, 2015 of which 30 swaps totaling 10,584,000 gallons settled in FY2016 and 30 swaps totaling 9,156,000 gallons will settle in FY2017.

Market values of the outstanding swaps are calculated by the counterparty, Bank of America Merrill Lynch which is a nationally recognized commodity trader. Outstanding hedges for last two years had a negative value of $1,394,262 for FY2016 and $15,041,432 for FY2015. These amounts are reported on the Statements of Net Position as a deferred outflow of resources-diesel fuel swaps with a corresponding derivative instruments – diesel fuel swaps liability. Swaps which settled during the last two years fiscal years increased diesel fuel cost by 14,970,268 for FY2016 and $10,174,063 for FY2015. These amounts were included as part of current operating cost in the Statements of Revenues, Expenses, and Changes in Net Position.

Compensated Absences (vacation and sick) are earned, as discussed in note 1, based on employee classification. The ending balance is payable next fiscal year and has been reported in the current liability section of the Statements of Net Position as part of accrued compensation and benefits.

Changes during the last two years were:

	Beginning Balance	Expensed	Additions	Ending Balance
October 1, 2015 - September 30, 2016	$ 15,797,201	$ (16,626,612)	$ 16,438,759	$ 15,609,348
October 1, 2014 - September 30, 2015	15,098,818	(15,857,810)	16,556,193	15,797,201

Litigation

Houston Rapid Transit (HRT) is the design/build contractor for METRO's three new light-rail lines that went into service during FY2014 and FY2015. METRO and HRT are working to resolve performance issues relating to the axle counters installed on all three light-rail lines. Based on the terms of the contract, METRO believes HRT is financially responsible for resolving this issue. In addition, HRT submitted a claim in FY2014 totaling $12.6 million for moving from a Global Positioning System to an axle vehicle location system. METRO has not accepted and believes this claim to be meritless based on terms of the contracts.

Construcciones Auxlliar do Ferrocarriles, S.A. (CAF) is one of the companies that has supplied METRO with light-rail vehicles. METRO and CAF are discussing contract settlement terms as it relates to CAF's light-rail vehicles, delivery dates and other items that did not meet the terms of the contract. METRO intends to withhold any future payments to CAF pending settlement of liquidated damages and all other unsatisfactory contract performance issues.

No amounts are reported in the financial statements for the items discussed above since the individual contractors are responsible for resolving issues related to their products.

In addition to the items discussed above, METRO is a defendant in various legal actions occurring in the normal course of its operations and has recognized, to the extent it believes necessary, liabilities for any reasonably expected losses that might arise from the final resolution of such litigation. In certain cases, however, management is not presently able to determine the ultimate liability, if any, that might arise upon final resolution of the various legal actions. In these instances, management believes the ultimate liability in excess of amounts recorded, if any, will not materially affect METRO's financial position.

Federal and State Grants

Expenditures financed by federal and state grants are subject to audit by the granting agencies. Management believes no significant liability will arise from any such audits.

The rail expansion program which is funded by the FTA and local dollars consists of Phase One and Phase Two. With Phase One nearing completion, METRO calculated a preliminary true-up which compared eligible grant cost to related reimbursements received from the FTA. Based on this analysis, METRO would owe approximately $30.6 million to the FTA if no additional eligible grant related cost was incurred during the reminder of Phase One and the completion of Phase Two. The final amount, if any, reimbursable to the FTA will be determined during the final close-out which is expected to occur during FY2021.

Other Interlocal Agreements

These agreements are designed to reduce operating and capital cost while improving mobility throughout the service area. Some of these agreements include coordinating procurement and major construction activities, paying for maintenance/coordination of traffic lights along the light-rail lines and possible future construction modifications to the West Part Toll Road. These agreements are in addition to the local infrastructure improvements and mobility programs agreements discussed on page 46.

8. Subsequent Events

Management has evaluated subsequent events through March 10, 2017, the date the financial statements were available to be issued. During December 2016 METRO issued a Sales and Use Tax Contractual Obligations, Series 2016D with a par value of $44,445,000 and cash proceeds, including the premium, totaling $51,731,360. These funds will be used to acquire personal property including, but not limited to, clean diesel and compressed natural gas transit and commuter buses.

Required Supplemental Information

Schedule of Changes in the Net Pension Liability
For the Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP)
(Unaudited)

	For the Years Ending September 30, (Reporting Dates) *	
	2016	2015
Total pension liability		
Changes for the year		
Service cost	$ 5,549,985	$ 5,435,165
Interest on total pension liability	24,786,145	22,446,888
Changes of benefit terms	–	–
Difference between expected and actual experience	(2,780,567)	–
Changes of assumption	25,679,785	–
Benefit payments	(16,567,409)	(15,923,974)
Net change in total pension liability	36,667,939	11,958,079
Total pension liability - beginning	346,901,384	334,943,305
Total pension liability - ending	383,569,323	346,901,384
Plan fiduciary net position		
Contributions from the employer	19,062,423	13,477,182
Net investment income	(7,809,891)	8,434,984
Benefit payments	(16,567,409)	(15,923,974)
Administrative expenses	(314,046)	(319,754)
Net change in plan fiduciary net position	(5,628,923)	5,668,438
Plan fiduciary net position – beginning	229,990,069	224,321,631
Plan fiduciary net position – ending	224,361,146	229,990,069
METRO's ending net pension liability	$ 159,208,177	$ 116,911,315
Plan fiduciary net position as a percentage of the total pension liability	58.49%	66.30%
Covered-employee payroll	$ 93,227,967	$ 92,277,465
METRO's net pension liability as a percentage of covered-employee payroll	170.77%	126.70%

* The ending net pension liabilities is measured each December 31 and reported nine months later on METRO's September 30, Statement of Net Positon. METRO's contributions for the period January 1 through September 30, of each year, are reported as part of the deferred outflows.

This is the second year for the implementation of GASB Statement No. 68 which allows governments to report the required 10 years of historical information prospectively.

Required Supplemental Information

Schedule of Employer Contributions
For the Last 10 Calendar Years
For the Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP)
(Unaudited)

For the Twelve Months Ending December 31,	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2015	$ 15,410,109	$ 19,062,423	$ (3,652,314)	$ 93,227,967	20.45%
2014	13,477,182	13,477,182	–	92,277,465	14.61%
2013	14,335,058	14,335,058	–	91,830,000	15.61%
2012	14,444,476	14,444,476	–	94,043,000	15.36%
2011	13,493,650	13,493,650	–	93,675,000	14.40%
2010	12,416,838	12,416,849	(11)	88,184,000	14.08%
2009	12,185,737	12,185,737	–	85,317,000	14.28%
2008	8,826,606	8,826,606	–	84,414,000	10.46%
2007	8,527,492	16,527,492	(8,000,000)	81,287,000	20.33%
2006	9,402,722	17,540,722	(8,138,000)	82,900,000	21.16%

Notes to Schedule

The actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014. The cost method and assumptions used are listed below.

Valuation timing	The valuation is performed each January 1 and the actuarial determined contribution is calculated for next twelve months ending December 31
Actuarial Cost method	Entry age normal (level percent of pay) starting for December 31, 2015 measurement and beyond
Amortization method	Level dollars, with closed amortization period starting for January 1, 2013 measurement and beyond
Remaining amortization period	28 years
Asset valuation method	Smoothing over 5 years with a corridor of 80% - 120% of market value
Inflation	2.3%
Salary increase	2.5%
Investment rate of return	6.75% starting for January 1, 2015 measurement and beyond
Cost of living adjustments	None
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for ages 60 through 70
Turnover	Varying percentage ranging from 8.40% to 2.58% for ages 25 through 64
Mortality and disabled mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015

Required Supplemental Information

Schedule of Changes in the Net Pension Liability
For the Non-Union Pension Plan
(Unaudited)

	For the Years Ending September 30, (Reporting Date) *	
	2016	2015
Total pension liability		
Changes for the year		
Service cost	$ 2,782,533	$ 2,753,593
Interest on total pension liability	15,165,652	13,384,981
Changes of benefit terms	–	–
Difference between expected and actual experience	6,720,589	–
Changes of assumption	12,232,736	–
Benefit payments	(8,777,750)	(8,704,519)
Net change in total pension liability	28,123,760	7,434,055
Total pension liability - beginning	207,257,676	199,823,621
Total pension liability - ending	235,381,436	207,257,676
Plan fiduciary net position		
Contributions from the employers	11,248,671	9,006,301
Net investment income	(5,890,916)	4,217,106
Benefit payments	(8,777,750)	(8,704,519)
Administrative expenses	(235,357)	(224,559)
Net change in plan fiduciary net position	(3,655,352)	4,294,329
Plan fiduciary net position – beginning	146,207,172	141,912,843
Plan fiduciary net position – ending	142,551,820	146,207,172
METRO's ending net pension liability	$ 92,829,616	$ 61,050,504
Plan fiduciary net position as a percentage of the total pension liability	60.56%	70.54%
Covered-employee payroll	$ 44,837,816	$ 45,601,509
METRO's net pension liability as a percentage of covered employee payroll	207.03%	133.88%

* The ending net pension liabilities is measured each December 31 and reported nine months later on METRO's September 30, Statement of Net Positon. METRO's contributions for the period January 1 through September 30, of each year, are reported as part of the deferred outflows.

This is the second year for the implementation of GASB Statement No. 68 which allows governments to report the required 10 years of historical information prospectively.

Required Supplemental Information

Schedule of Employer Contributions
For the Last 10 Calendar Years for the Non-Union Pension Plan
(Unaudited)

For the Twelve Months Ending December 31	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of Covered Payroll
2015	$ 8,911,253	$ 11,248,671	$ (2,337,418)	$ 44,837,816	25.09%
2014	9,006,301	9,006,301	–	45,601,509	19.75%
2013	8,847,436	8,847,436	–	44,388,906	19.93%
2012	8,215,493	8,215,493	–	47,184,896	17.41%
2011	10,689,258	10,689,264	(6)	57,702,434	18.52%
2010	10,833,143	11,143,438	(310,295)	56,962,295	19.56%
2009	12,652,758	12,652,758	–	63,625,252	19.89%
2008	8,948,287	8,948,287	–	62,929,627	14.22%
2007	9,503,253	13,503,253	(4,000,000)	64,349,486	20.98%
2006	9,151,972	9,751,968	(599,996)	58,554,000	16.65%

Notes to Schedule

The actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014. The cost method and assumptions used are listed below.

Valuation timing	The valuation is performed each January 1 and the actuarial determined contribution is calculated for the next twelve months ending December 31
Actuarial Cost method	Entry age normal (level percent of pay) starting for January 1, 2015 measurement and beyond
Amortization method	Level dollars, with closed amortization period starting for January 1, 2013 measurement and beyond
Remaining amortization period	28 years
Asset valuation method	Smoothing over 5 years with a corridor of 80% - 120% of market value
Inflation	2.3%
Salary increase	2.5%
Investment rate of return	6.75% starting for January 1, 2015 and beyond
Cost of living adjustments	None
Assumed annual retirement rate	Varying percentage ranging from 20% to 100% for ages 55 through 70
Turnover	Varying percentage ranging from 10.36% to 5.68% for ages 25 through 54
Mortality and disabled mortality	RP-2014 Mortality adjusted backwards to 2006 with MP-2014 and projected forward (fully generational) with MP-2015

Required Supplemental Information

Metropolitan Transit Authority
of Harris County, Texas
Schedule of Funding Progress for Pension Plans and Other Postemployment Benefit Plans
For Non-Union and Transport Workers Union
(Amounts in Thousands)
(Unaudited)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Unit credit (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Non-Union							
Pension plan	Jan 1, 2015	$ 142,619	$ 213,250	$ 70,631	66.9%	$ 44,838	157.5%
	Jan 1, 2014	129,399	161,398	31,999	80.2%	45,602	70.2%
	Jan 1, 2013	113,145	150,509	37,364	75.2%	44,389	84.2%
Other Postemployment	Oct 1, 2015	–	108,927	108,927	–	44,389	245.4%
	Oct 1, 2013	–	129,261	129,261	–	57,702	224.0%
	Oct 1, 2011	–	114,269	114,269	–	63,625	179.6%
Transport Workers Union							
Pension Plan	Jan 1, 2015	223,969	351,607	127,638	63.7%	93,228	136.9%
	Jan 1, 2014	206,052	279,959	73,907	73.6%	106,317	69.5%
	Jan 1, 2013	181,661	267,359	85,698	67.9%	91,830	93.3%
Other Postemployment Benefits	Oct 1, 2016	–	446,704	446,704	–	93,227	479.2.%
	Oct 1, 2014	–	409,644	409,644	–	91,830	446.1%
	Oct 1, 2012	–	338,260	338,260	–	94,043	359.7%

Other Postemployment Benefits actuarial studies are updated biennially and covered payroll is estimated.

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The Unaudited Statistical Section

Provides Multiyear Financial and Operating Information

THE OBJECTIVES OF STATISTICAL SECTION INFORMATION

(Source: GASB Statement No. 44)

The objectives of statistical section information are to provide financial statement users with additional historical perspective, context, and detail to assist in using the information in the financial statements, notes to financial statements, and required supplementary information to understand and assess a government's economic condition.

Statistical section information should be presented in five categories; financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

- *a. Financial trends information is intended to assist users in understanding and assessing how a government's financial position has changed over time.*
- *b. Revenue capacity information is intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues.*
- *c. Demographic and economic information is intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitated comparisons of financial statement information over time and among governments.*
- *d. Operating information is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.*
- *e. Debt capacity information is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.*

Analysis for the last three years is provided in the Management's Discussion and Analysis section of this report.

Metropolitan Transit Authority of Harris County, Texas
Statements of Net Position September 30, 2016 and the Last Nine Years (Unaudited)

	2016	2015	2014	2013
Assets				
Cash	$ 6,290,165	$ 5,426,047	$ 3,671,108	$ 3,499,304
Investments	321,815,619	410,462,331	316,174,054	313,657,041
Investments - restricted	57,233,949	45,240,619	31,839,343	28,942,440
Receivables				
Sales tax	114,167,276	117,212,671	119,462,662	110,821,904
Federal government - Federal Transit Administration	11,844,152	12,041,883	25,218,342	73,106,988
Bus passes and other receivables	10,408,552	12,855,952	10.798,847	10,277,726
Total receivables	136,419,980	142,110,506	155,479,851	194,206,618
Material and supplies inventory	32,775,189	28,996,881	24,749,710	20,407,175
Derivative instrument – diesel fuel swaps	–	–	–	1,348,147
Total current assets	554,534,902	632,236,384	531,914,066	562,060,725
Noncurrent assets				
Investments - restricted	42,358,586	50,949,645	67,007,168	27,851,305
Capital assets, net of depreciation	3,039,197,023	3,139,596,631	3,081,386,561	2,978,791,191
Prepaid pension	–	–	26,091,075	26,346,959
Other noncurrent assets	3,450,057	3,645,852	3,518,211	6,325,672
Prepaid rental payments	4,426,306	7,246,855	10,067,401	52,168,306
Total noncurrent assets	3,089,431,972	3,201,438,983	3,188,070,416	3,091,483,433
Total assets	3,643,966,874	3,833,675,367	3,719,984,482	3,653,544,158
Deferred outflow of resources				
Diesel fuel	1,394,262	15,041,432	1,899,588	–
Pensions	92,324,541	32,384,271	–	–
Debt refunding	16,991,634	–	–	–
Total deferred outflows of resources	110,710,437	47,425,703	1,899,588	–
Liabilities				
Current liabilities				
Trade payables	114,035,870	114,457,190	83,276,299	149,021,462
Accrued compensation and benefits	29,491,550	30,140,189	26,922,386	27,430,216
Liabilities for injuries and damages	4,800,475	4,866,124	4,657,529	3,679,238
Commercial paper	–	–	–	187,000,000
Other current liabilities	10,574,928	13,385,191	8,687,095	8,824,195
Capital lease obligations	77,311	8,951,781	8,543,263	8,129,906
Debt payable	44,155,000	28,155,000	13,920,000	13,365,000
Debt interest payable	19,579,295	20,429,616	20,515,002	17,976,710
Derivative instrument – diesel fuel swaps	1,394,262	15,041,432	1,899,588	–
Total current liabilities	224,108,691	235,426,523	168,421,162	415,426,727
Noncurrent liabilities				
Liabilities for injuries and damages	8,466,099	9,390,567	6,196,311	7,014,731
Commercial paper	117,400,000	121,300,000	183,400,000	–
Deferred rental payments	4,426,306	7,246,855	10,067,401	52,168,306
Capital lease obligation	–	57,614,124	66,723,307	75,423,971
Debt payable	1,077,655,925	1,058,832,615	958,059,450	823,268,698
Other postemployment benefits	260,783,392	230,234,947	202,045,812	169,059,735
Defined benefit pension plan	252,037,793	177,961,819	–	–
Other noncurrent liabilities	–	–	–	–
Total noncurrent liabilities	1,720,769,515	1,662,580,927	1,426,492,281	1,126,935,441
Total liabilities	1,944,878,206	1,898,007,450	1,594,913,443	1,542,362,168
Deferred inflow of resources diesel fuel	–	–	–	1,348,147
Deferred inflow of resources pension	2,168,916	–	–	–
Net position				
Net Investment in capital assets	1,920,547,528	2,016,537,016	2,027,406,944	1,948,427,986
Restricted assets – debt payments	85,736,440	79,101,851	65,681,932	56,793,745
Unrestricted assets	(198,653,779)	(112,545,247)	33,881,751	104,612,112
Total net position	$ 1,807,630,189	$ 1,983,093,620	$ 2,126,970,627	$ 2,109,833,843

2012	2011	2010	2009	2008	2007
$ 1,769,157	$ 1,860,652	$ 1,564,969	$ 829,893	$ 121,392	$ 231,459
358,828,979	91,458,100	119,209,517	145,924,381	151,027,287	280,449,039
37,265,000	64,489,262	27,175,720	45,304,780	–	–
103,035,680	97,394,471	83,314,283	77,761,055	83,275,323	82,267,723
26,811,825	17,050,424	62,448,555	29,699,429	7,508,972	12,837,240
13,570,522	12,754,087	21,626,869	8,501,733	8,762,761	4,047,810
143,418,027	127,198,982	167,389,707	115,962,217	99,547,056	99,152,773
17,532,502	21,648,175	22,400,422	20,605,560	32,086,923	22,901,955
3,691,843	–	4,967,134	–	–	–
562,505,508	306,655,171	342,707,469	328,626,831	282,782,658	402,735,226
129,308,971	415,681,262	66,206,184	165,461,944	5,760	555,775
2,579,580,094	2,292,560,426	2,031,910,494	1,969,813,283	1,847,947,918	1,634,225,906
26,678,091	26,781,617	27,849,894	28,597,532	29,655,466	18,713,400
3,449,420	3,900,541	9,301,614	4,792,418	6,047,336	4,126,802
64,374,346	191,360,541	213,018,249	234,675,957	256,333,665	277,991,373
2,803,390,922	2,930,284,387	2,348,286,435	2,403,341,134	2,139,990,145	1,935,613,256
3,365,896,430	3,236,939,558	2,690,993,904	2,731,967,965	2,422,772,803	2,338,348,482
–	3,151,246	–	8,849,233	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	3,151,246	–	8,849,233	–	–
125,067,467	150,161,474	124,829,224	115,799,760	104,155,476	91,844,230
23,759,406	25,055,498	24,703,772	27,094,159	21,531,490	19,301,412
3,385,061	3,723,095	5,317,508	4,691,532	6,632,936	5,883,512
26,600,000	–	190,000,000	143,000,000	143,000,000	143,000,000
9,005,559	7,295,986	15,000,793	7,403,357	7,823,172	4,136,485
7,899,879	7,707,103	7,222,767	4,256,609	2,406,683	–
12,895,000	12,297,176	6,435,000	–	–	–
18,287,887	8,323,783	8,155,478	6,756,159	–	–
–	3,151,246	–	8,849,233	–	–
226,900,259	217,715,361	381,664,542	317,850,809	285,549,757	264,165,639
5,715,969	13,581,122	10,985,722	15,630,560	16,865,137	15,248,000
162,400,000	190,000,000	–	–	–	–
64,374,346	191,360,541	213,018,249	234,675,957	256,333,665	277,991,373
83,711,279	91,611,157	99,475,662	106,859,364	61,039,473	–
839,645,874	852,540,873	301,233,434	226,057,724	–	–
143,594,021	116,266,986	86,263,172	58,196,633	31,603,807	–
–	–	–	–	–	–
–	–	4,802,679	5,774,679	–	–
1,299,441,489	1,455,360,679	715,778,918	647,194,917	365,842,082	293,239,373
1,526,341,748	1,673,076,040	1,097,443,460	965,045,726	651,391,839	557,405,012
3,691,843	–	4,967,134	–	–	–
–	–	–	–	–	–
1,729,440,810	1,641,082,035	1,663,152,543	1,822,809,038	1,763,904,490	1,613,628,634
71,335,683	74,504,866	20,307,480	23,410,852	–	–
35,086,346	(148,572,137)	(94,876,713)	(70,448,418)	7,476,474	167,314,836
$1,835,862,839	$1,567,014,764	$1,588,583,310	$1,775,771,472	$1,771,380,964	$1,780,943,470

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2016 and the Last Nine Years
(Unaudited)

	2016	2015	2014	2013
Operating revenues:				
Transportation fares	$ 72,052,304	$ 74,651,045	$ 76,282,549	$ 72,782,991
Operating expenses:				
Scheduled services - fixed route				
Bus and rail operations - direct	232,306,521	202,944,079	183,586,708	170,940,122
Contract service	47,355,960	49,839,742	49,298,303	46,620,525
Material distribution	7,042,407	6,244,556	6,086,883	5,540,367
Preventative maintenance	60,753,228	54,180,889	52,289,574	51,040,854
Central shop and maintenance support	23,567,262	21,073,250	20,208,555	18,961,766
Safety and training	4,433,619	3,612,522	1,135,164	973,447
Subtotal scheduled services - fixed route	375,458,997	337,895,038	312,605,187	294,077,081
Non-scheduled services-special				
METROLift	55,892,156	52,171,593	49,503,466	45,181,913
METRO Star Vanpool	5,947,081	5,475,396	5,193,777	4,967,172
HOT lanes and special events	8,200,762	8,610,185	7,669,836	5,582,712
Subtotal non-scheduled services - special	70,039,999	66,257,174	62,367,079	55,731,797
Service support				
Service planning and evaluation	4,376,730	4,947,792	3,545,587	3,521,365
Marketing	10,383,266	9,728,386	7,001,452	7,306,538
Transit security and traffic management	22,149,262	21,118,036	19,326,396	18,587,581
Insurance and claims	5,614,731	5,754,471	7,036,234	5,927,146
Ticket and fare collection	4,208,388	3,562,149	3,955,040	3,751,006
Facility maintenance	30,168,111	26,414,559	23,928,168	21,660,854
Subtotal service support	76,900,488	71,525,393	64,792,877	60,754,490
Organizational support				
Business, community, and governmental development	3,343,274	2,894,550	3,551,653	4,228,909
Administrative, financial, and personnel	16,352,030	14,334,333	13,646,454	14,612,492
Information systems	18,228,842	17,684,558	16,371,349	13,948,037
Purchasing	3,697,391	3,217,201	3,249,771	2,994,284
Oversight, audit, and legal	6,850,065	7,490,093	5,170,576	8,875,645
Subtotal organizational support	48,471,602	45,620,735	41,989,803	44,659,367
Depreciation and amortization	212,338,159	173,469,603	160,049,291	136,642,238
Total operating expenses	783,209,245	694,767,943	641,804,237	591,864,973
Operating loss	(711,156,941)	(620,116,898)	(565,521,688)	(519,081,982)
Nonoperating revenues (expenses):				
Sales tax	686,101,655	715,160,213	685,167,303	642,515,462
Investment income	1,220,156	597,015	328,666	768,527
Inter-government revenue	1,956,596	1,841,467	1,843,453	1,986,480
Noncapitalized interest expense	(43,109,587)	(14,501,373)	(10,723,830)	(9,888,885)
Other income	2,585,147	8,841,043	2,643,857	1,845,296
Grant proceeds	77,117,133	40,230,897	64,927,095	71,766,635
Local infrastructure assistance	(209,464,879)	(149,505,814)	(161,502,564)	(170,373,931)
Loss for asset impairments	–	–	(105,756,522)	–
Funds passed to subrecipients	(1,887,750)	(2,097,344)	(3,368,756)	(2,016,422)
Gain (loss) on sale or disposal of assets	(7,155,654)	(3,130,847)	755,594	(470,021)
Total nonoperating revenues (expenses)	507,362,817	597,435,257	474,314,296	536,133,141
Net increase (decrease) before capital grants	(203,794,124)	(22,681,641)	(91,207,382)	17,051,159
Capital grant proceeds	28,330,693	56,584,181	108,344,176	256,919,845
Changes in net position	(175,463,431)	33,902,540	17,136,784	273,971,004
Net position - beginning of the year * 2015 restated	1,983,093,620	1,949,191,080	2,109,833,843	1,835,862,839
Net position - end of the year	$ 1,807,630,189	$ 1,983,093,620	$ 2,126,970,627	$ 2,109,833,843

2012	2011	2010	2009	2008	2007
$ 66,887,319	$ 68,740,526	$ 64,538,736	$ 67,083,141	$ 53,805,283	$ 53,266,927
165,925,733	165,660,712	161,548,458	184,399,863	148,355,656	131,195,120
47,431,837	44,688,976	44,365,552	45,638,064	39,517,766	39,844,157
5,966,531	5,975,735	5,994,776	5,662,705	5,804,008	4,603,536
48,876,170	49,364,186	49,926,437	47,705,846	47,194,361	41,396,795
18,103,288	15,220,267	13,796,093	13,192,409	13,086,172	11,650,263
816,598	891,844	858,722	925,202	795,904	728,688
287,120,157	281,801,720	276,490,038	297,524,089	254,753,867	229,418,559
40,204,841	39,696,105	35,915,851	35,556,663	34,237,245	32,215,665
5,250,084	4,979,360	4,327,517	6,075,378	4,079,490	5,184,800
2,346,041	676,109	808,861	793,180	624,013	3,053,355
47,800,966	45,351,574	41,052,229	42,425,221	38,940,748	40,453,820
3,130,879	4,205,657	822,792	247,023	586,792	415,576
6,910,999	7,450,088	6,933,097	5,324,367	5,708,560	4,186,209
20,199,670	22,797,711	22,870,899	22,330,278	25,847,353	21,672,638
5,673,304	5,616,894	5,144,081	4,484,705	4,476,482	3,336,401
3,369,283	3,867,527	2,029,498	1,682,347	1,786,021	818,416
20,020,810	16,613,097	19,193,318	22,752,511	20,863,515	15,883,937
59,304,945	60,550,974	56,993,685	56,821,231	59,268,723	46,313,177
5,043,321	4,592,198	4,111,359	1,373,563	910,623	455,465
15,357,730	18,119,682	18,921,682	11,639,038	10,656,994	17,021,569
14,276,491	12,360,853	10,835,724	3,808,872	2,401,196	2,467,722
2,502,794	2,894,124	2,837,551	1,646,574	1,400,093	891,513
5,000,056	6,536,177	7,333,120	7,620,394	3,268,706	2,308,768
42,180,392	44,503,034	44,039,436	26,088,441	18,673,612	23,145,037
137,094,956	138,295,447	143,977,419	140,847,103	124,856,131	120,289,857
573,501,416	570,502,749	562,552,807	563,706,085	496,457,081	459,620,450
(506,614,097)	(501,762,223)	(498,014,071)	(496,622,671)	(442,651,798)	(406,353,523)
593,732,843	536,572,595	489,972,748	517,972,851	521,179,360	481,721,482
625,042	327,467	2,103,533	4,307,902	7,165,095	14,240,392
1,986,480	1,986,480	1,986,614	599,650	–	–
(13,461,589)	(16,660,720)	(8,083,163)	–	–	–
3,030,912	643,766	848,968	1,115,401	793,638	648,162
56,460,316	59,588,924	63,988,363	59,345,052	57,965,428	58,145,684
(222,054,292)	(188,467,654)	(150,091,349)	(116,744,258)	(179,845,280)	(108,530,541)
–	–	(180,308,408)	–	–	–
(1,528,115)	(2,538,648)	(393,193)	(352,228)	–	–
(316,485)	(2,723,630)	(1,095,753)	(6,258,755)	(1,169,107)	(1,941,917)
418,475,112	388,728,580	218,928,360	459,985,615	406,089,134	444,283,262
(88,138,985)	(113,033,643)	(279,085,711)	(36,637,056)	(36,562,664)	37,929,739
356,987,060	91,465,097	91,897,549	41,027,564	27,000,158	43,176,821
268,848,075	(21,568,546)	(187,188,162)	4,390,508	(9,562,506)	81,106,560
1,567,014,764	1,588,583,310	1,775,771,472	1,771,380,964	1,780,943,470	1,699,836,910
$1,835,862,839	$1,567,014,764	$1,588,583,310	$1,775,771,472	$1,771,380,964	$1,780,943,470

Metropolitan Transit Authority
of Harris County, Texas
Current Fares
(Unaudited)

	Full Fare		Discounted Fare		
	Previous*	Since November 2008	Previous*		Since November 2008
			Student, Senior, Disabled	Youth Age 5 to 11	Student, Senior, Disabled
Local/METRO Rail	$1.00	$1.25	$0.40	$0.25	$0.60
Park & Ride Zone 1	$1.50	$2.00	$0.60	$0.35	$1.00
Park & Ride Zone 2	$2.50	$3.25	$1.10	$0.65	$1.60
Park & Ride Zone 3	$3.00	$3.75	$1.25	$0.75	$1.85
Park & Ride Zone 4	$3.50	$4.50	$1.45	$0.85	$2.25
Day Pass (Local & METRO Rail) **	$2.00	$3.00			$1.50

* The previous Local fare was implemented in October 1994.
* The previous Park & Ride fares were implemented in September 1996.

** The Day Pass was eliminated in February 2008 and reactivated in October 2013.

Metropolitan Transit Authority
of Harris County, Texas
Demographic Statistics
For the Last Ten Years
(Unaudited)

Year	Population PMSA* (000)	Per Capita Personal Income*	METRO's Retail Sales Tax	Unemployment Rate (%)
2016	6,760.6	$ 55,270	$ 686,101,655	5.7
2015	6,657.0	54,346	715,160,213	4.6
2014	6,490.2	53,660	685,167,303	4.9
2013	6,333.8	50,910	642,515,462	6.2
2012	6,186.9	51,633	593,732,843	6.8
2011	6,060.7	47,498	536,572,595	7.9
2010	5,949.1	44,498	489,972,748	8.2
2009	5,826.1	43,502	517,972,851	7.6
2008	5,676.4	47,752	521,179,360	4.8
2007	5,540.9	43,675	481,721,482	4.3

* Prior year published numbers may have changed due to revised information.

Source:

Population and Per Capita Personal Income – University of Houston C.T Bauer College of Business Institute for Regional Forecasting

Total Retail Sales Tax–METRO's Comprehensive Annual Financial Report

Unemployment Rate–Texas Workforce Commission

Metropolitan Transit Authority
of Harris County, Texas
Principal Corporate Employers
(Amounts in thousands)
(Unaudited)

	2015			2006		
Employer	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Memorial Hermann Health System	24,000	1	0.80%	12,561	3	0.50%
United Airlines	15,000	2	0.50%	–	–	–
Houston Methodist	14,985	3	0.50%	–	–	–
Exxon Mobil Corporation	13,000	4	0.43%	–	–	–
Kroger Company	12,000	5	0.40%	–	–	–
Shell Oil Company	11,892	6	0.40%	11,621	4	0.46%
National Oilwell Varco	11,563	7	0.38%	–	–	–
Schlumberger Limited	10,000	8	0.33%	–	–	–
Chevron	9,000	9	0.30%	–	–	–
Baylor College of Medicine	8,924	10	0.30%	–	–	–
Administaff Inc.	–	–	–	19,851	1	0.79%
Walmart Stores Inc.	–	–	–	12,957	2	0.52%
Halliburton Companies	–	–	–	11,217	5	0.45%
Hewlett Packard	–	–	–	8,500	6	0.34%
Methodist Hospital System	–	–	–	7,969	7	0.32%
Continental Airlines	–	–	–	7,500	8	0.30%
JPMorgan Chase	–	–	–	6,749	9	0.27%
ATT (former SBC & SWB Telephone)	–	–	–	6,000	10	0.24%

Based on calendar year
Source: Houston Business Journal Business First Survey/Greater Houston Partnership/HBJ

Metropolitan Transit Authority of Harris County, Texas
Principal Payments (Including Refundings) for Outstanding Debts
Last Nine Fiscal Years
(Unaudited)

Fiscal Year		Commercial Paper	Capital Lease	Sales and Use Tax Bonds	Total
2016	(1)	$ 3,900,000	$ 65,386,781	$ 192,500,000	$ 261,787,591
2015	(2)	62,100,000	8,543,263	13,920,000	84,463,263
2014		3,600,000	8,129,906	13,365,000	25,094,906
2013		2,000,000	7,899,879	12,895,000	22,794,879
2012		1,000,000	7,549,701	9,285,000	17,834,701
2011		–	7,222,767	6,435,000	13,657,767
2010		–	4,256,610	–	4,256,610
2009		–	160,766	–	160,766
2008		–	73,279	–	73,279

Metropolitan Transit Authority of Harris County, Texas
Outstanding Debts by Type
Last Nine Fiscal Years
(Unaudited)

Fiscal Year		Commercial Paper	Sales and Use Tax Bond	Capital Lease	Total Outstanding Obligations
2016	(1)	$ 117,400,000	$ 1,121,810,925	$ 77,311	$ 1,239,288,236
2015	(2)	121,300,000	1,086,987,615	66,565,905	1,274,853,520
2014		183,400,000	971,979,450	75,266,570	1,230,646,020
2013		187,000,000	836,633,698	83,553,877	1,107,187,575
2012		189,000,000	852,540,874	91,611,158	1,133,152,032
2011		190,000,000	864,838,049	99,318,260	1,154,156,309
2010		190,000,000	307,668,434	106,698,429	604,366,863
2009		143,000,000	226,057,724	111,115,973	480,173,697
2008		143,000,000	–	63,446,156	206,446,156

No debt was outstanding prior to FY2008.

(1) During FY2016 METRO completed an in-substance debt refunding for two capital leases, a partial refunding of two Sales and Use Tax Bonds and one Sales and Use Tax Contractual Obligation. No additional debt was issued during FY2016.

(2) During FY2015 METRO issued Sales & Use Tax Series 2015A long-term debt to reduce $60 million of the outstanding commercial paper debt.

Additional details regarding outstanding debt and the FY2016 refunding activity can be found in note 7 to the financial statements.

Metropolitan Transit Authority
of Harris County, Texas
Debt-Revenue Coverage
Sales and Use Tax Bonds and Contractual Obligations
For the Last Eight Years
(Unaudited)

						Scheduled Payments for Sales and Use Tax Bonds and Contractual Obligations (includes capital leases)				
Fiscal Year	75% of Sales Tax Revenue	Operating Revenues	Operating Grants	Less Operating Expenses Net of Depreciation	Net Available Revenue	Principal	Scheduled Interest Payments	Less IRS Interest Subsidy	Total	Coverage Ratio
2016	$ 514,576,241	$ 72,052,304	$ 77,117,133	$570,871,086	$ 92,874,592	$ 37,106,781	$ 51,909,936	$ 1,956,596	$ 87,060,121	1.07
2015	536,370,159	74,651,045	40,230,897	521,298,340	129,953,761	22,463,263	44,611,552	1,841,467	65,233,348	1.99
2014	513,875,477	76,282,549	64,927,095	481,754,946	173,330,175	13,365,000	39,148,956	1,843,453	50,670,503	3.42
2013	481,886,596	72,782,991	71,766,635	455,222,735	171,213,487	12,895,000	39,623,581	1,986,480	50,532,101	3.39
2012	445,299,632	66,887,319	56,460,316	436,406,460	132,240,807	9,285,000	29,746,383	1,986,480	37,044,903	3.57
2011	402,429,446	68,740,526	59,588,924	432,207,302	98,551,594	6,435,000	14,897,376	1,986,480	19,345,896	5.09
2010	367,479,561	64,538,736	63,988,363	418,575,388	77,431,272	–	10,763,005	1,986,480	8,776,525	8.82
2009	388,479,638	67,083,414	59,345,052	417,704,339	97,203,765	–	–	–	–	–

No bonds were outstanding prior to fiscal year 2008. Additional information regarding outstanding debt can be found in the note 7 to the financial statements.

Metropolitan Transit Authority
of Harris County, Texas
Operating Statistics Last Ten Fiscal Years
(Unaudited)

						Number of						Directional Route Miles			
Fiscal Year	HOV Ridership Cars, Vans And Non-METRO Buses	Transit Boarding *	Revenue Vehicle Miles *	Passenger Miles Transit *	Passenger-Miles Carpool/METRO STAR Vanpool Non-METRO Buses on Transitways	Emp.	Buses*	Rail Cars	BOF	TC	P&R	Rail	HOV Lanes	Service Area (sq. miles)	Total Actual Rail Passenger Car Revenue Miles
2016	25,829,582	89,970,895	72,975,913	584,215,802	266,302,990	3,916	1,394	54	6	21	26	43.4	139.1	1,303	3,415,024
2015	26,723,748	86,089,171	71,162,933	573,489,760	275,521,842	3,777	1,373	37	6	21	26	43.4	139.1	1,285	2,350,774
2014	25,386,535	85,389,587	69,134,726	605,100,948	261,735,176	3,560	1,432	37	6	20	28	25.4	139.1	1,285	1,577,592
2013	25,371,590	84,266,386	68,324,181	574,724,199	261,581,093	3,500	1,317	22	6	20	29	14.8	140.8	1,285	989,373
2012	24,936,852	81,020,887	57,332,904	534,648,747	257,098,944	3,391	1,393	18	6	20	29	14.8	140.8	1,285	905,795
2011	24,706,519	81,032,075	57,119,898	537,017,914	254,724,211	3,487	1,370	18	6	20	29	14.8	134.7	1,285	901,194
2010	23,761,231	81,158,905	55,670,178	551,914,756	244,978,292	3,453	1,403	18	6	21	29	14.8	128.6	1,285	900,517
2009	24,112,235	88,517,657	55,142,910	610,865,178	254,105,685	3,512	1,374	18	6	21	29	14.8	128.6	1,285	903,668
2008	24,732,107	100,348,037	54,018,635	646,762,573	254,988,018	3,528	1,342	18	6	21	28	14.8	116.9	1,285	884,171
2007	24,875,224	101,310,353	53,905,535	638,818,780	257,093,716	3,429	1,328	18	6	20	27	14.8	115.2	1,285	877,433

Source: Metropolitan Transit Authority Office of Management and Budgets

BOF = Bus Operating Facility
TC = Transit Centers
P&R = Park & Ride Lots
* Includes METROLIFT

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