Metropolitan Transit Authority
of Harris County, Texas
Comprehensive Annual Financial Report
For the Years Ended
September 30, 2014 and 2013
(October 1, 2013 to September 30, 2014)

Ride METRO! Our Invitation to You

METRO CEO Highlights Goals

This article appeared on Oct. 6, 2014, in "Passenger Transport, "a publication of the American Public Transportation Association (APTA). It was written by METRO's President & CEO Tom Lambert.

Ride METRO! You will hear it in the announcements on our rail system. You will feel it when a smiling operator greets you on one of our 1,400 buses. You will find us on the Internet with that "easy-to-remember" request.

Ride METRO is a common invitation from the largest public transit provider in the Houston region. And 370,000 times a day, people accept the invitation to hop aboard safe, affordable public transit.

We are buses, light rail, vanpools, park-and-rides, paratransit, HOV/HOT lanes, and much more. Our annual system wide ridership tops 110 million boardings. As we look toward the future, the wheels are in motion on the streets and in our various METRO departments to redesign our local bus network.

The METRO Board of Directors just approved a plan that will create more direct bus routes and more frequent service, including expanded weekend trips. We call it System Reimagining.

When we implement the plan next summer, the new frequent network will connect one million people to one million jobs. We expect to see a 20 percent increase in ridership within two years as a result of the changes. The plan also provides a strong foundation for future growth.

The anticipated new bus network will be integrated with our expanded light-rail system, which will soon triple in size, operating about 23 miles of track with the soon-to-open Southeast (Purple) and East End (Green) Lines. METRO launched its North (Red) Line extension in December of last year, and each month since then, the line has exceeded ridership projections. Our original 7.5-mile Main Street Line has surpassed 115 million boardings since it opened in 2004.

Opening three new rail lines in about a year's time is ambitious. Redesigning an entire bus network is also challenging, but wait … there's more. From USB ports on new commuter buses to interactive maps, we are placing public transit at riders' fingertips. The METRO T.R.I.P. app puts scheduled and real-time bus arrival info on their smart phones. METRO 360 is a great way to try us before they ride. Both are available at www.ridemetro.org.

Click on the hyperlinks in this report to find more information about how METRO is working for you.

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Introduction Section

This section provides a quick 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.

March 27, 2015

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, 2014 (FY2014). This report represents the highest form of external financial reporting and has been developed by the Accounting Division with support from other groups within METRO. The pictures and related narratives in this section were primarily developed by the Marketing and Corporate Communications Department and can be found on METRO's Web page along with additional information. 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, METRO continues to expand its light rail lines and provides other services, which include: STAR Vanpool, METROLift, High Occupancy Vehicle/High Occupancy Toll Lane, Bikes-on-Bus/Train program, Park & Ride, and road improvement/congestion mitigation program. METRO's revenue sources include a 1% local sales tax imposed across the geographic service area plus fares and federal grants. During 2012, voters approved a referendum, which continue 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 highlight includes:

- The North light-rail line started revenue operations on December 21, 2013.
- Construction and testing are nearing completion in Downtown, SouthEast, and East End light rail lines with these lines scheduled to open in FY2015.
- The final appropriation of $187.3 million from the Federal Transit Administration (FTA) for the North and Southeast rail lines was received.
- Design of rail platforms were developed with assistance from local transit communities.
- The Reimagining Project was approved in principle by the Board of Directors and once implemented may increase ridership by as much as 20 percent.
- Ridership continues to improve because of METRO's ability to provide clean, safe, and reliable transit services as well as improvements in the local economy.
- The American Public Transportation Association Expo came to Houston. The Expo featured a wide range of public transportation products and services that help transit systems operate more efficiently.

The following information provides additional information on METRO's accomplishments and goals, which centers on you, our customer.

LIGHT RAIL PROJECT

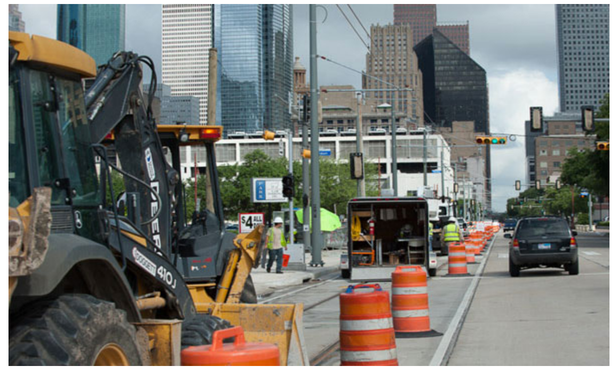
Expanding the light rail system is an essential element of METRO's plan in meeting the transportation and environmental challenges of today and the future. The extension of the Red Line, known as the North Line, became operational in December 2013. The SouthEast and East End lines will be completed during FY2015.

Constructing rail lines within an urban area is very challenging. It requires extensive preconstruction work as we identify alternative routes, perform environmental impact studies, and review issues with members of the community and its local leaders. Active and open discussions are essential in designing, constructing, and implementing efficient/safe rail service within the communities. Every day you see the progress being made on the remaining rail lines, which will open in FY2015.

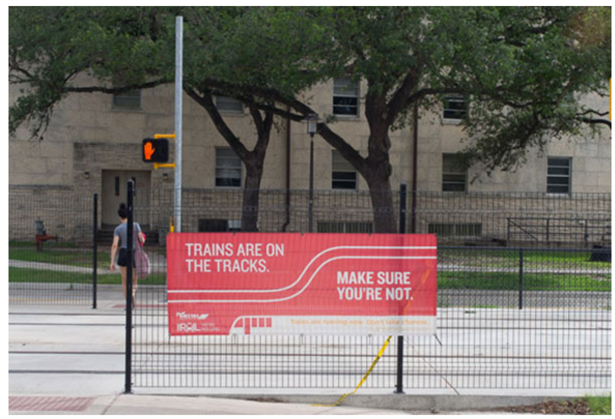
METRO'S OPENING OF THE NORTH LINE DRAWS CROWD

If you build it, they will come. And, they did. The community came out in full force on Saturday, Dec. 21, 2013 to celebrate the opening of METRO's Red Line extension despite scattered showers throughout the day.

DOWNTOWN PROGRESS PHOTOS



SOUTHEAST LINE CONSTRUCTION PHOTOS



The Southeast Line (Purple Line) begins from downtown and travels southeast along Capitol and Rusk to the Palm Center near MLK and Griggs. The 6.6-mile line travels through one of Houston’s oldest African-American communities and connects to Texas Southern University and University of Houston. The last portion of the track, which is shared with the East End Line (Green Line), will enable riders to transfer at the EaDo/Stadium station to travel through the historic East End. Riders can also continue on to Central Station Main to transfer to the Red Line for travel up or down Main Street.

EAST END LINE PROGRESS PHOTOS

The 3.3 mile East End Line (Green Line) travels along Harrisburg from the Magnolia Park Transit Center through the historic East End to a variety of downtown entertainment and business destinations. The portion of the track closest to downtown will be shared with the Southeast Line (Purple Line). From the EaDo/Stadium station, passengers will be able to transfer to the Southeast Line and travel to the University of Houston's main campus and the Palm Center. East End Line riders can also hop on the Red Line at Central Station Main for travel up or down Main Street.

METRO GIVEN GREEN LIGHT ON REMAINING FFGA FUNDS

During 2014 METRO, received access to the final appropriation of $187.3 million from the federal government for the North and Southeast Light-Rail Lines. The funds are part of the $900 million Full Funding Grant Agreements (FFGA), which was signed by federal officials in 2011 to help METRO build two of the three light-rail lines. U.S. Transportation Secretary Anthony Foxx and Congresswoman Sheila Jackson Lee shared the news during a brief visit and tour of rail construction.

Rail platforms are more than just a place to catch a ride. It is a place where community members meet, have conversations and reflect on the past and the future. METRO continues to work with local artists and community leaders to ensure the rail stations reflect the historical and cultural values of the communities we serve. A few of these works along with their stories are included in this report. Please visit METRO's Web page to find more related pictures and stories.

MACGREGOR PARK/MLK

Each station has a 500-word essay embedded inside the windscreen design. The essays are available by discovery for those who wish to read it. Each contributor and/or event is chosen for its power to generate a dynamic change that resonates from the past into the present. The project's theme is "ordinary people doing extraordinary things."

Burnett Transit Center/Casa De Amigos

"Images of native vines in bloom echo the railroad tracks and the coming together of the bus, rail, and streets."

- Dixie Friend Gay
HOUSTON, TX

Altic/Howard Hughes

"The design seeks to highlight the East End's ship channel maritime history and the rich cultural influence of the East End's historic Hispanic community."

- Dan Havel
HOUSTON, TX

METRO Board Approves Transit Reimagining in Principle

#System Reimagining work moves forward with development of schedules.

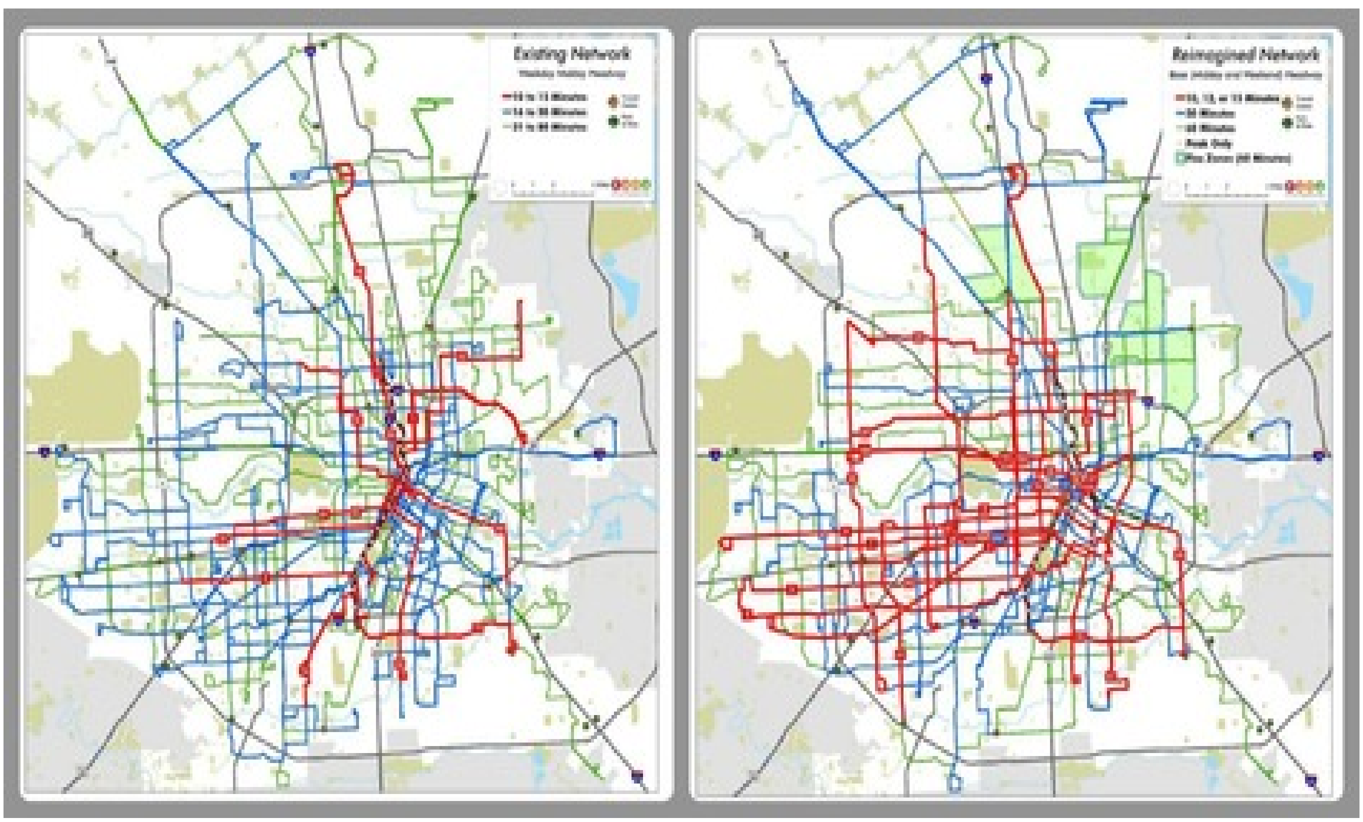
TRANSIT REIMAGINING
The goal of System Reimagining is straightforward: make the system easier to use, easier to understand, and easier to access.

METRO took on the challenge of rethinking its bus network last summer. It was a multistep process that included defining goals, drafting a plan based on the goals, and a public outreach period that generated more than 1,100 comments that led to the plan's refinement.

COLOR-CODED NETWORKS

The five year transit plan features the "Red Network" - a huge transformation and benefit to METRO customers who can do without a schedule with service running every 15 minutes or better. Under the "Blue Network," customers can expect a bus every 16-30 minutes, while the "Green Network" would provide service ranging from 31-60 minutes.

(Left to right: existing versus reimagined network map)



OTHER HIGHLIGHTS:

- Frequent service seven-days-a-week
- Reduced wait time at bus stops
- Simpler routes with updated numbering for improved navigation
- Stronger connections between bus and expanding rail network

System Reimagining extends the transit reach with its greatly improved frequent access, **connecting a million people to a million jobs.** Under the modified project plan, 94 percent of METRO's current customers will still be able to access the same bus stop they use today.

METRO MOVING MORE & MORE PASSENGERS

Houstonians are no stranger to the city's daily battle with gridlock. METRO offers several options to hitting the road solo, and its latest numbers show a boost in the agency's ridership.

METRO rounds out FY2014 with nearly 81 million boarding, surpassing the 80 million mark for a second consecutive fiscal year. That amounts to a fixed route ridership increase of 1.2 percent.

METRORail Ridership Sees Double Digit Increase

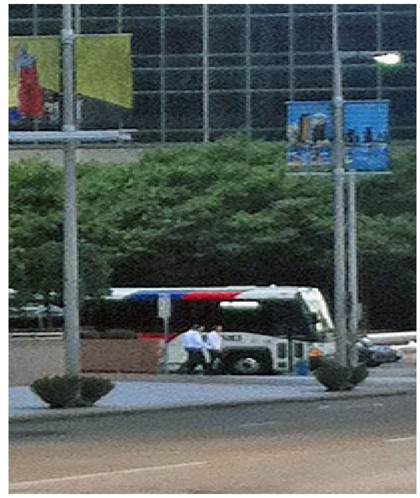
The biggest increase was along the Red Line. Regular and new rail customers, coupled with more rail cars on the system offering more trips, drove the 12.1 percent increase in fiscal year 2014.

In September 2014, there were 1,162,000 boardings recorded along the 13-mile stretch of rail. That's nearly 257,000 more boardings compared to the same month last year when the Red Line was 7.5 miles long. The North Line extension, which opened in December 2013, has exceeded projections and contributed to the Red Line ridership increase.

"The community is embracing rail and the value it brings - convenience and connectivity. We have every reason to believe the East End Line and Southeast Line will share this success," said METRO Board Chairman Gilbert Garcia

As of September, the Red Line is averaging about 50,000 boarding each weekday. The Green Line (East End) and Purple Line (Southeast) are slated to open in FY2015.

Commuter Service Sees Gains



Park & Ride service saw a 4.8 percent jump in ridership with 8,348,000 boarding recorded in FY2014.

Local bus service took a slight dip, down 1.3 percent, during the same fiscal period. METRO staff is currently working to improve the local bus network to connect one million people to one million jobs. The local network is being revamped under System Reimagining.

"We project the local ridership numbers will tick upward once the plan is rolled out and after a two year adjustment period," said METRO President & CEO Tom Lambert. "It will give our customers better frequency, seven days a week."

Other Highlights

METRORail and bus ridership (local and Park & Ride) combined hit a new high in September 2014 reaching 299,000 average weekday boardings. That's a monthly number not seen since FY2009.

METRO's Bikes on Buses program continues to generate strong numbers with 24,500 boardings registered in September 2014. That's a 22 percent increase compared to the same month last year. Since the program launched in 2007, there have been 867,000 METROBikesOnBuses boardings.

Persons looking to incorporate public transit into their schedules are encouraged to visit METRO 360 to get acquainted with some of the agency's vehicles and features of the system.

Transit Pros from Around the World Visits Houston

The American Public Transportation Association (APTA)'s Expo was held in Houston during October 2014. As you step inside the George R. Brown Convention Center you found the world's largest showcase for public transportation with hundreds of vendors displaying the latest technology and services all of which are designed to help transit systems operate more efficiently. This is the world's biggest transportation showcase with more than 800 vendors displaying their most innovative products.

You can watch several short videos, which include American's first 60-foot, articulated battery-electric bus, fare system and more by visiting http://youtu.be/MWtTpP7TfDw .

METRO GOES PLATINUM: THE ONLY TRANSIT AGENCY TO GET THIS TOP HONOR

Agency Awarded Highest Rating for Transparency

5 Fifth Year Award

Texas Comptroller
Leadership Circle
Platinum Member

METRO strived to beat gold, and it did. The State Comptroller raised the agency's award level to its new Platinum designation, recognizing METRO and other public entities that "go above and beyond providing financial transparency."

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.

Financial Information and Certificate of Achievement for Excellence in Financial Reporting

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*.

METRO’s principal operating and capital resources are derived from a one percent 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 Comprehensive Annual Financial Report (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 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, 2013. This is the 22nd 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, 2013

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
Executive VP & Chief Financial Officer

Board of Directors
September 30, 2014


Gilbert Andrew Garcia, CFA, Chairman


Allen D. Watson, Vice Chairman


Lisa Gonzales Castañeda, P.E., Secretary


Burt Ballanfant


Honorable Dwight Jefferson

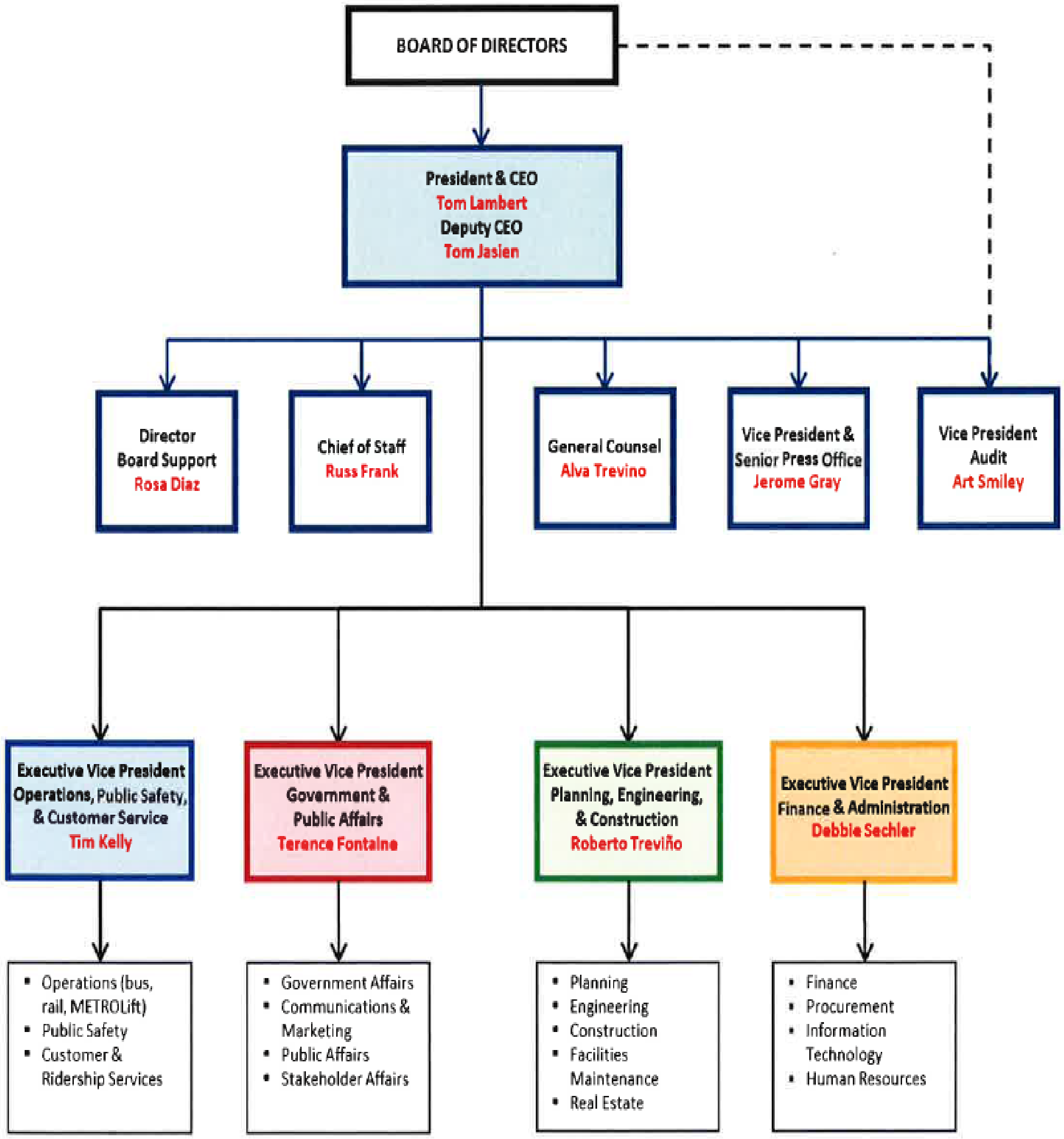

Diann L. Lewter


Cindy Siegel


Christof Spieler


Jim Robinson, CFE

Organizational Chart



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 agreement 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 Metropolitan Transit Authority of Harris County, Texas (the Authority), as of and for the years ended September 30, 2014 and September 30, 2013, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the Metropolitan Transit Authority Transport Workers Union Pension Plan Local 260 and the Metropolitan Transit Authority Non-Union Pension Plan and Trust (the Retirement Plans) in 2014 or 2013. The financial information related to the Retirement Plans is included in note 4 of the notes to the financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts and disclosures included for the Retirement Plans, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to 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 opinions.

KPMG

Opinions

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Metropolitan Transit Authority of Harris County, Texas as of September 30, 2014 and 2013, and the respective changes in financial position, and cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

Adoption of New Accounting Pronouncement

As discussed in note 1 of the financial statements, effective October 1, 2013, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 65, Reporting of Items Previously Reported as Assets and Liabilities. Our opinions are 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 18 thru 27 and schedules of funding progress for the Authority's Non-Union and Transport Workers Union Pension Plans and other postemployment benefits on page 58 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 and other auditors 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Metropolitan Transit Authority of Harris County, Texas' basic financial statements. The introduction section and statistical section 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated March 27, 2015 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 27, 2015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Management's Discussion and Analysis (MD&A)

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 September 30, 2014, 2013, and 2012. Please read it in conjunction with the introductory section of the report and METRO's financial statements, which immediately follow this section. Numbers presented in the Management's Discussion and Analysis tables are rounded and may differ slightly from the financial statements.

Financial Highlights

METRO's net position improved during the last three years by $17.1 million or 0.8 % in FY2014, $274.0 million or 14.9% in FY2013 and $268.8 million or 17.2% in FY2012. These improvements related to grant funds received from the Federal Transit Administration (FTA) for major capital programs and routine operating activities, higher sales tax revenue due to regional economic growth, and the implementation of cost containment programs, which included getting back to basics and buying what you need, not what you want.

- *Resources*, as reflected on schedule A-1, totaled $939.5 million for FY2014, $1,048.6 million for FY2013 and $1,079.6 million for FY2012. While sale taxes and transportation fares have been increasing during the last three years, funds received from the FTA have been declining as several major capital projects were substantially completed which included five High Occupancy Toll (HOT) Lanes and the North rail line with the SouthEast rail line scheduled to open in April 2015.

- *Expenses*, as reflected on schedule A-1, totaled $922.4 million for FY2014, $774.6 million for FY2013, and $810.8 million for FY2012. Included were several non-routine items such as asset impairments of $105.7 million for FY2014, and land transferred to the City of Houston as part of the rail expansion street replacement agreement totaling $19.1 million in FY2013 and $65.1 million in FY2012. Excluding the non-routine items, expenses increased by 8.1% in FY2014, 1.3% in FY2013, and declined by 4.5% in FY2012. Increases are primarily related to system reimagining, maintenance parts, other postemployment benefits (OPEB), healthcare, depreciation, and service expansion for METROLift and light rail. The decline in FY2012 relates to reducing the risk management reserve balance by $8.2 million based on an independent actuarial evaluation.

- *Assets*, as reflected on schedule A-2, increased during the last three years because of several major capital programs, which included rail expansion, building five HOT lanes, facilities upgrades, replacing buses, and various other capital projects. The increase in net capital assets for FY2014 totaled $102.6 million and is net of depreciation of $160.0 million and impaired assets totaling $105.7 million. While net capital assets were increasing, the prepaid lease agreements were declining by $42.1 million in FY2014, 12.2 million in FY2013 and $127.0 million in FY2012 from the amortization and early termination of these agreements. The amortization/termination of lease agreements were offset with liability reported as deferred rental payments as discussed below. Additional information on net capital assets can be found in note 3 and prepaid leases in note 7 of the financial statements.

- *Liabilities*, as reflected on schedule A-2, had a net increase in FY2014 and FY2013 with a decline in FY2012. The net increases during the last two years came from a FY2014 Sales and Use Tax Contractual Obligations debt totaling $153.2 million (including premium), an increase in OPEB, offset by payments for trade payable, debt services, and amortization/termination of deferred rental agreements. The decline in FY2012 came from debt payment, reduction to the risk management reserve balance by $8.2 million and amortization/early termination of $127.0 million of lease agreements. More information can be found in note 7 for Debt and in note 4 for OPEB of the financial statements.

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.

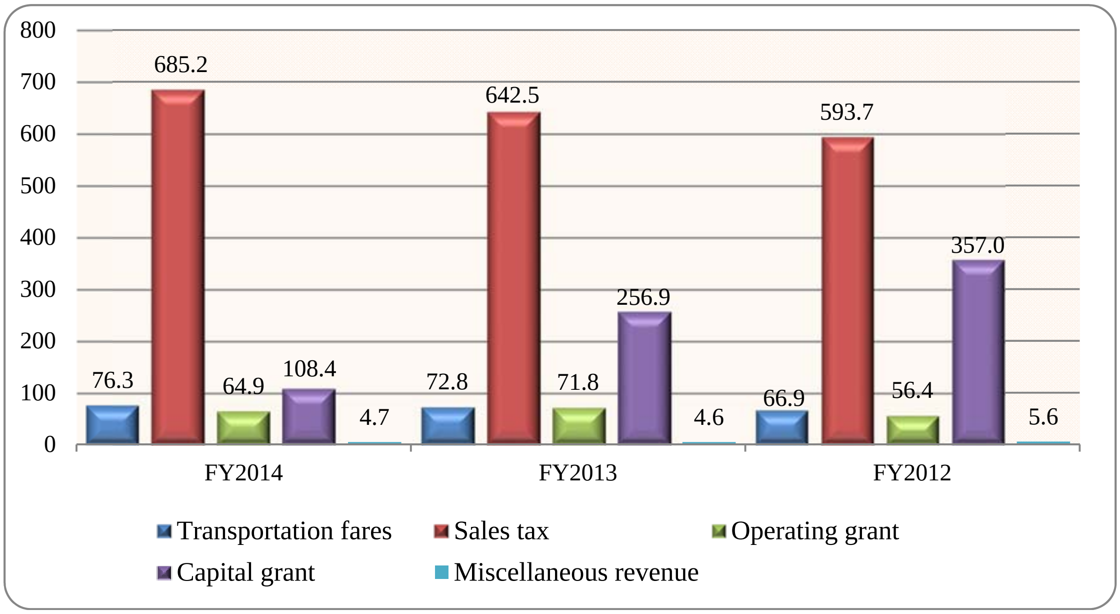
METRO's financial statements are prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are 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

	FY2014	FY2013 (Restated)	Amount of Change	Percentage Change	FY2012 (Restated)
Resources					
Transportation fares	$ 76.3	$ 72.8	$ 3.5	4.8 %	$ 66.9
Sales tax	685.2	642.5	42.7	6.7 %	593.7
Investment income	.3	.8	(0.5)	(62.5) %	.6
Inter-governmental revenue	1.8	2.0	(0.2)	(10.0) %	2.0
Other income	2.6	1.8	0.8	44.4 %	3.0
Grant proceeds (operating)	64.9	71.8	(6.9)	(9.6) %	56.4
Grant proceeds (capital)	108.4	256.9	(148.5)	(57.8) %	357.0
Total resources	939.5	1,048.6	(109.1)	(10.4) %	1,079.6
Expenses					
Scheduled service	312.6	294.1	18.5	6.3 %	287.1
Non-schedule service	62.4	55.7	6.7	12.0 %	47.8
Service support	59.6	53.9	5.7	10.6 %	52.3
Traffic management	5.2	6.8	(1.6)	(23.5) %	7.0
Organizational support	42.0	44.7	(2.7)	(6.0) %	42.2
Depreciation	160.0	136.6	23.4	17.1 %	137.1
Non-capitalized interest cost	10.7	9.9	0.8	8.1 %	13.5
Local infrastructure assistance	161.5	170.4	(8.9)	(5.2) %	222.0
Loss on sale of assets/impairment	105.0	.5	104.5	20,900.0 %	0.3
Funds passed to subrecipients	3.4	2.0	1.4	70.0 %	1.5
Total expenses	922.4	774.6	147.8	19.1 %	810.8
Change in net position	17.1	274.0	(256.9)	(93.8) %	268.8
Net position - beginning of the year	2,109.8	1,835.8	274.0	14.9 %	1,567.0
Net position - end of the year	$ 2,126.9	$ 2,109.8	$ 17.1	0.8 %	$ 1,835.8

Increases to Net Position (Revenues) with Related Discussions



In millions

Transportation fares include transit user fares and HOT lanes fees with the largest increases during the last three years coming from completing and operating five HOT lanes, which added $6.6 million in FY2014, $3.5 million in FY2013, and $.4 million in FY2012. The remaining increases came from transit users.

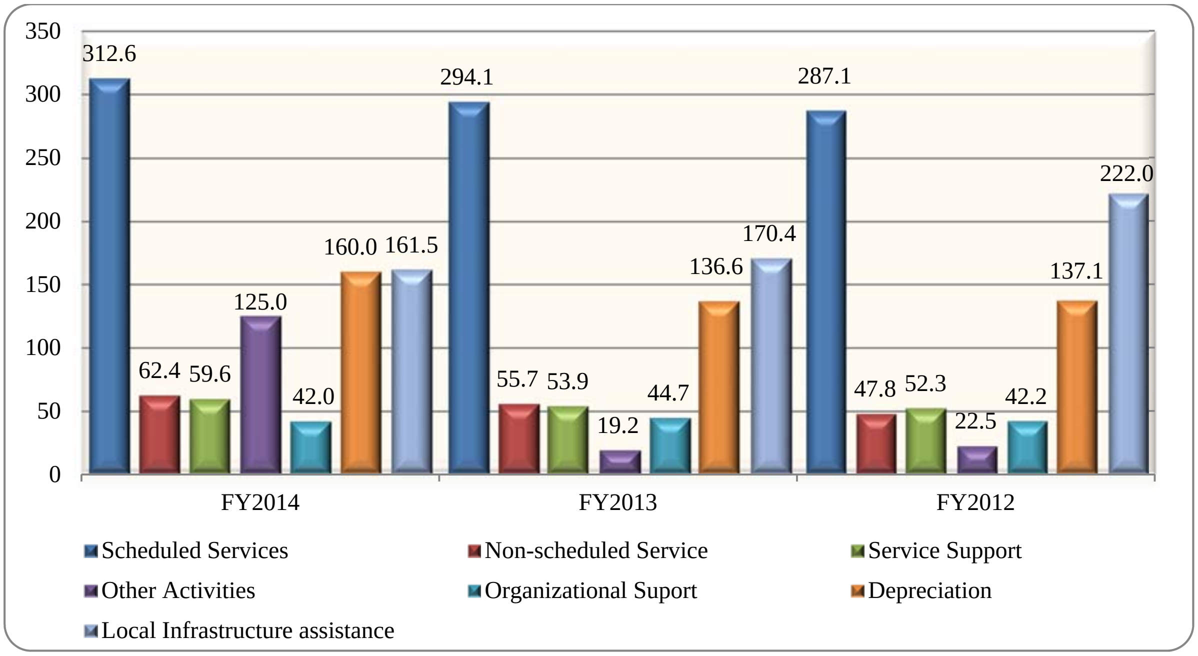
Sales tax revenue is 1% of taxable sales within METRO's service area and is collected by the Texas Comptroller Office and sent monthly to METRO. Increases in sales tax collections over the last three years were related to improvements in the local economy and coordinating sales tax collection activities with the state.

Operating grants 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 oversight federal agency. The changes between fiscal years primarily relate to the timing/amounts of grant awards and the related reimbursement requests.

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 federal oversight agency. The decline during the last three years are from several major capital projects nearing completion, which included the five HOT lanes and the North rail line, both of which are being operated, facility upgrades, and the Southeast rail line which is scheduled to open in April 2015.

Miscellaneous revenues consist of investment income, inter-governmental revenue, and other income. During FY2014, both investment income and inter-governmental revenue declined but were offset by increases in other income primarily from real estate activities as METRO renegotiated and entered into new lease agreements. The decline in investment income is from reinvestment of maturing agency securities into short-term investments while the decline in inter-governmental revenue is from the Federal Government Sequestration, which reduced, starting in FY2014, the interest rate rebate on the Build America Bonds Series 2009C by 7.2%. Generally, changes between fiscal years were minimal for the combined category.

Decreases to Net Position (Expenses) and Related Discussions



In millions

Scheduled services consist of bus/rail services and include vehicle operations, maintenance, safety, and training. Increase during the last three years generally came from preventive maintenance, contact services, and the North rail line, which started operations in December 2013.

Non-scheduled service includes METROLift, METROVan, and HOT lanes. Increases during the last three years generally came from expansion of METROLift services and start-up of five HOT lanes.

Service support includes planning, transit security, insurance, fare collection, and facility maintenance. Increases during the last three years were generally from reimagining the bus routes program, reallocating police resources to transit security, adding insurance for the new rail lines, and additional maintenance to 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 exception of FY2013, which incurred additional legal expenses for the General Mobility referendum.

Other activities consist of traffic management, non-capitalized interest, loss on sale of assets/impairment, and funds passed to subrecipients. The increase in FY2014 is from asset impairments for environmental and engineering work totaling $61.8 million for the University Rail Line, $34.2 million for the Uptown Rail line, $8.6 million for the Hughes underpass (redesigned as an overpass), and $1.2 million for restarting the asset management system. METRO remains committed to completing the University Rail Line and will continue to evaluate funding options with the FTA and local leaders. The decline in FY2013 was primarily related to less capitalization of interest cost.

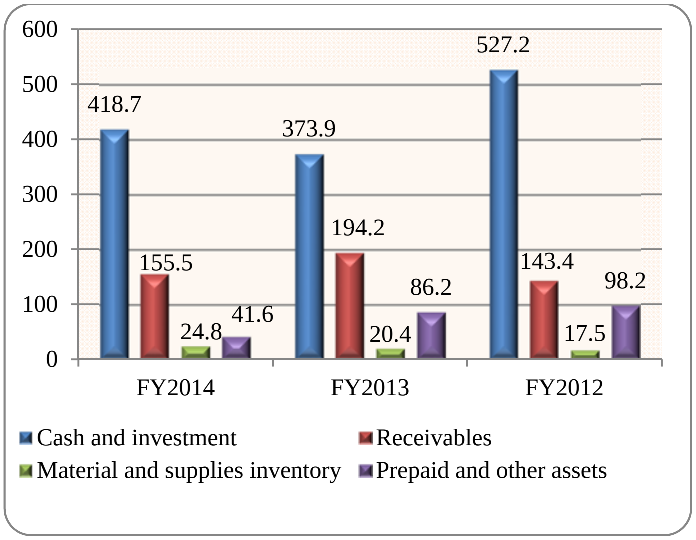
Depreciation and amortization was relatively flat between FY2012 and FY2013 with the increase in FY2014 of $23.4 million or 17.1 % related to opening of the North rail line in December 2013, facility upgrades and new rail cars/ buses.

Local infrastructure assistance provides funding for street, sidewalks bridges, and general mobility programs within METRO's service areas. This activity is funded by 25% of sales tax collections net of special rebates and can include capital project cost incurred by METRO but transferred to other governmental agencies. Starting in FY2015, the allocation amounts will be based on a new formula established by the FY2013 referendum which will provide more funds for non-rail transit activities. In addition to general mobility payments made under various interlocal agreements, METRO transferred land as part of the rail expansion agreement to the City of Houston totaling $19.1 million in FY2013 and $65.3 million in FY2012. Excluding these transfers, cost was relatively consistent for the last three years.

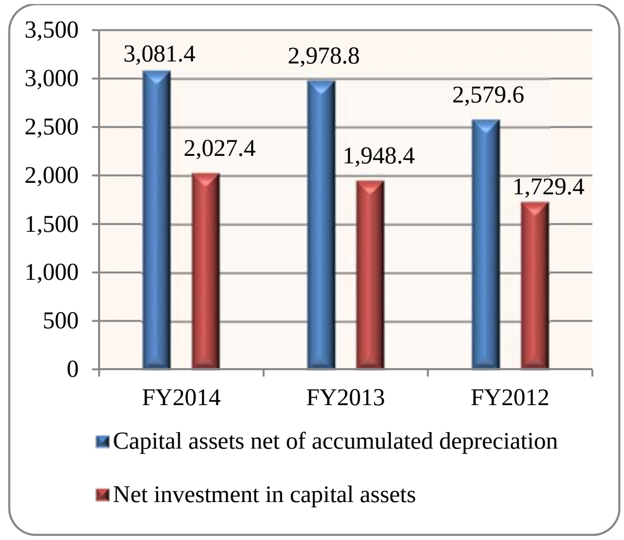
Summarized Statement of Net Position
(in millions)
A-2

	FY2014	FY2013 (Restated)	Amount of Change	Percentage Change	FY2012 (Restated)
Assets					
Cash and investments	$ 418.7	$ 373.9	$ 44.8	12.0 %	$ 527.2
Receivables	155.5	194.2	(38.7)	(19.9) %	143.4
Material and supplies inventory	24.8	20.4	4.4	21.6 %	17.5
Capital Assets (Net)	3,081.4	2,978.8	102.6	3.4 %	2,579.6
Prepaid and other assets	41.6	86.2	(44.6)	(51.7) %	98.2
Total assets and deferred out flows	3,722.0	3,653.5	68.5	1.9 %	3,365.9
Liabilities					
Trade payables	83.3	149.0	(65.7)	(44.1) %	125.1
Commercial paper	183.4	187.0	(3.6)	(1.9) %	189.0
Capital leases and debt payables	1,067.8	938.2	129.6	13.8 %	962.4
Other liabilities	58.5	100.4	(41.9)	(41.7) %	110.0
Other postemployment benefits	202.0	169.1	32.9	19.5 %	143.6
Total liabilities and deferred inflows	1,595.0	1,543.7	51.3	3.3 %	1,530.1
Net Position:					
Net investment in capital assets	2,027.4	1,948.4	79.0	4.1 %	1,729.4
Restricted assets - debt payments	65.7	56.8	8.9	15.7 %	71.3
Unrestricted assets	33.8	104.6	(70.8)	(67.7) %	35.1
Total net position	$ 2,126.9	$ 2,109.8	$ 17.1	0.8 %	$ 1,835.8

Assets and Net Investments in Capital Assets



In Millions



In Millions

Cash and investments consist of demand deposits and investments. Changes during the last three years were primarily related to cash received from increases in sales tax, the issuance of new debt in FY2014 and FY2011, and 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 and debt in note 7 to the financial statements.

Receivable include sales tax, grants, bus passes, and miscellaneous activities. Changes during the last three fiscal years are from increases in the sales tax receivable due from the Texas Comptroller office because of improvements in the local economy offset by increases/decreases in amounts due from the FTA for various capital and operating grants.

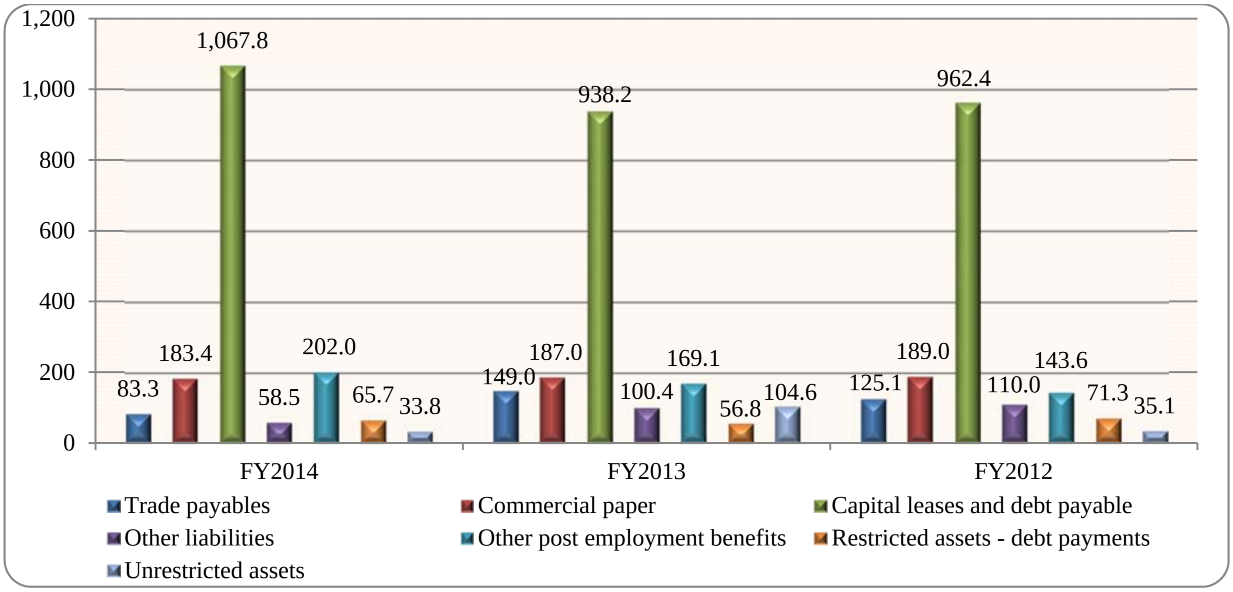
Material and supplies inventory consist of diesel fuel, bus, rail, and nonrevenue vehicle parts used to maintain the various fleets. The increases during the last three years are from rail parts that will be used to maintain the three new rail lines and the additional rail cars necessary to effectively operate all four light rail lines.

Prepaid and other assets include prepaid rental payments, pension payments in excess of annual required contribution, insurance, and derivative instrument – diesel fuel swap. The declines during the last three years are primarily from the amortization and early termination of prepaid rental agreements of $42.1 million in FY2014, $12.2 million in FY2013, and $127.0 million in FY2012. This activity was offset with amounts reported as deferred rental agreements included as part of other liabilities as discussed on page 25.

Capital assets net of accumulated depreciation increased during the last three years from rail expansion, construction of five HOT lanes, facilities upgrades, replacement of buses and other capital activities reduced by depreciation, retirements, asset impairments, and land transferred to the City of Houston as part of the rail expansion agreement.

The net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, contractual obligation, capital lease agreements, 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 FTA funds and local sales tax.

Liabilities and Net Position for Restricted and Unrestricted Assets



In Millions 1

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 rail expansion.

Commercial paper was used to fund general mobility payments due to local governments and the decline over the last three years reflects METRO's decision to reduce this form of financing. To support refinancing, METRO has entered into two revolving credit and term loan agreements, which are discussed on page 49.

Capital leases and debt payables consist of capital leases, bonds, contractual obligations, and accrued interest that were used to fund the expansion of rail and bus services. The increase in FY2014 was from the issuance of $153.2 million (including $22.6 premium) Sales and Use Tax Contractual Obligations Series 2014 debt reduced by annual payment of principal and premium/discount amortization. The decline in FY2013 and FY2012 was related to principal payments and amortization of the premium/discount as no additional debt was issued.

Other liabilities include vacation, injuries and damages, deferred rental payments, deferred Q card revenue, derivative instrument – diesel fuel swap, and other miscellaneous liabilities. The declines during the last three years were primarily from the amortization and early termination of deferred rental agreements of $42.1 million in FY2014, $12.2 million in FY2013, and $127.0 million in FY2012. These amounts were offset with deferred rental payments recorded as prepaid and other assets.

Other postemployment benefits (OPEB) consist of two plans, which provide medical, dental, and life insurance benefits for certain retirees. The liabilities for these benefits, which are actuarially determined biennially, increased in FY2014 by $33.0 million, FY2013 by $25.5 million and FY2012 by $27.3 million. These increases have occurred because METRO is funding OPEB on a pay-as-you go basis. Additional information is located in note 4 in the financial statements.

Restricted assets - debt payments consist of funds managed by the Trustee, which is Wells Fargo Bank, N.A. METRO requires the Trustee to invest these funds in TexStar, a local government investment pool that is authorized under the Texas Public Funds Investment Act. These funds are used to make principal/interest payments and protect lenders in case of default. Changes for the last three years include establishing a new sinking fund account with TexStar for the Sales and Use Tax Contractual Obligations Series 2014 debt and the timing of cash receipts and subsequent disbursements by the Trustee.

Unrestricted assets generally represent the difference between assets, liabilities, and deferred inflow/outflows. Amounts reported as unrestricted must be reviewed in conjunction with estimated future cash flows to determine what funds are available for expanding or implementing new programs. Changes during the last three years primarily relate to the timing of reimbursable capital grant activities.

OUTSTANDING COMMITMENTS

The Authority has various contracts and purchase orders some of which extends over several fiscal years. During the last three years they amounted to $598 million in FY2014, $767 million in FY2013, and $940 million in FY2012. The decline during the last three years relate to progress being made toward completing major capital programs such as rail expansion and HOT lanes.

Information is taken from the December 2014 Economic Outlook Provided by:

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

METRO Revenues and Declining Oil Prices: Outlook for 2015-2018

The economic outlook for Houston has quickly turned from one of certain boom times in the months ahead to one of great uncertainty. As we neared the end 2014, with the price of West Texas Intermediate crude oil still below $60 per barrel, the outlook for 2015 has turned more and more negative. Low crude prices seem sure to bring substantial cuts in capital spending by oil producers, which mean less drilling, fewer oil-related workers, and less machinery and equipment production. The Houston economy will suffer as a result.

Current uncertainties about oil markets and the economic outlook are spelled out at length in this report. We offer alternative scenarios for how coming quarters may play out, but the most likely scenario today is based on large cuts in 2015 exploration and production spending. These projected cuts are large enough that many times in the past they would induce a mild recession in Houston that would continue well into 2016. This time is probably different for two reasons. First, Houston's non-energy employment will have substantial help from a U.S. economy that finally is shaking off the effects of the 2008-2009 financial crisis. Second, east Houston is in the early stages of a construction boom that is driven by a low natural gas price, and this seems certain to continue and grow strongly over the coming two years. A number of massive, multi-billion dollar projects to build petrochemical plants and liquefaction trains for natural gas exports will each employ thousands of workers. This construction work will offset declines in local energy-related work tied to exploration, drilling and upstream manufacturing.

Based on low oil prices at year-end, and the likelihood of sustained low oil price through much of 2015, we estimate that Houston's total payroll employment will increase by 50,000 in 2015 and 40,000 in 2016. These figures are disappointing compared to Houston's recent economic performance, but quite good compared to past episodes when oil prices have fallen this far and fast. This outlook assumes low oil prices and substantial drilling cuts, but a strong U.S. economy and high levels of east side construction prevent recession.

Table 1 shows the year-over-year change in METRO's sales tax net revenue that is consistent with this "most-likely" scenario, and compares it to the same figures from the July forecast. The 2015 estimate of an additional $38.5 million is $3.2 million higher than forecast in July. This occurs as recent past growth – which has been very strong -- carries into early 2015, and as the petrochemical expansion is pulled forward and accelerates throughout the year. The out-years 2016-2018 are much weaker, however, and by the end 2018 the net increase in expected sales tax revenues from 2015-2018 is $133.6 million, less than $157.2 million previously forecast. The 2017 estimate includes a one-time, not-to-be-repeated Super Bowl bonus of 3.5 percent or $7.2 million in the first quarter of 2017. This Super Bowl-related revenue was not included in the July forecast.

Table 1: Outlook for METRO Revenues

	Net New Revenues in $ Million	
	Current Estimate	Estimated Last July
2013	$49.2	$45.0
2014	$42.9	$38.3
2015	$38.5	$35.6
2016	$29.6	$42.3
2017	$38.0	$38.2
2018	$27.5	$41.2
2015-2018	$133.6	$157.2

Note: Estimates are annual average revenue less prior year annual average; in 2017, a one-time $7.2 million bonus for the Super Bowl is included in Q1.

As we work our way through a series of uncertain events in coming months, the strength of revenue growth in 2015 may provide time for decision-makers to better assess the future of oil prices, oil producer spending, and their effects on the Houston economy.

Risks to the Forecast

The uncertainty surrounding current events is quite high, and the scenario-writing process was to convey unknowns surrounding the growth of METRO revenues across a narrow range of possible outcomes. One "likely scenario" is provided as the best current set of assumptions for planning purposes.

There are many risks to the outcome that were not discussed in our consideration of alternative scenarios. While the probability of an individual event may be very small, that event can lead to an extreme outcome. We have assumed, for example, that the U.S. economy continues on a healthy growth path throughout the forecast horizon. As recently as 2008, we found out how quickly these expectations can turn. The recovery of oil prices by late 2016, and the strong growth of the U.S. fracking industry after 2016, is contingent on a strong global economy and resumed growth in oil demand. There are dozens of low-probability events that could quickly knock this outlook off track with sustained low oil prices, such as a default in the Italian bond market or a major real estate bust in China. Favoring higher oil prices, the death of the Saudi king could bring major changes in their oil pricing policy, or any insurgent-led interruption to Middle East oil supplies could quickly move oil prices much higher.

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, required supplementary, and statistical information.

Metropolitan Transit Authority
of Harris County, Texas
Statements of Net Position
September 30, 2014 and 2013

	2014	2013 (Restated)
Assets		
Current assets		
Cash	$ 3,671,108	$ 3,499,304
Investments	316,174,054	313,657,041
Investments – restricted	31,839,343	28,942,440
Receivables		
Sales tax	119,462,662	110,821,904
Federal government - Federal Transit Administration	25,218,342	73,106,988
Bus passes and other receivables	10,798,847	10,277,726
Total receivables	155,479,851	194,206,618
Material and supplies inventory	24,749,710	20,407,175
Derivative instrument – diesel fuel swaps	-	1,348,147
Total current assets	531,914,066	562,060,725
Noncurrent assets		
Investments – restricted	67,007,168	27,851,305
Capital assets, net of depreciation	3,081,386,561	2,978,791,191
Prepaid pension	26,091,075	26,346,959
Other noncurrent assets	3,518,211	6,325,672
Prepaid rental payments	10,067,401	52,168,306
Total noncurrent assets	3,188,070,416	3,091,483,433
Total assets	3,719,984,482	3,653,544,158
Deferred outflow of resources	1,899,588	-
Liabilities		
Current liabilities		
Trade payables	83,276,299	149,021,462
Accrued compensation and benefits	26,922,386	27,430,216
Liabilities for injuries and damages	4,657,529	3,679,238
Commercial paper	–	187,000,000
Other current liabilities	8,687,095	8,824,195
Capital lease obligations	8,543,263	8,129,906
Debts payable	13,920,000	13,365,000
Debt interest payable	20,515,002	17,976,710
Derivative instrument-diesel fuel swaps	1,899,588	–
Total current liabilities	168,421,162	415,426,727
Noncurrent liabilities		
Liabilities for injuries and damages	6,196,311	7,014,731
Commercial paper	183,400,000	–
Deferred rental payments	10,067,401	52,168,306
Capital lease obligations	66,723,307	75,423,971
Debts payable	958,059,450	823,268,698
Other postemployment benefits	202,045,812	169,059,735
Total noncurrent liabilities	1,426,492,281	1,126,935,441
Total liabilities	1,594,913,443	1,542,362,168
Deferred inflow of resources - diesel fuel swaps	-	1,348,147
Net position		
Net investment in capital assets	2,027,406,944	1,948,427,986
Restricted assets – debt payments	65,681,932	56,793,745
Unrestricted assets	33,881,751	104,612,112
Total net position (as restated, note 1)	$ 2,126,970,627	$ 2,109,833,843

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, 2014 and 2013

	2014	2013 (Restated)
Operating revenues:		
Transportation fares	$ 76,282,549	$ 72,782,991
Operating expenses:		
Scheduled services - fixed route		
Bus and rail operations - direct	183,586,708	170,940,122
Contract service	49,298,303	46,620,525
Material distribution	6,086,883	5,540,367
Preventative maintenance	52,289,574	51,040,854
Central shop and maintenance support	20,208,555	18,961,766
Safety and training	1,135,164	973,447
Subtotal scheduled services - fixed route	312,605,187	294,077,081
Non-scheduled services -special		
METROLift	49,503,466	45,181,913
METROVan	5,193,777	4,967,172
HOT lanes and special events	7,669,836	5,582,712
Subtotal non-scheduled services - special	62,367,079	55,731,797
Service support		
Service planning and evaluation	3,545,587	3,521,365
Marketing	7,001,452	7,306,538
Transit security	14,151,044	11,778,274
Insurance and claims	7,036,234	5,927,146
Ticket and fare collection	3,955,040	3,751,006
Facility maintenance	23,928,168	21,660,854
Subtotal service support	59,617,525	53,945,183
Traffic management - services	5,175,352	6,809,307
Organizational support		
Business, community, and governmental development	3,551,653	4,228,909
Administrative, financial, and personnel	13,646,454	14,612,492
Information systems	16,371,349	13,948,037
Purchasing	3,249,771	2,994,284
Oversight, audit, and legal	5,170,576	8,875,645
Subtotal organizational support	41,989,803	44,659,367
Depreciation and amortization	160,049,291	136,642,238
Total operating expenses	641,804,237	591,864,973
Operating loss	(565,521,688)	(519,081,982)
Nonoperating revenues (expenses):		
Sales tax	685,167,303	642,515,462
Investment income	328,666	768,527
Inter-government revenue	1,843,453	1,986,480
Noncapitalized interest expense	(10,723,830)	(9,888,885)
Other income	2,643,857	1,845,296
Grant proceeds	64,927,095	71,766,635
Local infrastructure assistance	(161,502,564)	(170,373,931)
Loss for asset impairment	(105,756,522)	–
Funds passed to subrecipients	(3,368,756)	(2,016,422)
Gain (loss) on sale or disposal of assets	755,594	(470,021)
Total nonoperating revenues (expenses)	474,314,296	536,133,141
Net (decrease) increase before capital grants	(91,207,392)	17,051,159
Capital grant proceeds	108,344,176	256,919,845
Changes in net position	17,136,784	273,971,004
Net position - beginning of the year (as restated, note 1)	2,109,833,843	1,835,862,839
Net position - end of the year	$ 2,126,970,627	$ 2,109,833,843

The accompanying notes are an integral part of the financial statements

Metropolitan Transit Authority
of Harris County, Texas
Statement of Cash Flows
for the Years Ending September 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Receipts from transportation fares	$ 76,045,172	$ 74,192,592
Payments to employees	(258,397,002)	(245,937,157)
Payments to suppliers for goods and services	(198,587,470)	(188,227,778)
Net cash used in operating activities	(380,939,300)	(359,972,343)
Cash flows from noncapital financing activities:		
Sales tax	676,575,464	634,400,703
Proceeds from grants	92,301,511	39,768,863
Receipts from miscellaneous income	2,752,187	1,845,297
Payments for local infrastructure assistance	(162,438,790)	(144,581,922)
Net cash provided by noncapital financing activities	609,190,372	531,432,941
Cash flows from capital and related financing activities:		
Proceeds from grants	125,423,461	241,492,741
Proceeds from the issuance of sales of tax contractual obligation	153,231,351	–
Principal payments related to commercial paper	(3,600,000)	(2,000,000)
Principal payments related to debts	(21,494,906)	(20,794,879)
Interest payments related to debts	(45,564,178)	(48,134,093)
Purchase of investment from the issuance of sales tax contractual obligation	(101,665,615)	–
Sale of investments relating to sales tax contractual obligation	59,612,850	109,780,224
Interest rebates from Build America Bonds	1,843,453	1,986,480
Proceeds from sale of assets	2,698,318	333,256
Capital purchases	(396,438,402)	(498,573,227)
Net cash flows used in capital and related financing activities	(225,953,668)	(215,909,498)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	342,072,698	658,365,424
Purchase of investments	(344,930,097)	(613,585,121)
Interest income	731,799	1,398,744
Net cash flows (used in) provided by investing activities	(2,125,600)	46,179,047
Net change in cash	171,804	1,730,147
Cash at beginning of year	3,499,304	1,769,157
Cash at end of year	$ 3,671,108	$ 3,499,304
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (565,521,688)	$ (519,081,982)
Depreciation and amortization	160,049,291	136,642,238
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(360,413)	751,429
Decrease (increase) in inventory and other assets	1,347,571	(4,210,509)
Decrease in prepaid pension	255,844	331,132
(Decrease) increase in accrued compensation and benefits	(507,830)	3,670,810
Increase in other postemployment benefits	32,986,077	25,465,714
Increase in liabilities for injuries and damages	159,871	1,592,939
(Decrease) in trade payables and other liabilities	(9,348,063)	(5,134,114)
Net cash used in operating activities	$ (380,939,300)	$ (359,972,343)
Noncash investing activities:		
The net decrease in fair value of investments	$ 70,705	$ 255,023
Inflows from reissuance of commercial paper	1,168,900,000	760,150,000
Outflows from reissuance of commercial paper	(1,172,500,000)	(760,150,000)
Land conveyed to the City of Houston due to rail construction	–	19,111,275

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.*

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, 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 one percent sales tax levied in METRO's service area, investment income, inter-government 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, 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 and 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, sold or impaired 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. METRO routinely monitors capital assets for potential impairment as defined by Governmental Accounting Standards Board

Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

Compensated Absences

Compensated absences are earned by all full-time and part-time employees.

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. 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. 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, based on years of service, up to 520 hours. 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 or retirement. In addition, these employees receive 80 hours of sick days 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, termination, or retirement. Sick leave for Non-Union employees is expensed when incurred.

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 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 one percent 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 two percent 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

METRO implemented three new accounting standards, which included GASB Standards No. 65, *Items Previously Reported as Assets and Liabilities*, GASB Standard No. 66, *Technical correction to GASB Standard No. 10 and Standard No. 62* and GASB No. 70, *Accounting and Financial Reporting for Non Exchange Guarantees.* GASB Standard No. 66 and GASB Standard No. 70 did not materially affect METRO's financial report. GASB Standard No. 65 required METRO to restate prior period financial statements by expensing debt issuance costs in the period incurred. This restatement resulted in a reduction in FY2013 beginning balance of net position by $8,620,991.

The original and restated balances for FY2013 are:

	Original	Restated
Statement of Net Assets		
Capital assets, net of depreciation	2,979,521,713	2,978,791,191
Other noncurrent assets	14,002,247	6,325,672
Investment in capital assets, net of related debt	1,949,158,508	1,948,427,986
Unrestricted assets	112,288,687	104,612,112
Statement of Revenues, Expenses, and Changes in Net Position		
Noncapitalized interest expense	(10,102,779)	(9,888,885)
Net position - beginning of the year	1,844,483,830	1,835,862,839

Financial reports included in the statistical section have been restated.

New GASB Standards that are being evaluated by METRO include:	Effective
GASB Standard No 67, *Financial Reporting for Pension Plans*	FY2015
GASB Standard No 68, *Accounting and Financial Reporting for Pensions*	FY2015

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 $379,020,565 or 91.3% of total investments. Investments in a single issuer which are not explicitly guaranteed by the U.S. Government and exceed 5% of all investments should be disclosed. Investments held by METRO included the Federal Farm Credit Bank and Federal Home Loan Bank (both sponsored by the U.S. government) and totaled $41,945,490 or 10.1% and $19,999,650 or 4.8% of total investments as of September 30, 2014. METRO has elected to disclose amounts that are close to the 5% threshold.

Deposits

METRO's checking accounts and book balances for cash as of September 30, 2014 and 2013 were:

	Fiscal 2014	Fiscal 2013
Unrestricted		
Bank balances	$ 2,945,862	$ 3,122,173
Book balances	3,671,108	3,499,304

Investments

The fair value of METRO's investments is estimated based on quoted market prices. The investments held at September 30, 2014 and 2013 are indicative of the type of investments made by METRO during each fiscal year and consist of the following:

	Fiscal 2014 Fair Value	Fiscal 2013 Fair Value	Credit Ratings
Unrestricted investments			
U.S. agencies	$ 61,942,140	$ 52,171,412	Aaa
Local government investment pool	218,231,914	187,873,742	AAAm
Money market mutual fund	–	772	AAAm
Municipal commercial paper	20,000,000	37,396,815	A-1+, P-1,F1+
Certificate of deposit	10,000,000	10,000,000	Collateral =Aaa
Municipal bonds	6,000,000	26,214,300	SP-1+, F1+/Aaa/AAA Aa3/AA
Total unrestricted investments	316,174,054	313,657,041	
Restricted investments			
Local government investment pool	98,846,511	56,793,745	AAAm
Total restricted assets	98,846,511	56,793,745	
Total Investments	$ 415,020,565	$ 370,450,786	

Investment by type and weighted average maturity as of September 30, 2014 and 2013 consisted of the following:

	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	

	Fiscal 2013 Fair Value	Less Than 1 Year	Average Maturity
Investment securities			
U.S. agencies	52,171,412	52,171,412	204 days
Local government investment pool	244,667,487	244,667,487	52 days
Money market mutual fund	772	772	1 day
Municipal commercial paper	37,396,815	37,396,815	36 days
Certificate of deposit	10,000,000	10,000,000	65 days
Municipals bonds	26,214,300	26,214,300	337 days
Total investments	$ 370,450,786	$ 370,450,786	

The Board has authorized METRO to enter into a securities lending agreement with JPMorgan Chase Bank of Texas (CT) and its affiliate JPMorgan Chase Manhattan Bank (CM) for securities held by METRO. This agreement authorizes CT to act as METRO's agent and deliver to CM securities that may be loaned to those organizations that are reported on the approved borrowers list maintained by CM. METRO has the right to further limit the organizations that CM may conduct securities lending transactions on its behalf. In addition, METRO or the borrower may terminate the loan on demand.

Collateral received by CM for securities lending transactions is held in the name of METRO and consists of cash or governmental securities and equals 102 percent or more of the fair value of the securities loaned, which is determined at the end of each business day by CM. Investment of METRO's cash collateral by CM is limited to U.S. Treasury and Agency securities and repurchase agreements with maturities not to exceed 90 days. Repurchase agreements must be fully collateralized by securities that are issued or guaranteed as to principal and interest by the U.S. government, its agencies, or instrumentalities. Because of these restrictions, METRO is not subject to any credit risk. METRO is responsible for any deficits that result from the sale of investments that relate to the cash collateral held by CM. When the collateral is in the form of securities, CM will indemnify METRO if the borrower fails to return any of the borrowed securities upon termination of the loan. The collateral is held by CM in the name of METRO and can be pledged or sold only if the borrower defaults.

Only U.S. Treasury and Agencies securities were available for use in the security lending program. There was no security lending activities for FY2014 and FY2013.

3. Capital Assets

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

Capital assets	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 and 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

Total interest cost incurred for the current and previous fiscal year was $43,596,097, and $44,439,446 of which $32,872,267 and $34,550,561 was capitalized.

Asset impairments for FY2014 consist of environmental and engineering work totaling $61.8 million for the University Rail Line, $34.2 million for the Uptown 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 Assets, information obtained from this work is being shared with other governmental agencies to be utilized for the completion of the Uptown Transit project.

METRO remains committed to completing the University Rail Line and will continue to evaluate funding options with the FTA and local leaders.

Changes in capital assets for fiscal year 2013 were as follows:

Capital assets	October 1, 2012	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2013
Capital assets not depreciated:					
Land	$ 308,091,230	$ –	$ (19,265,112)	$ 1,840,608	$ 290,666,726
Construction in progress	1,272,180,775	555,215,767	(10,102)	(147,990,068)	1,679,396,372
Total capital assets not depreciated	1,580,272,005	555,215,767	(19,275,214)	(146,149,460)	1,970,063,098
Capital assets depreciated:					
Administration and operating facilities	413,533,888	–	–	7,893,562	421,427,450
Park and ride lots and transit centers	280,975,507	–	–	782,734	281,758,241
Buses and equipment	745,074,118	–	(26,816,072)	20,375,733	738,633,779
Rail cars	47,790,125	–	–	67,957,599	115,747,724
Rail infrastructure	248,977,316	–	–	6,061,369	255,038,685
Transitways/HOT lanes	537,974,316	–	–	33,610,615	571,584,931
Other property and equipment	70,087,171	111,587	(275,841)	9,467,848	79,390,765
Total capital assets depreciated	2,344,412,441	111,587	(27,091,913)	146,149,460	2,463,581,575
Less: Accumulated depreciation and amortization					
Administration and operating facilities	(231,811,153)	(15,315,120)	–	–	(247,126,273)
Park and ride lots and transit centers	(172,531,176)	(9,237,631)	–	–	(181,768,807)
Buses and equipment	(475,454,501)	(63,399,397)	26,617,267	–	(512,236,631)
Rail cars	(24,666,603)	(7,446,421)	–	–	(32,113,024)
Rail infrastructure	(84,795,984)	(11,595,794)	–	–	(96,391,778)
Transitways/HOT lanes	(304,676,218)	(22,061,559)	–	–	(326,737,777)
Other property and equipment	(51,168,717)	(7,586,316)	275,841	–	(58,479,192)
Total accumulated depreciation and amortization	(1,345,104,352)	(136,642,238)	26,893,108	–	(1,454,853,482)
Total capital assets being depreciated, net	999,308,089	(136,530,651)	(198,805)	146,149,460	1,008,728,093
Total capital assets, net	$ 2,579,580,094	$ 418,685,116	$ (19,474,019)	$ –	$ 2,978,791,191

METRO has an agreement with the City of Houston to replace its land converted for rail operations. As part of this agreement, METRO conveyed land valued at $19,111,275 in FY2013 to the City of Houston, which is reported as part of Infrastructure assistance in the Statements of Revenues, Expenses, and Changes in Net Position. Additional cost of land, utility work and street improvements will be conveyed to the City of Houston during the next several years as the rail projects are finalized.

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. 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 the annual required contribution and obligations for the defined benefit pensions and the defined postemployment healthcare benefit plans requires the use of actuarial assumptions, which are listed on pages 41 and 44. These assumptions reflect a long-term perspective and use techniques that are designed to reduce short-term volatility in determining actuarial accrued liabilities and assets. In addition, METRO reviews and adjusts these actuarial assumptions annually or biennially (OPEB) based on actual performance and after discussions with their independent actuary. The amounts reported as assets and liabilities are based on long-term estimates and actuarial projections. The amounts ultimately paid may substantially change from these estimates. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

Defined Benefits Plans

Transport Workers Union Pension Plan Local 260, AFL-CIO (TWUPP) is for employees hired before October 1, 2012 and whose jobs are covered by a collective bargaining agreement. These employees primarily consist of operators, mechanics, and related support staff. The TWUPP provides a monthly normal retirement benefits based on participants' years of service but not less than $500 per month. The calculation for monthly normal retirement benefits is based on the designated dollar amount times the number of credited years of service. The designated dollar amount used to determine monthly normal retirement benefit is based on date of retirement and the current union contract. The designated dollar amount will change periodically (benefiting only future retirees) as a result of new contracts and has ranged from $50 effective August 1, 2002 to $60 effective February 1, 2009. Participants can only choose monthly distributions. No lump-sum payments are available unless the participant has a balance of $5,000 or less. The TWUPP is managed by a four-member administrative committee.

Plan participants are 100% vested after five years of credited services and become eligible to receive full benefits after 28 years of credited services. The requirements for early retirement with reduced benefits are that an employee reaches age 55 and has 25 years of credited services. In addition, the plan provides disability retirement benefits with the requirement being five years of credited service. Additional requirements include five years of vesting service for vested deferred retirement benefits and for preretirement spousal benefits.

TWUPP annual required contributions (ARC) are made based on actuarial valuations prepared annually by an independent actuary from data furnished by METRO. The unfunded actuarial accrued liability as of January 1, 2014 was $73,907,003 and the pension expense recognized in the financial statements for the current and previous two fiscal years were $13,884,142, $14,544,413, and $14,344,181, respectively.

Actual contributions for the current and previous two fiscal years were $13,691,651, $14,362,412, and $14,206,770, respectively.

The Non-Union Pension Plan (NUPP) is primarily for full time administrative staff and police officers hired before October 1, 2007. Participants are 100% vested in employer contributions to the plan after five years of credited service. Participants become eligible to receive benefits at age 65 with special provisions allowing for retirement at an earlier age. The minimum monthly normal retirement benefit of a participant who retires on or after their normal retirement date is $300 a month, provided the participant has at least ten years of credited service at retirement regardless of the date of their retirement. The monthly benefit is based on the average monthly salary of the participant for the last three years of service, number of service years, and the retirement factor. Participants can choose a lump-sum distribution or a monthly distribution. Participants with balances equal to or less than $1,000 are automatically distributed a lump-sum payment or rolled into another qualified plan. The requirement for early retirement with reduced benefits is that an employee reaches age 55 with 15 years of credited services. In addition, the plan provides for disability retirement benefits with the requirement being total and permanent disability at any age with benefits deferred to normal retirement date. Additional requirements include five years of vesting services for vested deferred retirement benefits and preretirement spousal benefits. NUPP is managed by a seven-member administrative committee.

NUPP annual required contributions (ARC) are based on actuarial valuations prepared annually by an independent actuary from data furnished by METRO. The unfunded actuarial accrued liability as of January 1, 2014 was $31,999,660 and the pension expense recognized in the financial statements for the current and previous two fiscal years was $9,029,978, $8,764,797, and $8,873,835, respectively. Actual contributions for the current and previous two fiscal years were $8,966,585, $8,615,666, and $8,907,720, respectively.

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

	TWUPP	NUPP
Valuation date	January 1st of each year	January 1st of each year
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 age 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 current and previous fiscal year contributions and changes in the net pension obligations for the last two fiscal years were:

	Fiscal Year 2014		Fiscal Year 2013	
	TWUPP	NUPP	TWUPP	NUPP
Annual required contributions (ARC)	$ 13,691,651	$ 8,966,585	$ 14,362,413	$ 8 ,689,450
Interest on net pension obligation	(1,634,847)	(467,211)	(1,649,407)	(456,439)
Adjustment to ARC	1,827,338	530,604	1,831,407	531,786
Annual pension cost	13,884,142	9,029,978	14,544,413	8,764,797
Contributions	13,691,651	8,966,585	14,362,412	8,615,666
Change in net pension obligation	192,491	63,393	182,001	149,131
Beginning net pension obligation (asset)	(20,435,579)	(5,911,380)	(20,617,580)	(6,060,511)
Ending net pension obligation (asset)	$ (20,243,088)	$(5,847,987)	$ (20,435,579)	$ (5,911,380)
Percentage of pension cost contributed	98.61%	99.30%	98.75%	98.30%
Percentage of ARC contributed	100.00%	100.00%	100.00%	99.15%

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

	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%	$ 106,317	69.5%
NUPP	129,399	161,398	31,999	80.2	45,602	70.2

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 two percent of the employee's annual salary and will match up to an additional four percent of their contributions. All contributions are placed into a third-party trust account. Employee's vesting rates are 40 percent after the second year and 20 percent annually thereafter. Contributions by METRO for the current and previous two fiscal years were $1,964,943, $1,121,291, and $769,874, with employees contributing $1,654,991, $1,040,871, and $757,795.

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 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. Two of the trustees are from the Transport Workers Union Local 260, AFL-CIO and two are from METRO. 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 $8,574,434, $8,116,228, and $7,347,943, 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 $2,767,380, $3,211,888, and $4,709,585, 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 2013 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 2013 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, 2013 while the Trust was dated January 1, 2014.

	Fiscal Year 2014		Fiscal Year 2013	
	Trust	Non-Union	Trust	Non-Union
Annual required contributions	$ 36,787,050	$ 10,155,179	$ 28,567,946	$ 10,155,179
Interest on prior year net post employment benefit obligation	4,663,896	1,735,335	3,209,716	1,735,335
Adjustment to annual required contributions	(6,601,199)	(2,412,370)	(4,461,976)	(2,412,370)
Other postemployment cost	34,849,747	9,478,144	27,315,686	9,478,144
Contribution	8,574,434	2,767,380	8,116,228	3,211,888
Change in net postemployment benefit obligation	26,275,313	6,710,764	19,199,458	6,266,256
Beginning net postemployment benefit obligation	119,410,105	49,649,630	100,210,647	43,383,374
Ending net postemployment benefit obligation	$145,685,418	$ 56,360,394	$119,410,105	$ 49,649,630
Percentage of postemployment benefit cost contributed	24.60%	29.20%	29.71%	33.89%

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			
2012	$ 27,315,686	26.90%	$ 100,210,647
2013	27,315,686	29.71	119,410,105
2014	34,849,747	24.60	145,685,418
Non-Union			
2012	$ 12,068,877	39.02%	$ 43,383,374
2013	9,478,144	33.89	49,649,630
2014	9,478,144	29.20	56,360,394

Covered payroll reported by the defined-benefit pension plans approximates the value related to covered payroll for OPEB and is used when calculating the funded status (in thousands) as follows:

Valuation Date	OPEB Plan	Actuarial Value of Assets	Actuarial Accrued Liabilities	Unfunded Actuarial Accrued Liabilities (UAAL)	Funded Ratio Percentage	Covered Payroll	UAAL as a Percentage of Covered Payroll
October 1, 2014	Trust	–	$ 409,644	$ 409,644	–	106,317	385.3%
October 1, 2013	Non-Union	–	108,927	108,927	–	44,389	245.4%

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 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 FY2014 and FY2013 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 1,2013 - September 30, 2014	$ 10,693,969	$ 4,817,400	$ (4,657,529)	$ 10,853,840
October 1,2012 - September 30, 2013	$ 9,101,030	$ 5,272,177	$ (3,679,238)	$ 10,693,969

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:

Development

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 percent of certain expenses billed to the lessee. The lessee is responsible for maintaining the grounds and may bill METRO up to 33.89 percent 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 percent share of cash flow participation rent.

METRO receives $50,000 annually in base rent, paid monthly, and cash flow participation rent calculated as 25 percent 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 percent 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 FY2014.

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 consists 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, 2013 was $13,347,673, which included $13,169,171 for land and inception-to-date net earnings of $178,502. 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, 2014 was approximately $598 million of which $160 million relates to the expansion of rail service. 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 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 percent 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 FY2014 totaled $73.1 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, 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

	September 30, 2012 Unamortized Balance	Current Year Amortization	September 30, 2013 Unamortized Balance
Facility			
Buffalo Bayou	$ 6 ,065,801	$ 275,719	$ 5,790,082
Kashmere	31,301,532	1,304,231	29,997,301
Transit buses	7,758,003	4,265,027	3,492,976
Transit buses	2,145,550	2,145,550	–
Transit buses	2,429,571	607,392	1,822,179
Transit buses	1,394,967	1,394,967	–
Fare boxes/radios	13,278,922	2,213,154	11,065,768
Total	$ 64,374,346	$ 12,206,040	$ 52,168,306

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 $200 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 expires more than one year after September 30, 2014. 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 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) 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, 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

Series	Amount Issued	Maturity Date	Remaining Days Outstanding	Nominal Rate %
A-1	$ 41,500,000	12/04/2014	65	0.08
A-1	50,000,000	12/04/2014	65	0.08
A-1	30,650,000	12/11/2014	72	0.13
A-1	38,250,000	12/10/2014	71	0.14
	160,400,000			
A-3	14,000,000	12/11/2014	72	0.13
A-3	9,000,000	12/10/2014	71	0.14
	23,000,000			
Total	$ 183,400,000			

Changes for CP by series for FY 2013 were as follows:

Series	October 1, 2012	Proceeds	Repayments	September 30, 2013
A-1	$ 162,400,000	$ 610,950,000	$ (612,950,000)	$ 160,400,000
A-3	26,600,000	149,200,000	(149,200,000)	26,600,000
Total	$ 189,000,000	$ 760,150,000	$ (762,150,000)	$ 187,000,000

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
2015	$ 8,543,263	$ 3,472,233	$ 12,015,496	$ 13,920,000	$ 45,289,462	$ 59,209,462	$ 71,224,958
2016	8,951,781	3,061,314	12,013,095	28,155,000	44,232,356	72,387,356	84,400,451
2017	9,352,311	2,655,643	12,007,954	29,415,000	42,925,406	72,340,406	84,348,360
2018	9,745,000	2,184,494	11,929,494	30,830,000	41,501,656	72,331,656	84,261,150
2019	10,250,000	1,679,791	11,929,791	32,330,000	40,024,056	72,354,056	84,283,847
2020-2024	27,165,000	1,892,589	29,057,589	174,725,000	175,093,019	349,818,019	378,875,608
2025-2029	–	–	–	160,255,000	134,639,419	294,894,419	294,894,419
2030-2034	–	–	–	148,550,000	93,638,892	242,188,892	242,188,892
2035-2039	–	–	–	159,650,000	52,238,625	211,888,625	211,888,625
2040-2044	–	–	–	116,350,000	8,920,250	125,270,250	125,270,250
Payments	$74,007,355	$14,946,064	$88,953,419	$ 894,180,000	$ 678,503,141	$ 1,572,683,141	$ 1,661,636,560
Unamortized net premium	1,259,215			77,799,450			
Total debt	$75,266,570			$971,979,450			

Capital Leases

The Board has authorized the use of a Master Lease Purchase Finance Program (MLPFP) for the purchase of buses and 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 (6 years) 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
2015	$ 4,995,000	$ 1,721,612	$ 3,475,000	$ 1,741,500	$ 8,470,000	$ 3,463,112
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
2020-2024	12,795,000	586,173	14,370,000	1,306,416	27,165,000	1,892,589
	$ 40,150,000	$ 6,810,895	$ 33,630,000	$ 8,118,531	$ 73,780,000	$ 14,929,426

Future payments for other leases:

Fiscal Year	Park & Ride Land Improvements Principal	Park & Ride Land Improvements Interest	Park & Ride Land Improvements Total	Total Capital Leases Principal	Total Capital Leases Interest	Total Capital Leases
2015	$ 73,263	$ 9,121	$ 82,384	$ 8,543,263	$ 3,472,233	$ 12,015,496
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
2020-2024	–	–	–	27,165,000	1,892,589	29,057,589
	$ 227,355	$ 16,638	$ 243,993	$ 74,007,355	$14,946,064	$88,953,419

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

	Remaining Balance of Capital Leases October 1, 2013	Additions	Principal Payments	October 1, 2013 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

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

	Remaining Balance of Capital Leases October 1, 2012	Additions	Principal Payments	October 1, 2012 Unamortized Premium	Current Year Amortization of Premium	Combined Balance September 30, 2013
MLPFP						
Series A	$ 49,525,000	$ –	$ (4,605,000)	$ 662,627	$ (66,263)	$ 45,516,364
Series B	40,020,000	–	(3,100,000)	911,391	(91,139)	37,740,252
Copiers	128,177	–	(128,177)	–	–	–
Park & Ride Land Improvements	363,963	–	(66,702)	–	–	297,261
Total	$ 90,037,140	$ –	$ (7,899,879)	$ 1,574,018	$ (157,402)	$ 83,553,877

Bonds and Contractual Obligations

As of September 30, 2011, METRO completed the issuance of the $640 million bonds authorized by the voters during the November 2003 election to fund transit projects. Contractual obligations for the purchase of buses and rail cars do not count against the voter-authorized amount. METRO has eight series of bonds and contractual obligations outstanding as of September 30, 2014. Five of the eight series are contractual obligations with proceeds used to purchase buses and rail cars and the remaining three series were used to pay for construction activity on the North and Southeast rail lines. Interest and principal payments 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		Contractual Obligations Series 2009B		Build America Bonds Series 2009C	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 3,430,000	$ 4,017,500	$ 1,225,000	$ 1,731,625	$ –	$ 5,675,656
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
2020-2024	24,420,000	12,830,500	8,240,000	6,559,225	–	28,378,281
2025-2029	31,355,000	5,893,625	10,260,000	4,536,263	–	28,378,281
2030-2034	7,270,000	181,750	13,090,000	1,701,250	32,635,000	24,016,267
2035-2039	–	–	–	–	49,920,000	8,886,625
	$ 82,065,000	$ 37,140,125	$ 38,245,000	$ 20,933,463	$ 82,555,000	$ 118,037,734

Sales and Use Tax Bonds and Contractual Obligations

	Contractual Obligations Series 2009D		Contractual Obligations Series 2010A		Bonds Series 2011A	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2015	$ 2,730,000	$ 986,875	$ 3,000,000	$ 1,395,500	$ –	$ 23,050,500
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
2020-2024	10,360,000	781,413	15,785,000	1,626,875	51,825,000	100,765,625
2025-2029	–	–	–	–	66,555,000	86,041,375
2030-2034	–	–	–	–	83,480,000	67,437,750
2035-2039	–	–	–	–	109,730,000	43,352,000
2040-2044	–	–	–	–	116,350,000	8,920,250
	$ 25,010,000	$ 4,717,938	$ 31,975,000	$ 7,370,250	$ 461,010,000	$ 418,565,500

	Sales and Use Tax Bonds and Contractual Obligations							
	Contractual Obligations Series 2011B		Contractual Obligations Series 2014		Total for all Sales and Use Tax Bonds and Contractual Obligations		
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	$ 3,535,000	$ 1,738,300	$ –	$ 6,693,506	$ 13,920,000	$ 45,289,462	$ 59,209,462
2016	3,680,000	1,594,000	5,995,000	6,380,375	28,155,000	44,232,356	72,387,356
2017	3,830,000	1,443,800	6,300,000	6,073,000	29,415,000	42,925,406	72,340,406
2018	3,985,000	1,287,500	6,625,000	5,749,875	30,830,000	41,501,656	72,331,656
2019	4,150,000	1,124,800	6,965,000	5,410,125	32,330,000	40,024,056	72,354,056
2020-2024	23,535,000	2,838,350	40,560,000	21,312,750	174,725,000	175,093,019	349,818,019
2025-2029	–	–	52,085,000	9,789,875	160,255,000	134,639,419	294,894,419
2030-2034	–	–	12,075,000	301,875	148,550,000	93,638,892	242,188,892
2035-2039	–	–	–	–	159,650,000	52,238,625	211,888,625
2040-2044	–	–	–	–	116,350,000	8,920,250	125,270,250
	$ 42,715,000	$ 10,026,750	$ 130,605,000	$ 61,711,381	$894,180,000	$678,503,141	$1,572,683,141

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 remaining amount that will be received through FY2039 totals $39.8 million, a reduction of $1.4 million. The amount to be received will range from $1.8 million in FY2015 to $.13 million in FY2039. The rebate is reported as Inter-government revenue in the Statements of Revenues, Expenses, and Changes in Net Position as earned. 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)		
	October 1, 2013 Principal	Addition	Payments to Retire Bonds	Unamortized Premium (Discount)	Current Year Amortization of (Premium) Discount	Combined Balance September 30, 2014
Series						
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

	Changes in Bonds and Contractual Obligations			Changes in Premium (Discount)		
Series	October 1, 2012 Principal	Addition	Payments to Retire Bonds	Unamortized Premium (Discount)	Current Year Amortization of (Premium) Discount	Combined Balance September 30, 2013
2009A	$ 88,465,000	$ –	$ (3,135,000)	$ 5,499,424	$ (323,495)	$ 90,505,929
2009B	40,580,000	–	(1,150,000)	791,062	(37,670)	40,183,392
2009C	82,555,000	–	-	(971,855)	37,379	81,620,524
2009D	30,195,000	–	(2,545,000)	2,187,672	(198,879)	29,638,793
2010A	37,625,000	–	(2,770,000)	3,253,744	(361,527)	37,747,217
2011A	461,010,000	–	-	45,977,913	(1,585,445)	505,402,468
2011B	49,405,000	–	(3,295,000)	5,967,912	(542,537)	51,535,375
Total	$ 789,835,000	$ –	$(12,895,000)	$ 62,705,872	$ (3,012,174)	$ 836,633,698

The weighted average interest rate paid on outstanding debt is approximately 3.48% percent and ranges from 0.12% for commercial paper to 4.96% for long-term debt.

Operating Lease

METRO leases land, buildings, and software under various operating leases. In most cases, management expects to renew or replace these leases as they expire. Actual rental expenses for FY2014 and FY2013 were $5,306,654 and $3,980,331, respectively. Future payments for operating leases assume a two percent annual increase from the current year expense and consist of the following:

Fiscal Year Ending	Total Minimum Operating Leases Payments
2015	$ 5,412,787
2016	5,521,043
2017	5,631,463
2018	5,744,093
2019	5,858,975
Total	$ 28,168,361

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 upfront 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.

Outstanding Diesel Fuel Swaps

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 will settle in FY2015 and 18 swaps totaling 9,660,000 gallons will settle in FY2016. The outstanding swaps represent approximately 104 and 95 percent of the anticipated diesel fuel requirements for each fiscal year. METRO has adequate on-site diesel fuel storage facilities and will purchase all related hedged diesel fuel. METRO had 37 swaps totaling 18,648,000 gallons outstanding as of September 30, 2013 of which 11,088,000 gallons settled in FY2014 and 7,560,000 gallons will settle in FY2015. 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 $1,899,588 and a positive value of $1,348,147 for FY2014 and FY2013. These amounts are reported on the Statement of Position as a deferred outflow or inflow of resources-diesel fuel swaps with a corresponding derivative instruments – diesel fuel swaps liability or asset. Swaps, which settled during FY2014 and FY2013, reduced diesel fuel cost by $992,834 and $2,215,454, respectively. These reductions were included as part of current operating cost in the Statement 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, 2013 - September 30, 2014	$ 14,662,239	$(14,857,798)	$ 15,294,377	$ 15,098,818
October 1, 2012 - September 30, 2013	$ 14,218,355	$(14,386,282)	$ 14,830,166	$ 14,662,239

Litigation

Houston Rapid Transit (HRT) is the design/build contractor for METRO's three new rail lines and has submitted a claim of $12.6 million for the cost of moving from a GPS to an axle counter vehicle location identification system. METRO has not accepted and believes this claim to be meritless based on terms of the contract. No amounts have been reported in the financial statements related to this claim.

In addition to the HRT item 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.

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 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 47.

8. Subsequent Events

During the first quarter of FY2015 the Transport Workers Union Metropolitan Transit Authority Health and Welfare Trust (Trust) had insufficient cash to make the required monthly premium payments to third party insurance companies. These companies are contracted by the Trust to provide health, dental, and disability insurance for eligible individuals who are covered by the collective bargaining agreement between METRO and the Transport Workers Union of America Local 260 and Transport Workers Union of America, AFL-CIO.

Funding for the Trust comes from monthly contributions from employees, retirees, surviving spouses, (collectively called participants) and METRO. Under the current collective bargaining agreement, METRO's monthly contributions to the Trust for each eligible participant, increased by 4% to $880 starting October 1, 2014. Any additional funds necessary to cover benefits are to be provided by the participants. METRO has consistently made its monthly contribution to the Trust as required by the contract.

METRO has agreed to open labor negotiations earlier than required and to temporarily advance money to the Trust to ensure insurance coverage for eligible participants continues.

Required Supplemental Information

Metropolitan Transit Authority
of Harris County, Texas
Non-Union and Transport Workers Union Pension and Other Postemployment Benefit Plans
(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	Oct 1, 2013	–	108,927	108,927	–	44,389	245.4%
	Oct 1, 2011	–	129,261	129,261	–	57,702	224.0%
	Oct 1, 2009	–	114,269	114,269	–	63,625	179.6%
Transport Workers Union							
Pension Plan	Jan 1, 2014	206,052	279,959	73,907	73.6%	106,317	69.5%
	Jan 1, 2013	181,661	267,359	85,698	67.9%	91,830	93.3%
	Jan 1, 2012	173,838	255,553	81,715	68.0%	94,043	86.9%
Other Postemployment Benefits	Oct 1, 2014	–	409,644	409,644	–	106,317	385.3%
	Oct 1, 2012	–	338,260	338,260	–	94,043	359.7%
	Oct 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.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METRO

The Unaudited Statistical Section

Provides Multiyear Financial and Operating Information

THE OBJECTIVES OF STATISTICAL SECTION INFORMATION

(Source: GASB Statement 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.*

GASB requires 10 years of historical data but allows for a phase-in period, which METRO will complete by FY2014. 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, 2014 and the Last Nine Years (Unaudited)

	2014	2013	2012	2011
Assets				
Current assets				
Cash	$ 3,671,108	$ 3,499,304	$ 1,769,157	$ 1,860,652
Cash - restricted	–	–	–	–
Investments	316,174,054	313,657,041	358,828,979	91,458,100
Investments - restricted	31,839,343	28,942,440	37,265,000	64,489,262
Receivables				
Sales tax	119,462,662	110,821,904	103,035,680	97,394,471
Federal government - Federal Transit Administration	25,218,342	73,106,988	26,811,825	17,050,424
Bus passes and other receivables	10.798,847	10,277,726	13,570,522	12,754,087
Total receivables	155,479,851	194,206,618	143,418,027	127,198,982
Material and supplies inventory	24,749,710	20,407,175	17,532,502	21,648,175
Derivative instrument – diesel fuel swaps	–	1,348,147	3,691,843	-
Total current assets	531,914,066	562,060,725	562,505,508	306,655,171
Noncurrent assets				
Investments - restricted	67,007,168	27,851,305	129,308,971	415,681,262
Capital assets, net of depreciation	3,081,386,561	2,978,791,191	2,579,580,094	2,292,560,426
Prepaid pension	26,091,075	26,346,959	26,678,091	26,781,617
Other noncurrent assets	3,518,211	6,325,672	3,449,420	3,900,541
Prepaid rental payments	10,067,401	52,168,306	64,374,346	191,360,541
Total noncurrent assets	3,188,070,416	3,091,483,433	2,803,390,922	2,930,284,387
Total assets	3,719,984,482	3,653,544,158	3,365,896,430	3,236,939,558
Deferred outflow of resources	1,899,588	–	–	3,151,246
Liabilities				
Current liabilities				
Trade payables	83,276,299	149,021,462	125,067,467	150,161,474
Accrued compensation and benefits	26,922,386	27,430,216	23,759,406	25,055,498
Liabilities for injuries and damages	4,657,529	3,679,238	3,385,061	3,723,095
Commercial paper	–	187,000,000	26,600,000	-
Other current liabilities	8,687,095	8,824,195	9,005,559	7,295,986
Capital lease obligation	8,543,263	8,129,906	7,899,879	7,707,103
Bond payable	13,920,000	13,365,000	12,895,000	12,297,176
Debt interest payable	20,515,002	17,976,710	18,287,887	8,323,783
Derivative instrument – diesel fuel swaps	1,899,588	–	–	3,151,246
Total current liabilities	168,421,162	415,426,727	226,900,259	217,715,361
Noncurrent liabilities				
Liabilities for injuries and damages	6,196,311	7,014,731	5,715,969	13,581,122
Commercial paper	183,400,000	–	162,400,000	190,000,000
Deferred rental payments	10,067,401	52,168,306	64,374,346	191,360,541
Capital lease obligation	66,723,307	75,423,971	83,711,279	91,611,157
Bond payable	958,059,450	823,268,698	839,645,874	852,540,873
Other postemployment benefits	202,045,812	169,059,735	143,594,021	116,266,986
Other noncurrent liabilities	–	–	–	–
Total noncurrent liabilities	1,426,492,281	1,126,935,441	1,299,441,489	1,455,360,679
Total liabilities	1,594,913,443	1,542,362,168	1,526,341,748	1,673,076,040
Deferred inflow of resources	-	1,348,147	3,691,843	–
Net position				
Investment in capital assets, net of related debt	2,027,406,944	1,948,427,986	1,729,440,810	1,641,082,035
Restricted assets – debt payments	65,681,932	56,793,745	71,335,683	74,504,866
Restricted assets – cash	–	–	–	–
Unrestricted assets	33,881,751	104,612,112	35,086,346	(148,572,137)
Total net position	$ 2,126,970,627	$ 2,109,833,843	$ 1,835,862,839	$1,567,014,764

2010	2009	2008	2007	2006	2005
$ 1,564,969	$ 829,893	$ 121,392	$ 231,459	$ 480,999	$ 1,141,984
–	10,809,248	8,764,498	9,214,638	5,632,666	2,447,541
119,209,517	135,115,133	142,262,789	271,234,401	245,227,457	104,516,140
27,175,720	45,304,780	–	–	–	–
83,314,283	77,761,055	83,275,323	82,267,723	78,514,236	67,495,967
62,448,555	29,699,429	7,508,972	12,837,240	18,970,115	12,653,593
21,626,869	8,501,733	8,762,761	4,047,810	8,342,188	6,488,708
167,389,707	115,962,217	99,547,056	99,152,773	105,826,539	86,638,268
22,400,422	20,605,560	32,086,923	22,901,955	29,758,196	23,278,027
4,967,134	–	–	–	–	–
342,707,469	328,626,831	282,782,658	402,735,226	386,925,857	218,021,960
66,206,184	165,461,944	5,760	555,775	4,370,072	–
2,031,910,494	1,969,813,283	1,847,947,918	1,634,225,906	1,506,044,662	1,499,727,161
27,849,894	28,597,532	29,655,466	18,713,400	10,633,336	–
9,301,614	4,792,418	6,047,336	4,126,802	4,800,989	4,723,719
213,018,249	234,675,957	256,333,665	277,991,373	299,649,081	321,306,789
2,348,286,435	2,403,341,134	2,139,990,145	1,935,613,256	1,825,498,140	1,825,757,669
2,690,993,904	2,731,967,965	2,422,722,803	2,338,348,482	2,212,423,997	2,043,779,629
–	8,849,233	–	–	–	–
124,829,224	115,799,760	104,155,476	91,844,230	82,589,611	62,222,230
24,703,772	27,094,159	21,531,490	19,301,412	18,655,986	22,040,633
5,317,508	4,691,532	6,632,936	5,883,512	4,953,276	4,933,521
190,000,000	143,000,000	143,000,000	143,000,000	89,000,000	–
15,000,793	7,403,357	7,832,172	4,136,485	4,683,614	13,454,666
7,222,767	4,256,609	2,406,683	–	–	–
6,435,000	–	–	–	–	–
8,155,478	6,756,159	–	–	–	–
–	8,849,233	–	–	–	–
381,664,542	317,850,809	285,549,757	264,165,639	199,882,487	102,651,050
10,985,722	15,630,560	16,865,137	15,248,000	13,055,519	12,120,851
–	–	–	–	–	–
213,018,249	234,675,957	256,333,665	277,991,373	299,649,081	321,306,789
99,475,662	106,859,364	61,039,473	–	–	–
301,233,434	226,057,724	–	–	–	–
86,263,172	58,196,633	31,603,807	–	–	–
4,802,679	5,774,679	–	–	–	–
715,778,918	647,194,917	365,842,082	293,239,373	312,704,600	333,427,640
1,097,443,460	965,045,726	651,391,839	557,405,012	512,587,087	436,078,690
4,967,134	–	–	–	–	–
1,663,152,543	1,822,809,038	1,763,904,490	1,613,628,634	1,485,447,390	1,499,727,161
20,307,480	23,410,852	–	–	–	–
–	–	8,764,498	9,214,638	5,632,666	2,447,541
(94,876,713)	(70,448,418)	(1,288,024)	158,100,198	208,756,854	105,526,237
$1,588,583,310	$ 1,775,771,472	$1,771,380,964	$1,780,943,470	$1,699,836,910	$1,607,700,939

Metropolitan Transit Authority
of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2014 and the Last Nine Years
(Unaudited)

	2014	2013	2012	2011
Operating revenues:				
Transportation fares	$ 76,282,549	$ 72,782,991	$ 66,887,319	$ 68,740,526
Operating expenses:				
Scheduled services - fixed route				
Bus and rail operations - direct	183,586,708	170,940,122	165,925,733	165,660,712
Contract service	49,298,303	46,620,525	47,431,837	44,688,976
Material distribution	6,086,883	5,540,367	5,966,531	5,975,735
Preventative maintenance	52,289,574	51,040,854	48,876,170	49,364,186
Central shop and maintenance support	20,208,555	18,961,766	18,103,288	15,220,267
Safety and training	1,135,164	973,447	816,598	891,844
Subtotal scheduled services - fixed route	312,605,187	294,077,081	287,120,157	281,801,720
Non-scheduled services-special				
METROLift	49,503,466	45,181,913	40,204,841	39,696,105
METROVan	5,193,777	4,967,172	5,250,084	4,979,360
HOT lanes and special events	7,669,836	5,582,712	2,346,041	676,109
Subtotal non-scheduled services - special	62,367,079	55,731,797	47,800,966	45,351,574
Service support				
Service planning and evaluation	3,545,587	3,521,365	3,130,879	4,205,657
Marketing	7,001,452	7,306,538	6,910,999	7,450,088
Transit security	14,151,044	11,778,274	13,214,108	15,045,472
Insurance and claims	7,036,234	5,927,146	5,673,304	5,616,894
Ticket and fare collection	3,955,040	3,751,006	3,369,283	3,867,527
Facility maintenance	23,928,168	21,660,854	20,020,810	16,613,097
Subtotal service support	59,617,525	53,945,183	52,319,383	52,798,735
Traffic management - services	5,175,352	6,809,307	6,985,562	7,752,239
Organizational support				
Business, community, and governmental development	3,551,653	4,228,909	5,043,321	4,592,198
Administrative, financial, and personnel	13,646,454	14,612,492	15,357,730	18,119,682
Information systems	16,371,349	13,948,037	14,276,491	12,360,853
Purchasing	3,249,771	2,994,284	2,502,794	2,894,124
Oversight, audit, and legal	5,170,576	8,875,645	5,000,056	6,536,177
Subtotal organizational support	41,989,803	44,659,367	42,180,392	44,503,034
Depreciation and amortization	160,049,291	136,642,238	137,094,956	138,295,447
Total operating expenses	641,804,237	591,864,973	573,501,416	570,502,749
Operating loss	(565,521,688)	(519,081,982)	(506,614,097)	(501,762,223)
Nonoperating revenues (expenses):				
Sales tax	685,167,303	642,515,462	593,732,843	536,572,595
Investment income	328,666	768,527	625,042	327,467
Inter-government revenue	1,843,453	1,986,480	1,986,480	1,986,480
Noncapitalized interest expense	(10,723,830)	(9,888,885)	(13,461,589)	(16,660,720)
Other income	2,643,857	1,845,296	3,030,912	643,766
Grant proceeds	64,927,095	71,766,635	56,460,316	59,588,924
Local infrastructure assistance	(161,502,564)	(170,373,931)	(222,054,292)	(188,467,654)
Loss for asset impairments	(105,756,522)	-	-	-
Funds passed to subrecipients	(3,368,756)	(2,016,422)	(1,528,115)	(2,538,648)
Gain (loss) on sale or disposal of assets	755,594	(470,021)	(316,485)	(2,723,630)
Total nonoperating revenues (expenses)	474,314,296	536,133,141	418,475,112	388,728,580
Net increase (decrease) before capital grants	(91,207,382)	17,051,159	(88,138,985)	(113,033,643)
Capital grant proceeds	108,344,176	256,919,845	356,987,060	91,465,097
Changes in net position	17,136,784	273,971,004	268,848,075	(21,568,546)
Net position - beginning of the year	2,109,833,843	1,835,862,839	1,567,014,764	1,588,583,310
Net position - end of the year	$ 2,126,970,627	$ 2,109,833,843	$ 1,835,862,839	$1,567,014,764

2010	2009	2008	2007	2006	2005
$ 64,538,736	$ 67,083,414	$ 53,805,283	$ 53,266,927	$ 54,186,016	$ 50,137,041
161,548,458	184,399,863	148,355,656	131,195,120	126,865,459	125,262,654
44,365,552	45,638,064	39,517,766	39,844,157	38,906,779	36,332,284
5,994,776	5,662,705	5,804,008	4,603,536	4,299,865	4,241,837
49,926,437	47,705,846	47,194,361	41,396,795	41,755,975	39,384,631
13,796,093	13,192,409	13,086,172	11,650,263	12,956,132	13,480,763
858,722	925,202	795,904	728,688	532,939	3,791,481
276,490,038	297,524,089	254,753,867	229,418,559	225,317,149	222,493,650
35,915,851	35,556,663	34,237,245	32,215,665	30,547,646	28,884,037
4,327,517	6,075,378	4,079,490	5,184,800	3,578,916	2,563,513
808,861	793,180	624,013	3,053,355	3,506,689	3,636,986
41,052,229	42,425,221	38,940,748	40,453,820	37,633,251	35,084,536
822,792	247,023	586,792	415,576	348,891	1,177,777
6,933,097	5,324,367	5,708,560	4,186,209	3,861,995	4,260,466
14,484,702	14,019,638	14,332,699	11,087,339	10,607,564	9,188,740
5,144,081	4,484,705	4,476,482	3,336,401	3,141,878	3,021,310
2,029,498	1,682,347	1,786,021	818,416	971,469	1,227,181
19,193,318	22,752,511	20,863,515	15,883,937	13,940,679	11,283,070
48,607,488	48,510,591	47,754,069	35,727,878	32,872,476	30,158,544
8,386,197	8,310,640	11,514,654	10,585,299	9,549,401	11,011,559
4,111,359	1,373,563	910,623	455,465	447,374	528,487
18,921,682	11,639,038	10,656,994	17,021,569	17,122,603	15,665,098
10,835,724	3,808,872	2,401,196	2,467,722	2,188,249	2,929,732
2,837,551	1,646,574	1,400,093	891,513	1,223,727	1,747,664
7,333,120	7,620,394	3,268,706	2,308,768	2,288,331	2,856,902
44,039,436	26,088,441	18,673,612	23,145,037	23,270,284	23,727,883
143,977,419	140,847,103	124,856,131	120,289,857	107,030,889	107,970,694
562,552,807	563,706,085	496,457,081	459,620,450	435,673,450	430,446,866
(498,014,071)	(496,622,671)	(442,651,798)	(406,353,523)	(381,487,434)	(380,309,825)
489,972,748	517,972,851	521,179,360	481,721,482	467,645,812	394,015,831
2,103,533	4,307,902	7,165,095	14,240,392	7,923,445	1,803,936
1,986,614	599,650	–	–	–	–
(8,083,163)	–	–	–	–	–
848,968	1,115,401	793,638	648,162	446,526	(874,336)
63,988,363	59,345,052	57,965,428	58,145,684	59,929,875	55,574,154
(150,091,349)	(116,744,258)	(179,845,280)	(108,530,541)	(115,616,319)	(134,178,117)
(180,308,408)	–	-	-	-	-
(393,193)	(352,228)	-	-	-	-
(1,095,753)	(6,258,755)	(1,169,107)	(1,941,917)	(10,245,545)	(2,392,293)
218,928,360	459,985,615	406,089,134	444,283,262	410,083,794	313,949,175
(279,085,711)	(36,637,056)	(36,562,664)	37,929,739	28,596,360	(66,360,650)
91,897,549	41,027,564	27,000,158	43,176,821	63,539,611	95,032,960
(187,188,162)	4,390,508	(9,562,506)	81,106,560	92,135,971	28,672,310
1,775,771,472	1,771,380,964	1,780,943,470	1,699,836,910	1,607,700,939	1,579,028,629
$1,588,583,310	$1,775,771,472	$1,771,380,964	$1,780,943,470	$1,699,836,910	$1,607,700,939

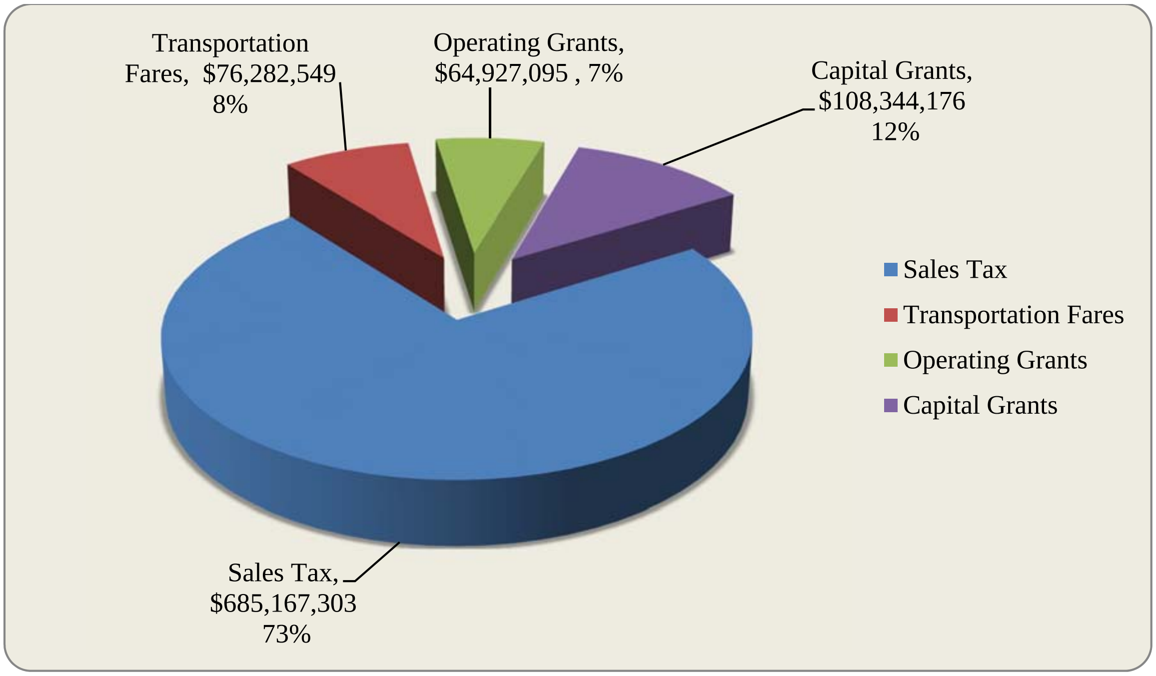
Metropolitan Transit Authority
of Harris County, Texas
Current Fares
(Unaudited)

	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

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

During October 2013, METRO implemented the day pass, which allows unlimited rides on local bus routes and rail services for just $3.00 a day.

Metropolitan Transit Authority
of Harris County, Texas
Total Revenue by Type
Fiscal Year 2014



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 (%)
2014	6,320.2	$ 54,354	$ 685,167,303	4.9
2013	6,218.4	52,765	642,515,462	6.2
2012	6,117.8	51,004	593,732,843	6.8
2011	6,018.5	48,809	536,572,595	7.9
2010	5,920.4	44,557	489,972,748	8.2
2009	5,826.1	43,291	517,972,851	7.6
2008	5,676.4	48,570	521,179,360	4.8
2007	5,540.9	44,236	481,721,482	4.3
2006	5,423.6	42,993	467,645,812	5.0
2005	5,233.7	39,835	394,015,831	5.6

* 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)

	2013			2004		
Employer	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
National Oilwell Varco Inc.	14,581	1	0.51%	–	–	–
Exxon Mobil	13,200	2	0.46%	5,800	9	0.25%
Shell Oil Company	12,500	3	0.44%	7,920	6	0.34%
Cameron International Corp	11,000	4	0.39%	–	–	–
Halliburton	8,600	5	0.30%	14,000	1	0.59%
Schlumberger Ltd.	8,400	6	0.29%	–	–	–
Baker Hughes	8,000	7	0.28%	–	–	–
JP Morgan Chase	7,500	8	0.26%	5,500	10	0.23%
BP America	7,000	9	0.25%	–	–	–
Chevron Companies	7,000	9	0.25%	–	–	–
Diamond Offshore	5,300	10	0.19%	–	–	–
Continental Airlines	–	–	–	13,000	2	0.55%
Hewlett Packard Compaq	–	–	–	9,000	4	0.38%
SBC Communications/AT&T	–	–	–	6,900	8	0.29%
Reliant Energy (Houston Industries)	–	–	–	9,500	3	0.40%
Lyondell Chemical Company	–	–	–	7,435	7	0.32%
BP Amoco	–	–	–	8,000	5	0.34%

* 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 Seven Fiscal Years
(Unaudited)

Fiscal Year	Commercial Paper	Capital Lease	Sales and Use Tax Bonds	Total
2014	$ 3,600,000	$ 8,129,906	$ 13,365,000	$ 25,094,906
2013	2,000,000	7,899,879	12,895,000	21,794,879
2012	1,000,000	7,549,701	9,285,000	17,834,701
2011	–	7,222,767	6,435,000	13,657,767
2010	–	4,256,610	–	4,256,610
2009	–	160,766	–	160,766
2008	–	73,279	–	73,279

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

Fiscal Year	Commercial Paper	Sales and Use Tax Bond	Capital Lease	Total Outstanding Debt
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 the note 7 in the financial statements.

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

						Schedule Payments for Sales and Use Tax Bonds and Contractual Obligations				
Fiscal Year	75% of Sales Tax Revenue	Operating Revenues	Operating Grants	Less Operating Expenses Net of Depreciation	Net Available Revenues	Principal	Interest	Less IRS Interest Subsidy	Total	Coverage Ratio
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 & 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. mile)	
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
2005	21,254,941	94,959,198	54,428,597	582,363,102	219,732,408	3,360	1,412	18	6	20	26	14.8	102.0	1,285	805,568

Source: Metropolitan Transit Authority Office of Budget Services

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