Celebrating Excellence in the
Public Transportation Industry

Metropolitan Transit Authority of Harris County, Texas
Comprehensive Annual Financial Report
For the Years Ending
September 30, 2015 and 2014
(October 1, 2014 to September 30, 2015)

This Page Intentionally Left Blank

Table of Contents

This Page Intentionally Left Blank

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.

With so many accomplishments during the year, this report can only discuss a few. Please visit METRO's Web site where you can read more about METRO and its work on improving regional mobility.

2015 APTA AWARD WINNER

March 14, 2016

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, 2015 (FY2015). 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 and began operation in 1979 to develop, maintain, and operate a public transportation system primarily in Harris County, Texas. The 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 about 370,000 times per day. In addition to operating approximately 1,400 buses on METRO's new bus network, we also provide other services, which include STAR Vanpool, METROLift, High Occupancy Vehicle/High Occupancy Toll Lane, Bikes-on-Bus/Train program, Park & Ride, and funding for road improvement/congestion mitigation program. METRO's revenue sources include a 1% local sales tax imposed across the geographic 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 will provide additional money for non-rail transit activities.

Current year's highlights include:

- Earning the 2015 "Outstanding Public Transportation System Achievement Award" from the American Public Transportation Association
- Implementing METRO's new bus network, which gives riders more options and better service
- Expanding light-rail operations by opening both the SouthEast and East End light-rail lines.
- Starting construction on the East End Harrisburg Overpass
- Selling $115 million of bonds of which $60 million was used to reduce commercial paper debt and the rest dedicated to the purchase of new replacement buses
- Supporting our community by continuing to focus on safety and security through training, awareness, and active policing

Rating from State of Texas

The Texas Comptroller has awarded METRO the PLATINUM Leadership Circle award by the Texas Comptroller for the second year in a row. The award recognizes public entities across Texas for financial transparency.

The PLATINUM designation is the highest honor granted by the Comptroller's office. METRO scored a 21 out of 23 possible points. The agency was graded on criteria including annual budget, check register, financial transparency Web page, and budgets for the three most recent fiscal years.

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 Circular A-133. 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 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, 2014. This is the 23rd 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.


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, 2014

Executive Director/CEO

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 18.

Debbie Sechler

Debbie Sechler
Executive VP & Chief Financial Officer

METRO Board of Directors as of February 29, 2016

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.

Gilbert Andrew Garcia,
CFA, Chairman (C)

Jim Robinson,
CFE, Vice Chairman (H)

Christof Spieler,
Secretary (C)

Lisa Gonzales Castañeda, P.E. (H)

Diann L. Lewter (C)

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

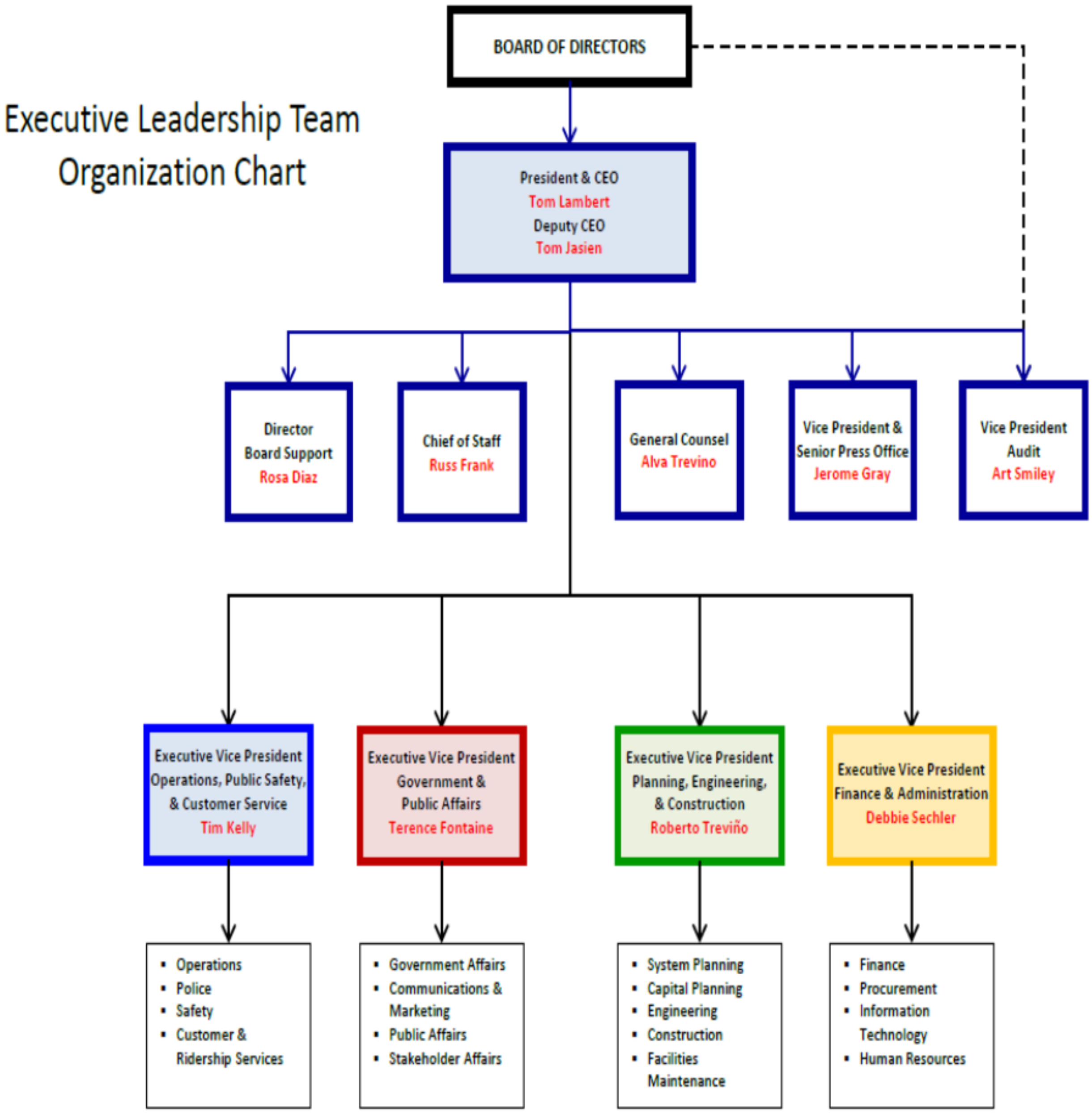
Cindy Siegel (M)

Don Elder Jr. (M)

Barron F. Wallace (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

Metropolitan Transit Authority of Harris County



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 page.

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:

Report on the Financial Statements

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, 2015 and 2014, 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 audit 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 respective financial position of the Metropolitan Transit Authority of Harris County, Texas, as of September 30, 2015 and 2014, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Emphasis of Matter

As discussed in note 1 to the financial statements, effective October 1, 2014 the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB No. 27* and GASB Statement No. 71, *Pension Transition of Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68.* 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 on pages 10–21 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 14, 2016 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, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

KPMG LLP

Houston, Texas
March 14, 2016

This Page Intentionally Left Blank

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 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, 2015, 2014, and 2013. 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

The FY2015 beginning net positon was reduced by $177.8 million as METRO implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* This new statement, which focuses on defined benefit pension plans, changed the method of calculating pension cost, increased disclosures and required several financial statement adjustments. These adjustments included recording a pension liability, deferred outflow of resources and removing the prepaid pension assets. Additional information on this change is provided in note 1 and note 4 of the financial statements.

During FY2015, METRO's net position improved by $33.9 million as sales tax receipts continued to increase, surplus land was sold, funding from the Federal Transit Administration (FTA) for operating/capital programs was available to offset expenses, and cost containment programs, relative to increased service levels, continued to be effective.

- *Total Resources,* as reported on schedule A-1, has declined during the last three years as grant funded capital programs were being completed, delays with the federal government passing appropriation bills for new grants, and a reduction of $4.1 million in FY2015 related to the sale of grant funded land that will be refunded to the FTA. These declines were partially offset by growth in sales tax receipts.

- *Total Operating Expense,* as reported on schedule A-1, continue to increase during the last three years as three new light-rail lines started revenue service, (two in FY2015 and one in FY2014), METROLift assisted more customers, two additional High Occupancy Toll (HOT) lanes became operational, and the new bus network, designed over multiple years, was implemented during FY2015.

- *Total Nonoperating Expenses,* as reported on schedule A-1, were relatively consistent between the three years with the exception of $105.7 million in FY2014 for asset impairment and $19.1 million in FY2013 for land transferred to the City of Houston as part of the street replacement program implemented during rail construction. The land transfer in FY2013 was reported as part of local infrastructure assistance.

- *Total Assets and Deferred Outflows,* as reported on schedule A-2, increased during the last three years as METRO completed several major capital programs which included: three new light-rail lines, two HOT lane, expanded the light-rail maintenance facility, added a new light-rail storage facility, upgraded bus operating facilities, replaced buses, added new light-rail cars and implemented several new computer applications. Included in this increases was $32.4 million of deferred pension outflows and $13.1 million of potential losses due to the fuel hedge program. Declines were generally related to depreciation, sale of surplus land, asset impairments and termination/amortization of prepaid leases. Additional information for net capital assets can be found in note 3 and prepaid leases in note 7 of the financial statements.

- *Total Liabilities and Deferred Inflows,* as reported on schedule A-2, increased during the last two years with $61.1 million related to other postemployment benefits (OPEB), new long-term debt (including premium) totaling $235.8 million (of which $60.0 million was used to retire commercial paper), and recording, in FY2015, the initial pension liability of $178.0 million as required by GASB Statement No. 68. Proceeds from the long-term debt, with the exception of retiring commercial paper, were used to purchase buses and light-rail cars. Declines generally related to scheduled repayment of long-term debt, retirement of commercial paper, and the amortization and termination of deferred rental payments. Additional information for pension and OPEB can be found in note 4 and debt in note 7 to the financial statements. METRO had no deferred inflows for FY2015 and FY2014 and $1.3 million in FY2013 for diesel fuel swaps.

OVERVIEW OF THE FINANCIAL STATEMENTS

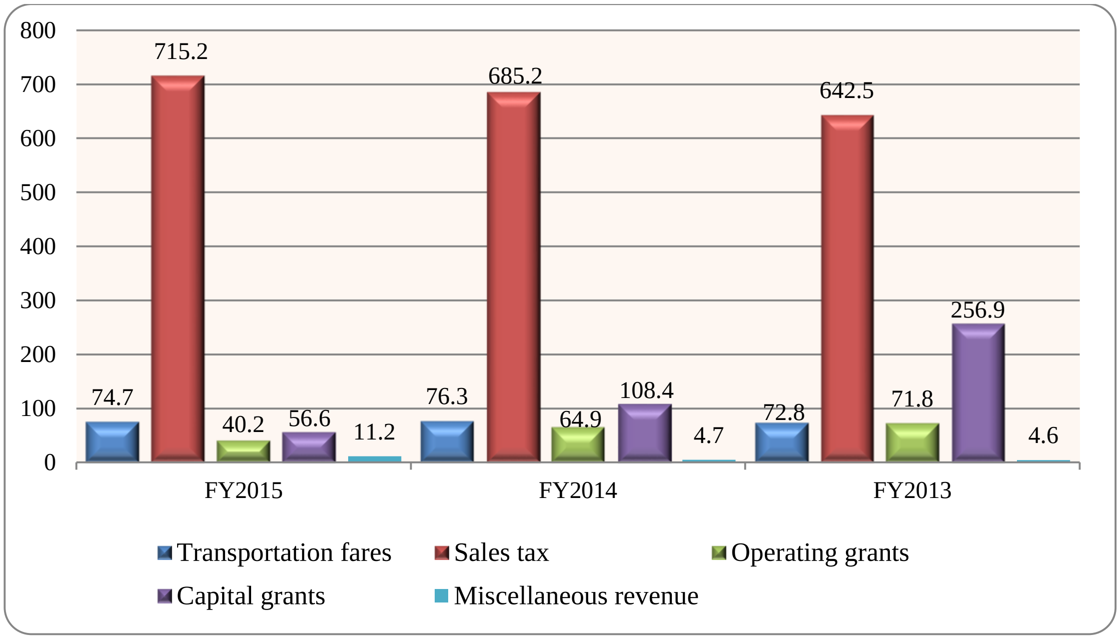
The financial section of this report consists of four parts: management's discussion and analysis (this section), the basic financial statements, the notes to the financial statements, and the required supplementary information. METRO's financial statements are prepared in conformity with U.S. generally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

	FY2015	FY2014	Change	% Change	FY2013
Resources					
Transportation fares	$ 74.7	$ 76.3	$ (1.6)	(2.1) %	$ 72.8
Sales tax	715.2	685.2	30.0	4.4 %	642.5
Investment income	0.6	0.3	0.3	100.0 %	0.8
Intergovernmental revenue	1.8	1.8	–	0.0 %	2.0
Other income	8.8	2.6	6.2	238.5 %	1.8
Grant proceeds (includes capital grants used for maintaining assets)	40.2	64.9	(24.7)	(38.1) %	71.8
Grant proceeds (capital)	56.6	108.4	(51.8)	(47.8) %	256.9
Total resources	897.9	939.5	(41.6)	(4.4) %	1,048.6
Expenses					
Operating					
Scheduled service	337.9	312.6	25.3	8.1 %	294.1
Nonscheduled service	66.3	62.4	3.9	6.3 %	55.7
Service support	71.5	64.8	6.7	10.3 %	60.7
Organizational support	45.6	42.0	3.6	8.6 %	44.7
Depreciation	173.5	160.0	13.5	8.4 %	136.6
Total operating expenses	694.8	641.8	53.0	8.3 %	591.8
Nonoperating expenses					
Noncapitalized interest cost	14.5	10.7	3.8	35.5 %	9.9
Loss on sale of assets/impairment	3.1	105.0	(101.9)	(97.0) %	0.5
Funds passed to subrecipients	2.1	3.4	(1.3)	(38.2) %	2.0
Local infrastructure assistance	149.5	161.5	(12.0)	(7.4) %	170.4
Total nonoperating expenses	169.2	280.6	(111.4)	(39.7) %	182.8
Total expenses	864.0	922.4	(58.4)	(6.3) %	774.6
Change in net position	33.9	17.1	16.8	98.2 %	274.0
Net position - beginning of the year-restated (Note 1)	1,949.2	2,109.8	(160.6)	(7.6) %	1,835.8
Net position, end of the year	$ 1,983.1	$ 2,126.9	$(143.8)	(6.8) %	$ 2,109.8

Increases to Net Position (Revenues) with Related Discussions



In millions

Transportation fares include transit user and HOT lanes revenues. The $1.6 million decline in revenue for FY2015 relates to a $2.7 million or 4% decline in transportation fares slightly offset by a $1.1 million increase or 16% in HOT lane usage. The increase for FY2014 and FY2013 in fares primarily came from additional utilization of HOT lanes.

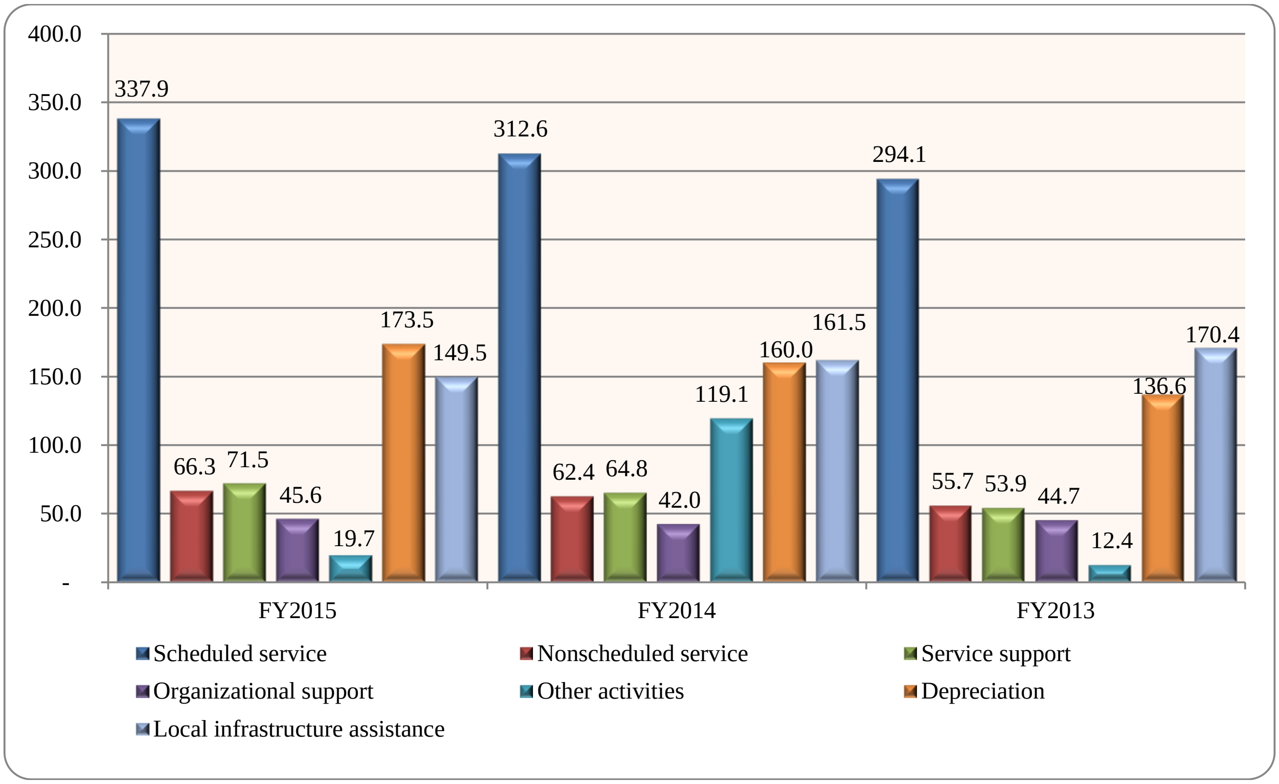
Sales tax revenue is 1% of taxable sales within METRO's service area and is collected by the Texas Comptroller Office and wired monthly to METRO. Increases in sales tax collections over the last three years are related to growth in the local economy and the coordination of sales tax collections with the state.

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 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. Recent declines are primarily related to delays in passing appropriation bills by the federal government.

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 or nearing completion of several major capital programs and a reduction in FY2015 of $4.1 million from the sale of grant funded land that will be refunded to the FTA during FY2016.

Miscellaneous revenues consist of investment income, intergovernmental revenue, real estate, and other nonoperating activities. The increase in FY2015 is from slight improvements in both real estate and investment earnings and a $6 million cash payment for the settlement of the 2010 BP oil spill in the Gulf of Mexico. The money received from the BP settlement was used to fund additional contributions to both defined benefit pension plans. Activities for FY2014 and FY2013 were relatively consistent.

Decreases to Net Position (Expenses) and Related Discussions



In millions

Scheduled services consist of bus/light-rail services and include vehicle operations, maintenance, safety, and training. Increases during the last three years generally came from preventive maintenance, contact 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.

Nonscheduled service includes METROLift, METROVan, and HOT lanes. Increases during the last three years generally came from expansion of METROLift services and cost related to operating two additional HOT lanes.

Service support includes planning, 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 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 the increase in FY2015 relating to implementing METRO's new bus network and providing additional support to operate three new light-rail lines and two HOT lanes.

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 programs were completed and interest capitalization was reduced.

Depreciation and amortization increased over the last three years as three light-rail lines were placed into service, two additional HOT lanes were completed, new buses and light-rail cars were purchased, and various facility upgrades were finished.

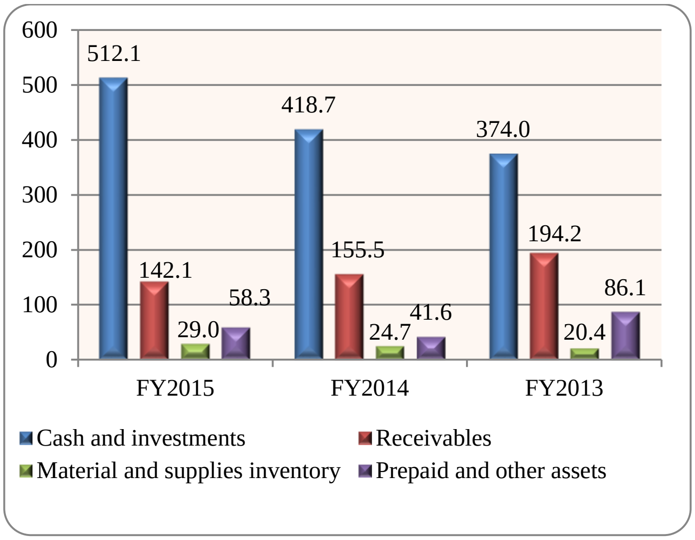
Local infrastructure assistance provides funding for street, sidewalks, bridges, and congestion mitigation payments to cities within METRO's service area and Harris County. Funding limits were established by the voter approved 2012 referendum using 25% of the FY2014 sales tax with any growth in sales tax collection shared equally between METRO and the program. The voters approved continuing the program through December 31, 2025 with the increased allocation to METRO limited for use on non-rail activity. In addition to the sales tax allocation, costs associated with certain infrastructure improvements that are made as part of METRO's capital program may also be reported as local infrastructure assistance. Funds held by METRO and not yet disbursed under this program total $95.9 million at the end of FY2015. Additional information is located in note 7 to the financial statements.

The amounts disbursed during the last three years are relatively consistent with the slight decline related to lower reimbursement requests related to construction projects from local governments. In addition to routine activity, METRO transferred $19.1 million of land to the City of Houston as part of the light-rail construction street replacement agreement in FY2013.

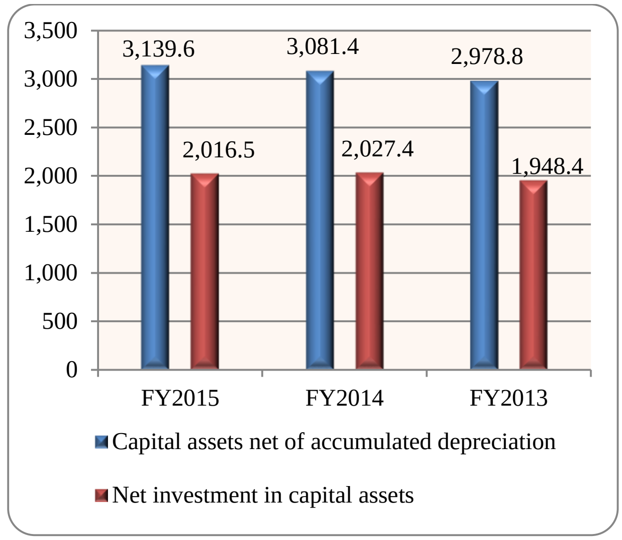
Summarized Statement of Net Position
(in millions)
A-2

	FY2015	FY2014	Amount of Change	Percentage Change	FY2013 (Restated)
Assets and deferred outflows					
Cash and investments	$ 512.1	$ 418.7	$ 93.4	22.3 %	$ 374.0
Receivables	142.1	155.5	(13.4)	(8.6) %	194.2
Material and supplies inventory	29.0	24.7	4.3	17.4 %	20.4
Capital assets (net)	3,139.6	3,081.4	58.2	1.9 %	2,978.8
Prepaid and other assets	10.9	39.7	(28.8)	(72.5) %	86.1
Deferred outflows – diesel fuel swaps	15.0	1.9	13.1	689.5 %	–
Deferred outflows – defined pension plans	32.4	–	32.4	100.0 %	–
Total assets and deferred outflows	3,881.1	3,721.9	159.2	4.3 %	3,653.5
Liabilities and deferred inflows					
Trade payables	114.4	83.3	31.1	37.3 %	149.0
Commercial paper	121.3	183.4	(62.1)	(33.9) %	187.0
Capital leases and debt payables	1,174.0	1,067.8	106.2	9.9 %	938.2
Other liabilities	80.1	58.5	21.6	36.9 %	99.1
Defined benefit pension plans	178.0	–	178.0	100.0 %	–
Other postemployment benefits	230.2	202.0	28.2	14.0 %	169.1
Deferred inflows – diesel fuel swaps	–	–	–	–	1.3
Total liabilities and deferred inflows	1,898.0	1,595.0	303.0	19.0 %	1,543.7
Net position:					
Investment in capital assets, net of related debt	2,016.5	2,027.4	(10.9)	(0.5) %	1,948.4
Restricted assets, debt payments	79.1	65.7	13.4	20.4 %	56.8
Unrestricted assets	(112.5)	33.8	(146.3)	(432.8) %	104.6
Total net position	$ 1,983.1	$ 2,126.9	$(143.8)	(6.8) %	$ 2,109.8

Assets and Net Investments in Capital Assets



In Millions



In Millions

Cash and investments consist of demand deposits and investments. Increases during the last three years were primarily related to cash received from sales tax, the issuance of new debt in FY2015 and FY2014 as well as the timing of reimbursements from the FTA for capital/operating grants reduced by 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, bus passes, and miscellaneous activities. The decline during the last three fiscal years relate to lower FTA receivables as grant funded light-rail lines started revenue service and delays in the federal government passing appropriation bills to fund grants.

Material and supplies inventory consists of diesel fuel, bus, light-rail, and nonrevenue 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 light-rail cars that are needed to effectively operate all four light-rail lines.

Prepaid and other assets include deferred rental payments, insurance, and prepaid rent. The decline during the last three years relates to the annual amortization and termination of several prepaid rental agreements, and the elimination in FY2015 of the prepaid pension asset totaling $32.2 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.

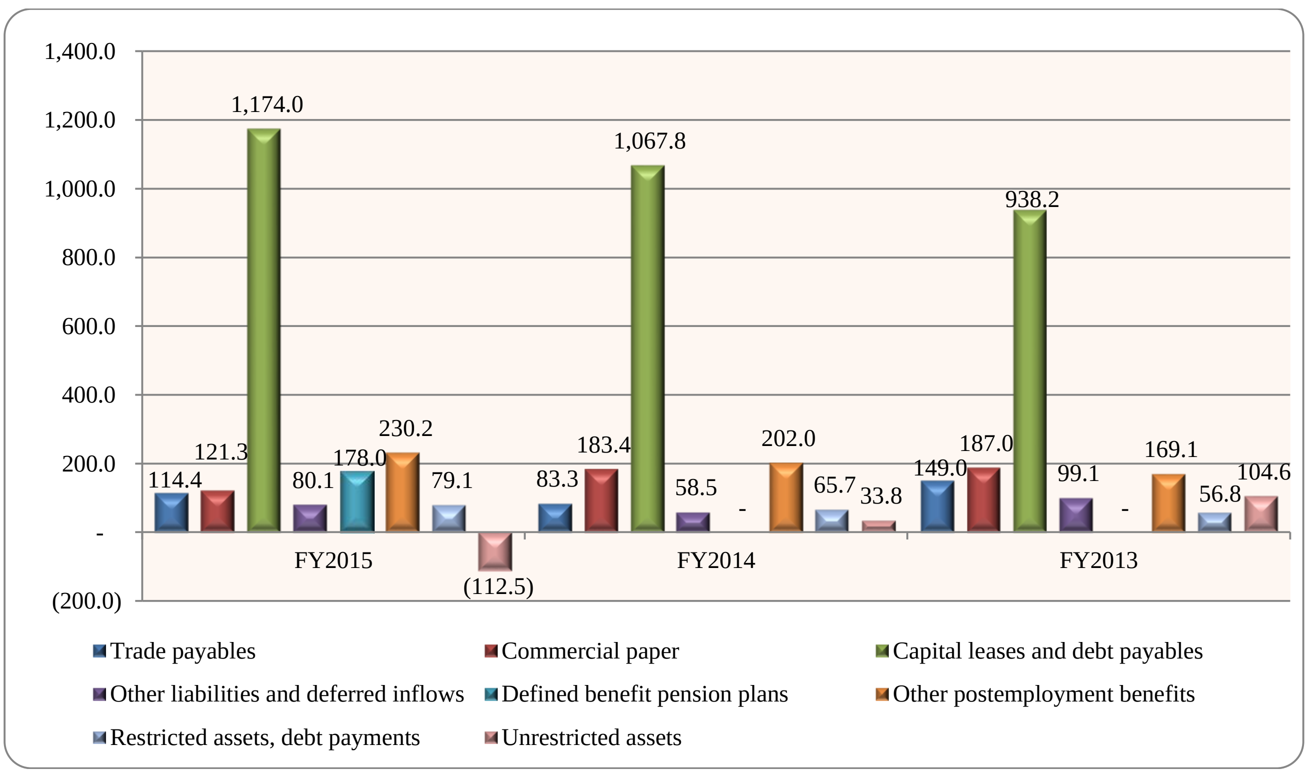
Deferred outflows – diesel fuel swap represents the projected amounts owed by METRO to the counterparties and is based on the difference between market price of individual swaps as of September 30, 2015 and their fixed future payment price. The amounts payable to the counterparties totaled $15.0 million in FY2015, $1.9 million in FY014 and $0 in FY2013. The increase over the last two years relates to the dramatic decline in oil prices and the hedging of most of the diesel fuel requirements through FY2017. The offset to this amount is reported in other liabilities and will change as diesel fuel prices fluctuate. Additional information is located in note 7 to the financial statements.

Deferred outflows –pension plans totals $32.4 million and includes $24.2 million of payments made to the pension plans between January 1, 2015 and September 30, 2015 and $8.2 million of deferred pension expense that reflects lower than expected investment earnings. The $24.2 million will be included as part of pension expense in FY2016 while the $8.2 million will be amortized as part of pension expense over the next four years. This is the first year these amounts are reported in the financial statements using GASB Statements No. 68, *Accounting and Financial Reporting for Pensions* and GASB 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. New disclosure requirements and additional information is located in note 4 to the financial statements.

Capital assets net of accumulated depreciation increased during the last three year due to light-rail expansion, construction of two additional HOT lanes, facilities upgrades, replacement of buses and other capital activity reduced by depreciation, retirements, asset impairments, and land transferred to the City of Houston as part of the light-rail expansion agreement. 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. Increases during the last three years are from several major capital projects that were primarily paid for by grants provided by the FTA and local sales tax.

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 and light-rail expansion and subsequent payments to vendors.

Commercial paper was used to fund general mobility payments due to local governments and declined by $65.7 million over the last three years. This decline was funded by payments of $ 5.7 million from revenue and refinancing

$60 million of commercial paper (moving to long-term) by issuing 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, and accrued interest that were used to fund light-rail expansion and bus replacements. Increases in long-term debt during the last two years (including premium) totaled $ 235.8 million, of which $60.0 million was used to retire commercial paper and the reminder was used to purchase buses and light-rail cars. Declines were from scheduled repayment of principal. 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 FY2015 debt issues. Additional information on outstanding debt and related changes are reflected in note 7 to the financial statements.

Other liabilities include accrued payroll, injuries and damages, deferred rental payments, deferred Q card revenue, projected payments for deferred outflows-diesel fuel swaps, and other miscellaneous liabilities. The increase in FY2015 primarily relates to $4.2 million payable to the FTA (from the sale of grant funded land), potential fuel hedge payment of $13.1 million, and the actuarially determined increase in risk management claims by $4.0 million due to operating three additional light-rail lines and METRO's new bus network. The decline over the last three years primarily relates to the amortization and early termination of the deferred rental payments.

Defined benefit pension plans reflects the $178.0 million owed by METRO, the plan sponsor, to the two defined benefit pension plans based on their independent actuarial reports. This is the first year this amount is reported in the financial statements as required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* 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 nonunion employees was closed January 1, 2010 while the plan for employees covered by the collective bargaining agreement (union) remains open to new participants. The OPEB liability increased by $ 61.1 million over the last two years as METRO funds these benefits on a pay-as-you-go basis. The increase relates to $ 9.2 million for nonunion and $ 51.9 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. Changes for the last three years include establishing new sinking fund accounts for debt issued in FY2015 and FY2014 and the 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 decline during the last three years are from acquiring additional capital assets and adding funds to restricted assets that will be used in making principal and interest payments. The largest (noncash) item totaled $178 million and related to recording pension amounts required for the GASB Statement No. 68 implementation as discussed in note 1 to the financial statements.

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 $402 million in FY2015, $598 million in FY2014, and $767 million in FY2013. This decline relates to progress being made toward completing major capital programs such as light-rail expansion and HOT lanes.

The following was taken from a report prepared by Dr. Robert Gilmer:

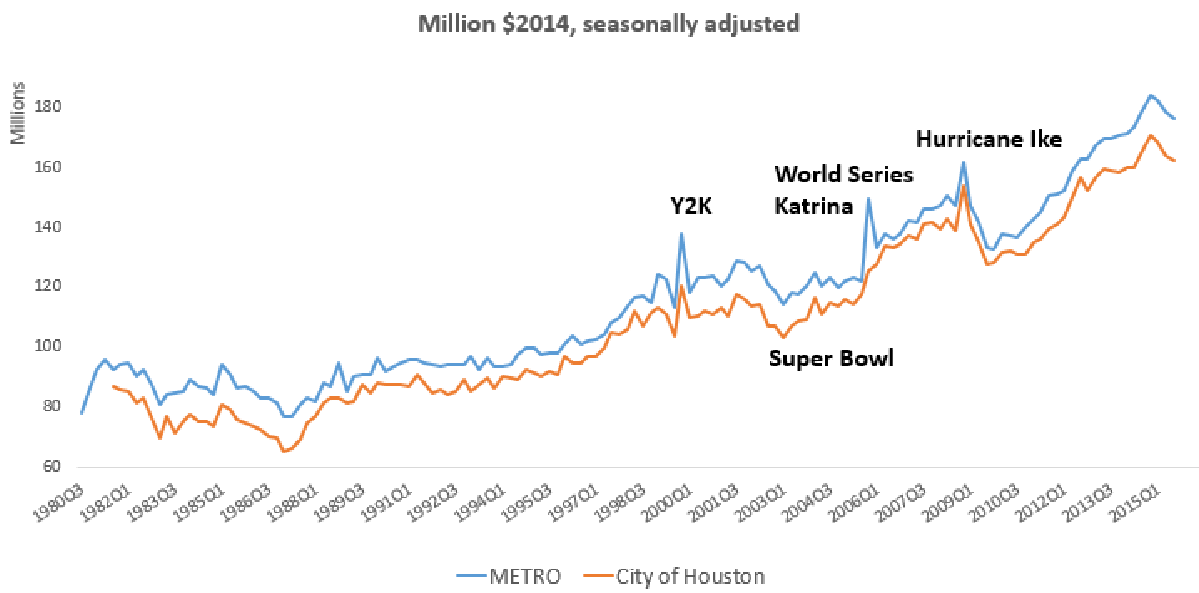
Dr. Robert. W. "Bill" Gilmer
C.T. Bauer College of Business/Institute for Regional Forecasting
12/28/2015, METRO Sales Tax Allocations

UNIVERSITY of HOUSTON
C. T. BAUER COLLEGE of BUSINESS
Institute for Regional Forecasting

Outlook for METRO Sales Tax Revenues: 2016-2019

Early this year, sales tax revenues for METRO and the City of Houston moved into contraction in response to the on-going Fracking Bust. Figure 1 shows the history of sales tax allocations paid to the City for Houston and METRO since the 1980s. These series are marked by a number of one-time events that drove extraordinary tax collections, such as Y2K, the Super Bowl in 2004Q1, a combination of the World Series and Hurricane Katrina in 2005Q4, and Hurricane Ike in late 2008. Revenues also show a pronounced response to cyclical events in Houston, especially to five periods of major declines in U.S. drilling activity: the 1982-87 oil bust, the Asian Financial Crisis in 1997-98, the 2001-03 U.S. recession and fall of Enron, the 2008-09 Great Recession and oil price collapse, and the current Fracking Bust. Every event except the Asian Financial Crisis brought recession to Houston, and all resulted in significant losses of sales tax revenue. Revenue losses to these events ranged from 7.8 to 16.8 percent for the City and 7.3 to 21.9 percent for METRO.

Figure 1: Allocations to City of Houston and METRO Strongly Reflect the Business Cycle



Recent years had been very good for City and METRO sales tax revenues. Figure 2 shows the period of revenue losses to the Great Recession, and that -- ignoring the 2008 bump from Hurricane Ike – these cyclical losses were restored by late 2011. After 2011Q4, the Fracking Boom takes control of both Houston's economy and local sales tax revenues. Over the period from 2009Q4 to 2014Q4 METRO's revenue grew 6.6 percent per year in real dollars, and then accelerated after 2011, expanding at 6.8 percent annually. These growth rates are far above the average of the last 25 years, when both the City and METRO saw an inflation-adjusted rate of 2.8 percent per year.

After peaking in late 2015, METRO sales tax revenues are down 4.4 percent, and City revenues are down 4.8 percent. The collapse of oil prices and domestic drilling activity is responsible for this decline. In 12 months

Houston's economic outlook has been turned completely on its head. The near-term forecast for sales tax revenue is discussed at the end of this document, but the outlook is down substantially from last year, and down even from earlier this year. Why is it down?

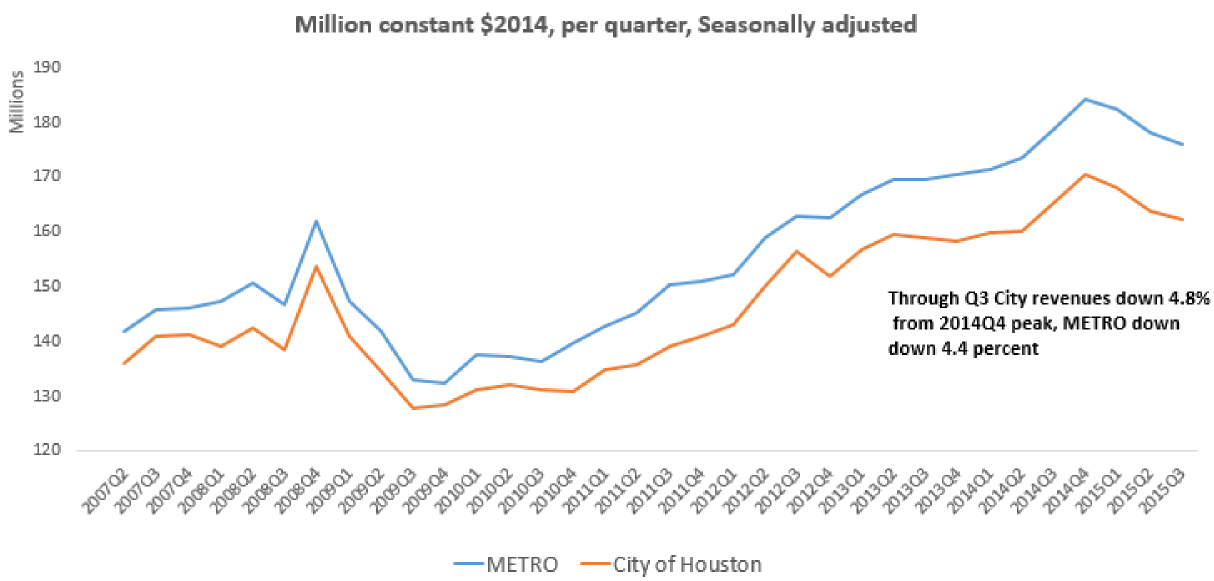
- Sales tax revenues are generally responsive to the performance of the Houston economy, but even more responsive to declines in drilling activity. We are now in the middle of the worst drilling downturn since the 19080's, with the number of working rigs down by nearly two thirds. Hope for any quick exit from the Fracking Bust was lost over the summer with the announcement of the Iranian nuclear agreement.

- The fracking boom premium over the last three years was at least 4 percent per annum, and it is now gone.

- Because of strong U.S. economic expansion and a construction boom in east Houston, local economic activity may narrowly avoid recession. However, payroll job growth will be barely positive, and the normal 2.8 percent trend growth in revenue is also off the table for 2016.

- The sensitivity of sales tax revenues to drilling will probably drag the change in revenues into negative territory by 10-12 percent measured from 2014Q4 and the trough. Sales tax collections should continue to fall well into 2016 in the most favorable circumstances. The timing of any recovery - and the subsequent pace of revenue growth --depends primarily on unpredictable oil markets.

Figure 2: Recovery from Recession and Fracking Boom Drove Strong Revenue Growth, But Now the Boom is Over



Oil Markets Lose Out

A recent editorial in the *Oil and Gas Journal* reads: "If not for the Iranian increment [of new production] the oil market in 2016 would be headed for long awaited balance." Announced in mid-July, the Iranian nuclear agreement will allow Iran to legally return to world oil markets, to immediately bring new supplies from floating storage, and in coming months to add significant new barrels from renovated oil fields. Opinion on just how much oil the Iranians can deliver and how soon varies widely, but the price of oil fell hard on the heels of the announcement. Over the 60 days before the surprise agreement, U.S. crude price had bounced back to average $57 dollars per barrel, but by late July the price was back under $50 per barrel, and it has stayed well below that level since then.

Oil markets briefly appeared to have grabbed the brass ring this summer, with the prize being the return of higher crude prices. Drilling activity had fallen steeply in early 2010, tumbling faster and further than the 2008-09 downturn, and by mid-July the number of working rigs was only 44.4 percent of the 2014 peak. But higher oil prices in May and June seemed to bring an end to the decline, and even a brief upturn in drilling activity. The upturn lasted only a few weeks, however, ending with the Iranian agreement. Another 150 rigs have been lost since oil prices collapsed once more, the U.S. rig count is now down 63.3 percent from the peak, and we find ourselves mired in the worst setback to U.S. drilling and exploration since the 1980s.

When the brass ring was snatched from world oil markets, it was a significant loss for Houston's economy as well. As soon as oil prices stabilized in the spring, local oil-related layoffs slowed, payroll employment briefly turned around, and most economic indicators showed that Houston's economy had found some positive footing. A V-shaped recovery in oil price and drilling activity would have brought a V-shaped recovery for Houston's economy as well. This quick turnaround would have been the best possible outcome for Houston, and was the most likely outcome until the Iranian deal was announced. Now Houston faces the fallout from sustained low oil prices and a very deep downturn in drilling.

The Houston Economy Now

Three big events currently shape the outlook for Houston. First, Houston benefits from a strong U.S. economy that supports many jobs throughout the metropolitan area. Local companies that reach into national markets such as HP, BMC Software, United Airlines, AIG, and Sysco benefit from national strength. After eight years of recession and sluggish recovery, the US economy finally appears to have put the Great Recession behind it. We assume throughout this discussion that the US payroll employment grows at 1.7 percent per year, adding an average of 200,000 new jobs per month.

The most important factor currently shaping Houston's economy is the collapse of oil prices and drilling. Once the payroll employment data for Houston are revised in March, they are likely to show that 2015 brought the loss of over 30,000 jobs in oil and gas production, oil services, and oil-related manufacturing. The timing and pace of any drilling recovery is uncertain, and we will look at three scenarios to see how this oil downturn might play out. However, the V-shaped recovery that was the best and most likely option last summer is now off the table. Houston will see no quick and easy return strong job growth.

Finally, the third factor driving the local economy – and most surprising – is a major boom in building downstream petrochemical, refining and liquefied natural gas (LNG) plants. Primarily driven by low natural gas prices, over $50 billion in oil-industry construction is underway in east Houston, bringing an influx of skilled construction workers. These are temporary workers, and the plants will leave relatively few jobs in their wake once completed, but this construction could not be better timed as a counter to mounting layoffs from the drilling collapse.

Pulling the three events together, the result is likely to be very slow job growth in 2015 and 2016. At the spring Symposium, the IRF forecast for 2015 Houston employment called for 13,000 new jobs in Houston, and the Texas Workforce Commission says that after 11 months we are on track for 17,300. The Dallas Fed does early and preliminary revisions to the payroll employment data, and their calculations indicate that Houston is perhaps on track to add about 4,000 new jobs. All sources agree that the number of new jobs is small but positive, and down substantially from the 100,000 new jobs per year that Houston added each year from 2012-2014. But no recession is yet underway, and Houston is certainly not experiencing a recession anything like the 1980s, where the metro area lost 13.3 percent of its jobs – better than one in eight.

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, 2015 and 2014

	2015	2014
Assets		
Current assets		
Cash	$ 5,426,047	$ 3,671,108
Investments	410,462,331	316,174,054
Investments – restricted	45,240,619	31,839,343
Receivables		
Sales tax	117,212,671	119,462,662
Federal government - Federal Transit Administration	12,041,883	25,218,342
Bus passes and other receivables	12,855,952	10,798,847
Total receivables	142,110,506	155,479,851
Material and supplies inventory	28,996,881	24,749,710
Total current assets	632,236,384	531,914,066
Noncurrent assets		
Investments – restricted	50,949,645	67,007,168
Capital assets, net of depreciation	3,139,596,631	3,081,386,561
Prepaid pension	–	26,091,075
Other noncurrent assets	3,645,852	3,518,211
Prepaid rental payments	7,246,855	10,067,401
Total noncurrent assets	3,201,438,983	3,188,070,416
Total assets	3,833,675,367	3,719,984,482
Deferred outflow of resources		
Diesel fuel	15,041,432	1,899,588
Pensions	32,384,271	–
Total deferred outflows of resources	47,425,703	1,899,588
Liabilities		
Current liabilities		
Trade payables	114,457,190	83,276,299
Accrued compensation and benefits	30,140,189	26,922,386
Liabilities for injuries and damages	4,866,124	4,657,529
Other current liabilities	13,385,191	8,687,095
Capital lease obligations	8,951,781	8,543,263
Debts payable	28,155,000	13,920,000
Debt interest payable	20,429,616	20,515,002
Derivative instrument-diesel fuel swaps	15,041,432	1,899,588
Total current liabilities	235,426,523	168,421,162
Noncurrent liabilities		
Liabilities for injuries and damages	9,390,567	6,196,311
Commercial paper	121,300,000	183,400,000
Deferred rental payments	7,246,855	10,067,401
Capital lease obligations	57,614,124	66,723,307
Debts payable	1,058,832,615	958,059,450
Other postemployment benefits	230,234,947	202,045,812
Defined benefit pension plans	177,961,819	–
Total noncurrent liabilities	1,662,580,927	1,426,492,281
Total liabilities	1,898,007,450	1,594,913,443
Net position		
Net investment in capital assets	2,016,537,016	2,027,406,944
Restricted assets – debt payments	79,101,851	65,681,932
Unrestricted assets	(112,545,247)	33,881,751
Total net position	$ 1,983,093,620	$ 2,126,970,627

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, 2015 and 2014

	2015	2014
Operating revenues		
Transportation fares	$ 74,651,045	$ 76,282,549
Operating expenses		
Scheduled services - fixed route		
Bus and rail operations – direct	202,944,079	183,586,708
Contract service	49,839,742	49,298,303
Material distribution	6,244,556	6,086,883
Preventative maintenance	54,180,889	52,289,574
Central shop and maintenance support	21,073,250	20,208,555
Safety and training	3,612,522	1,135,164
Subtotal scheduled services - fixed route	337,895,038	312,605,187
Nonscheduled services –special		
METROLift	52,171,593	49,503,466
METROVan	5,475,396	5,193,777
HOT lanes and special events	8,610,185	7,669,836
Subtotal non-scheduled services – special	66,257,174	62,367,079
Service support		
Service planning and evaluation	4,947,792	3,545,587
Marketing	9,728,386	7,001,452
Transit security and traffic management	21,118,036	19,326,396
Insurance and claims	5,754,471	7,036,234
Ticket and fare collection	3,562,149	3,955,040
Facility maintenance	26,414,559	23,928,168
Subtotal service support	71,525,393	64,792,877
Organizational support		
Business, community, and governmental development	2,894,550	3,551,653
Administrative, financial, and personnel	14,334,333	13,646,454
Information systems	17,684,558	16,371,349
Purchasing	3,217,201	3,249,771
Oversight, audit, and legal	7,490,093	5,170,576
Subtotal organizational support	45,620,735	41,989,803
Depreciation and amortization	173,469,603	160,049,291
Total operating expenses	694,767,943	641,804,237
Operating loss	(620,116,898)	(565,521,688)
Nonoperating revenues (expenses)		
Sales tax	715,160,213	685,167,303
Investment income	597,015	328,666
Intergovernmental revenue	1,841,467	1,843,453
Noncapitalized interest expense	(14,501,373)	(10,723,830)
Other income	8,841,043	2,643,857
Grant proceeds	40,230,897	64,927,095
Local infrastructure assistance	(149,505,814)	(161,502,564)
Loss for asset impairment	–	(105,756,522)
Funds passed to subrecipients	(2,097,344)	(3,368,756)
Gain (loss) on sale or disposal of assets	(3,130,847)	755,594
Total nonoperating revenues (expenses)	597,435,257	474,314,296
Net decrease before capital grants	(22,681,641)	(91,207,392)
Capital grant proceeds	56,584,181	108,344,176
Changes in net position	33,902,540	17,136,784
Net position beginning of the year (as restated, note 1)	1,949,191,080	2,109,833,843
Net position end of the year	$ 1,983,093,620	$ 2,126,970,627

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, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Receipts from transportation fares	$ 74,694,665	$ 76,045,172
Payments to employees	(293,164,556)	(258,397,002)
Payments to suppliers for goods and services	(190,767,056)	(198,587,470)
Net cash used in operating activities	(409,236,947)	(380,939,300)
Cash flows from noncapital financing activities:		
Sales tax	717,839,256	676,575,464
Proceeds from grants	38,133,553	92,301,511
Receipts from miscellaneous income	8,816,485	2,752,187
Payments for local infrastructure assistance	(143,292,240)	(162,438,790)
Net cash provided by noncapital financing activities	621,497,054	609,190,372
Cash flows from capital and related financing activities:		
Proceeds from grants	72,825,801	125,423,461
Proceeds from the issuance of sales tax contractual obligation	133,703,345	153,231,351
Principal payments related to commercial paper	(62,100,000)	(3,600,000)
Principal payments related to debts	(22,463,263)	(21,494,906)
Interest payments related to debts	(50,886,131)	(45,564,178)
Purchase of investment from the issuance of sales tax contractual obligation	(93,759,658)	(101,665,615)
Sale of investments relating to sales tax contractual obligation	96,415,905	59,612,850
Interest rebates from Build America Bonds	1,841,467	1,843,453
Proceeds from sale of assets	19,788,142	2,698,318
Capital purchases	(212,171,140)	(396,438,402)
Net cash flows used in capital and related financing activities	(116,805,532)	(225,953,668)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	411,893,381	342,072,698
Purchase of investments	(506,264,439)	(344,930,097)
Interest income	671,422	731,799
Net cash flows used in investing activities	(93,699,636)	(2,125,600)
Net change in cash	1,754,939	171,804
Cash at beginning of year	3,671,108	3,499,304
Cash at end of year	$ 5,426,047	$ 3,671,108
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (620,116,898)	$ (565,521,688)
Depreciation and amortization	173,469,603	160,049,291
Changes in assets and liabilities:		
(Increase) in accounts receivable	(2,017,812)	(360,413)
(Increase) decrease in inventory and other assets	(5,156,208)	1,347,571
Decrease in prepaid pension	26,212,267	255,884
Increase (decrease) in accrued compensation and benefits	3,217,802	(507,830)
Increase in deferred outflows – pension plans	(32,384,271)	–
Increase in other postemployment benefits	28,189,135	32,986,077
Increase in liabilities for injuries and damages	3,402,851	159,871
Increase (decrease) in trade payables and other liabilities	15,946,584	(9,348,063)
Net cash used in operating activities	$ (409,236,947)	$ (380,939,300)
Noncash investing activities:		
Net (increase) decrease in fair value of investments	$ (82,781)	$ 70,705
Inflows from reissuance of commercial paper	541,400,000	1,168,900,000
Outflows from reissuance of commercial paper	(541,400,000)	(1,168,900,000)

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 lane fees 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, nontransit related lease arrangements, operating grants, local infrastructure assistance, and loss on sale or disposal of assets.

Cash and Investments Activities, which Include 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, equipment, and facilities.

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 noncancellable, 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 of Texas.

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	$ 1,949,191,080

New GASB statements that are being evaluated by METRO include:

	Effective
Statement No. 72, *Fair Value Measurement and Application*	FY2016
Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not Within Scope of GASB Statement 68, and Amendments to Certain Provision of GASB Statements 67 and 68*	FY2016
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. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*	FY2016
Statement No. 77, *Tax Abatement Disclosures*	FY2016
Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*	FY2016
Statement No. 79, *Certain External Investment Pools and Pool Participants*	FY2016
Statement No. 80, *Blending Requirements for Certain Component Units*	FY2017

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 $456,652,595 or 90.1% of total investments.

Investments in a single issuer that were not explicated 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 Agricultural Mortgage Corporation	$ 49,890,350	9.8%
Federal National Mortgage Association	29,972,700	5.9%
Federal Farm Credit Bank	26,996,310	5.3%
Total	$ 106,859,360	

Deposits

METRO's checking accounts and book balances for cash as of September 30, 2015 and 2014 were:

	Fiscal 2015	Fiscal 2014
Unrestricted		
Bank balances	$ 5,049,075	$ 2,945,862
Book balances	5,426,047	3,671,108

Investments

The fair value of METRO's investments is estimated based on quoted market prices. The investments held at September 30, 2015 and 2014 are indicative of the type of investments made by METRO during each fiscal year and consist of the following:

	Fiscal 2015 Fair Value	Fiscal 2014 Fair Value	Credit Ratings
Unrestricted investments			
U.S. agencies	$ 106,859,360	$ 61,942,140	Aaa/AA+
Local government investment pool	253,602,971	218,231,914	AAAm
Municipal commercial paper	30,000,000	20,000,000	A-1, P-1,F-1
Certificate of deposit	20,000,000	10,000,000	Collateral =Aaa
Municipal bonds	–	6,000,000	SP-1+, F1+/Aaa/AAA Aa3/AA
Total unrestricted investments	410,462,331	316,174,054	
Restricted investments			
Local government investment pool	96,190,264	98,846,511	AAAm
Total restricted assets	96,190,264	98,846,511	
Total Investments	$ 506,652,595	$ 415,020,565	

Investment by type and weighted average maturity as of September 30, 2015 and 2014 consisted of the following:

	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 deposit	20,000,000	20,000,000	–	110 days
	$506,652,595	$506,652,595	$ –	

	Fiscal 2014 Fair Value	Less Than 1 Year	More Than 1 Year	Average Maturity
Investment securities:				
U.S. agencies	$ 61,942,140	$ 35,007,350	$ 26,934,790	367 days
Local government investment pool	317,078,425	317,078,425	–	50 days
Municipal commercial paper	20,000,000	20,000,000	–	120 days
Certificate of deposit	10,000,000	10,000,000	–	60 days
Municipals bonds	6,000,000	6,000,000	–	1 day
	$415,020,565	$388,085,775	$ 26,934,790	

3. Capital Assets

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

Total interest cost incurred (net of amortization for premium and discount) for the current and previous two fiscal years were $45,849,975 and $43,596,097, of which $31,348,602 and $32,872,267 was capitalized.

Changes in capital assets for fiscal year 2014 were as follows:

	October 1, 2013	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2014
Capital assets not depreciated:					
Land	$ 290,666,726	$ –	(7,342,597)	$ 16,736,522	$ 300,060,651
Construction in progress	1,679,396,372	369,878,818	(99,340,974)	(747,010,379)	1,202,923,837
Total capital assets not depreciated	1,970,063,098	369,878,818	(106,683,571)	(730,273,857)	1,502,984,488
Capital assets depreciated:					
Administration and operating facilities	421,427,450	–	(10,599,711)	23,199,381	434,027,120
Park and ride lots and transit centers	281,758,241	–	–	–	281,758,241
Buses and equipment	738,633,779	–	(38,936,589)	109,205,176	808,902,366
Rail cars	115,747,724	–	(2,279,705)	17,092,672	130,560,691
Rail infrastructure	255,038,685	–	(15,776,278)	576,068,565	815,330,972
Transitways/HOT lanes	571,584,931	–	–	2,384,003	573,968,934
Other property and equipment	79,390,765	–	(26,039,414)	2,324,060	55,675,411
Total capital assets depreciated	2,463,581,575	–	(93,631,697)	730,273,857	3,100,223,735
Less accumulated depreciation and amortization:					
Administration and operating facilities	(247,126,273)	(16,427,265)	10,599,711	–	(252,953,827)
Park & Ride lots and transit centers	(181,768,807)	(8,407,815)	–	–	(190,176,622)
Buses and equipment	(512,236,631)	(63,724,084)	38,449,593	–	(537,511,122)
Rail cars	(32,113,024)	(11,045,315)	2,279,705	–	(40,878,634)
Rail infrastructure	(96,391,778)	(31,767,962)	15,776,278	–	(112,383,462)
Transitways/HOT lanes	(326,737,777)	(22,329,547)	–	–	(349,067,324)
Other property and equipment	(58,479,192)	(6,347,303)	25,975,824	–	(38,850,671)
Total accumulated depreciation and amortization	(1,454,853,482)	(160,049,291)	93,081,111	–	(1,521,821,662)
Total capital assets being depreciated, net	1,008,728,093	(160,049,291)	(550,586)	730,273,857	1,578,402,073
Total capital assets, net	$ 2,978,791,191	$ 209,829,527	$ (107,234,157)	$ –	$ 3,081,386,561

Asset impairments for FY2014 consist of environmental and engineering work totaling $61.8 million for the University Light-rail line, $34.2 million for the Uptown Light-rail line, $8.6 million for the Hughes underpass (redesigned as an overpass), and $1.2 million for restarting the asset management system. While this cost has been removed from METRO's Statement of Net Position, information obtained from this work is being shared with other governmental agencies.

METRO remains committed to completing the University Light-rail line and will continue to evaluate funding options with the FTA and local leaders.

Total interest cost incurred (net of amortization for premium and discount) for the current and previous two fiscal years were $43,596,097, and $44,439,446 of which $32,872,267 and $34,550,561 was capitalized.

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 and issuing monthly checks to retirees.

Calculating amounts used in financial reporting and management of the 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.

The information reflected from page 34 to page 40 is based on GASB 68 *Accounting and Financial Reporting for Pensions* which became effective in FY2015.

The net pension liability for both defined benefit pension plans was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation dated January 1, 2014. The actuarial valuation was based on the discount rate and actuarial assumptions listed on the next page and projected forward to the measurement date in accordance with GASB Statement No. 68. METRO has not completed an actuarial experience study.

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 appropriate only 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, 2014 are reflected in the individual plans section of this report.

The combined net pension liability for both defined benefit pension plans as of September 30, 2015 was:

	Non-Union	Transport Workers Union Pension Plan, Local 260, AFL-CIO (TWUPP)	Total
Net pension liabilities	$ 61,050,504	$ 116,911,315	$ 177,961,819

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

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

Significant actuarial assumptions used in METRO's defined benefit plans valuations are listed below:

	TWUPP	NUPP
Valuation date	January 1, 2014	January 1, 2014
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	None	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-2000 Combined Mortality with Projection Scale AA to year 2014	RP-2000 Combined Mortality with Projection Scale AA to year 2014
Amortization of gains/losses:		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	29 years closed	29 years closed
Open to new members	No (as of October 1, 2012)	No (as of October 1, 2007)

TWUPP Defined Benefit Pension Plan

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 were 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 $300 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, 2014 and January 1, 2013 were:

Participants	2014	2013	Change
Active	2,241	2,274	(33)
Terminated and vested	555	607	(52)
Retired	1,018	925	93
Disabled	175	194	(19)
Beneficiaries	177	108	69
Total for all participants	4,166	4,108	58

The 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 December 31, 2014.

	1% Decrease to 5.75%	Current Discount Rate of 6.75%	1% Increase to 7.75%
Net pension liability	$ 154,303,909	$ 116,911,315	$ 84,992,520

Change in Net Pension Liability for the TWUPP

	December 31, 2014
Total pension liability	
Changes for the year:	
Service cost	$ 5,435,165
Interest on total pension liability	22,446,888
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumption	-
Benefit payments	(15,923,974)
Net change in total pension liability	11,958,079
Total pension liability beginning	334,943,305
Total pension liability ending	346,901,384
Plan fiduciary net position :	
Contributions from the employer	13,477,182
Net investment income	8,434,984
Benefit payments	(15,923,974)
Administrative expenses	(319,754)
Net change in plan fiduciary net position	5,668,438
Plan fiduciary net position - beginning	224,321,631
Plan fiduciary net position - ending	229,990,069
METRO’s net pension liability	$ 116,911,315

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, 2014 are listed below:

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	1.13%	0.53%
Core Fixed Income	Barclays Aggregate	34.55%	2.05%
Large Cap U.S. Equities	S&P 500	38.46%	4.02%
Small Cap U.S. Equities	Russell 2000	13.16%	4.43%
Developed Foreign Equities	MSCI EAFE	12.70%	4.43%
Assumed Inflation – Mean			2.30%
Assumed Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			6.86%
Portfolio Standard Deviation			11.54%
Long-Term Expected Rate of Return			6.75%

TWUPP Pension Plan Expense and Deferred Outflows

During FY2015, METRO recognized $15,312,548 of pension expense and deferred outflows of $4,454,275 for the net difference between projected and actual earnings and $15,209,896 for pension payments made between January 1, 2015 and September 30, 2015. The net difference between projected and actual earnings will be amortized using the straight-line method over the next four years to pension expense as follows:

2016	$1,113,569
2017	1,113,569
2018	1,113,569
2019	1,113,568
Total	$4,454,275

The deferred outflow for the payments made between January 1, 2015 and September 30, 2015 will be reflected in the next actuarial report when determining financial information.

Non-union Pension Plan

METRO established the Non-Union Pension Plan and Trust (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 September 30, 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 has expired, 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 pension benefit.

Changes in plan participants between January 1, 2014 and January 1, 2013 were:

Participants	2014	2013	Change
Active	657	694	(37)
Terminated and vested	98	118	(20)
Retired	193	209	(16)
Disabled	12	13	(1)
Beneficiaries	24	28	(4)
Total participants	984	1,062	(78)

Change in Net Pension Liability for the Non-Union Pension Plan

	December 31, 2014
Total pension liability	
Changes for the year	
Service cost	$ 2,753,593
Interest on total pension liability	13,384,981
Changes of benefit terms	-
Difference between expected and actual experience	-
Changes of assumption	-
Benefit payments	(8,704,519)
Net change in total pension liability	7,434,055
Total pension liability beginning	199,823,621
Total pension liability ending	207,257,676
Plan fiduciary net position	
Contributions from the employer	9,006,301
Net investment income	4,217,106
Benefit payments	(8,704,519)
Administrative expenses	(224,559)
Net change in plan fiduciary net position	4,294,329
Plan fiduciary net position – beginning	141,912,843
Plan fiduciary net position – ending	146,207,172
METRO's net pension liability ending	$ 61,050,504

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, 2014, are listed below.

Asset Class	Index	Target Allocation	Long-term Expected Real Rate of Return
Cash	Citigroup 90-Day T-Bills	1.79%	0.53%
Core Fixed Income	Barclays Aggregate	33.75%	2.05%
Large Cap U.S. Equities	S&P 500	46.43%	4.02%
Small Cap U.S. Equities	Russell 2000	10.68%	4.43%
Developed Foreign Equities	MSCI EAFE	7.35%	4.43%
Assumed Inflation – Mean			2.30%
Assumed Standard Deviation			2.00%
Portfolio Arithmetic Mean Return			6.85%
Portfolio Standard Deviation			11.49%
Long-Term Expected Rate of Return			6.75%

The 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 December 31, 2014.

	1% Decrease to 5.75%	Current Discount Rate of 6.75%	1% Increase to 7.75%
Net pension liability	$ 75,830,520	$ 61,050,504	$ 48,107,822

Pension Plan Expense and Deferred Outflows

During FY2015, METRO recognized $8,886,785 of pension expense and deferred outflows of $3,699,242 for the net difference between projected and actual earning and $9,020,858 for pension payments made between January 1, 2015 and September 30, 2015. The net difference between projected and actuarial earning will be amortized using the straight-line method over the next four years to pension expense as follows:

Fiscal Year	Amount
2016	$ 924,810
2017	924,810
2018	924,810
2019	924,812
Total	$ 3,699,242

The deferred outflow for the payments made between January 1, 2015 and September 30, 2015 will be reflected in the next actuarial report when determining financial information.

Information reflected below through page 42 was prepared in accordance with GASB 27 *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosure* which were in effect for FY2014. Plan benefits, which are the same, are discussed in the GASB 68 disclosure section of this report.

Contributions and changes in the net pension obligations for METRO's defined benefit pension plans for FY2014 were:

	Fiscal Year 2014	
	TWUPP	NUPP
Annual required contributions (ARC)	$ 13,691,651	$ 8,966,585
Interest on net pension obligation	(1,634,847)	(467,211)
Adjustment to ARC	1,827,338	530,604
Annual pension cost	13,884,142	9,029,978
Contributions	13,691,651	8,966,585
Change in net pension obligation	192,491	63,393
Beginning net pension obligation (asset)	(20,435,579)	(5,911,380)
Ending net pension obligation (asset)	$ (20,243,088)	$(5,847,987)
Percentage of pension cost contributed	98.61%	99.30%
Percentage of ARC contributed	100.00%	100.00%

The funded status of the TWUPP and NUPP pension plans as of January 1, 2014 (in thousands) was:

	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funded Ratio Percentage	Covered Payroll	UAAL as a Percentage of Covered Payroll
TWUPP	$ 206,052	$ 279,959	$ 73,907	73.6%	$ 92,277	80.1%
NUPP	129,399	161,398	31,999	80.2	45,602	70.2

Annual required contributions (ARC) for the TWUPP and the NUPP were based on actuarial valuations prepared annually by an independent actuary from data furnished by METRO. Pension expense for FY2014, FY2013 and FY2012 was $13,884,142, $14,544,413 and $14,344,181 for the TWUPP and $9,029,978, $8,764.797 and $8,873,835 for the NUPP. Contributions during this same time totaled $13,691,651, $14,362,412 and $14,206,770 for the TWUPP and $8,966,585, 8,615,666 and $8,907,720 for the NUPP.

Significant actuarial assumptions used in METRO's plan valuations and funded status is listed below:

	TWUPP	NUPP
Valuation date	January 1, 2014	January 1, 2014
Cost method	Projected unit credit	Projected unit credit
Inflation rate	2.5% per year IRS salary limit	2.5% per year IRS salary limit
Asset-valuation method	Five-year smoothed market value	Five-year smoothed market value
Investment rate of return	8.0% per annum	8.0% per annum
Funding policy	Meeting the ARC requirements	Meeting the ARC requirements
Cost of living adjustments	None	None
Projected salary increase	None	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-2000 Combined Mortality with Projection Scale AA to year 2014	RP-2000 Combined Mortality with Projection Scale AA to year 2014
Amortization of gains/losses:		
Method	Level dollars/reestablished annually	Level dollars/reestablished Annually
Period	29 years closed	28 years closed
Open to new members	No (as of October 1, 2012)	No (as of October 1, 2007)

The TWUPP and NUPP Annual Pension Cost (APC) and Net Pension Obligations are as follows:

	Annual Pension Cost	Percentage of APC Funded	Year-End Net Pension Obligation (Asset)
TWUPP			
2012	$ 14,344,181	99.04%	$ (20,617,580)
2013	14,544,413	98.75	(20,435,579)
2014	13,884,142	98.61	(20,243,088)
NUPP			
2012	$ 8,873,835	100.38%	$ (6,060,511)
2013	8,764,797	98.30	(5,911,380)
2014	9,029,978	99.30	(5,847,987)

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 $2,954,478, $1,964,943, and $1,121,291, with employees contributing $2,406,028, $1,654,991, and $1,040,871, 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. During FY2015 the Transport Workers Union Local 260, AFL-CIO assumed full responsibilities for managing the Trust and now appoints all Trustees. Payments to the Trust are irrevocable and made monthly based on amounts established during contract negotiations with the union. 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 for the current and previous two fiscal years were $9,194,420, $8,574,434, and $8,116,228, 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. 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 $3,078,282, $2,767,380, and $3,211,888, respectively.

Significant actuarial assumptions used in METRO's Other Postemployment Plans valuations are as follows:

	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	Varying from 7.1% declining to 4.5 % after 2100	Varying from 8% declining to 4.6% after 2083
Investment rate of return without prefunding	4.0% 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	Healthy lives (sex distinct) RP-2000 Combined Mortality Table projected to 2014 using Projection Scale AA	Healthy lives (sex distinct) RP-2000 Combined Mortality Table projected to 2015 using Projection Scale AA
	Disabled lives (sex distinct) RP-2000 Disabled Mortality Table projected to 2014 using Projection Scale AA	Disabled lives (sex distinct) RP-2000 Disabled Mortality Table projected to 2015 using Projection Scale AA
Amortization of gains and losses:		
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, 2014.

	Fiscal Year 2015		Fiscal Year 2014	
	Trust	Non-Union	Trust	Non-Union
Annual required contributions	$ 36,787,050	$ 6,609,938	$ 36,787,050	$ 10,155,179
Interest on prior year net post-employment benefit obligation	4,663,896	2,254,416	4,663,896	1,735,335
Adjustment to annual required Contributions	(6,601,199)	(3,252,264)	(6,601,199)	(2,412,370)
Other postemployment cost	34,849,747	5,612,090	34,849,747	9,478,144
Contribution	9,194,420	3,078,282	8,574,434	2,767,380
Change in net postemployment benefit obligation	25,655,327	2,533,808	26,275,313	6,710,764
Beginning net postemployment benefit obligation	145,685,418	56,360,394	119,410,105	49,649,630
Ending net postemployment benefit obligation	$171,340,745	$ 58,894,202	$145,685,418	$ 56,360,394
Percentage of postemployment benefit cost contributed	26.38%	54.85%	24.60%	29.20%

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			
2013	$ 27,315,686	29.71	$ 119,410,105
2014	34,849,747	24.60	145,685,418
2015	34,849,747	26.38	171,340,745
Non-Union			
2013	9,478,144	33.89	49,649,630
2014	9,478,144	29.20	56,360,394
2015	5,612,090	54.85	58,894,202

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
January 1, 2014	Trust	–	$ 409,644	$ 409,644	–
January 1, 2015	Non-Union	–	70,198	70,198	–

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 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 FY2015 and FY2014 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, 2014 - September 30, 2015	$ 10,853,840	$ 8,268,975	$ (4,866,124)	$ 14,256,691
October 1, 2013 - September 30, 2014	10,693,969	4,817,400	(4,657,529)	10,853,840

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 FY2015.

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 as the general partner. This partnership will continue for 50 years unless the general partner enters bankruptcy or the general partner determines, with the approval of the limited partner, that the partnership should be dissolved.

The partnership owns land located near downtown Houston, and net earnings generally consist of parking fees reduced by property taxes, administrative cost, and fees paid to the general partner.

METRO's share of the partnership through December 31, 2014 was $13,375,755, which included $13,169,171 for land and inception-to-date net earnings of $206,584. METRO's share of land is reported in the Statements of Net Position as part of capital assets, net of depreciation while the net income is reported in the Statements of Revenues, Expenses, and Changes in Net Position as nonoperating income.

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, 2015 was approximately $402 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 establishing 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 FY2015 totaled $95.9 million.

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 FY2014, METRO early terminated the remaining facility leases with additional payments limited to $124,586 in legal and financial advisory fees. The remaining lease terms and amounts to be amortized are:

	Lease Expiration Date	Amortization Period (Years)
Transit buses	Jan 1, 2016	14
Fare boxes/radios	Jan 1, 2018	16

	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

	September 30, 2013 Unamortized Balance	Current Year Amortization	Negotiated Early Purchase	September 30, 2014 Unamortized Balance
Facility:				
Buffalo Bayou	$ 5,790,082	$ –	$ 5,790,082	$ –
Kashmere	29,997,301	–	29,997,301	–
Transit buses	3,492,976	3,492,976	–	–
Transit buses	1,822,179	607,392	–	1,214,787
Fare boxes/radios	11,065,768	2,213,154	–	8,852,614
Total	$ 52,168,306	$ 6,313,522	$ 35,787,383	$ 10,067,401

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 allow 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 $275 million. A-1 is for $100 million with JPMorgan Chase Bank, National Association, which expires June 6, 2018. A-3 is for $75 million with State Street Bank and Trust Company, which expires June 6, 2017. 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, 2015. 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 is due and payable	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, 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

Series	Amount Issued	Maturity Date	Remaining Days Outstanding	Nominal Rate %
A-1	$ 29,400,000	01/15/2016	107	0.17
A-1	30,650,000	12/15/2015	76	0.16
A-1	38,250,000	12/10/2015	71	0.15
	98,300,000			
A-3	14,000,000	12/15/2015	76	0.16
A-3	9,000,000	12/10/2015	71	0.15
	23,000,000			
Total	$ 121,300,000			

Changes for CP by series for FY 2014 were as follows:

Series	October 1, 2013	Proceeds	Repayments	September 30, 2014
A-1	$ 160,400,000	$ 1,053,900,000	$(1,053,900,000)	$ 160,400,000
A-3	26,600,000	115,000,000	(118,600,000)	23,000,000
Total	$ 187,000,000	$1,168,900,000	$(1,172,500,000)	$ 183,400,000

Capital Leases, Bonds, and Contractual Obligations

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

	Capital Leases			Bonds and Contractual Obligations			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Total
2016	$ 8,951,781	$ 3,061,314	$ 12,013,095	$ 28,155,000	$ 48,848,622	$ 77,003,622	$89,016,717
2017	9,352,311	2,655,643	12,007,954	33,330,000	48,560,956	81,890,956	93,898,910
2018	9,745,000	2,184,494	11,929,494	43,680,000	46,956,531	90,636,531	102,566,025
2019	10,250,000	1,679,791	11,929,791	54,160,000	44,831,181	98,991,181	110,920,972
2020	10,775,000	1,154,440	11,929,440	64,675,000	42,180,394	106,855,394	118,784,834
2020-2025	16,390,000	738,148	17,128,148	196,175,000	174,902,669	371,077,669	388,205,817
2026-2030	–	–	–	187,730,000	127,932,656	315,662,656	315,662,656
2031-2035	–	–	–	140,335,000	85,719,454	226,054,454	226,054,454
2036-2040	–	–	–	167,590,000	43,207,032	210,797,032	210,797,032
2041-2045	–	–	–	79,490,000	4,024,250	83,514,250	83,514,250
Payments	$65,464,092	$11,473,830	$ 76,937,922	$ 995,320,000	$ 667,163,745	$1,662,483,745	$1,739,421,667
Unamortized net premium	1,101,813			91,667,615			
Total debt	$66,565,905			$1,086,987,615			

Capital Leases

The Board has authorized the use of a Master Lease Purchase Finance Program (MLPFP) for the purchase of buses and light-rail cars. Funds from the MLPFP were used to purchase 158 buses that were placed into service during FY2008 and FY2009. In addition to the MLPFP, METRO entered into other leases, which include a 50-year lease with three 15-year extensions for the use of land and related improvements for a Park & Ride lot. Land improvements for the Park & Ride lot have been capitalized and will be depreciated over its remaining useful life with payments for the land being reported as an operating lease. Capital leased assets are depreciated over their estimated useful life or the life of the lease, if shorter, and have been reported as part of capital assets, net with a corresponding capital lease liability on the Statements of Net Position. Scheduled lease payments over the remaining lease terms are as follows:

	MLPFP					
	Series A		Series B		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 5,245,000	$ 1,491,837	$ 3,630,000	$ 1,563,875	$ 8,875,000	$ 3,055,712
2017	5,455,000	1,276,103	3,820,000	1,377,625	9,275,000	2,653,728
2018	5,675,000	1,009,207	4,070,000	1,175,287	9,745,000	2,184,494
2019	5,985,000	725,963	4,265,000	953,828	10,250,000	1,679,791
2020	6,240,000	442,781	4,535,000	711,659	10,775,000	1,154,440
2021-2025	6,555,000	143,391	9,835,000	594,757	16,390,000	738,148
	$ 35,155,000	$ 5,089,282	$ 30,155,000	$ 6,377,031	$ 65,310,000	$ 11,466,313

Future payments for other leases:

	Park & Ride Land Improvements			All Capital Leases		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2016	$ 76,781	$ 5,602	$ 82,383	$ 8,951,781	$ 3,061,314	$12,013,095
2017	77,311	1,915	79,226	9,352,311	2,655,643	12,007,954
2018	–	–	–	9,745,000	2,184,494	11,929,494
2019	–	–	–	10,250,000	1,679,791	11,929,791
2020	–	–	–	10,775,000	1,154,440	11,929,440
2021-2024	–	–	–	16,390,000	738,148	17,128,148
	$ 154,092	$ 7,517	$ 161,609	65,464,092	$11,473,830	$76,937,922
Unamortized premium				1,259,215		
Total				$ 66,565,905		

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

	Remaining Balance of Capital Leases October 1, 2014	Additions	Principal Payments	Unamortized Premium	Current Year Amortization of Premium	Combined Balance September 30, 2015
MLPFP:						
Series A	$ 40,150,000	$ –	$ (4,995,000)	$ 530,102	$ (66,263)	$ 35,618,839
Series B	33,630,000	–	(3,475,000)	729,113	(91,139)	30,792,974
Park & Ride land improvements	227,355	–	(73,263)	–	–	154,092
Total	$ 74,007,355	$ –	$ (8,543,263)	$ 1,259,215	$ (157,402)	$ 66,565,905

	Remaining Balance of Capital Leases October 1, 2013	Additions	Principal Payments	Unamortized Premium	Current Year Amortization of Premium	Combined Balance September 30, 2014
MLPFP:						
Series A	$ 44,920,000	$ –	$ (4,770,000)	$ 596,364	$ (66,262)	$ 40,680,102
Series B	36,920,000	–	(3,290,000)	820,252	(91,139)	34,359,113
Park & Ride land improvements	297,261	–	(69,906)	–	–	227,355
Total	$ 82,137,261	$ –	$ (8,129,906)	$ 1,416,616	$ (157,401)	$ 75,266,570

Bonds and Contractual Obligations

During FY2015 METRO issued two additional long-term debt obligations which included Series 2015A Sales and Use Tax Bonds for $52.6 million and Series 2015B Sales and Use Tax Contractual Obligations for $62.5 million. Series 2015A was used to refund certain commercial paper notes while Series 2015B was issued to fund the purchase of buses.

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 with changes during the last two fiscal years are as follows:

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
2016	$ 3,610,000	$ 3,841,500	$ 1,275,000	$ 1,681,625	$ –	$ 5,675,656
2017	3,795,000	3,656,375	1,330,000	1,629,525	–	5,675,656
2018	3,990,000	3,461,750	1,385,000	1,575,225	–	5,675,656
2019	4,195,000	3,257,125	1,440,000	1,518,725	–	5,675,656
2020	4,410,000	3,042,000	1,500,000	1,459,925	–	5,675,656
2021-2025	25,670,000	11,578,250	8,610,000	6,187,688	–	28,378,281
2026-2030	32,965,000	4,285,625	10,755,000	4,043,250	–	28,378,281
2031-2035	–	–	10,725,000	1,105,875	41,745,000	21,459,454
2036-2039	–	–	–	–	40,810,000	5,767,782
	$ 78,635,000	$ 33,122,625	$ 37,020,000	$ 19,201,838	$ 82,555,000	$ 112,362,078

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
2016	$ 2,815,000	$ 903,700	$ 3,120,000	$ 1,296,500	$ 7,660,000	$ 22,859,000
2017	2,915,000	803,175	3,195,000	1,177,625	8,050,000	22,466,250
2018	3,030,000	684,275	3,350,000	1,014,000	8,465,000	22,053,375
2019	3,160,000	558,500	3,525,000	859,750	8,895,000	21,619,375
2020	3,290,000	423,413	3,660,000	697,750	9,355,000	21,163,125
2021-2025	7,070,000	358,000	12,125,000	929,125	54,485,000	98,107,875
2026-2030	–	–	–	–	69,965,000	82,628,375
2031-2035	–	–	–	–	87,865,000	63,154,125
2036-2040	–	–	–	–	126,780,000	37,439,250
2041-2044	–	–	–	–	79,490,000	4,024,250
	$ 22,280,000	$ 3,731,063	$ 28,975,000	$ 5,974,750	$ 461,010,000	$ 395,515,000

	Sales and Use Tax Bonds and Contractual Obligations					
	Contractual Obligations Series 2011B (Buses)		Contractual Obligations Series 2014 (Rail Vehicles)		Sales and Use Tax Series 2015A (Refunding Commercial Paper)	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2016	$ 3,680,000	$ 1,594,000	$ 5,995,000	$ 6,380,375	$ –	$ 2,533,823
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
2021-2025	19,215,000	1,882,950	42,640,000	19,232,750	–	–
2026-2030	–	–	54,760,000	7,118,750	–	–
	$ 39,180,000	$ 8,288,450	$ 130,605,000	$ 55,017,875	$ 52,575,000	$ 11,297,073

	Sales and Use Tax Bonds and Contractual Obligations				
	Contractual Obligations Series 2015B (Buses)		Total		
	Principal	Interest	Principal	Interest	Total
2016	$ –	$ 2,082,443	$ 28,155,000	$ 48,848,622	$ 77,003,622
2017	3,915,000	3,006,800	33,330,000	48,560,956	81,890,956
2018	4,095,000	2,826,125	43,680,000	46,956,531	90,636,531
2019	4,305,000	2,616,125	54,160,000	44,831,181	98,991,181
2020	4,525,000	2,395,375	64,675,000	42,180,394	106,855,394
2020-2025	26,360,000	8,247,750	196,175,000	174,902,669	371,077,669
2026-2030	19,285,000	1,478,375	187,730,000	127,932,656	315,662,656
2031-2035	–	–	140,335,000	85,719,454	226,054,454
2036-2040	–	–	167,590,000	43,207,032	210,797,032
2041-2045	–	–	79,490,000	4,024,250	83,514,250
	$ 62,485,000	$ 22,652,993	995,320,000	$ 667,163,745	$1,662,483,745
Unamortized Premium			91,667,615		
Total			$1,086,987,615		

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.

Changes during the last two years for sales and use tax bonds consist of the following:

	Changes in Bonds and Contractual Obligations			Changes in Premium (Discount)		
Series	October 1, 2014 Principal	Addition	Payments to Retire Bonds	Unamortized Premium (Discount)	Current Year Amortization of (Premium) 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

	Changes in Bonds and Contractual Obligations			Changes in Premium (Discount)		
Series	October 1, 2013 Principal	Addition	Payments to Retire Bonds	Unamortized Premium (Discount)	Current Year Amortization of (Premium) Discount	Combined Balance September 30, 2014
2009A	$ 85,330,000	$ –	$ (3,265,000)	$ 5,175,929	$ (323,496)	$ 86,917,433
2009B	39,430,000	–	(1,185,000)	753,392	(37,670)	38,960,722
2009C	82,555,000	–	–	(934,476)	37,379	81,657,903
2009D	27,650,000	–	(2,640,000)	1,988,793	(198,879)	26,799,914
2010A	34,855,000	–	(2,880,000)	2,892,217	(361,527)	34,505,690
2011A	461,010,000	–	–	44,392,468	(1,585,445)	503,817,023
2011B	46,110,000	–	(3,395,000)	5,425,375	(542,537)	47,597,838
2014	–	130,605,000	–	22,626,350	(1,508,423)	151,722,927
Total	$ 776,940,000	$130,605,000	$(13,365,000)	$ 82,320,048	$ (4,520,598)	$ 971,979,450

The weighted average interest rate paid on outstanding debt is approximately 3.28% and ranges from 0.13% for commercial paper to 4.96% for long-term debt.

Operating Lease

METRO leases land, office space, and software under various operating leases. In most cases, management expects to renew or replace these leases as they expire. Actual rental expenses for FY2015 and FY2014 were $5,842,251 and $5,306,654, 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
2016	$ 5,959,096
2017	6,078,278
2018	6,199,842
2019	6,323,838
2020	6,450,314
Total	$ 31,011,368

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 could 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 will purchase all related hedged diesel fuel.

Outstanding Diesel Fuel Swaps

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 will settle in FY2016 and 30 swaps totaling 9,156,000 gallons will settle in FY2017. The outstanding swaps represent most of the anticipated diesel fuel requirements for each fiscal year.

METRO had 41 diesel fuel swaps totaling 20,496,000 gallons outstanding as of September 30, 2014 of which 23 swaps totaling 10,836,000 gallons settled in FY2015 and 18 swaps totaling 9,660,000 gallons will settle in FY2016.

Market values of the outstanding swaps are calculated by the counterparties, Bank of America Merrill Lynch and Goldman Sachs, both of whom are nationally recognized commodity traders. Outstanding hedges had a negative value of $15,041,432 for FY2015 and $1,899,588 for FY2014. These amounts are reported on the Statements of Position as a deferred outflow of resources-diesel fuel swaps with a corresponding derivative instruments – diesel fuel swaps liability. Swaps, which settled during FY2015 increased diesel fuel cost by $10,174,063 and reduced diesel fuel cost by $992,834 for FY2014. 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, 2014 - September 30, 2015	$ 15,098,818	$(15,857,810)	$ 16,556,193	$ 15,797,201
October 1, 2013 - September 30, 2014	$ 14,662,239	$(14,857,798)	$ 15,294,377	$ 15,098,818

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 y Auxlliar do Ferrocarriles, S.A. (CAF) is one of the companies which METRO uses to purchase light-rail vehicles. These vehicles have experienced several performance related issues which has resulted in METRO delaying payments to CAF and METRO notifying CAF that it will exercise its contractual right to seek liquidating damages from CAF.

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 14, 2016 the date the financial statements were available to be issued. No changes were made, or are necessary to be made, to METRO's financial statements as a result of this evaluation.

Required Supplemental Information

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

(Unaudited)

		December 31, 2014
Total pension liability		
Changes for the year		
Service cost	$	5,435,165
Interest on total pension liability		22,446,888
Changes of benefit terms		–
Difference between expected and actual experience		–
Changes of assumption		–
Benefit payments		(15,923,974)
Net change in total pension liability		11,958,079
Total pension liability - beginning		334,943,305
Total pension liability - ending		346,901,384
Plan fiduciary net position		
Contributions from the employers		13,477,182
Net investment income		8,434,984
Benefit payments		(15,923,974)
Administrative expenses		(319,754)
Net change in plan fiduciary net position		5,668,438
Plan fiduciary net position – beginning		224,321,631
Plan fiduciary net position – ending		229,990,069
METRO's ending net pension liability	$	116,911,315
Plan fiduciary net position as a percentage of the total pension liability		66.30%
Covered-employee payroll	$	92,277,465
METRO's net pension liability as a percentage of covered-employee payroll		126.70%

This schedule is presented to illustrate the requirements to show information for 10 years. However, recalculation of prior years is not required, and if prior years are not determined in accordance with GASB Statement No. 68 they should not be reported.

Required Supplemental Information
Schedule of Employer Contributions
for the Last 10 Fiscal Years
for Transport Worker Union Pension Plan (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
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%
2005	9,959,068	18,759,068	(8,800,000)	87,157,000	21.52%

Significant actuarial assumptions used in METRO's plan valuations and funded status is listed below:

	TWUPP
Valuation date	January 1, 2014
Cost method	Projected unit credit
Inflation rate	2.5% per year IRS salary limit
Asset-valuation method	Five-year smoothed market value
Investment rate of return	8.0% per annum
Funding policy	Meeting the ARC requirements
Cost of living adjustments	None
Projected salary increase	None
Assumed annual retirement rate	Varying percentage ranging from 5% to 100% for ages 60 through 70
Mortality and disabled mortality	RP-2000 Combined Mortality with Projection Scale AA to year 2014
Amortization of gains/losses:	
Method	Level dollars/reestablished annually
Period	29 years closed
Open to new members	No (as of October 1, 2012)

Required Supplemental Information
Schedule of Changes in the Net Pension Liability for the Non-union Pension Plan
(Unaudited)

	December 31, 2014
Total pension liability	
Changes for the year	
Service cost	$ 2,753,593
Interest on total pension liability	13,384,981
Changes of benefit terms	–
Difference between expected and actual experience	–
Changes of assumption	–
Benefit payments	(8,704,519)
Net change in total pension liability	7,434,055
Total pension liability - beginning	199,823,621
Total pension liability - ending	207,257,676
Plan fiduciary net position	
Contributions from the employers	9,006,301
Net investment income	4,217,106
Benefit payments	(8,704,519)
Administrative expenses	(224,559)
Net change in plan fiduciary net position	4,294,329
Plan fiduciary net position – beginning	141,912,843
Plan fiduciary net position – ending	146,207,172
METRO's ending net pension liability	$ 61,050,504
Plan fiduciary net position as a percentage of the total pension liability	70.54%
Covered-employee payroll	$ 45,601,509
METRO's net pension liability as a percentage of covered employee payroll	133.88%

This is the initial year of implementation of GASB Statement No. 68. Historical information to present additional nine years in conformity with the requirements of GASB Statement No. 68 is not available. Additional years will be added prospectively, until 10 years of information is available.

Required Supplemental Information
Schedule of Employer Contributions
for the Last 10 Fiscal 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
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%
2005	9,627,759	11,287,759	(1,660,000)	62,869,000	17.95%

Significant actuarial assumptions used in METRO's plan valuations and funded status is listed below:

	NUPP
Valuation date	January 1, 2014
Cost method	Projected unit credit
Inflation rate	2.5% per year IRS salary limit
Asset-valuation method	Five-year smoothed market value
Investment rate of return	8.0% per annum
Funding policy	Meeting the ARC requirements
Cost of living adjustments	None
Projected salary increase	2.5% per annum
Assumed annual retirement rate	Varying percentage ranging from 20% to 100% for ages 55 through 70
Mortality and disabled mortality	RP-2000 Combined Mortality with Projection Scale AA to year 2014
Amortization of gains/losses:	
Method	Level dollars/reestablished Annually
Period	28 years closed
Open to new members	No (as of October 1, 2007)

Required Supplemental Information
Prepared using GASB 27, GASB 45 and GASB 50
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, 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%
	Jan 1, 2012	110,276	142,052	31,776	77.6%	47,185	67.3%
Other Postemployment	Jan 1, 2015	–	70,198	70,198	–	44,389	245.4%
	Jan 1, 2013	–	108,927	108,927	–	57,702	224.0%
	Jan 1, 2011	–	129,261	129,261	–	63,625	179.6%
Transport Workers Union							
Pension Plan	Jan 1, 2014	206,052	279,959	73,907	73.6%	92,277	80.1%
	Jan 1, 2013	181,661	267,359	85,698	67.9%	91,830	93.3%
	Jan 1, 2012	173,838	255,553	81,715	68.0%	94,043	86.9%
Other Postemployment Benefits	Jan 1, 2014	–	409,644	409,644	–	92,277	443.9%
	Jan 1, 2012	–	338,260	338,260	–	94,043	359.7%
	Jan 1, 2010	–	301,284	301,284	–	88,184	347.1%

Other Postemployment Benefits actuarial studies are updated biennially.
Covered payroll reported by the defined benefit pension plans approximates the value related to covered payroll for OPEB.

This Page Intentionally Left Blank

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, 2015 and the Last Nine Years (Unaudited)

	2015	2014	2013	2012
Assets				
Cash	$ 5,426,047	$ 3,671,108	$ 3,499,304	$ 1,769,157
Investments	410,462,331	316,174,054	313,657,041	358,828,979
Investments - restricted	45,240,619	31,839,343	28,942,440	37,265,000
Receivables				
Sales tax	117,212,671	119,462,662	110,821,904	103,035,680
Federal government - Federal Transit Administration	12,041,883	25,218,342	73,106,988	26,811,825
Bus passes and other receivables	12,855,952	10.798,847	10,277,726	13,570,522
Total receivables	142,110,506	155,479,851	194,206,618	143,418,027
Material and supplies inventory	28,996,881	24,749,710	20,407,175	17,532,502
Derivative instrument – diesel fuel swaps	–	–	1,348,147	3,691,843
Total current assets	632,236,384	531,914,066	562,060,725	562,505,508
Noncurrent assets				
Investments - restricted	50,949,645	67,007,168	27,851,305	129,308,971
Capital assets, net of depreciation	3,139,596,631	3,081,386,561	2,978,791,191	2,579,580,094
Prepaid pension	–	26,091,075	26,346,959	26,678,091
Other noncurrent assets	3,645,852	3,518,211	6,325,672	3,449,420
Prepaid rental payments	7,246,855	10,067,401	52,168,306	64,374,346
Total noncurrent assets	3,201,438,983	3,188,070,416	3,091,483,433	2,803,390,922
Total assets	3,833,675,367	3,719,984,482	3,653,544,158	3,365,896,430
Deferred outflow of resources				
Diesel fuel	15,041,432	1,899,588	–	–
Pensions	32,384,271	–	–	–
Total deferred outflows of resources	47,425,703	1,899,588	–	–
Liabilities				
Current liabilities				
Trade payables	114,457,190	83,276,299	149,021,462	125,067,467
Accrued compensation and benefits	30,140,189	26,922,386	27,430,216	23,759,406
Liabilities for injuries and damages	4,866,124	4,657,529	3,679,238	3,385,061
Commercial paper	–	–	187,000,000	26,600,000
Other current liabilities	13,385,191	8,687,095	8,824,195	9,005,559
Capital lease obligations	8,951,781	8,543,263	8,129,906	7,899,879
Debt payable	28,155,000	13,920,000	13,365,000	12,895,000
Debt interest payable	20,429,616	20,515,002	17,976,710	18,287,887
Derivative instrument – diesel fuel swaps	15,041,432	1,899,588	–	–
Total current liabilities	235,426,523	168,421,162	415,426,727	226,900,259
Noncurrent liabilities				
Liabilities for injuries and damages	9,390,567	6,196,311	7,014,731	5,715,969
Commercial paper	121,300,000	183,400,000	–	162,400,000
Deferred rental payments	7,246,855	10,067,401	52,168,306	64,374,346
Capital lease obligation	57,614,124	66,723,307	75,423,971	83,711,279
Debt payable	1,058,832,615	958,059,450	823,268,698	839,645,874
Other postemployment benefits	230,234,947	202,045,812	169,059,735	143,594,021
Defined benefit pension plan	177,961,819	–	–	–
Other noncurrent liabilities	–	–	–	–
Total noncurrent liabilities	1,662,580,927	1,426,492,281	1,126,935,441	1,299,441,489
Total liabilities	1,898,007,450	1,594,913,443	1,542,362,168	1,526,341,748
Deferred inflow of resources	–	–	1,348,147	3,691,843
Net position				
Net Investment in capital assets	2,016,537,016	2,027,406,944	1,948,427,986	1,729,440,810
Restricted assets – debt payments	79,101,851	65,681,932	56,793,745	71,335,683
Unrestricted assets	(112,545,247)	33,881,751	104,612,112	35,086,346
Total net position	$ 1,983,093,620	$ 2,126,970,627	$ 2,109,833,843	$1,835,862,839

2011	2010	2009	2008	2007	2006
$ 1,860,652	$ 1,564,969	$ 829,893	$ 121,392	$ 231,459	$ 480,999
91,458,100	119,209,517	145,924,381	151,027,287	280,449,039	250,860,123
64,489,262	27,175,720	45,304,780	–	–	–
97,394,471	83,314,283	77,761,055	83,275,323	82,267,723	78,514,236
17,050,424	62,448,555	29,699,429	7,508,972	12,837,240	18,970,115
12,754,087	21,626,869	8,501,733	8,762,761	4,047,810	8,342,188
127,198,982	167,389,707	115,962,217	99,547,056	99,152,773	105,826,539
21,648,175	22,400,422	20,605,560	32,086,923	22,901,955	29,758,196
-	4,967,134	–	–	–	–
306,655,171	342,707,469	328,626,831	282,782,658	402,735,226	386,925,857
415,681,262	66,206,184	165,461,944	5,760	555,775	4,370,072
2,292,560,426	2,031,910,494	1,969,813,283	1,847,947,918	1,634,225,906	1,506,044,662
26,781,617	27,849,894	28,597,532	29,655,466	18,713,400	10,633,336
3,900,541	9,301,614	4,792,418	6,047,336	4,126,802	4,800,989
191,360,541	213,018,249	234,675,957	256,333,665	277,991,373	299,649,081
2,930,284,387	2,348,286,435	2,403,341,134	2,139,990,145	1,935,613,256	1,825,498,140
3,236,939,558	2,690,993,904	2,731,967,965	2,422,772,803	2,338,348,482	2,212,423,997
3,151,246	–	8,849,233	–	–	–
–	–	–	–	–	–
3,151,246	–	8,849,233	–	–	–
150,161,474	124,829,224	115,799,760	104,155,476	91,844,230	82,589,611
25,055,498	24,703,772	27,094,159	21,531,490	19,301,412	18,655,986
3,723,095	5,317,508	4,691,532	6,632,936	5,883,512	4,953,276
–	190,000,000	143,000,000	143,000,000	143,000,000	89,000,000
7,295,986	15,000,793	7,403,357	7,823,172	4,136,485	4,683,614
7,707,103	7,222,767	4,256,609	2,406,683	–	–
12,297,176	6,435,000	–	–	–	–
8,323,783	8,155,478	6,756,159	–	–	–
3,151,246	–	8,849,233	–	–	–
217,715,361	381,664,542	317,850,809	285,549,757	264,165,639	199,882,487
13,581,122	10,985,722	15,630,560	16,865,137	15,248,000	13,055,519
190,000,000	–	–	–	–	–
191,360,541	213,018,249	234,675,957	256,333,665	277,991,373	299,649,081
91,611,157	99,475,662	106,859,364	61,039,473	–	–
852,540,873	301,233,434	226,057,724	–	–	–
116,266,986	86,263,172	58,196,633	31,603,807	–	–
–	–	–	–	–	–
–	4,802,679	5,774,679	–	–	–
1,455,360,679	715,778,918	647,194,917	365,842,082	293,239,373	312,704,600
1,673,076,040	1,097,443,460	965,045,726	651,391,839	557,405,012	512,587,087
–	4,967,134	–	–	–	–
1,641,082,035	1,663,152,543	1,822,809,038	1,763,904,490	1,613,628,634	1,485,447,390
74,504,866	20,307,480	23,410,852	–	–	–
(148,572,137)	(94,876,713)	(70,448,418)	7,476,474	167,314,836	214,389,520
$1,567,014,764	$1,588,583,310	$ 1,775,771,472	$1,771,380,964	$1,780,943,470	$1,699,836,910

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2015 and the Last Nine Years
(Unaudited)

	2015	2014	2013	2012
Operating revenues:				
Transportation fares	$ 74,651,045	$ 76,282,549	$ 72,782,991	$ 66,887,319
Operating expenses:				
Scheduled services - fixed route				
Bus and rail operations - direct	202,944,079	183,586,708	170,940,122	165,925,733
Contract service	49,839,742	49,298,303	46,620,525	47,431,837
Material distribution	6,244,556	6,086,883	5,540,367	5,966,531
Preventative maintenance	54,180,889	52,289,574	51,040,854	48,876,170
Central shop and maintenance support	21,073,250	20,208,555	18,961,766	18,103,288
Safety and training	3,612,522	1,135,164	973,447	816,598
Subtotal scheduled services - fixed route	337,895,038	312,605,187	294,077,081	287,120,157
Non-scheduled services-special				
METROLift	52,171,593	49,503,466	45,181,913	40,204,841
METROVan	5,475,396	5,193,777	4,967,172	5,250,084
HOT lanes and special events	8,610,185	7,669,836	5,582,712	2,346,041
Subtotal non-scheduled services - special	66,257,174	62,367,079	55,731,797	47,800,966
Service support				
Service planning and evaluation	4,947,792	3,545,587	3,521,365	3,130,879
Marketing	9,728,386	7,001,452	7,306,538	6,910,999
Transit security and traffic management	21,118,036	19,326,396	18,587,581	20,199,670
Insurance and claims	5,754,471	7,036,234	5,927,146	5,673,304
Ticket and fare collection	3,562,149	3,955,040	3,751,006	3,369,283
Facility maintenance	26,414,559	23,928,168	21,660,854	20,020,810
Subtotal service support	71,525,393	64,792,877	60,754,490	59,304,945
Organizational support				
Business, community, and governmental development	2,894,550	3,551,653	4,228,909	5,043,321
Administrative, financial, and personnel	14,334,333	13,646,454	14,612,492	15,357,730
Information systems	17,684,558	16,371,349	13,948,037	14,276,491
Purchasing	3,217,201	3,249,771	2,994,284	2,502,794
Oversight, audit, and legal	7,490,093	5,170,576	8,875,645	5,000,056
Subtotal organizational support	45,620,735	41,989,803	44,659,367	42,180,392
Depreciation and amortization	173,469,603	160,049,291	136,642,238	137,094,956
Total operating expenses	694,767,943	641,804,237	591,864,973	573,501,416
Operating loss	(620,116,898)	(565,521,688)	(519,081,982)	(506,614,097)
Nonoperating revenues (expenses):				
Sales tax	715,160,213	685,167,303	642,515,462	593,732,843
Investment income	597,015	328,666	768,527	625,042
Inter-government revenue	1,841,467	1,843,453	1,986,480	1,986,480
Noncapitalized interest expense	(14,501,373)	(10,723,830)	(9,888,885)	(13,461,589)
Other income	8,841,043	2,643,857	1,845,296	3,030,912
Grant proceeds	40,230,897	64,927,095	71,766,635	56,460,316
Local infrastructure assistance	(149,505,814)	(161,502,564)	(170,373,931)	(222,054,292)
Loss for asset impairments	–	(105,756,522)	–	–
Funds passed to subrecipients	(2,097,344)	(3,368,756)	(2,016,422)	(1,528,115)
Gain (loss) on sale or disposal of assets	(3,130,847)	755,594	(470,021)	(316,485)
Total nonoperating revenues (expenses)	597,435,257	474,314,296	536,133,141	418,475,112
Net increase (decrease) before capital grants	(22,681,641)	(91,207,382)	17,051,159	(88,138,985)
Capital grant proceeds	56,584,181	108,344,176	256,919,845	356,987,060
Changes in net position	33,902,540	17,136,784	273,971,004	268,848,075
Net position - beginning of the year * 2015 restated	1,949,191,080	2,109,833,843	1,835,862,839	1,567,014,764
Net position - end of the year	$ 1,983,093,620	$ 2,126,970,627	$ 2,109,833,843	$1,835,862,839

2011	2010	2009	2008	2007	2006
$ 68,740,526	$ 64,538,736	$ 67,083,141	$ 53,805,283	$ 53,266,927	$ 54,186,016
165,660,712	161,548,458	184,399,863	148,355,656	131,195,120	126,865,459
44,688,976	44,365,552	45,638,064	39,517,766	39,844,157	38,906,779
5,975,735	5,994,776	5,662,705	5,804,008	4,603,536	4,299,865
49,364,186	49,926,437	47,705,846	47,194,361	41,396,795	41,755,975
15,220,267	13,796,093	13,192,409	13,086,172	11,650,263	12,956,132
891,844	858,722	925,202	795,904	728,688	532,939
281,801,720	276,490,038	297,524,089	254,753,867	229,418,559	225,317,149
39,696,105	35,915,851	35,556,663	34,237,245	32,215,665	30,547,646
4,979,360	4,327,517	6,075,378	4,079,490	5,184,800	3,578,916
676,109	808,861	793,180	624,013	3,053,355	3,506,689
45,351,574	41,052,229	42,425,221	38,940,748	40,453,820	37,633,251
4,205,657	822,792	247,023	586,792	415,576	348,891
7,450,088	6,933,097	5,324,367	5,708,560	4,186,209	3,861,995
22,797,711	22,870,899	22,330,278	25,847,353	21,672,638	20,156,965
5,616,894	5,144,081	4,484,705	4,476,482	3,336,401	3,141,878
3,867,527	2,029,498	1,682,347	1,786,021	818,416	971,469
16,613,097	19,193,318	22,752,511	20,863,515	15,883,937	13,940,679
60,550,974	56,993,685	56,821,231	59,268,723	46,313,177	42,421,877
4,592,198	4,111,359	1,373,563	910,623	455,465	447,374
18,119,682	18,921,682	11,639,038	10,656,994	17,021,569	17,122,603
12,360,853	10,835,724	3,808,872	2,401,196	2,467,722	2,188,249
2,894,124	2,837,551	1,646,574	1,400,093	891,513	1,223,727
6,536,177	7,333,120	7,620,394	3,268,706	2,308,768	2,288,331
44,503,034	44,039,436	26,088,441	18,673,612	23,145,037	23,270,284
138,295,447	143,977,419	140,847,103	124,856,131	120,289,857	107,030,889
570,502,749	562,552,807	563,706,085	496,457,081	459,620,450	435,673,450
(501,762,223)	(498,014,071)	(496,622,671)	(442,651,798)	(406,353,523)	(381,487,434)
536,572,595	489,972,748	517,972,851	521,179,360	481,721,482	467,645,812
327,467	2,103,533	4,307,902	7,165,095	14,240,392	7,923,445
1,986,480	1,986,614	599,650	–	–	–
(16,660,720)	(8,083,163)	–	–	–	–
643,766	848,968	1,115,401	793,638	648,162	446,526
59,588,924	63,988,363	59,345,052	57,965,428	58,145,684	59,929,875
(188,467,654)	(150,091,349)	(116,744,258)	(179,845,280)	(108,530,541)	(115,616,319)
–	(180,308,408)	–	–	–	–
(2,538,648)	(393,193)	(352,228)	–	–	–
(2,723,630)	(1,095,753)	(6,258,755)	(1,169,107)	(1,941,917)	(10,245,545)
388,728,580	218,928,360	459,985,615	406,089,134	444,283,262	410,083,794
(113,033,643)	(279,085,711)	(36,637,056)	(36,562,664)	37,929,739	28,596,360
91,465,097	91,897,549	41,027,564	27,000,158	43,176,821	63,539,611
(21,568,546)	(187,188,162)	4,390,508	(9,562,506)	81,106,560	92,135,971
1,588,583,310	1,775,771,472	1,771,380,964	1,780,943,470	1,699,836,910	1,607,700,939
$1,567,014,764	$1,588,583,310	$1,775,771,472	$1,771,380,964	$1,780,943,470	$1,699,836,910

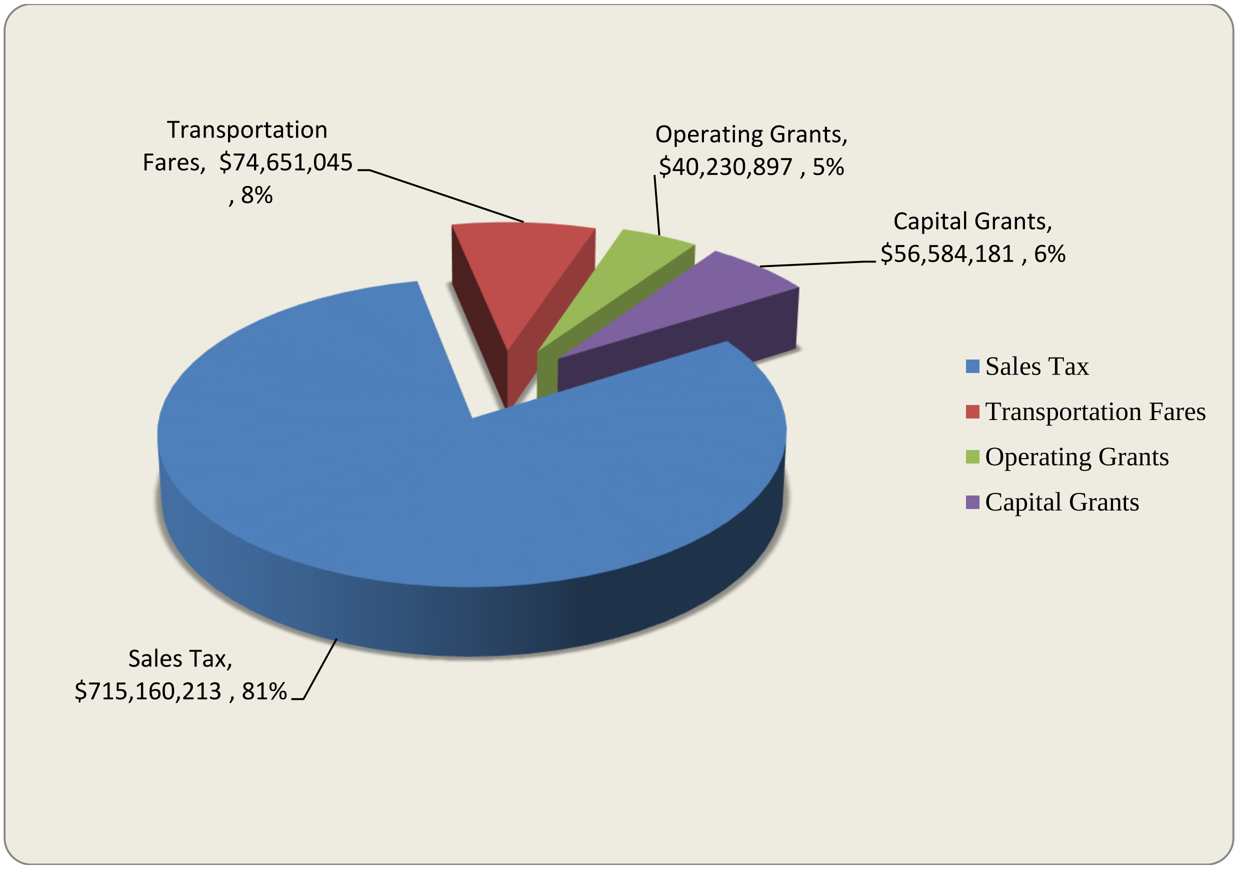
Metropolitan Transit Authority
of Harris County, Texas
Current Fares
(Unaudited)

	Full Fare		Discounted Fare		
	Previous*	Since November 2008	Previous*		Since November 2008
			Student, Senior, Disabled	Youth Age 5 to 11	Student, Senior, Disabled
Local/METRORail	$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
Total Revenue by Type
Fiscal Year 2015
(Unaudited)



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 (%)
2015	6,652.4	54,946	715,160,213	4.6
2014	6,490.2	54,820	685,167,303	4.9
2013	6,333.8	52,644	642,515,462	6.2
2012	6,186.9	52,358	593,732,843	6.8
2011	6,060.7	48,789	536,572,595	7.9
2010	5,949.1	44,969	489,972,748	8.2
2009	5,826.1	43,698	517,972,851	7.6
2008	5,676.4	49,350	521,179,360	4.8
2007	5,540.9	44,637	481,721,482	4.3
2006	5,423.6	43,252	467,645,812	5.0

* Prior year published numbers may have been revised due to new 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 Employers
(Amounts in thousands)
(Unaudited)

	2014			2005		
Employer	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Memorial Hermann Health System	19,500	1	0.66%	–	–	–
United Airlines	17,000	2	0.57%	–	–	–
Exxon Mobil	13,191	3	0.44%	–	–	–
Houston Methodist	13,000	4	0.44%	–	–	–
Shell Oil Company	13,000	4	0.44%	11,674	2	0.48%
Kroger Company	12,000	5	0.40%	–	–	–
National Oilwell Varco Inc.	10,000	6	0.34%	–	–	–
Schlumberger Ltd.	10,000	6	0.34%	–	–	–
BP America	9,537	7	0.32%	–	–	–
Baylor College of Medicine	9,232	8	0.31%	–	–	–
Chevron Companies	9,000	9	0.30%	–	–	–
ARAMARK Corporation	8,500	10	0.29%	–	–	–
Halliburton	–	–	–	11,965	1	0.50%
Continental Airlines	–	–	–	9,500	3	0.39%
Hewlett Packard Compaq	–	–	–	8,500	4	0.35%
Pappas Restaurant	–	–	–	8,000	5	0.33%
SBC (former Southwestern Bell)	–	–	–	6,343	6	0.26%
Center point (Houston Industries)	–	–	–	5,531	7	0.23%
HCA Gulf Coast	–	–	–	5,008	8	0.21%
Conoco Phillips	–	–	–	4,521	9	0.19%
Baker Hughes	–	–	–	4,500	10	0.19%

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

Metropolitan Transit Authority of Harris County, Texas
Payments for Outstanding Debts
Last Eight Fiscal Years
(Unaudited)

Fiscal Year	Commercial Paper	Capital Lease	Sales and Use Tax Bonds	Total
2015*	$ 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

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

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

Fiscal Year	Commercial Paper	Sales and Use Tax Bond	Capital Lease	Total Outstanding Debt
2015	$ 121,300,000	$ 995,320,000	$ 65,464,902	$ 1,182,084,902
2014	183,400,000	894,180,000	74,007,355	1,151,587,355
2013	187,000,000	776,940,000	82,137,261	1,046,077,261
2012	189,000,000	789,835,000	90,037,140	1,068,872,140
2011	190,000,000	799,120,000	97,586,841	1,086,706,841
2010	190,000,000	295,140,000	104,809,608	589,949,608
2009	143,000,000	219,800,000	109,069,750	471,869,750
2008	143,000,000	–	63,446,156	206,446,156

This schedule reflects the outstanding principal balance and excludes any premium/discount amounts.

No debt was outstanding prior to FY2008.

Additional details regarding outstanding debt 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 Seven Years
(Unaudited)

Fiscal Year	75% of Sales Tax Revenue	Operating Revenues	Operating Grants	Less Operating Expenses Net of Depreciation	Net Available Revenues	Schedule Payments for Sales and Use Tax Bonds and Contractual Obligations				Coverage Ratio
						Principal	Scheduled Interest Payments	Less IRS Interest Subsidy	Total	
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	$ 69,383,491	1.87
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)

Fiscal Year	HOV Ridership Cars, Vans And Non-METRO Buses	Transit Boarding *	Revenue Vehicle Miles *	Passenger Miles Transit *	Passenger-Miles Carpool/Vanpool Non-METRO Buses on Transitways	Number of						Directional Route Miles			Total Actual Rail Passenger Car Revenue Miles
						Emp.	Buses*	Rail Cars	BOF	TC	P&R	Rail	HOV Lanes	Service Area (sq. miles)	
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
2006	22,382,441	102,827,629	53,984,414	633,249,121	230,762,976	3,356	1,330	18	6	20	25	14.8	115.2	1,285	859,867

Source: Metropolitan Transit Authority Office of Management and Budgets

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