

*Metropolitan Transit Authority
of Harris County, Texas
Comprehensive Annual Financial Report
For the Years Ended
September 30, 2013 and 2012
(October 1, 2012 to September 30, 2013)*



*METRO Continues to Improve Its Ability to Deliver Safe,
Clean, and Reliable Transit Services*



Rail continues to expand and is an active part of METRO's commitment to the community.

Ridership continues to expand as more than 80 million boardings were recorded for the first time in four years. METRO expects this trend to continue as more innovative initiatives are rolled out to the public.



One of METRO's goal is to maximize the use of its resources by working with the community in reimagining the system.

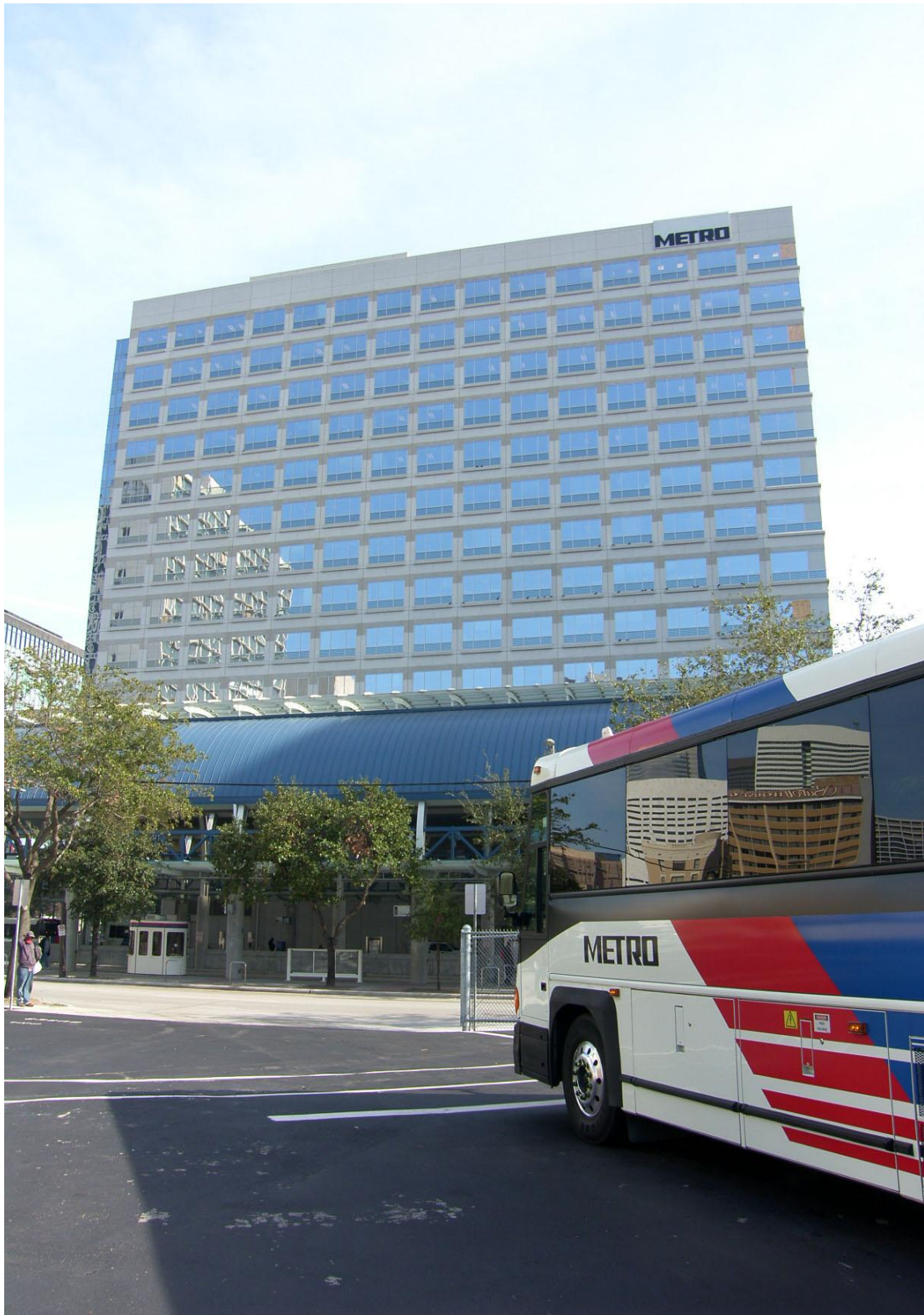


The General Mobility Program was changed, in 2012, to limit payments at the 2014 levels with growth in revenues through December 2025 split evenly between METRO and the other jurisdictions. METRO will use these additional funds to expand transit services and pay down commercial paper.



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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. With so many accomplishments during the year we can only discuss a few. Please visit METRO's Web site where you can read more about METRO. You will gain a better understanding by reading this section in conjunction with the rest of the report.

**Board of
Directors**

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Garcia, CFA
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Allen D. Watson
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**President &
Chief Executive
Officer**

Thomas C. Lambert

February 27, 2014

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

I am pleased to present METRO's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2013 (FY2013). This report represents the highest form of external financial reporting and has been developed by the Accounting Division with support from other groups within the Finance Department. The pictures and related narratives 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 3.5 million citizens 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 1,200 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 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 continued the General Mobility Program through 2025. Under this program, 25% of the annual sales tax proceeds (adjusted for certain limits) will be used to fund general mobility projects of local governments.

It was a very good year as METRO continued its focus on the 4Rs as discussed on the cover and elsewhere in this report. Key points include the following:

- Rail lines (two) are nearing completion with the North/Red Line becoming operational December 21st and the remaining two lines opening in FY2015.
- Ridership continues to improve due to better economic conditions and METRO's ability to provide clean, safe, and reliable transit services.
- Reimagining the transit system is a community wide program designed to help balance the goal of providing quality and affordable transit services.
- Referendum for General Mobility Program passed in 2012 and allows more funds to be dedicated for expanding transit services, paying down commercial paper while continuing with general mobility improvements.

The following information gives you a clear idea of METRO's accomplishments and goals, which are designed to improve mobility and safety within our community.

LIGHT RAIL PROJECT

Expanding the light rail system is an essential element of METRO's plan in meeting the transportation and environmental challenges today and in the future. The extension of the Red Line, known as the North Line, became operational in December 2013. The East End and Southeast lines will be completed during FY2015. METRO continues to work with the community, local leaders, and the Federal Transit Administration (FTA) in developing a strategy to complete the Uptown and University rail lines.



Constructing rail lines within an urban area is very challenging. It requires extensive preconstruction work as you identify alternative routes, perform environmental impact studies, and review issues with citizens, local leaders, and businesses to identify how to best design, construct, and implement rail within their communities. During this phase, METRO was also developing a financing plan, which included issuing bonds and obtaining funds from the FTA. The next few pages will give you a view of the construction and testing of the rail lines.

NORTH LINE CONSTRUCTION PHOTOS



The North Line extends the existing Red Line by 5.3 miles and runs through the heart of the historic Northside, a neighborhood rooted in rail that came into being with the expansion of the Hardy Rail Lines in the 1880s. Starting at the University of Houston-Downtown station, the line runs north on North Main to Boundary, crosses east to Fulton, then goes north to Northline Commons Mall and the Northline Transit Center. Approximately 300 of METRO's staff volunteered their personal time to assist in the grand opening of this line, which took place December 21, 2013. It turned into an exciting holiday party with a kids' zone, thousands of pounds of snow, first-class musical acts, and thousands of visitors. This is not only a milestone for METRO but for the community.

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 CONSTRUCTION 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.

DOWNTOWN CONSTRUCTION PHOTOS



The Main Street Bridge (bottom left) opened one month ahead of schedule amid balloons. University of Houston-Downtown students with their trademark green gator, and officials praised the partnership between METRO and the university.

Testing is an integral part of making sure all the rail lines are operating safely and effectively. METRORail and contractor HRT's crews monitored progress to check track, poles, underground and overhead wiring were all in order before the electrical testing begins. Earlier in the year, this train was turning heads up and down the new North/Red Line under the watchful eyes of METRORail crews, who were measuring every inch of progress along the way. What looked like a red caboose was, instead, the driving engine for railcar 105. Electric power was not yet available through the overhead lines so the train was actually hitched to the red railcar mover, which tugged it up and down the five-mile line.



In addition to rail and rail expansion, METRO operates more than 1,200 buses and a variety of transit services such as: Star Vanpool, METROLift, HOV lanes, HOT lanes, Bikes-on-Buses/Trains and Park & Rides. Additional services to the community include capital programs, a fully active police department and inter-local agreements with other agencies designed to improve mobility while minimizing cost. All of these services continue to provide excellent transportation alternatives while earning positive recognition from customers and peers. Some programs include:



A STAR vanpool is a group of 5 to 15 commuters who save money, time, and stress by sharing a ride in a van. METRO will match interested commuters who live and work in the same area and share work hours. The average cost per passenger is \$4 to \$6 a day with many employers offering benefits that lower the cost.

STAR Vanpool Wins Award ★★★★★

David McMaster of METRO STAR vanpool program was honored recently with a prestigious industry award, acknowledging his exceptional leadership. METRO STAR operates approximately 700 vans and is the sponsor of the regional vanpool program, partnering with TxDOT and the Houston-Galveston Area Council.

McMaster, a 16-year veteran at METRO, received the 2013 President's Award from the Association for Commuter Transportation (ACT), a nonprofit trade group. "I definitely love what I do," said McMaster, Director of Commuter Services. "Vanpool is what I originally came here for."





METROLift is a transit service for customers who can't use the local bus routes or rail, due to a disability.

To improve operations while maintaining sustainability METRO initiated the METROLift Moving Forward Program. This is a community outreach program designed so the public can help establish approaches used to meet the goal of balancing service quality with sustainability while complying with the Americans with Disabilities Act of 1990 (ADA).



METRO conducted a dozen community workshops across the city to get feedback on its policies and practices. Participants were given workbooks designed to quickly provide feedback on nine areas: eligibility, curb-to-curb service, no-show policy, service area fares, same-day changes, on-time performance, travel training/feeder service, and fixed-route accessibility.

Another major initiative was the design and implementation of a Web-based customer scheduling system specifically designed for METROLift customers. METRO's Information Technology Division worked with METROLift and their customers to create MACS-WEB. This system allows customers to book, verify, and cancel their own trips 24/7.



Carpools, vanpools, and motorcyclists can still ride for free on METRO's HOV/HOT Lanes

During July 2013, METRO completed modification to the Eastex High Occupancy Vehicle Lanes (HOV Lanes). This is the fifth and final HOV lane to be converted to a High Occupancy Toll Lane (HOT Lane). These modifications improve utilization of the HOV lanes by adding fare collection equipment, which helps to cover part of the operating cost. If you commute on the Eastex Freeway, you now have an option to speed up your trip. Tolls on the 59-North HOT lane range from \$1 to \$4.50, depending on the time of day. You must use an authorized toll tag to drive on any of METRO's HOT lanes. You can buy a tag at METRO's RideStore located at 1001 Travis or at METRO's Web site. To make it easier for our customers, they can also use a Harris County EZ Tag, TxDOT's TxTAG or the Dallas NTTA toll tag.



METRO'S INNOVATIVE APPROACHES IS TAKING TRANSIT TO A HIGHER LEVEL

Small Vehicle Launch Signals Big Boost for Bus Service



METRO is committed to providing the right vehicle for the right community and is introducing a new smaller, 27-foot bus tailored to meet the dynamic needs of patrons on 13 routes. The new buses have all the amenities of METRO's 40-foot vehicles like header signs, interior pull cords, and audio/visual announcements. They are ADA accessible and seat 15 passengers and cost \$1.25 with a three-hour transfer.

The new service underlines METRO's commitment to the community and connects with other services, including METRORail.

Customers are now able to travel by rail or local bus as many times as they like in a day for just \$3.



HOW IT WORKS: Customers pay the full fare of \$1.25 for each of the first two trips (taps), and just 50 cents for the third tap. All other taps are free. That's unlimited rides on local bus or rail service for \$3 a day. The day pass activates on the third tap and is valid only on the day it was activated. It expires at 2 a.m. the following morning. Transfers in any direction are unlimited after the third tap.

BIKES ON BUSES AND RAIL

METRO allows cyclists to bring their bikes along when they travel. The low-floor bus fleet is equipped with bike racks to help you navigate congested streets on your way to bike trails, work, school, or other destinations. Bicycles can also be stowed on our high-floor buses in the designated baggage compartment. You can also bring your bike on METRORail during designated times. In May, METRO recorded 15,232 bikes on buses – that's 15 percent more than during the same month a year ago and that's 28 percent more than the previous month. Unfortunately, bike racks will not be installed on METRO's articulated bus fleet and will not be allowed on these buses.



METRO's Transit Route Information and Planning (TRIP) Application

This free application is designed by METRO's Information Technology Department and can be downloaded to your smart phone. You can retrieve bus and rail schedules, predict real-time arrivals, and plan your trips. Here are some features:

- Where Am I - This will use the GPS in your phone to find your location, then show you the buses, routes, and rail lines closest to your location.
- Next Transport – You'll get real-time bus arrivals, as well as scheduled bus and train arrivals.
- Plan Trip - This will find a route for your trip, based on arrival time or transfers and walking distance.

The application is designed to work on iPhones, Androids, or Windows phones. You can visit METRO's Web site or go to the iTunes store, Google Play store, or Windows store to download.

You can also visit METRO's Web page where additional free applications are available to help plan your trip.



Bus Rapid Transit



METRO routinely works with local agencies in developing innovative transit and mobility solutions designed to meet the growing needs of the community.

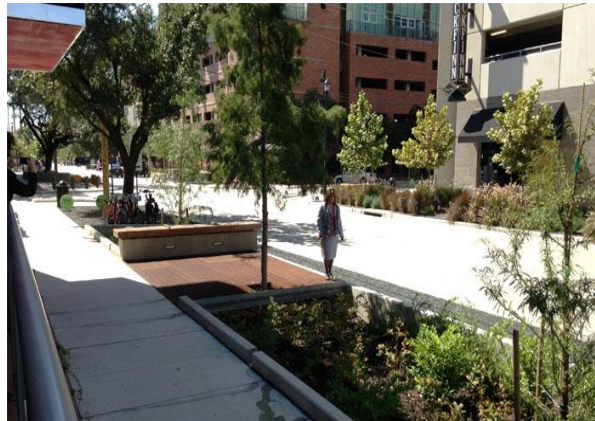
Imagine riding a bus traveling in its own dedicated bus lane along Post Oak Boulevard in the Galleria area. While traffic is inching along all around, you're getting where you want to go without all the gridlock.

That's what planners are envisioning—as early as 2017, The Houston-Galveston Area Council's (HGAC) Transportation Policy Council voted to spend more than \$60 million to widen Post Oak by 16 feet and add two bus lanes separated from other traffic by grass medians.

METRO would operate buses called bus rapid transit and would help carry workers in the Galleria area between transit centers on either end of the Post Oak corridor.

General Mobility Payments at Work

METRO's annual General Mobility payments help other agencies design and build streets, sidewalks bridges, and reduce traffic congestion throughout the service areas. One concept currently used for street design and development is the complete street. Under this approach, streets are designed for easy and safe access for pedestrians, bikers, and vehicles.



Safety Training and Performance Continues to be a Key METRO Goal



Pictured above, left to right: President & CEO Tom Lambert, Melvin Graham, Adrian Dix, Leon Bozeman Jr., Michael Johnson, R. J. Jones, and Andy Skabowski, Senior Vice President of Service Delivery.

For all of you who drive around town, you know how stressful traffic can be.

Now imagine driving a 40-foot bus, day in and day out, and navigating that around construction, pot holes, sudden stops, and cars that swerve past you to get in front.

Our bus operators face those challenges daily—and four out of 1,570 operators managed to achieve stellar driving records. During the year, four were honored at our Board meeting for 30 years and 35 years of safe driving: Robert Jones, Leon Bozeman Jr., Adrian Dix, and Melvin Graham with 35 years.

Two employees earned the 35 Years Safety Award in maintenance: James Whaley and Ronald Taylor. Michael Johnson won the 30 Year Safety Award. METRO employs 363 mechanics.



METRO encourages all of its staff to be a HERO on Wheels. METRO's operators have been specially trained to help citizens with a range of activities from providing route information to coordinating with police officers and emergency personnel. They all help in keeping our community safer while providing quality transit services.



METRO operates a professional, full-service police agency with 191 sworn peace officers and 42 civilian personnel, providing around-the-clock professional police services to METRO customers, employees, and the community. You can help us to help you by reporting suspicious behavior, call 713-224-COPS (2677), #MPD (#673) on your cell phone or 911.

IF YOU SEE SOMETHING, SAY SOMETHING, WE NEED YOUR HELP!



The METRO Police Department (MPD) has partnered with the U.S. Department of Homeland Security to inform you of potential threats to our mass transit system and what to do in that situation. When residents and business owners work with us, we achieve a highly effective, first line of defense against unsafe and unlawful activity. Your efforts go a long way to enhance the safety of your transit centers, Park & Ride lots, and the community.

We're Always on Watch, Working Together for a Safer Tomorrow

METRO police officers learn counter-terrorism measures, along with the latest law enforcement techniques. Officers routinely patrol bus and rail lines and conduct unannounced sweeps of transit centers, Park & Rides, and bus stops/shelters. Monitoring systems installed at transit centers and Park & Rides enhance our surveillance capabilities. The MPD canine force works with officers to sniff out explosives and illegal drugs. Both MPD and federal counter-terrorist intelligence organizations work hard to create a safe environment for METRO riders and our region.



METRO police officers provide a variety of services some of which include: protecting riders, catching criminals, managing traffic, performing undercover work, and playing Santa. Yes, METRO police officers for years have been playing Santa to local children. METRO Blue Santa and his elves brought hundreds of teddy bears, crayons, and coloring books to very sick young patients.



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, prepares 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.

During FY2013, the Department of Finance earned the Texas Comptroller's top award for financial transparency, scoring 19 of 20 possible points. This is the fourth consecutive year METRO has been awarded the Gold Leadership Circle Award. Commitment to quality financial information did not stop with the Texas Comptroller. The Department of Finance also earned awards from the Government Treasurers' Organization of Texas for its investment policy, from the Government Finance Officers Association for its budget presentation and Certificate of Achievement for Financial Reporting for three comprehensive annual financial reports.

Financial Information and Certificate of Achievement for Excellence in Financial Reporting

METRO is not a component unit and the accompanying financial statements include all activity 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 grants. METRO's expenditures relate primarily to transit operations, local infrastructure improvements, traffic management, and various capital items.

The responsibility for accuracy, reliability, and fairness of presentation of the financial information and related disclosures in the Comprehensive Annual Financial Report 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.

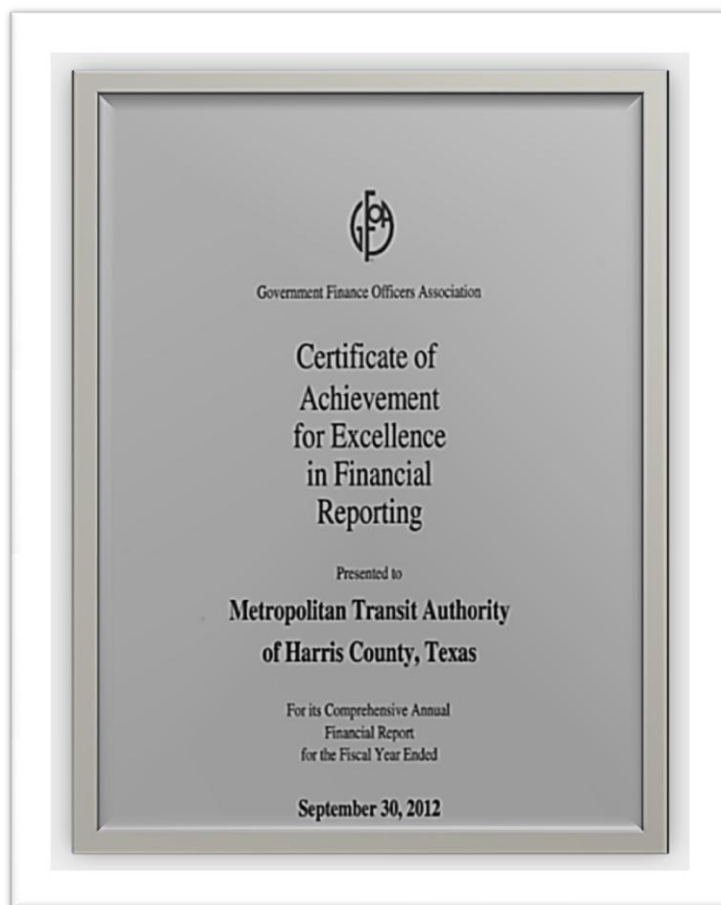
The Enterprise Fund is used to account for transit operations that have been designed to provide the public with a high-quality, cost-effective public transportation system. Transit operations include designing and constructing maintenance and bus storage facilities, selecting bus routes, purchasing buses/rail cars, maintaining equipment, hiring and training personnel who deliver transit services, providing security/traffic enforcement, and administering/managing the transit system.

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, 2012. This is the 21st 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 satisfy both generally accepted accounting principles and applicable legal requirements.



A 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.

Contacting

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 following Management's Discussion and Analysis section.

A handwritten signature in blue ink that reads "Debbie Sechler". The signature is written in a cursive style.

Debbie Sechler
Chief Financial Officer

**Board of Directors
September 30, 2013**



Gilbert Andrew Garcia, CFA, Chairman



Allen D. Watson, Vice Chairman



Lisa Gonzales Castañeda, P.E., Secretary



Burt Ballanfant



Honorable Dwight Jefferson



Carrin F. Patman



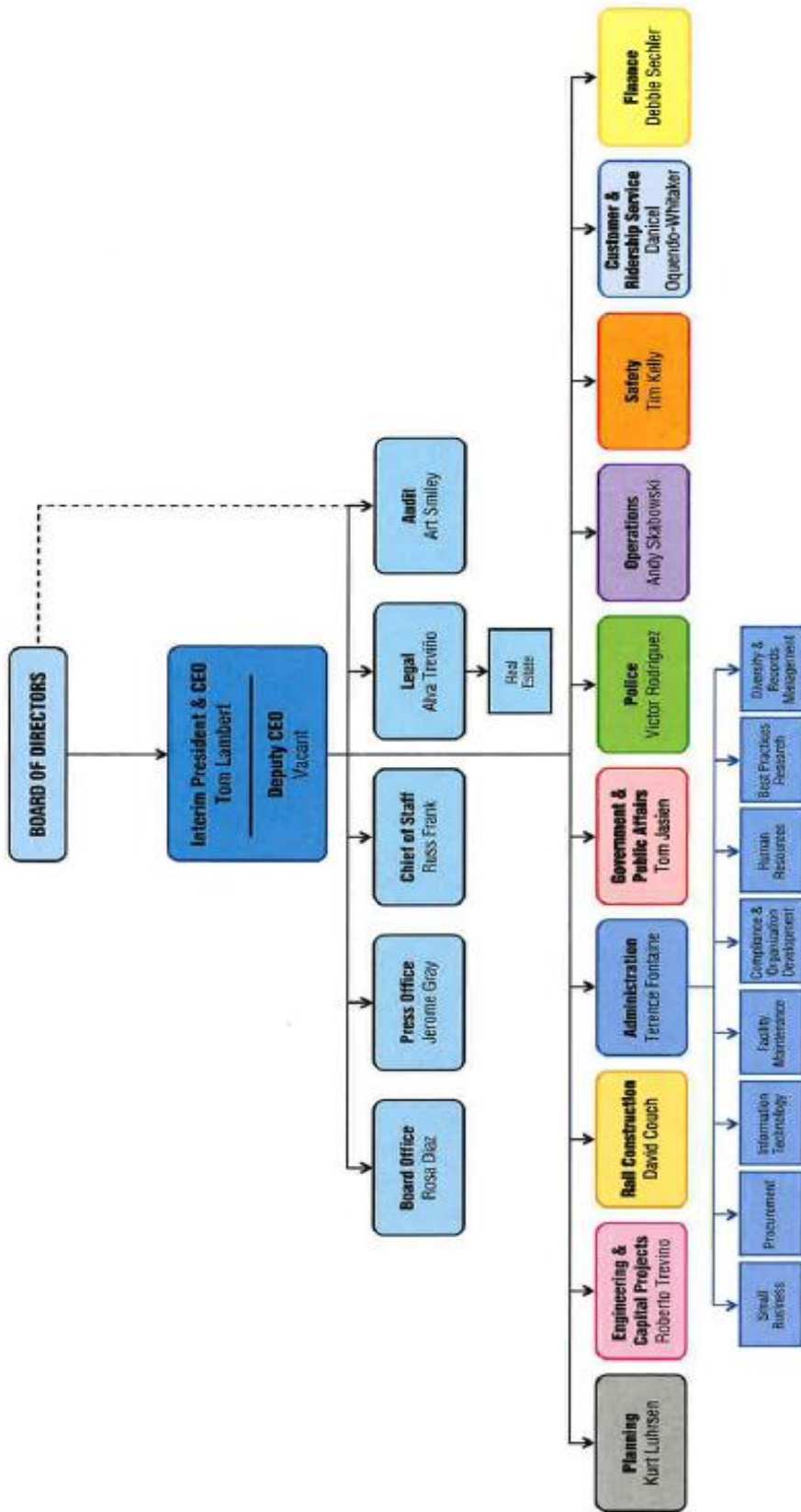
Cindy Siegel



Christof Spieler



Gary Stobb





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 various 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:

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, 2013 and September 30, 2012, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Metropolitan Transit Authority Transport Workers Union Pension Plan Local 260, the Metropolitan Transit Authority Non-Union Pension Plan and Trust, and the Transport Workers Union Metropolitan Transit Authority Health and Welfare Trust (the Retirement Plans) in 2013 or 2012. 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 audits 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 opinion.



Opinion

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 financial position of Metropolitan Transit Authority of Harris County, Texas as of September 30, 2013 and 2012, and the respective changes in financial position, and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis on pages 20 thru 31 and schedules of funding progress for the Authority's Non-Union and Transport Workers Union Pension Plans and other post employment benefits on page 61 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 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 the 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 February 27, 2014 on our consideration of the System'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
February 27, 2014



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-basis 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.

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2013, 2012, AND 2011

This section of the CAFR of the Metropolitan Transit Authority of Harris County, Texas (METRO) presents a discussion and analysis of METRO's financial performance during the fiscal years that ended September 30, 2013, 2012, and 2011. 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

Fiscal Year 2013 vs. 2012

- Sales Tax revenues increased by 8.2% from \$593.7 in FY2012 to \$642.5 million in FY2013 (Table A-3). Sales Tax growth resulted from the strong business climate driven by population increase and job formation. Fares in FY2013 were \$72.8 million, 8.8% higher than in FY2012 (Table A-1). The increase in fare revenue is primarily due to growth in METRO's Q fare card and HOT lanes revenue.
- FY2013 total operating expenses (including depreciation) were \$591.9 million, an increase of 3.2% over FY2012. Increases and decreases by major activity are identified in Table A-2.
- The net position as of September 30, 2013 was \$2,118.2 million, an increase of 14.8% over September 30, 2012. Increases and decreases by major activity are identified in Table A-4.
- Total capital assets (net of depreciation) were \$2,979.5 million as of September 30, 2013, an increase of 15.5% over September 30, 2012 (Table A-5). This increase is directly related to the expansion of METRORail.

Fiscal Year 2012 vs. 2011

- FY2012 Sales Tax revenues were \$593.7 million (Table A-3), 10.6% higher than in FY2011 (Table A-3). Fares in FY2012 were \$66.9 million, 2.6% less than in FY2011 (Table A-1). Sales Tax growth resulted from the strong business climate driven by population increase and strong job formation. While there was no significant variation in fixed-route ridership, which remained essentially flat at 77 million for both years, the Authority's analysis of the deferred revenue largely accounted for the higher fares of \$1.8 million reported in FY2011.
- FY2012 total operating expenses (including depreciation) were \$573.5 million, an increase of 0.5% over FY2011 (Table A-2).
- The balance sheet shows net position as of September 30, 2012 was \$1,844.5 million, an increase of 17.0% over September 30, 2011 (Table A-4).
- Total capital assets (net of depreciation) were \$2,580.1 million as of September 30, 2012, an increase of 12.5% over September 30, 2011 (Table A-5). This increase is primarily due to the continued expansion of METRORail.

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 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. METRO's Statements of Net Position presents information similar to a balance sheet.

FINANCIAL ANALYSIS OF METRO

Net Position

Fiscal Year 2013 vs. 2012

The increase in net position from FY2012 to FY2013 was approximately \$273.7 million (Table A-1) or 14.8%. This increase primarily relates to rail expansion that was funded by the Federal Transit Administration (FTA) and sales tax receipts.

METRO's total operating revenue increased by \$5.9 million to \$72.8 million (see Operating revenue for additional analysis), with total operating expenses increasing by \$18.4 million to \$591.9 million (Table A-2). Accordingly, the operating subsidy (Operating Loss) including depreciation increased 12.5 million or 2.5% (see Expense Factors section).

Non-operating revenues (expenses) and capital contributions as reflected in Table A-3 increased by \$17.6 million or 2.3%. This increase is primarily due to additional sales tax revenues, a decrease in local infrastructure assistance payments offset by lower operating and capital grants.

Total assets (Table A-4) increased by 8.5% to \$3,661.9 million and total liabilities increased by 1.1% to \$1,542.4 million. Net position restricted for debt payments decreased by \$14.5 million.

Fiscal Year 2012 vs. 2011

The increase in net position from FY2011 to FY2012 was approximately \$268.6 million (Table A-1) or 17.0%. The \$268.6 million increase in net position (end of year) from FY2011 to FY2012 is the net of an increase of \$128.7 million in total assets and a decrease of \$146.7 million in total liabilities. The \$128.7 million increase in total assets results largely from increased cash investments from FFGA reimbursements offset by a decrease in prepaid rental payments. The \$146.7 million decrease in total liabilities is largely due to a decrease in the balance of deferred rental payments remaining for lease and sublease agreements for operating facilities and buses.

METRO's total operating revenue decreased by \$1.8 million to \$66.9 million (see Operating revenue for additional analysis), with total operating expenses increasing by \$3 million to \$573.5 million (Table A-2). Accordingly, the operating subsidy (Operating Loss) including depreciation increased 1% (see Expense Factors section).

The net Non-operating revenues (expenses) increased by \$25.3 million or 6.4% and capital contribution increased by \$265.5 million or 290.2% due to receipts from FTA for rail expansion under the Full Funding Grant Agreement (FFGA).

Total assets (Table A-4) increased 4.0% to \$3,374.5 million and total liabilities decreased by 8.8% to \$1,526.3 million. Net position restricted for debt payments decreased by \$3.2 million.

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

| | FY2013 | FY2012 | Amount of Change | Percentage Change | FY2011 |
|--------------------------------------|------------|------------|------------------------|----------------------|------------|
| Increased by: | | | | | |
| Transportation fares | \$ 72.8 | \$ 66.9 | \$ 5.9 | 0.088 | \$ 68.7 |
| Non-operating revenues (expenses) | 537.9 | 419.7 | 118.2 | 0.282 | 394.4 |
| Capital grant proceeds | 256.9 | 357.0 | (100.1) | (0.280) | 91.5 |
| Decreased by: | | | | | |
| Operating expenses | 455.3 | 436.4 | 18.9 | 0.043 | 432.2 |
| Depreciation and amortization | 136.6 | 137.1 | (0.5) | (0.004) | 138.3 |
| Funds passed to subrecipients | 2.0 | 1.5 | 0.5 | 0.333 | 2.5 |
| Changes in net position | 273.7 | 268.6 | 5.1 | 0.019 | (18.4) |
| Net position - beginning of the year | 1,844.5 | 1,575.9 | 268.6 | 0.170 | 1,594.3 |
| Net position - end of the year | \$ 2,118.2 | \$ 1,844.5 | \$ 273.7 | 0.148 | \$ 1,575.9 |

Operating Revenue

Fiscal Year 2013 vs. 2012

METRO's total operating revenue increase by \$5.9 million to \$72.8 million. The increase in FY2013 operating revenue over FY2012 of 5.9 million is primarily due to growth in METRO's Q card and HOT lanes toll revenue. (Table A-1)

Fiscal Year 2012 vs. 2011

The decrease in FY2012 operating revenue over FY2011 is largely due to METRO's analysis of the deferred revenue account. The unclaimed fare media resulted in a \$1.2 million increase in unearned revenue in FY2012 and a \$3.0 million increase in FY2011. The net effect of these adjustments in their respective years is largely responsible for the 2.6% of \$1.8 million decrease in transportation fares in FY2012 over FY2011.

Table A-2
Total Operating Expenses
(in millions)

| | FY 2013 | FY 2012 | Amount of change | Percentage Change | FY2011 |
|---|----------|----------|---------------------|----------------------|----------|
| Scheduled services-fixed route | | | | | |
| Bus & rail operations-direct | \$ 170.9 | \$ 165.9 | \$ 5.0 | 0.030 | \$ 165.7 |
| Contract service | 46.6 | 47.4 | (0.8) | (0.017) | 44.7 |
| Materials | 5.5 | 6.0 | (0.5) | (0.083) | 6.0 |
| Preventive maintenance | 51.0 | 48.9 | 2.1 | 0.043 | 49.4 |
| Central shop & maintenance support | 19.1 | 18.1 | 1.0 | 0.055 | 15.2 |
| Safety and training | 1.0 | 0.8 | 0.2 | 0.250 | 0.9 |
| Subtotal scheduled services - fixed route | 294.1 | 287.1 | 7.0 | 0.024 | 281.9 |
| Non-scheduled services-special | | | | | |
| METROLift | 45.2 | 40.2 | 5.0 | 0.124 | 39.7 |
| METROVan | 5.0 | 5.3 | (0.3) | (0.057) | 5.0 |
| HOT lanes | 5.2 | 2.0 | 3.2 | 1.600 | 0.6 |
| Special events | 0.4 | 0.3 | 0.1 | 0.333 | - |
| Subtotal non-scheduled service - special | 55.8 | 47.8 | 8.0 | 0.167 | 45.3 |
| Service support | | | | | |
| Service planning and evaluation | 3.5 | 3.1 | 0.4 | 0.129 | 4.2 |
| Marketing | 7.3 | 6.9 | 0.4 | 0.058 | 7.4 |
| Transit security | 11.8 | 13.2 | (1.4) | (0.106) | 15.0 |
| Insurance and claims | 5.9 | 5.7 | 0.2 | 0.035 | 5.6 |
| Ticket and fare collection | 3.7 | 3.4 | 0.3 | 0.088 | 3.9 |
| Facility maintenance | 21.7 | 20.0 | 1.7 | 0.085 | 16.6 |
| Subtotal service support | 53.9 | 52.3 | 1.6 | 0.031 | 52.7 |
| Traffic management - services | 6.8 | 7.0 | (0.2) | (0.029) | 7.8 |
| Organization support | | | | | |
| Business, community and governmental development | 4.2 | 5.0 | (0.8) | (0.160) | 4.6 |
| Administrative, financial and personnel | 14.6 | 15.4 | (0.8) | (0.052) | 18.1 |
| Information systems | 14.0 | 14.3 | (0.3) | (0.021) | 12.4 |
| Purchasing | 3.0 | 2.5 | 0.5 | 0.200 | 2.9 |
| Oversight, audit and legal | 8.9 | 5.0 | 3.9 | 0.780 | 6.5 |
| Subtotal organization support | 44.7 | 42.2 | 2.5 | 0.059 | 44.5 |
| Depreciation and amortization | 136.6 | 137.1 | (0.5) | (0.004) | 138.3 |
| Total operating expenses | \$ 591.9 | \$ 573.5 | \$ 18.4 | 0.032 | \$ 570.5 |

Expense Factors

Fiscal Year 2013 vs. 2012

Total operating expenses increased by \$18.4 million or 3.2%. This increase relates to providing more scheduled transit services including METROLift and more HOT lanes becoming fully operational. The operating subsidy (Operating Loss) including depreciation increased \$12.5 million or 2.5%. The \$12.5 million is a net result of an increase in operating revenue of \$5.9 million and an increase in total operating expenses of \$18.4 million.

Fiscal Year 2012 vs. 2011

Total operating expenses increased by \$3.0 million or 0.5%. This increase was primarily due to increases in operational costs related to both scheduled services (including Contract Services and Central Shop and Maintenance Support) and nonscheduled services primarily related to Special Events. Facility Maintenance costs increased mainly due to the High Occupancy Toll (HOT) Lanes, a new service introduced in FY2012. To offset these increases, there were reductions realized in service support costs notably service planning and evaluation costs, transit security, and organizational support costs including Administrative, Financial & Personnel, and Oversight, Audit & Legal expenses.

Depreciation and Amortization

Fiscal Year 2013 vs. 2012

In FY2013, depreciation expense stays relatively flat at \$136.6 million comparing to \$137.1 million in FY2012, a \$0.5 million decrease or 0.4%.

Fiscal Year 2012 vs. 2011

In FY2012, some of METRO's property was fully depreciated and some expenses fully amortized resulting in a decrease of \$1.2 million or 0.9% in depreciation and amortization expense.

Sales Tax

Fiscal Year 2013 vs. 2012

Sales Tax revenues increased in FY2013 by \$48.8 million to \$642.5 million. This 8.2% increase is primarily due to continued improvements in the local economy.

Fiscal Year 2012 vs. 2011

FY2012 Sales Tax revenues were \$57.1 million higher than in FY2011, a 10.6% increase. Population and employment are the major drivers of Sales Tax. Houston has long been recognized as being among the most competitive U.S. cities for corporate relocation and expansion activity. As a global leader in oil and gas technology, existing data suggests that in FY2012, Houston continued to experience strong job formation primarily in technical and professional service jobs and population growth largely due to domestic and international migration trends that tend to favor the region's geographical, cultural, and economic strengths.

Non-operating Income Discussion

Table A-3
Changes in Non-Operating Revenues (Expenses) and Capital Contributions
(in millions)

| | FY2013 | FY2012 | Amount of Change | Percentage Change | FY2011 |
|--|----------|----------|------------------------|----------------------|----------|
| Sales Tax | \$ 642.5 | \$ 593.7 | \$ 48.8 | 0.082 | \$ 536.6 |
| Investment income | 0.8 | 0.6 | 0.2 | 0.333 | 0.3 |
| Inter-government revenue | 2.0 | 2.0 | — | — | 2.0 |
| Non-capitalized interest expense | (10.1) | (13.7) | 3.6 | (0.263) | (13.5) |
| Other income | 1.8 | 3.0 | (1.2) | (0.400) | 0.6 |
| Grant proceeds | 71.8 | 56.5 | 15.3 | 0.271 | 59.6 |
| Local infrastructure assistances | (170.4) | (222.1) | 51.7 | (0.233) | (188.5) |
| Loss on sale of assets | (0.5) | (0.3) | (0.2) | 0.667 | (2.7) |
| Total non-operating revenues (expenses) | 537.9 | 419.7 | 118.2 | 0.282 | 394.4 |
| Capital grant proceeds | 256.9 | 357.0 | (100.1) | (0.280) | 91.5 |
| Funds passed to subrecipients | (2.0) | (1.5) | (0.5) | 0.333 | (2.5) |
| Total non-operating revenues (expenses) and capital contributions | \$ 792.8 | \$ 775.2 | \$ 17.6 | 0.023 | \$ 483.4 |

Capital Contributions (Grants)

Fiscal Year 2013 vs. 2012

METRO continues to be the recipient of a number of federal and state grants for a variety of programs including Formula Funds, New Starts, Fixed Guideway Modernization, Bus/Bus Facility, and Congestion Mitigation/Air Quality (CMAQ). As projects are advanced and expenditures incurred, revenues from the grants are accrued and recognized. In FY2013, total grants were \$328.7 million. In FY2012, the total grant revenue was \$413.5 million, which included a back billing of \$164.4 million for North and East Corridor. The timing of the billing for both Operating and Capital Grant caused a decrease of \$84.8 million from FY2012 to FY2013.

Fiscal Year 2012 vs. 2011

METRO is the recipient of a number of federal and state grants from a variety of programs including Formula Funds, New Starts, Fixed Guideway Modernization, Bus and Bus Facility, and Congestion Mitigation/Air Quality (CMAQ). These funds are received on the basis of project expenditures made. As projects are advanced and expenditures incurred, the grants are accrued and recognized. In FY2011, total grants were \$151.1 million. In FY2012, the total grant revenue was \$413.5 million, an increase of \$262.4 million. The increase is primarily due to federal reimbursements of current and FY2011 expenditures for Light-Rail expansion eligible expenses following the award to the Authority of the Full Funding Grant Agreement (FFGA) in November 2011.

Funds Passed to Subrecipients

Fiscal Year 2013 vs. 2012

The Authority receives grants from the federal agency, some of which are passed through to other entities, i.e., subrecipients who carry out or administer the JARC programs (Job Access and Reverse Commute) and have certain responsibilities for programmatic decision making. In FY2013, this amount was \$2 million or 33% percent higher than the previous year.

Fiscal Year 2012 vs. 2011

The Authority receives grants from the federal agency, some of which are passed through to other entities, i.e., subrecipients who carry out or administer programs and have certain responsibilities for programmatic decision making. In FY2012, this amount was \$1.5 million or 40 percent lower than the previous year.

Investment Income

Fiscal Year 2013 vs. 2012

During FY2013, the investment portfolio declined approximately 29.5 percent from \$525.4 million to \$370.5 million. This decline occurred primarily because funds received and invested from debt proceeds and previous sale tax receipts were needed to pay for rail and other capital expenditures.

The investment portfolio is divided into three separate pools consisting of General, Construction, and General Mobility. Investments and related returns for each pool vary depending on liquidity requirements. FY2013 returns for individual pools were General .351%, Construction .039% and General Mobility .039%. Investment returns for all pools exceeded their benchmark.

Fiscal Year 2012 vs. 2011

METRO's average invested General Funds for FY2012 were \$217.5 million and for FY2011 were \$78.6 million. The increase was primarily due to the award of the full funding grant agreement and receipt of reimbursements in the first and second quarters of FY2012 for eligible expenditures made in previous years. Annualized yield on METRO's portfolio decreased to 0.37% in 2012 from 0.61% for 2011, reflecting dilution resulting from the inflow of substantial reimbursements from FTA in an extremely low interest rate environment. The investment portfolio consisted of the following: U.S. Treasuries and Agencies, Texas Municipal Bonds and Commercial Paper, a collateralized Certificate of Deposit with a local bank, participation in Local Government Investment Pools, and Money Market Mutual Funds and Cash during FY2012.

Local Infrastructure Assistance

Fiscal Year 2013 vs. 2012

METRO invests a significant amount of its resources into the construction, rebuilding, and rehabilitation of streets, bridges, and sidewalks in the Greater Houston region as well as other infrastructure improvements that contribute to the enhanced mobility and reduced congestion in its service area – a key part of the Authority's mission. These investments include land conveyances to the City of Houston, upgrades to traffic signalization, e.g., the Main Street Corridor Regional Computerized Traffic Signal System (RCTSS), and its continued contribution to the General Mobility Program – METRO's inter-local agreement with its member entities (City of Houston, Harris County, and the 14 Multi-Cities) to which by voter referendum METRO must allocate 25% of its sales tax revenue.

As the streets are not the property of METRO, the construction expenditures are reported as current period non-operating expenses. The investment in General Mobility decreased from \$222.1 million in FY

2012 to \$170.4 million in FY2013, which primarily related to a decrease in land conveyed to the City of Houston from \$65.3 million in FY2012 to \$19.1 million in FY2013.

Fiscal Year 2012 vs. 2011

Investments in regional mobility totaled \$222.1 million in FY2012 and \$188.5 million in FY2011 (Table A-3). The increase in local infrastructure assistance is due primarily to an increase in the invoicing of General Mobility expenses by the City of Houston and Harris County and an increase in land conveyed to the City of Houston.

Long-Term Debt

Fiscal Year 2013 vs. 2012

Long-term debt consists of commercial paper, deferred rental payments, capital leases, and sales and use tax bonds. Long-term debt was used to finance capital assets reported as noncurrent. Long-term debt decreased from \$1,150.1 billion in FY2012 to \$950.9 million in FY2013. This \$199.2 million reduction is due to amortization of the deferred rental payments of 12.2 million, principal payments and amortization of bonds of \$24.6 million, and \$162.4 million of outstanding Commercial Paper being reclassified from long-term to short-term debt. No new debt was issued during FY2013 and the current debt ratings for METRO improved with Standard & Poor's rating on sales tax bonds and contractual obligations moving higher to 'AA+' from 'AA' and the certificates of participation (COPs) moving one notch higher to AA' from 'AA-'. The Aa2 rating by Moody remained unchanged from FY2012.

Fiscal Year 2012 vs. 2011

Long-term debt consists of commercial paper, deferred rental payments, capital leases, and sales and use tax bonds. Long-term debt was used to finance capital assets reported as noncurrent long-term debt. Long-term debt decreased from \$1,325.5 billion in FY2011 to \$1,150.1 billion in FY2012. This reduction was primarily due to early termination of deferred rental payments, scheduled principal payments on existing debt, and \$26.6 million of outstanding Commercial Paper being reclassified from long-term to short-term debt. No new debt was issued during FY2012 and the current debt ratings for METRO are AA for Standard and Poor's and Aa2 for Moody's, which remain unchanged since FY2011.

Loss on Sale of Assets

Fiscal Year 2013 vs. 2012

In FY2013, the Authority recorded a loss of \$0.5 million due to the sale of obsolete parts and retired transit equipment, neither of which had remaining useful value to the Authority.

Fiscal Year 2012 vs. 2011

In FY2012, the Authority recorded a loss of \$0.3 million due to the sale of obsolete parts and retired transit equipment, neither of which had remaining useful value to the Authority. In FY2011, the Authority recorded a loss of \$2.7 million due to the sale of obsolete parts and retired transit equipment, neither of which had remaining useful value to the Authority.

Table A-4
Net Assets
(in millions)

| | FY2013 | FY 2012 | Amount of Change | Percentage Change | FY 2011 |
|-------------------------------|------------|------------|------------------------|----------------------|------------|
| Current Assets | \$ 562.0 | \$ 562.5 | \$ (0.5) | (0.001) | \$ 306.7 |
| Capital Assets (Net) | 2,979.5 | 2,580.1 | 399.4 | 0.155 | 2,292.8 |
| Prepaid and Other Assets | 120.4 | 231.9 | (111.5) | (0.481) | 646.3 |
| Total Assets | 3,661.9 | 3,374.5 | 287.4 | 0.085 | 3,245.8 |
| Deferred outflow of resources | — | — | — | — | 3.2 |
| Current Liabilities | 415.4 | 226.9 | 188.5 | 0.831 | 217.7 |
| Other Liabilities | 1,127.0 | 1,299.4 | (172.4) | (0.133) | 1,455.4 |
| Total Liabilities | 1,542.4 | 1,526.3 | 16.1 | 0.011 | 1,673.1 |
| Deferred inflow of resources | 1.3 | 3.7 | (2.4) | (0.649) | — |
| Net Position: | | | | | |
| Investment in capital assets | 1,949.1 | 1,730.0 | 219.1 | 0.127 | 1,641.3 |
| Restricted for debt payments | 56.8 | 71.3 | (14.5) | (0.203) | 74.5 |
| Unrestricted | 112.3 | 43.2 | 69.1 | 1.600 | (139.9) |
| Total Net Position | \$ 2,118.2 | \$ 1,844.5 | \$ 273.7 | 0.148 | \$ 1,575.9 |

CAPITAL ASSETS

Fiscal Year 2013 vs. 2012

As of September 30, 2013, METRO's investments in net capital assets (Table A-5) totaled \$2,979.5 million and consisted of buses, rail, buildings, equipment, HOV/HOT lanes, leasehold improvements, construction in progress and land. The increase of \$399.4 million or 15.5% from September 30, 2012 relates primarily to \$555.4 million in METRORail expansion, bus replacements, and finalizing the conversion of HOV to HOT lanes reduced by accumulated depreciation. Additional information is located in financial note 3.

Fiscal Year 2012 vs. 2011

As of September 30, 2012, METRO had invested approximately \$3,925.2 million in capital assets, including rail and equipment, buildings, buses and equipment, transitways, other property and equipment, leasehold improvements, land, and construction in progress. Net of accumulated depreciation, METRO's net capital assets at September 30, 2012 totaled \$2,580.1 million (Table A-5). This amount represents a net increase (including additions and disposals, net of depreciation) of \$287.3 million or 12.5% over September 30, 2011. A significant addition in FY2012 was \$432.8 million used to expand METRORail. Additional information is located in financial note 3.

The increase in total capital assets (before depreciation) from FY2011 to FY2012 was \$359.0 million, an increase of 10.1%.

Table A-5
Capital Assets
(in millions)

| | FY2013 | FY 2012 | Amount of Change | Percentage Change | FY 2011 |
|--|------------|------------|---------------------|----------------------|------------|
| Rail and equipment | \$ 370.8 | \$ 296.8 | \$ 74.0 | 0.249 | \$ 292.7 |
| Buildings and improvements | 421.4 | 413.5 | 7.9 | 0.019 | 416.8 |
| Park and ride lots | 281.8 | 281.0 | 0.8 | 0.003 | 284.7 |
| Buses and equipment | 738.6 | 745.0 | (6.4) | (0.009) | 712.0 |
| Transitways | 571.6 | 538.0 | 33.6 | 0.062 | 516.9 |
| Other property and equipment | 79.4 | 70.1 | 9.3 | 0.133 | 74.5 |
| Total assets | 2,463.6 | 2,344.4 | 119.2 | 0.051 | 2,297.6 |
| Less: Accumulated depreciation & amortization | (1,454.9) | (1,345.1) | (109.8) | 0.082 | (1,273.4) |
| Net depreciable property and improvement | 1,008.7 | 999.3 | 9.4 | 0.009 | 1,024.2 |
| Land | 290.7 | 308.1 | (17.4) | (0.056) | 364.0 |
| Construction-in-progress | 1,680.1 | 1,272.7 | 407.4 | 0.320 | 904.6 |
| Net capital assets | \$ 2,979.5 | \$ 2,580.1 | \$ 399.4 | 0.155 | \$ 2,292.8 |

OUTSTANDING COMMITMENTS

Fiscal Year 2013 vs. 2012

The Authority has entered into various contracts and purchase orders to acquire goods and services or to assist in developing infrastructure improvements within the Authority service area. Many of these contracts extend beyond a single fiscal year. These items total approximately \$767 million and \$940 million as of September 30, 2013 and September 30, 2012, respectively. Additional analysis is located in note 7.

ECONOMIC OUTLOOK FY2014

As mentioned at the 2013 Economic Symposium in November 2013 held by University of Houston, C.T. Bauer College of Business, according to Dr. Robert W. Gilmer, “For a decade, oil and emerging markets have powered the Houston economy and the lack of stimulus from the struggling U.S. economy was barely missed. But now, the picture is changing. Emerging markets are slowing, bringing much discussion of the end of a decade-long commodity cycle. And the U.S. economy is finally showing signs of putting the Great Recession behind it, with a revival in housing, reduced consumer debt loads, and healthy revenues for state and local government. By 2014, historic rates of growth may again return to the U.S. economy, finally putting an end to the Great Recession and its aftermath. Revival of U.S. growth will bring with it the end of monetary stimulus. Long-term rates will rise first as the Federal Reserve pulls back on quantitative easing, followed later by increased short-term rates. While energy remains central to Houston’s economic outlook and the prospects for continued job growth remains solid, the broader economic backdrop that supports energy prices – and Houston’s economy – is rapidly changing.”



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, 2013 and 2012

| | 2013 | 2012 |
|---|------------------|------------------|
| Assets | | |
| Current assets | | |
| Cash | \$ 3,499,304 | \$ 1,769,157 |
| Investments | 313,657,041 | 358,828,979 |
| Investments – restricted | 28,942,440 | 37,265,000 |
| Receivables | | |
| Sales tax | 110,821,904 | 103,035,680 |
| Federal government - Federal Transit Administration | 73,106,988 | 26,811,825 |
| Bus passes and other receivables | 10,277,726 | 13,570,522 |
| Total receivables | 194,206,618 | 143,418,027 |
| Material and supplies inventory | 20,407,175 | 17,532,502 |
| Derivative instrument – diesel fuel swaps | 1,348,147 | 3,691,843 |
| Total current assets | 562,060,725 | 562,505,508 |
| Noncurrent assets | | |
| Investments – restricted | 27,851,305 | 129,308,971 |
| Capital assets, net of depreciation | 2,979,521,713 | 2,580,100,752 |
| Prepaid pension | 26,346,959 | 26,678,091 |
| Other noncurrent assets | 14,002,247 | 11,549,753 |
| Prepaid rental payments | 52,168,306 | 64,374,346 |
| Total noncurrent assets | 3,099,890,530 | 2,812,011,913 |
| Total assets | 3,661,951,255 | 3,374,517,421 |
| Liabilities | | |
| Current liabilities | | |
| Trade payables | 149,021,462 | 125,067,467 |
| Accrued compensation and benefits | 27,430,216 | 23,759,406 |
| Liabilities for injuries and damages | 3,679,238 | 3,385,061 |
| Commercial paper | 187,000,000 | 26,600,000 |
| Other current liabilities | 8,824,195 | 9,005,559 |
| Capital lease obligations | 8,129,906 | 7,899,879 |
| Debts payable | 13,365,000 | 12,895,000 |
| Debt interest payable | 17,976,710 | 18,287,887 |
| Total current liabilities | 415,426,727 | 226,900,259 |
| Noncurrent liabilities | | |
| Liabilities for injuries and damages | 7,014,731 | 5,715,969 |
| Commercial paper | – | 162,400,000 |
| Deferred rental payments | 52,168,306 | 64,374,346 |
| Capital lease obligations | 75,423,971 | 83,711,279 |
| Debts payable | 823,268,698 | 839,645,874 |
| Other postemployment benefits | 169,059,735 | 143,594,021 |
| Total noncurrent liabilities | 1,126,935,441 | 1,299,441,489 |
| Total liabilities | 1,542,362,168 | 1,526,341,748 |
| Deferred inflow of resources - diesel fuel swaps | 1,348,147 | 3,691,843 |
| Net position | | |
| Net investment in capital assets | 1,949,158,508 | 1,729,961,468 |
| Restricted assets – debt payments | 56,793,745 | 71,335,683 |
| Unrestricted assets | 112,288,687 | 43,186,679 |
| Total net position | \$ 2,118,240,940 | \$ 1,844,483,830 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|------------------|------------------|
| Operating revenues: | | |
| Transportation fares | \$ 72,782,991 | \$ 66,887,319 |
| Operating expenses: | | |
| Scheduled services - fixed route | | |
| Bus and rail operations - direct | 170,940,122 | 165,925,733 |
| Contract service | 46,620,525 | 47,431,837 |
| Material distribution | 5,540,367 | 5,966,531 |
| Preventative maintenance | 51,040,854 | 48,876,170 |
| Central shop and maintenance support | 18,961,766 | 18,103,288 |
| Safety and training | 973,447 | 816,598 |
| Subtotal scheduled services - fixed route | 294,077,081 | 287,120,157 |
| Non-scheduled services -special | | |
| METROLift | 45,181,913 | 40,204,841 |
| METROVan | 4,967,172 | 5,250,084 |
| HOT lanes and special events | 5,582,712 | 2,346,041 |
| Subtotal non-scheduled services - special | 55,731,797 | 47,800,966 |
| Service support | | |
| Service planning and evaluation | 3,521,365 | 3,130,879 |
| Marketing | 7,306,538 | 6,910,999 |
| Transit security | 11,778,274 | 13,214,108 |
| Insurance and claims | 5,927,146 | 5,673,304 |
| Ticket and fare collection | 3,751,006 | 3,369,283 |
| Facility maintenance | 21,660,854 | 20,020,810 |
| Subtotal service support | 53,945,183 | 52,319,383 |
| Traffic management - services | 6,809,307 | 6,985,562 |
| Organizational support | | |
| Business, community, and governmental development | 4,228,909 | 5,043,321 |
| Administrative, financial, and personnel | 14,612,492 | 15,357,730 |
| Information systems | 13,948,037 | 14,276,491 |
| Purchasing | 2,994,284 | 2,502,794 |
| Oversight, audit and legal | 8,875,645 | 5,000,056 |
| Subtotal organizational support | 44,659,367 | 42,180,392 |
| Depreciation and amortization | 136,642,238 | 137,094,956 |
| Total operating expenses | 591,864,973 | 573,501,416 |
| Operating loss | (519,081,982) | (506,614,097) |
| Non-operating revenues (expenses): | | |
| Sales tax | 642,515,462 | 593,732,843 |
| Investment income | 768,527 | 625,042 |
| Inter-government revenue | 1,986,480 | 1,986,480 |
| Non-capitalized interest expense | (10,102,779) | (13,719,644) |
| Other income | 1,845,296 | 3,030,912 |
| Grant proceeds | 71,766,635 | 56,460,316 |
| Local infrastructure assistance | (170,373,931) | (222,054,292) |
| Loss on sale or disposal of assets | (470,021) | (316,485) |
| Total non-operating revenues (expenses) | 537,935,669 | 419,745,172 |
| Net increase (decrease) before capital grants | 18,853,687 | (86,868,925) |
| Capital grant proceeds | 256,919,845 | 356,987,060 |
| Funds passed to subrecipients | (2,016,422) | (1,528,115) |
| Changes in net position | 273,757,110 | 268,590,020 |
| Net position - beginning of the year | 1,844,483,830 | 1,575,893,810 |
| Net position - end of the year | \$ 2,118,240,940 | \$ 1,844,483,830 |

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, 2013 and 2012

| | 2013 | 2012 |
|---|------------------|------------------|
| Cash flows from operating activities: | | |
| Receipts from transportation fares | \$ 74,192,592 | \$ 65,245,199 |
| Payments to employees | (245,937,157) | (237,817,909) |
| Payments to suppliers for goods and services | (188,227,778) | (177,589,026) |
| Net cash used in operating activities | (359,972,343) | (350,161,736) |
| Cash flows from noncapital financing activities: | | |
| Sales tax | 634,400,703 | 588,178,778 |
| Proceeds from grants | 39,768,863 | 72,476,157 |
| Receipts from miscellaneous income | 1,845,297 | 2,806,316 |
| Payments for local infrastructure assistance | (144,581,922) | (161,564,126) |
| Net cash provided by noncapital financing activities | 531,432,941 | 501,897,125 |
| Cash flows from capital and related financing activities: | | |
| Proceeds from grants | 241,492,741 | 330,337,962 |
| Principal payments related to commercial paper | (2,000,000) | (1,000,000) |
| Principal payments related to debts | (20,794,879) | (16,834,700) |
| Long-term debt issuance cost | — | (971,406) |
| Interest payments related to debts | (48,134,093) | (38,267,081) |
| Sale of investments relating to sales tax bonds proceeds | 109,780,224 | 313,596,553 |
| Interest rebates from Build America Bonds | 1,986,480 | 1,986,480 |
| Proceeds from sale of assets | 333,256 | 853,680 |
| Capital purchases | (498,573,227) | (474,606,272) |
| Net cash flows (used in) provided by capital and related financing activities | (215,909,498) | 115,095,216 |
| Cash flows from investing activities: | | |
| Proceeds from sale and maturities of investments | 658,365,424 | 368,622,016 |
| Purchase of investments | (613,585,121) | (635,859,562) |
| Interest income | 1,398,744 | 315,446 |
| Net cash flows provided by (used in) investing activities | 46,179,047 | (266,922,100) |
| Net change in cash | 1,730,147 | (91,495) |
| Cash at beginning of year | 1,769,157 | 1,860,652 |
| Cash at end of year | \$ 3,499,304 | \$ 1,769,157 |
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (519,081,982) | \$ (506,614,097) |
| Depreciation and amortization | 136,642,238 | 137,094,956 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 751,429 | (3,349,235) |
| Decrease (increase) in inventory and other assets | (4,210,509) | 3,913,598 |
| Decrease in prepaid pension | 331,132 | 103,526 |
| (Decrease) increase in accrued compensation and benefits | 3,670,810 | (1,296,092) |
| Increase in other postemployment benefits | 25,465,714 | 27,327,035 |
| Increase (decrease) in liabilities for injuries and damages | 1,592,939 | (8,203,187) |
| Increase (decrease) in trade payables and other liabilities | (5,134,114) | 861,760 |
| Net cash used in operating activities | \$ (359,972,343) | \$ (350,161,736) |
| Noncash investing activities | | |
| The net decrease in fair value of investments | \$ 255,023 | \$ 208,130 |
| Inflows from reissuance of commercial paper | 760,150,000 | 813,200,000 |
| Outflows from reissuance of commercial paper | (760,150,000) | (813,200,000) |
| Land conveyed to the City of Houston due to rail construction | 19,111,275 | 65,291,832 |

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 consists of transit fares 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 operations provide comprehensive, effective, and efficient management of traffic and vehicular movement in order to enhance utilization of METRO's regional street and road network, thereby improving regional mobility. METRO also provides 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.

Non-operating

Non-operating revenue and expenses include the one percent sales tax levied in METRO's service area, investment income, inter-government revenue, other expenses (income), which includes leasing of

property not used in transit operations and cash receipts from lease/sublease arrangements, grant proceeds used in operations, 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 - 30 years |
| Buildings and improvements | 4 - 40 years |

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

Compensated Absences

Compensated absences are earned by all full-time and part-time employees. Employees covered by METRO's Union Contract 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.

Non-Union employees 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 non-cancellable, 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 non-current liability in the Statements of Net Position.

Sales Tax

Revenue from the 1 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 2 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

During FY2013, METRO implemented GASB Standards No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, No. 61, *The Financial Reporting Entity: Omnibus*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. These standards did not materially affect METRO's financial report.

New GASB Standards that are being evaluated by METRO include:

| | <u>Effective</u> |
|---|------------------|
| GASB Standard No. 65, <i>Items Previously Reported as Assets and Liabilities</i> | FY2014 |
| GASB Standard No. 66, <i>Technical correction to GASB Statements No. 10 and No. 62</i> | FY2014 |
| GASB Standard No 67, <i>Financial Reporting for Pension Plans</i> | FY2015 |
| GASB Standard No 68, <i>Accounting and Financial Reporting for Pensions</i> | FY2015 |
| GASB Standard No. 70, <i>Accounting and Financial Reporting for Non Exchange Guarantees</i> | FY2014 |

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 managers, 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. Also, the investment policy must be approved by the Board of Directors annually and include a list of authorized investments that 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.

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, and obligations of the United States with maturities generally less than two years. Investments not insured or guaranteed by a governmental entity must be rated by a nationally recognized organization with rating not less than AAAm, A-1, P-1, F-1, or equivalent.

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, specific issuer, or specific class of securities and places limits on the allocation of investments 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 \$296,839,671 or 80.1% of total investments. None of the remaining investments represented a significant concentration of credit risk.

Deposits

METRO's checking accounts deposits and cash book balances as of September 30, 2013 and 2012 were as follows:

| | Fiscal 2013 | Fiscal 2012 |
|---------------|--------------|--------------|
| Unrestricted | | |
| Bank balances | \$ 3,122,173 | \$ 1,684,353 |
| Book balances | 3,499,304 | 1,769,157 |

Investments

The fair value of METRO's investments is estimated based on quoted market prices. The investments held at September 30, 2013 and 2012 are indicative of the type of investments made by METRO during each fiscal year and consist of the following:

| | Fiscal 2013 Fair Value | Fiscal 2012 Fair Value | Credit Ratings |
|-----------------------------------|---------------------------|---------------------------|------------------------------|
| Unrestricted investments | | | |
| U.S. Treasury security | \$ — | \$ 10,214,844 | |
| U.S. Agency securities | 52,171,412 | 101,122,725 | |
| Local government investment pool | 187,873,742 | 171,877,949 | AAAm |
| Money market mutual fund | 772 | 10,276,868 | AAAm |
| Municipal commercial paper | 37,396,815 | 38,996,053 | A-1+, P-1, F1+ |
| Certificate of deposit | 10,000,000 | 10,000,000 | Collateral =Aaa |
| Municipal bonds | 26,214,300 | 16,340,540 | SP-1+, F1+/Aaa/AAA Aa3/AA |
| Total unrestricted investments | 313,657,041 | 358,828,979 | |
| Restricted investments | | | |
| Local government investment pools | 56,793,745 | 166,573,971 | AAAm |
| Total restricted assets | 56,793,745 | 166,573,971 | |
| Total Investments | \$ 370,450,786 | \$ 525,402,950 | |

Investment by type and weighted average maturity as of September 30, 2013 and 2012 consisted of the following:

| | Fiscal 2013 Fair Value | Investment Maturity | | Average Maturity |
|----------------------------------|---------------------------|---------------------|----------------------|---------------------|
| | | Less Than 1 Year | Less Than 2 years | |
| Investment securities | | | | |
| U.S. Agency securities | 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 | — | |

| | Fiscal 2012 Fair Value | Investment Maturity | | Average Maturity |
|----------------------------------|---------------------------|-----------------------|----------------------|---------------------|
| | | Less Than 1 Year | Less Than 2 years | |
| Investment securities | | | | |
| U.S. Treasury security | \$ 10,214,844 | \$ 10,214,844 | \$ – | 227 days |
| U.S. Agency securities | 101,122,725 | 66,057,825 | 35,064,900 | 307 days |
| Local government investment pool | 338,451,920 | 338,451,920 | – | 46 days |
| Money market mutual fund | 10,276,868 | 10,276,868 | – | 37 days |
| Municipal commercial paper | 38,996,053 | 38,996,053 | – | 23 days |
| Certificate of deposit | 10,000,000 | 10,000,000 | – | 69 days |
| Municipals bonds | 16,340,540 | 16,340,540 | – | 325 days |
| Total investments | <u>\$ 525,402,950</u> | <u>\$ 490,338,050</u> | <u>\$ 35,064,900</u> | |

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.

As of September 30, 2013 and 2012, 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 landing activities for FY2013. Security lending activity for fiscal year FY2012 consisted of the following:

| | Fiscal 2013 | Fiscal 2012 |
|-----------------------|---------------|----------------|
| Investment securities | | |
| available for lending | \$ 52,171,412 | \$ 111,337,569 |
| Amount on loan | – | – |
| Gross earnings | – | 6,187 |
| Rebates | – | – |
| Agent fees | – | 2,472 |
| Amount reported in | | |
| investment income | – | 3,715 |
| Percentage on loan | – | – |

3. Capital Assets

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

| | October 1, 2012 | Additions | Reductions and Retirements | Transfers and Completed Projects | September 30, 2013 |
|--|------------------|----------------|----------------------------------|---|-----------------------|
| Capital assets | | | | | |
| Capital assets not depreciated: | | | | | |
| Land | \$ 308,091,230 | \$ — | \$ (19,265,112) | \$ 1,840,608 | \$ 290,666,726 |
| Construction in progress | 1,272,701,433 | 555,425,631 | (10,102) | (147,990,068) | 1,680,126,894 |
| Total capital assets not depreciated | 1,580,792,663 | 555,425,631 | (19,275,214) | (146,149,460) | 1,970,793,620 |
| Capital assets depreciated: | | | | | |
| Administration & operating facilities | 413,533,888 | — | — | 7,893,562 | 421,427,450 |
| Park and ride lots & 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 | (27,091,914) | 146,149,460 | 2,463,581,575 |
| Less: Accumulated depreciation and amortization | | | | | |
| Administration & operating facilities | (231,811,153) | (15,315,120) | — | — | (247,126,273) |
| Park and ride lots & 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 | \$ 2,580,100,752 | \$ 418,894,980 | \$ (19,474,019) | \$ — | \$ 2,979,521,713 |

METRO has an agreement with the City of Houston to replace their land converted for rail operations. As part of this agreement, METRO conveyed land valued at \$19,111,275 and \$65,291,832 for FY2013 and 2012, respectively, 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 land will be conveyed to the City of Houston during the next several years as rail construction is continuing. In addition to land, METRO will transfer the value of utility work and street improvements to the City of Houston as the rail lines are completed.

Total interest cost incurred for the current and previous fiscal year was \$44,653,340, and \$44,927,011 of which \$34,550,561 and \$31,207,367 were capitalized.

Construction activity is currently focused on the North, East End, and Southeast rail lines with anticipated completion occurring in FY2014. Various environmental, engineering, and utility activities have taken place on the University and Uptown rail lines with expenditures (excluding land) totaling approximately \$98.7 million. This cost is currently reported as part of construction in progress. METRO is reviewing the best way to fund and complete these two rail lines with citizens and local leaders.

Changes in capital assets for fiscal year 2012 were as follows:

| | October 1, 2011 | Additions | Reductions and Retirements | Transfers and Completed Projects | September 30, 2012 |
|--|------------------|----------------|----------------------------------|---|-----------------------|
| Capital assets | | | | | |
| Capital assets not depreciated: | | | | | |
| Land | \$ 363,980,988 | \$ — | \$ (65,291,832) | \$ 9,402,074 | \$ 308,091,230 |
| Construction in progress | 904,589,821 | 490,115,732 | (29,053) | (121,975,067) | 1,272,701,433 |
| Total capital assets not depreciated | 1,268,570,809 | 490,115,732 | (65,320,885) | (112,572,993) | 1,580,792,663 |
| Capital assets depreciated: | | | | | |
| Administration & operating facilities | 416,752,621 | — | (4,340,492) | 1,121,759 | 413,533,888 |
| Park and ride lots & transit centers | 284,706,317 | — | (4,051,980) | 321,170 | 280,975,507 |
| Buses and equipment | 712,026,069 | — | (49,623,517) | 82,671,566 | 745,074,118 |
| Rail cars | 46,000,431 | — | — | 1,789,694 | 47,790,125 |
| Rail infrastructure | 246,707,241 | — | (1,651,875) | 3,921,950 | 248,977,316 |
| Transitways/HOT lanes | 516,941,640 | — | — | 21,032,676 | 537,974,316 |
| Other property and equipment | 74,492,835 | — | (6,119,842) | 1,714,178 | 70,087,171 |
| Total capital assets depreciated | 2,297,627,154 | — | (65,787,706) | 112,572,993 | 2,344,412,441 |
| Less: Accumulated depreciation and amortization | | | | | |
| Administration & operating facilities | (220,826,176) | (15,325,469) | 4,340,492 | — | (231,811,153) |
| Park and ride lots & transit centers | (166,318,849) | (10,264,306) | 4,051,979 | — | (172,531,176) |
| Buses and equipment | (461,806,431) | (62,912,557) | 49,264,487 | — | (475,454,501) |
| Rail cars | (18,629,072) | (6,037,531) | — | — | (24,666,603) |
| Rail infrastructure | (72,955,091) | (13,492,767) | 1,651,874 | — | (84,795,984) |
| Transitways/HOT lanes | (286,647,842) | (18,028,376) | — | — | (304,676,218) |
| Other property and equipment | (46,197,548) | (11,033,950) | 6,062,781 | — | (51,168,717) |
| Total accumulated depreciation and amortization | (1,273,381,009) | (137,094,956) | 65,371,613 | — | (1,345,104,352) |
| Total capital assets being depreciated, net | 1,024,246,145 | (137,094,956) | (416,093) | 112,572,993 | 999,308,089 |
| Total capital assets, net | \$ 2,292,816,954 | \$ 353,020,776 | \$ (65,736,978) | \$ — | \$ 2,580,100,752 |

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 that 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 and the Health and Welfare Trust from METRO's Treasury Division located at 1900 Main Street Houston, Texas. 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, State Street Bank, is responsible for executing and recording all investment transactions authorized by the Plans' money managers or committees.

Calculating the annual required contribution and obligations for the defined benefit pensions and the defined postemployment healthcare benefit plans requires the use of actuarial estimates that include: future employment, mortality, asset returns, salaries, funding, and healthcare cost trend rates, which are

listed in tables on the following pages. These actuarial calculations reflect a long-term perspective and use techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and assets. 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 \$300 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. Participants become eligible to receive benefits at the earlier of 28 years of credited services or age 60 with five 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, 2013 was \$85,698,753 and the pension expense recognized in the financial statements for the current and previous two fiscal years were \$14,544,413, \$14,344,181, and \$14,055,722, respectively. Actual contributions for the current and previous two fiscal years were \$14,362,412, \$14,206,770, and \$13,224,450, 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, 2013 was \$37,364,173 and the pension expense recognized in the financial statements for the

current and previous two fiscal years was \$8,764,797, \$8,873,835, and \$10,962,239, respectively. Actual contributions for the current and previous two fiscal years were \$8,615,666, \$8,907,720, and \$10,725,234, respectively.

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

| | TWUPP | NUPP |
|----------------------------------|--|--|
| Valuation date | January 1 st of each year | January 1 st of each year |
| Cost method | Projected unit credit | Projected unit credit |
| Inflation rate | 3.0% per year IRS salary limit | 3.0% 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 2013 | RP-2000 Combined Mortality with Projection Scale AA to year 2013 |
| Amortization of gains/losses | | |
| Method | Level dollars/reestablished annually | Level dollars/reestablished Annually |
| Period | 30 years closed | 30 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 2013 | | Fiscal Year 2012 | |
|--|------------------|----------------|------------------|----------------|
| | TWUPP | NUPP | TWUPP | NUPP |
| Annual required contributions (ARC) | \$ 14,362,413 | \$ 8,689,450 | \$ 14,206,770 | \$ 8,833,935 |
| Interest on net pension obligation | (1,649,407) | (456,439) | (1,245,299) | (361,598) |
| Adjustment to ARC | 1,831,407 | 531,786 | 1,382,710 | 401,498 |
| Annual pension cost | 14,544,413 | 8,764,797 | 14,344,181 | 8,873,835 |
| Contributions | 14,362,412 | 8,615,666 | 14,206,770 | 8,907,720 |
| Change in net pension obligation | 182,001 | 149,131 | 137,411 | (33,885) |
| Beginning net pension obligation/(asset) | (20,617,580) | (6,060,511) | (20,754,991) | (6,026,626) |
| Ending net pension obligation/(asset) | \$ (20,435,579) | \$ (5,911,380) | \$ (20,617,580) | \$ (6,060,511) |
| Percentage of pension cost contributed | 98.75% | 98.30% | 99.04% | 100.38% |
| Percentage of ARC contributed | 100.00% | 99.15% | 100.00% | 100.84% |

The funded status of the TWUPP and NUPP pension plans as of January 1, 2013 (in thousands) was as follows:

| | Actuarial Value of Assets | Actuarial Accrued Liabilities (AAL) | Unfunded (UAAL) | Funded Ratio Percentage | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|-------|---------------------------------|--|--------------------|-------------------------------|--------------------|--|
| TWUPP | \$ 181,661 | \$ 267,359 | \$ 85,698 | 67.9% | \$ 91,830 | 93.3% |
| NUPP | 113,145 | 150,509 | 37,364 | 75.2 | 44,389 | 84.2 |

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 | | | |
| 2011 | \$ 14,055,722 | 94.09% | \$ (20,754,991) |
| 2012 | 14,344,181 | 99.04 | (20,617,580) |
| 2013 | 14,544,413 | 98.75 | (20,435,579) |
| NUPP | | | |
| 2011 | \$ 10,962,239 | 97.84% | \$ (6,026,626) |
| 2012 | 8,873,835 | 100.38 | (6,060,511) |
| 2013 | 8,764,797 | 98.30 | (5,911,380) |

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 DCP. As part of DCP, 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 \$1,121,291, \$769,874, and \$604,251, with employees contributing \$1,040,871, \$757,795, and \$501,089.

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 \$8,116,228, \$7,347,943, and \$7,168,000, 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, including medical, dental, vision, and pharmacy. Actual contributions for the current and previous two fiscal years were \$3,211,888, \$4,709,585, and \$2,503,469, respectively. Significant actuarial assumptions used in METRO's Other Post Employment Plans valuations are as follows:

| | Trust | Non-Union |
|--|---|---|
| Valuation date | Biennially on January 1 st | Biennially on January 1 st |
| Cost method | Projected unit credit | Projected unit credit |
| Healthcare cost trend rate | Varying from 6.2% declining to 3.9 % 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 | 2.75% 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 2012 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 2012 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 Cost, Net Postemployment Benefit 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, 2012.

| | Fiscal Year 2013 | | Fiscal Year 2012 | |
|---|----------------------|----------------------|----------------------|----------------------|
| | Trust | Non-Union | Trust | Non-Union |
| Annual required contributions | \$ 28,567,946 | \$ 10,155,179 | \$ 28,567,946 | \$ 12,469,800 |
| Interest on prior year net post employment benefit obligation | 3,209,716 | 1,735,335 | 3,209,716 | 1,027,621 |
| Adjustment to annual required contributions | (4,461,976) | (2,412,370) | (4,461,976) | (1,428,544) |
| Other postemployment cost | 27,315,686 | 9,478,144 | 27,315,686 | 12,068,877 |
| Contribution | 8,116,228 | 3,211,888 | 7,347,943 | 4,709,585 |
| Change in net postemployment benefit obligation | 19,199,458 | 6,266,256 | 19,967,743 | 7,359,292 |
| Beginning net postemployment benefit obligation | 100,210,647 | 43,383,374 | 80,242,904 | 36,024,082 |
| Ending net postemployment benefit obligation | <u>\$119,410,105</u> | <u>\$ 49,649,630</u> | <u>\$100,210,647</u> | <u>\$ 43,383,374</u> |
| Percentage of postemployment benefit cost contributed | 29.71% | 33.89% | 26.90% | 39.02% |

The Trust and Non-Union Other Postemployment Benefit (OPEB) cost and Net OPEB Obligation are as follows:

| | Annual OPEB Cost | Percentage of OPEB Funded | Year-End Net OPEB Obligation |
|-----------|------------------|---------------------------|------------------------------|
| Trust | | | |
| 2011 | \$ 27,606,406 | 25.96% | \$ 80,242,904 |
| 2012 | 27,315,686 | 26.90 | 100,210,647 |
| 2013 | 27,315,686 | 29.71 | 119,410,105 |
| Non-Union | | | |
| 2011 | \$ 12,068,877 | 20.74% | \$ 36,024,082 |
| 2012 | 12,068,877 | 39.02 | 43,383,374 |
| 2013 | 9,478,144 | 33.89 | 49,649,630 |

The funded status of the Trust and Non-Union OPEB plans are as follows:

| Valuation Date | | Actuarial Value of Assets | Actuarial Accrued Liabilities (AAL) | Unfunded AAL | Funded Ratio Percentage |
|-----------------|-----------|---------------------------|-------------------------------------|----------------|-------------------------|
| October 1, 2012 | Trust | — | \$ 338,260,120 | \$ 338,260,120 | — |
| October 1, 2012 | Non-Union | — | 108,927,425 | 108,927,425 | — |

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 biennially 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 amount for incurred but not yet reported claims.

The purchased insurance policies cover property risk, some of which include premises, auto, tanker fleet, 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 FY2013 and FY2012 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, 2012 - September 30, 2013 | \$ 9,101,030 | \$ 5,272,177 | \$ (3,679,238) | \$ 10,693,969 |
| October 1, 2011 - September 30, 2012 | \$ 17,304,217 | \$ (4,818,126) | \$ (3,385,061) | \$ 9,101,030 |

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 FY2013.

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, 2012 was \$13,312,587, which included \$13,169,171 for land and inception-to-date net earnings of \$143,416. 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 non-operating income.

7. Commitments and Contingencies:

In addition to the retirement plans discussed in note 4, METRO has various commitments and contingencies that include outstanding contracts and purchase orders, infrastructure assistance, capital and operating leases, long-term debt, financial hedges for diesel fuel purchases, compensation absences, litigation, and audit by other governmental entities. Descriptions and changes for these items are 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, 2013 was approximately \$767 million of which \$380 million relates to the expansion of rail service. Payments to vendors will be made from sales tax collections, transit fares, bond 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. Funds not spent may be carried over and used, as appropriated by the Board, in future funding periods through September 30, 2014. On November 6, 2012, the voters again approved continuing the dedication of up to 25% of METRO's sales and use tax revenues for street improvements and related projects for the period October 1, 2014 through December 31, 2025, as authorized by law and with no increase to the current rate of METRO's sales and use tax. Final distribution of funds to local governments will be based on inter-local agreements as approved by the Board of Directors. Funds collected but not yet disbursed is approximately \$62.4 million dollars.

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

METRO has five remaining lease/sublease agreement as of September 30, 2013. Two are for facilities, two are for buses, and one is for fare boxes/radios. Under each of the agreements, METRO entered into a head-lease as lessor with an investor and simultaneously entered into a sublease agreement as lessee to lease back the assets. METRO received upfront head-lease rent prepayments, which it placed into a trust invested in fixed-income deposits in an amount that, including interest, would be sufficient to fund all of METRO's scheduled sublease rent payments through the date on which METRO can exercise a designated purchase option.

The facility lease agreements require METRO to maintain third-party payment guarantees by organizations with credit ratings of AA-/Aa3 or higher or purchase replacement coverage acceptable to the equity investors. American International Group, Inc. (AIG) and Financial Security Assurance (FSA) continue to have credit ratings below the minimal requirements and METRO has been working with all parties to resolve all agreement issues.

METRO continues to negotiate with Bank of America, which is the equity investor in the two remaining facility leases and Wells Fargo, which is the equity investor for the two buses and fare boxes/radio leases. As of September 30, 2013, Bank of America is the only equity investor that officially requested METRO to replace the initial lease Equity Payment Agreement and the Letter of Credit (LOC) due to the downgrade of AIG. The estimated cost to early terminate the remaining five leases is approximately \$18 million. This estimate will fluctuate based on the schedule of termination payments, market conditions, and credit ratings for AIG and FSA.

Amounts remaining with the payment undertakers are amortized on a straight-line basis over the life of the specific lease, which is also the assets' useful life. Final amount may be higher if the lease ends due to METRO exercising the purchase option. METRO anticipates it will exercise its early purchase options as they become available. Unamortized balances are reported on the Statements of Net Position as Prepaid lease payments with a corresponding liability titled Deferred rental payments. Lease terms and remaining amounts to be amortized are:

| | Original Lease Expiration Date | Sublease Early Purchase Option Date | Sublease Expiration Date | Amortization Period (Years) |
|-------------------|--------------------------------------|--|--------------------------------|-----------------------------------|
| Facility | | | | |
| Buffalo Bayou | Dec 14, 2075 | Jan 1, 2026 | Jun 14, 2035 | 34 |
| Kashmere | Jun 14, 2083 | Jan 1, 2026 | Jun 14, 2037 | 36 |
| Transit Buses | May 2, 2052 | — | Jan 1, 2012-15 | 10-13 |
| Transit Buses | Dec 19, 2052 | — | Jan 1, 2016 | 14 |
| Fare boxes/radios | Apr 22, 2043 | — | Jan 1, 2018 | 16 |

Activities for the last two fiscal years are as follows:

| | 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 | <u>\$ 64,374,346</u> | <u>\$ 12,206,040</u> | <u>\$ 52,168,306</u> |

During FY2013, METRO exercised its normal purchase option for two of the four remaining buses leases. No additional cost was incurred as the funds in the trust accounts were sufficient to make all final payments. The remaining unamortized balance for these bus leases have been included in current year amortization amount.

| | September 30, 2011 Unamortized Balance | Current Year Amortization | Negotiated Early Purchase | September 30, 2012 Unamortized Balance |
|----------------------|--|---------------------------------|---------------------------------|--|
| Facility | | | | |
| Buffalo Bayou | \$ 6,341,520 | \$ 275,719 | \$ — | \$ 6,065,801 |
| Fallbrook | 36,611,174 | — | 36,611,174 | — |
| Field Service Center | 14,723,692 | — | 14,723,692 | — |
| Hiram Clarke | 18,379,800 | — | 18,379,800 | — |
| Kashmere | 32,605,763 | 1,304,231 | — | 31,301,532 |
| Northwest | 18,117,543 | — | 18,117,543 | — |
| West | 22,204,104 | — | 22,204,104 | — |
| Transit buses | 13,493,634 | 5,735,631 | — | 7,758,003 |
| Transit buses | 8,261,821 | 6,116,271 | — | 2,145,550 |
| Transit buses | 3,036,963 | 607,392 | — | 2,429,571 |
| Transit buses | 2,092,451 | 697,484 | — | 1,394,967 |
| Fare boxes/radios | 15,492,076 | 2,213,154 | — | 13,278,922 |
| Total | <u>\$ 191,360,541</u> | <u>\$16,949,882</u> | <u>\$ 110,036,313</u> | <u>\$ 64,374,346</u> |

During FY2012, METRO negotiated early purchase of five bus facilities leases. In addition, METRO notified the participants of certain transit bus leases that it would exercise its purchase options as they become available. No additional cash payments from METRO should be required, except for some minor administrative cost, because the funds placed into the trusts at the beginning of the leases will be adequate to make all final payments. METRO anticipates it will exercise all other purchase options as they become available.

Long-Term Debt

Long-term debt consists of commercial paper, capital leases, bonds, and contractual obligations, which are supported by sales and use taxes revenues.

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 20, 2014. A-3 is for \$75 million with State Street Bank and Trust Company, which expires June 15, 2014. Commercial paper is reported as a current liability on the Statements of Net Position since both revolving credit and term loan agreements expire in less than a year. In the event of a remarketing failure, the credit line will be invoked to fund maturities and will incur interest costs as follows:

| <u>Period</u> | <u>Bank Rate</u> |
|---|--------------------------------|
| 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, expanding, maintaining, and improving public transit, or eliminating outstanding notes of the same series. Changes and outstanding CP by series as of September 30, 2013 were as follows:

| <u>Series</u> | <u>October 1, 2012</u> | <u>Proceeds</u> | <u>Repayments</u> | <u>September 30, 2013</u> |
|---------------|------------------------|-----------------------|-------------------------|---------------------------|
| 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 | <u>\$ 189,000,000</u> | <u>\$ 760,150,000</u> | <u>\$ (762,150,000)</u> | <u>\$ 187,000,000</u> |

| Series | Amount Issued | Maturity Date | Remaining Days Outstanding | Nominal Rate % |
|--------|-----------------------|---------------|----------------------------|----------------|
| A-1 | \$ 91,500,000 | 2/11/2014 | 134 | 0.14 |
| A-1 | 38,250,000 | 2/06/2014 | 129 | 0.17 |
| A-1 | 30,650,000 | 2/20/2014 | 143 | 0.15 |
| | <u>160,400,000</u> | | | |
| A-3 | 3,600,000 | 10/11/2013 | 11 | 0.08 |
| A-3 | 9,000,000 | 3/27/2014 | 178 | 0.17 |
| A-3 | 14,000,000 | 3/20/2014 | 171 | 0.17 |
| | <u>26,600,000</u> | | | |
| Total | <u>\$ 187,000,000</u> | | | |

Changes for CP by series for FY 2012 were as follows:

| Series | October 1, 2011 | Proceeds | Repayments | September 30, 2012 |
|--------|-----------------------|-----------------------|-------------------------|-----------------------|
| A-1 | \$ 162,400,000 | \$ 707,200,000 | \$ (707,200,000) | \$ 162,400,000 |
| A-3 | 27,600,000 | 106,000,000 | (107,000,000) | 26,600,000 |
| Total | <u>\$ 190,000,000</u> | <u>\$ 813,200,000</u> | <u>\$ (814,200,000)</u> | <u>\$ 189,000,000</u> |

Capital Leases, Bonds, and Contractual Obligations

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

| Fiscal Year | Capital Leases | | | Bonds and Contractual Obligations | | | Total |
|----------------------------------|---------------------|---------------------|----------------------|-----------------------------------|-----------------------|-------------------------|-------------------------|
| | Principal | Interest | Total | Principal | Interest | Total | |
| 2014 | \$ 8,129,906 | \$ 3,881,965 | \$ 12,011,871 | \$ 13,365,000 | \$ 39,148,956 | \$ 52,513,956 | \$ 64,525,827 |
| 2015 | 8,543,263 | 3,472,233 | 12,015,496 | 13,920,000 | 38,595,956 | 52,515,956 | 64,531,452 |
| 2016 | 8,951,781 | 3,061,314 | 12,013,095 | 22,160,000 | 37,851,981 | 60,011,981 | 72,025,076 |
| 2017 | 9,352,311 | 2,655,643 | 12,007,954 | 23,115,000 | 36,852,406 | 59,967,406 | 71,975,360 |
| 2018 | 9,745,000 | 2,184,494 | 11,929,494 | 24,205,000 | 35,751,781 | 59,956,781 | 71,886,275 |
| 2019-2023 | 37,415,000 | 3,572,379 | 40,987,379 | 135,780,000 | 160,268,644 | 296,048,644 | 337,036,023 |
| 2024-2028 | — | — | — | 108,085,000 | 130,207,568 | 238,292,568 | 238,292,568 |
| 2029-2033 | — | — | — | 129,870,000 | 100,525,845 | 230,395,845 | 230,395,845 |
| 2034-2038 | — | — | — | 155,000,000 | 61,020,438 | 216,020,438 | 216,020,438 |
| 2039-2043 | — | — | — | 151,440,000 | 15,717,141 | 167,157,141 | 167,157,141 |
| Payments | <u>\$82,137,261</u> | <u>\$18,828,028</u> | <u>\$100,965,289</u> | <u>\$ 776,940,000</u> | <u>\$ 655,940,716</u> | <u>\$ 1,432,880,716</u> | <u>\$ 1,533,846,005</u> |
| Unamortized premium/ discount | <u>1,416,616</u> | | | <u>59,693,698</u> | | | |
| Total debt | <u>\$83,553,877</u> | | | <u>\$836,633,698</u> | | | |

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 5-year lease for copiers and 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:

| Fiscal Year | MLPFP | | | | | |
|-------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|
| | Series A | | Series B | | Total | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 4,770,000 | \$ 1,958,862 | \$ 3,290,000 | \$ 1,910,625 | \$ 8,060,000 | \$ 3,869,487 |
| 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 |
| 2019-2023 | 18,780,000 | 1,312,135 | 18,635,000 | 2,260,244 | 37,415,000 | 3,572,379 |
| | <u>\$ 44,920,000</u> | <u>\$ 8,769,756</u> | <u>\$ 36,920,000</u> | <u>\$ 10,029,156</u> | <u>\$ 81,840,000</u> | <u>\$ 18,798,912</u> |

Future payments for other leases:

| Fiscal Year | Park & Ride Land Improvements | | | Total Capital Leases | | |
|-------------|-------------------------------|------------------|-------------------|----------------------|---------------------|----------------------|
| | Principal | Interest | Total | Principal | Interest | |
| 2014 | \$ 69,906 | \$ 12,478 | \$ 82,384 | \$ 8,129,906 | \$ 3,881,965 | \$ 12,011,871 |
| 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 |
| 2019-2023 | | | | 37,415,000 | 3,572,379 | 40,987,379 |
| | <u>\$ 297,261</u> | <u>\$ 29,116</u> | <u>\$ 326,377</u> | <u>\$ 82,137,261</u> | <u>\$18,828,028</u> | <u>\$100,965,289</u> |

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 | <u>\$ 90,037,140</u> | <u>\$ —</u> | <u>\$ (7,899,879)</u> | <u>\$ 1,574,018</u> | <u>\$ (157,402)</u> | <u>\$ 83,553,877</u> |

| | Remaining Balance of Capital Leases October 1, 2011 | Additions | Principal Payments | October 1, 2011 Unamortized Premium | Current Year Amortization of Premium | Combined Balance September 30, 2012 |
|----------------------------------|--|-----------|-----------------------|---|--|--|
| MLPFP | | | | | | |
| Series A | \$ 53,910,000 | \$ — | \$ (4,385,000) | \$ 728,889 | \$ (66,262) | \$ 50,187,627 |
| Series B | 42,995,000 | — | (2,975,000) | 1,002,530 | (91,139) | 40,931,391 |
| Copiers | 258,057 | — | (129,880) | — | — | 128,177 |
| Park & Ride Land Improvements | 423,784 | — | (59,821) | — | — | 363,963 |
| Total | \$ 97,586,841 | \$ — | \$ (7,549,701) | \$ 1,731,419 | \$ (157,401) | \$ 91,611,158 |

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 seven series of bonds and contractual obligations outstanding as of September 30, 2013. Four of the seven 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 | |
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 3,265,000 | \$ 4,184,875 | \$ 1,185,000 | \$ 1,773,900 | \$ — | \$ 5,675,656 |
| 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 |
| 2019-2023 | 23,230,000 | 14,021,750 | 7,885,000 | 6,913,925 | — | 28,378,281 |
| 2024-2028 | 29,825,000 | 7,423,125 | 9,805,000 | 4,989,537 | — | 28,378,281 |
| 2029-2033 | 14,185,000 | 718,125 | 12,455,000 | 2,339,876 | 23,920,000 | 25,960,344 |
| 2034-2038 | — | — | 2,885,000 | 72,125 | 47,740,000 | 12,243,688 |
| 2039-2043 | — | — | — | — | 10,895,000 | 374,516 |
| | <u>\$ 85,330,000</u> | <u>\$ 41,325,000</u> | <u>\$ 39,430,000</u> | <u>\$ 22,707,363</u> | <u>\$ 82,555,000</u> | <u>\$ 123,713,390</u> |

The Build America Bonds Series 2009C receives a special interest cost rebate each year from the federal government. This amount varies annually starting with \$1.8 million in FY2010, increasing to \$2 million in FY2011 and declining to \$131 thousand in FY2039. The anticipated remaining rebate due as of September 30, 2013 is approximately \$43 million. The rebate is reported as Inter-government grant 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.

Sales and Use Tax Bonds and Contractual Obligations

| Fiscal Year | Contractual Obligations Series 2009D | | Contractual Obligations Series 2010A | | Bonds Series 2011A | |
|-------------|---|---------------------|---|---------------------|-----------------------|-----------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 2,640,000 | \$ 1,074,025 | \$ 2,880,000 | \$ 1,513,100 | \$ — | \$ 23,050,500 |
| 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 |
| 2019-2023 | 13,520,000 | 1,339,913 | 19,310,000 | 2,486,625 | 49,295,000 | 103,293,625 |
| 2024-2028 | — | — | — | — | 63,310,000 | 89,288,000 |
| 2029-2033 | — | — | — | — | 79,310,000 | 71,507,500 |
| 2034-2038 | — | — | — | — | 104,375,000 | 48,704,625 |
| 2039-2043 | — | — | — | — | 140,545,000 | 15,342,625 |
| | <u>\$ 27,650,000</u> | <u>\$ 5,791,963</u> | <u>\$ 34,855,000</u> | <u>\$ 8,883,350</u> | <u>\$ 461,010,000</u> | <u>\$ 441,616,000</u> |

Sales and Use Tax Bonds and Contractual Obligations

| Fiscal Year | Contractual Obligations Series 2011B | | Total | | |
|-------------|---|----------------------|-----------------------|-----------------------|-------------------------|
| | Principal | Interest | Principal | Interest | Total |
| 2014 | \$ 3,395,000 | \$ 1,876,900 | \$ 13,365,000 | \$ 39,148,956 | \$ 52,513,956 |
| 2015 | 3,535,000 | 1,738,300 | 13,920,000 | 38,595,956 | 52,515,956 |
| 2016 | 3,680,000 | 1,594,000 | 22,160,000 | 37,851,981 | 60,011,981 |
| 2017 | 3,830,000 | 1,443,800 | 23,115,000 | 36,852,406 | 59,967,406 |
| 2018 | 3,985,000 | 1,287,500 | 24,205,000 | 35,751,781 | 59,956,781 |
| 2019-2023 | 22,540,000 | 3,834,525 | 135,780,000 | 160,268,644 | 296,048,644 |
| 2024-2028 | 5,145,000 | 128,625 | 108,085,000 | 130,207,568 | 238,292,568 |
| 2029-2033 | — | — | 129,870,000 | 100,525,845 | 230,395,845 |
| 2034-2038 | — | — | 155,000,000 | 61,020,438 | 216,020,438 |
| 2039-2043 | — | — | 151,440,000 | 15,717,141 | 167,157,141 |
| | <u>\$ 46,110,000</u> | <u>\$ 11,903,650</u> | <u>\$ 776,940,000</u> | <u>\$ 655,940,716</u> | <u>\$ 1,432,880,716</u> |

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

| Series | Changes in Bonds and Contractual Obligations | | | Changes in Premium/(Discount) | | Combined Balance September 30, 2013 |
|--------|--|-------------|-----------------------------------|--|--|---|
| | October 1, 2012 Principal | Addition | Payments to Retire Bonds | October 1, 2012 Unamortized Premium/ (Discount) | Current Year Amortization of (Premium)/ Discount | |
| 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 | <u>\$ 789,835,000</u> | <u>\$ —</u> | <u>\$(12,895,000)</u> | <u>\$ 62,705,872</u> | <u>\$ (3,012,174)</u> | <u>\$ 836,633,698</u> |

| Series | Changes in Bonds and Contractual Obligations | | | Changes in Premium/(Discount) | | Combined Balance September 30, 2012 |
|--------|--|-------------|-----------------------------------|--|--|---|
| | October 1, 2011 Principal | Addition | Payments to Retire Bonds | October 1, 2011 Unamortized Premium/ (Discount) | Current Year Amortization of (Premium)/ Discount | |
| 2009A | \$ 91,510,000 | \$ — | \$ (3,045,000) | \$ 5,822,920 | \$ (323,496) | \$ 93,964,424 |
| 2009B | 41,695,000 | — | (1,115,000) | 828,732 | (37,670) | 41,371,062 |
| 2009C | 82,555,000 | — | — | (1,009,234) | 37,379 | 81,583,145 |
| 2009D | 32,655,000 | — | (2,460,000) | 2,386,552 | (198,879) | 32,382,673 |
| 2010A | 40,290,000 | — | (2,665,000) | 3,615,271 | (361,527) | 40,878,744 |
| 2011A | 461,010,000 | — | — | 47,563,358 | (1,585,445) | 506,987,913 |
| 2011B | 49,405,000 | — | — | 6,510,450 | (542,537) | 55,372,913 |
| Total | <u>\$ 799,120,000</u> | <u>\$ —</u> | <u>\$ (9,285,000)</u> | <u>\$ 65,718,049</u> | <u>\$ (3,012,175)</u> | <u>\$ 852,540,874</u> |

The weighted average interest rate paid on outstanding debt is approximately 3.55 percent and ranges from 0.16 for commercial paper to 4.96 percent 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 FY2013 and FY2012 were \$3,980,331 and \$4,785,144, respectively. Future payments for operating leases assume a 2 percent annual increase from the current year expense and consist of the following:

| Year Ending September 30, 2013 | Total Minimum Operating Leases Payments |
|-----------------------------------|---|
| 2014 | \$ 4,059,938 |
| 2015 | 4,141,136 |
| 2016 | 4,223,959 |
| 2017 | 4,308,438 |
| 2018 | 4,394,607 |
| Total | <u>\$ 21,128,078</u> |

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 US 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 liabilities. No derivatives were reclassified during the previous two years from a hedging derivative to an investment derivative.

Outstanding Diesel Fuel Swaps

METRO had 37 and 69 diesel fuel swap agreements outstanding as of September 30, 2013 and 2012, respectively. 26 of those swaps total 11,088,000 gallons and will settle during FY2014. The remaining 11 will settle in FY2015 and total 7,560,000 gallons. The outstanding swaps represent approximately 88 and 61 percent of the anticipated fuel requirements for each fiscal year. The swaps had a positive value of \$1,348,147 and \$3,691,843 as of September 30, 2013 and 2012, respectively, as calculated by the counterparties both of whom are nationally recognized commodity traders, Koch Supply & Trading, LLP and Goldman, Sachs & Co. This amount has been reported as a deferred inflow of resources – diesel fuel swaps with an offset to derivative instrument – diesel fuel swaps on the Statement of Net Position. The swaps, which settled during FY2013 and FY2012, reduced operating cost by \$2,215,454 and \$1,322,798, respectively, and were reported as part of bus and rail operations in the Statement of Revenues, Expenses, and Changes in Net Position.

Compensated absences 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:

| | <u>Beginning Balance</u> | <u>Expensed</u> | <u>Additions</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------|------------------|---------------------------|
| October 1, 2012 - September 30, 2013 | \$ 14,218,355 | \$(14,386,282) | \$ 14,830,166 | \$ 14,662,239 |
| October 1, 2011 - September 30, 2012 | \$ 15,103,541 | \$(13,885,104) | \$ 12,999,918 | \$ 14,218,355 |

Litigation

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.

Inter-local Agreements

METRO has entered into several inter-local agreements, which are designed to reduce operating and capital cost while improving mobility throughout the service area. Some of these agreements include coordinating major procurement activities, maintaining traffic lights along the rail lines, reimbursing for betterments, land/easement conveyances, motorist assistance program (MAP), infrastructure improvements/mobility program, and the future construction modifications to the West Park Toll Road.

8. Subsequent Events

Management has evaluated subsequent events through February 27, 2014. No changes were made, or are necessary to be made, to the financial statements, as a result of this evaluation.

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 AAL (UAAL) (b-a) | Funded Ratio Percentage (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|--------------------------------|--------------------------------|--|--|------------------------------------|--|---------------------------|---|
| <u>Non-Union</u> | | | | | | | |
| Pension plan | 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% |
| | Jan 1, 2011 | 114,082 | 151,592 | 37,510 | 75.3% | 57,702 | 65.0% |
| | | | | | | | |
| Other Postemployment | Oct 1, 2012 | — | 108,927 | 108,927 | — | — | — |
| | Oct 1, 2010 | — | 129,261 | 129,261 | — | — | — |
| | Oct 1, 2008 | — | 114,269 | 114,269 | — | — | — |
| | | | | | | | |
| <u>Transport Workers Union</u> | | | | | | | |
| Pension Plan | 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% |
| | Jan 1, 2011 | 168,964 | 241,018 | 72,054 | 70.1% | 93,675 | 76.9% |
| | | | | | | | |
| Other Postemployment Benefits | Oct 1, 2012 | — | 338,260 | 338,260 | — | — | — |
| | Oct 1, 2010 | — | 301,284 | 301,284 | — | — | — |

Other Postemployment Benefits actuarial studies are updated biennially.

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, 2013 and the Last Eight Years (Unaudited)

| | 2013 | 2012 | 2011 |
|---|------------------|------------------|------------------|
| Assets | | | |
| Current assets | | | |
| Cash | \$ 3,499,304 | \$ 1,769,157 | \$ 1,860,652 |
| Cash - restricted | — | — | — |
| Investments | 313,657,041 | 358,828,979 | 91,458,100 |
| Investments - restricted | 28,942,440 | 37,265,000 | 64,489,262 |
| Receivables | | | |
| Sales tax | 110,821,904 | 103,035,680 | 97,394,471 |
| Federal government - Federal Transit Administration | 73,106,988 | 26,811,825 | 17,050,424 |
| Bus passes and other receivables | 10,277,726 | 13,570,522 | 12,754,087 |
| Total receivables | 194,206,618 | 143,418,027 | 127,198,982 |
| Material and supplies inventory | 20,407,175 | 17,532,502 | 21,648,175 |
| Other current assets | — | — | — |
| Derivative instrument – diesel fuel swaps | 1,348,147 | 3,691,843 | — |
| Total current assets | 562,060,725 | 562,505,508 | 306,655,171 |
| Noncurrent assets | | | |
| Investments - restricted | 27,851,305 | 129,308,971 | 415,681,262 |
| Capital assets, net of depreciation | 2,979,521,713 | 2,580,100,752 | 2,292,816,954 |
| Prepaid pension | 26,346,959 | 26,678,091 | 26,781,617 |
| Other noncurrent assets | 14,002,247 | 11,549,753 | 12,523,059 |
| Prepaid rental payments | 52,168,306 | 64,374,346 | 191,360,541 |
| Total noncurrent assets | 3,099,890,530 | 2,812,011,913 | 2,939,163,433 |
| Total assets | 3,661,951,255 | 3,374,517,421 | 3,245,818,604 |
| Deferred outflow of resources | — | — | 3,151,246 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade payables | 149,021,462 | 125,067,467 | 150,161,474 |
| Accrued compensation and benefits | 27,430,216 | 23,759,406 | 25,055,498 |
| Liabilities for injuries and damages | 3,679,238 | 3,385,061 | 3,723,095 |
| Commercial paper | 187,000,000 | 26,600,000 | — |
| Other current liabilities | 8,824,195 | 9,005,559 | 7,295,986 |
| Capital lease obligation | 8,129,906 | 7,899,879 | 7,707,103 |
| Bond payable | 13,365,000 | 12,895,000 | 12,297,176 |
| Debt interest payable | 17,976,710 | 18,287,887 | 8,323,783 |
| Derivative instrument – diesel fuel swaps | — | — | 3,151,246 |
| Total current liabilities | 415,426,727 | 226,900,259 | 217,715,361 |
| Noncurrent liabilities | | | |
| Liabilities for injuries and damages | 7,014,731 | 5,715,969 | 13,581,122 |
| Commercial paper | — | 162,400,000 | 190,000,000 |
| Deferred rental payments | 52,168,306 | 64,374,346 | 191,360,541 |
| Capital lease obligation | 75,423,971 | 83,711,279 | 91,611,157 |
| Bond payable | 823,268,698 | 839,645,874 | 852,540,873 |
| Other postemployment benefits | 169,059,735 | 143,594,021 | 116,266,986 |
| Other noncurrent liabilities | — | — | — |
| Total noncurrent liabilities | 1,126,935,441 | 1,299,441,489 | 1,455,360,679 |
| Total liabilities | 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 | 1,949,158,508 | 1,729,961,468 | 1,641,338,563 |
| Restricted assets – debt payments | 56,793,745 | 71,335,683 | 74,504,866 |
| Restricted assets – cash | — | — | — |
| Unrestricted assets | 112,288,687 | 43,186,679 | (139,949,619) |
| Total net position | \$ 2,118,240,940 | \$ 1,844,483,830 | \$ 1,575,893,810 |

| 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 |
| 6,958,099 | 2,212,825 | 3,054,762 | 973,238 | 1,486,436 | 1,249,029 |
| 4,967,134 | — | — | — | — | — |
| 349,665,568 | 330,839,656 | 285,837,420 | 403,708,464 | 388,412,293 | 219,270,989 |
| 66,206,184 | 165,461,944 | 5,760 | 555,775 | 4,370,072 | — |
| 2,032,038,758 | 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 | — |
| 7,959,529 | 7,734,236 | 2,992,574 | 3,153,564 | 3,314,553 | 3,474,690 |
| 213,018,249 | 234,675,957 | 256,333,665 | 277,991,373 | 299,649,081 | 321,306,789 |
| 2,347,072,614 | 2,406,282,952 | 2,136,935,383 | 1,934,640,018 | 1,824,011,704 | 1,824,508,640 |
| 2,696,738,182 | 2,737,122,608 | 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 | — | — | — | — | — |
| 1,663,280,807 | 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 |
| (89,260,699) | (65,293,775) | (1,288,024) | 158,100,198 | 208,756,854 | 105,526,237 |
| <u>\$1,594,327,588</u> | <u>\$ 1,780,926,115</u> | <u>\$1,771,380,964</u> | <u>\$1,780,943,470</u> | <u>\$1,699,836,910</u> | <u>\$1,607,700,939</u> |

Metropolitan Transit Authority
of Harris County, Texas
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2013 and the Last Eight Years
(Unaudited)

| | 2013 | 2012 | 2011 |
|--|------------------|------------------|------------------|
| Operating revenues: | | | |
| Transportation fares | \$ 72,782,991 | \$ 66,887,319 | \$ 68,740,526 |
| Operating expenses: | | | |
| Scheduled services - fixed route | | | |
| Bus and rail operations - direct | 170,940,122 | 165,925,733 | 165,660,712 |
| Contract service | 46,620,525 | 47,431,837 | 44,688,976 |
| Material distribution | 5,540,367 | 5,966,531 | 5,975,735 |
| Preventative maintenance | 51,040,854 | 48,876,170 | 49,364,186 |
| Central shop and maintenance support | 18,961,766 | 18,103,288 | 15,220,267 |
| Safety and training | 973,447 | 816,598 | 891,844 |
| Subtotal scheduled services - fixed route | 294,077,081 | 287,120,157 | 281,801,720 |
| Non-scheduled services-special | | | |
| METROLift | 45,181,913 | 40,204,841 | 39,696,105 |
| METROVan | 4,967,172 | 5,250,084 | 4,979,360 |
| Special events | 5,582,712 | 2,346,041 | 676,109 |
| Subtotal non-scheduled services - special | 55,731,797 | 47,800,966 | 45,351,574 |
| Service support | | | |
| Service planning and evaluation | 3,521,365 | 3,130,879 | 4,205,657 |
| Marketing | 7,306,538 | 6,910,999 | 7,450,088 |
| Transit security | 11,778,274 | 13,214,108 | 15,045,472 |
| Insurance and claims | 5,927,146 | 5,673,304 | 5,616,894 |
| Ticket and fare collection | 3,751,006 | 3,369,283 | 3,867,527 |
| Facility maintenance | 21,660,854 | 20,020,810 | 16,613,097 |
| Subtotal service support | 53,945,183 | 52,319,383 | 52,798,735 |
| Traffic management - services | 6,809,307 | 6,985,562 | 7,752,239 |
| Organizational support | | | |
| Business, community and governmental development | 4,228,909 | 5,043,321 | 4,592,198 |
| Administrative, financial and personnel | 14,612,492 | 15,357,730 | 18,119,682 |
| Information systems | 13,948,037 | 14,276,491 | 12,360,853 |
| Purchasing | 2,994,284 | 2,502,794 | 2,894,124 |
| Oversight, audit and legal | 8,875,645 | 5,000,056 | 6,536,177 |
| Subtotal organizational support | 44,659,367 | 42,180,392 | 44,503,034 |
| Depreciation and amortization | 136,642,238 | 137,094,956 | 138,295,447 |
| Total operating expenses | 591,864,973 | 573,501,416 | 570,502,749 |
| Operating loss | (519,081,982) | (506,614,097) | (501,762,223) |
| Non-operating revenues (expenses): | | | |
| Sales tax | 642,515,462 | 593,732,843 | 536,572,595 |
| Investment income | 768,527 | 625,042 | 327,467 |
| Inter-government revenue | 1,986,480 | 1,986,480 | 1,986,480 |
| Interest expense | (10,102,779) | (13,719,644) | (13,525,952) |
| Other income | 1,845,296 | 3,030,912 | 643,766 |
| Grant proceeds | 71,766,635 | 56,460,316 | 59,588,924 |
| Local infrastructure assistance | (170,373,931) | (222,054,292) | (188,467,654) |
| Loss for asset impairments | - | - | - |
| Loss on sale or disposal of assets | (470,021) | (316,485) | (2,723,630) |
| Total non-operating revenues (expenses) | 537,935,669 | 419,745,172 | 394,401,996 |
| Net increase(decrease) before capital grants | 18,853,687 | (86,868,925) | (107,360,227) |
| Capital grant proceeds | 256,919,845 | 356,987,060 | 91,465,097 |
| Funds passed to subrecipients | (2,016,422) | (1,528,115) | (2,538,648) |
| Changes in net position | 273,757,110 | 268,590,020 | (18,433,778) |
| Net position - beginning of the year | 1,844,483,830 | 1,575,893,810 | 1,594,327,588 |
| Net position - end of the year | \$ 2,118,240,940 | \$ 1,844,483,830 | \$ 1,575,893,810 |

| 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 | 179,245,220 | 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 | 292,369,446 | 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 | 558,551,442 | 496,457,081 | 459,620,450 | 435,673,450 | 430,446,866 |
| (498,014,071) | (491,468,028) | (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 | — | — | — | — |
| (7,493,528) | — | — | — | — | — |
| 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) | — | — | — | — | — |
| (1,095,753) | (6,258,755) | (1,169,107) | (1,941,917) | (10,245,545) | (2,392,293) |
| 219,911,188 | 460,337,843 | 406,089,134 | 444,283,262 | 410,083,794 | 313,949,175 |
| (278,102,883) | (31,130,185) | (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 |
| (393,193) | (352,228) | — | — | — | — |
| (186,598,527) | 9,545,151 | (9,562,506) | 81,106,560 | 92,135,971 | 28,672,310 |
| 1,780,926,115 | 1,771,380,964 | 1,780,943,470 | 1,699,836,910 | 1,607,700,939 | 1,579,028,629 |
| \$1,594,327,588 | \$1,780,926,115 | \$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)

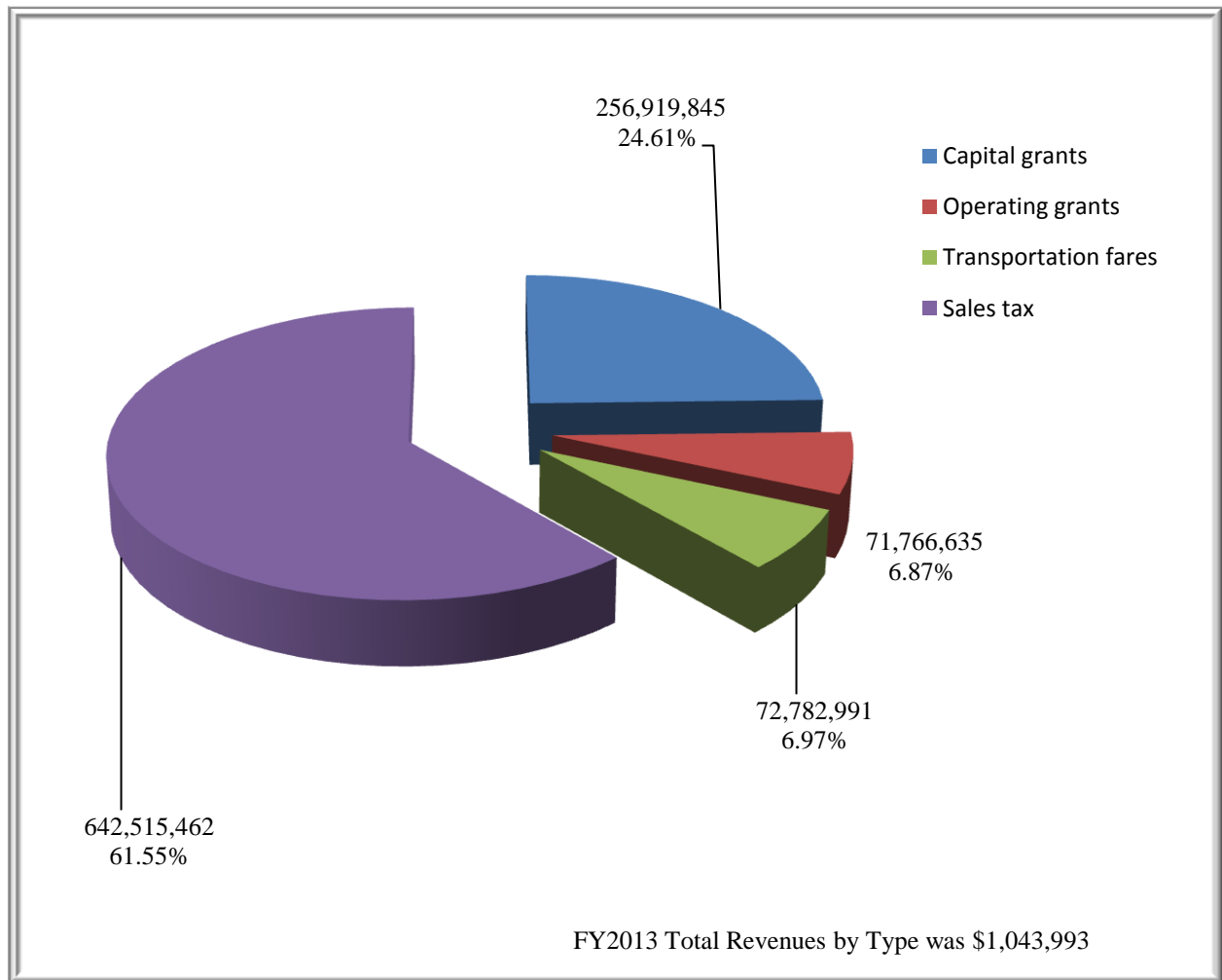
| | Full Fare | | Discounted Fare | | |
|--------------------|-----------|---------------------|---------------------------|-------------------|---------------------------|
| | Previous* | Since November 2008 | Previous* | Youth Age 5 to 11 | Since November 2008 |
| | | | Student, Senior, Disabled | | 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 2013



- Investment income of \$768,527 reported on the Statements of Revenues, Expenses, and Changes in Net Position is not reflected on this schedule.

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

| <u>Fiscal Year</u> | <u>Population PMSA* (00)</u> | <u>Per Capita Personal Income*</u> | <u>METRO's Retail Sales Tax</u> | <u>Unemployment Rate (%)</u> |
|--------------------|--------------------------------------|--|---|----------------------------------|
| 2013 | 5,747.0 | \$ 50,621 | \$ 642,515,462 | 6.2 |
| 2012 | 5,588.3 | 48,431 | 593,732,843 | 6.8 |
| 2011 | 5,413.4 | 46,290 | 536,572,595 | 7.9 |
| 2010 | 5,287.6 | 44,326 | 489,972,748 | 8.2 |
| 2009 | 5,212.0 | 44,136 | 517,972,851 | 7.6 |
| 2008 | 5,087.4 | 45,461 | 521,179,360 | 4.8 |
| 2007 | 4,906.1 | 43,924 | 481,721,482 | 4.3 |
| 2006 | 4,719.3 | 41,917 | 467,645,812 | 5.0 |
| 2005 | 4,563.5 | 38,858 | 394,015,831 | 5.6 |
| 2004 | 4,428.4 | 36,208 | 381,932,680 | 6.2 |
| 2003 | 4,376.6 | 34,406 | 357,498,093 | 6.7 |

* 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)

| Employer | 2012 | | | 2003 | | |
|-----------------------------|-----------|------|---|-----------|------|---|
| | Employees | Rank | Percentage of Total County Employment | Employees | Rank | Percentage of Total County Employment |
| Exxon Mobil | 13,000 | 1 | 0.47% | 9,500 | 4 | 0.41% |
| Shell Oil Company | 12,500 | 2 | 0.45% | 8,650 | 5 | 0.37% |
| National Oilwell Varco Inc. | 11,000 | 3 | 0.40% | — | — | — |
| Chevron Companies | 8,000 | 4 | 0.29% | — | — | — |
| Baker Hughes | 7,700 | 5 | 0.28% | 6,800 | 7 | 0.29% |
| JP Morgan Chase | 7,000 | 6 | 0.25% | — | — | — |
| Halliburton | 4,955 | 7 | 0.18% | 11,400 | 2 | 0.49% |
| Center Point Energy | 4,800 | 8 | 0.17% | 5,550 | 9 | 0.24% |
| KBR Inc. | 4,600 | 9 | 0.17% | — | — | — |
| Kinder Morgan Inc. | 4,100 | 10 | 0.15% | — | — | — |
| Continental Airlines | — | — | — | 17,000 | 1 | 0.73% |
| Hewlett Packard Compaq | — | — | — | 9,800 | 3 | 0.42% |
| SBC Communications/AT&T | — | — | — | 8,200 | 6 | 0.35% |
| BP America | — | — | — | 5,800 | 8 | 0.25% |
| Schlumberger Ltd. | — | — | — | 5,500 | 10 | 0.24% |

* 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 Six Fiscal Years
 (Unaudited)

| <u>Fiscal Year</u> | <u>Commercial Paper</u> | <u>Capital Lease</u> | <u>Sales and Use Tax Bonds</u> | <u>Total</u> |
|--------------------|-----------------------------|----------------------|------------------------------------|---------------|
| 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 Six Fiscal Years
 (Unaudited)

| <u>Fiscal Year</u> | <u>Commercial Paper</u> | <u>Sales and Use Tax Bond</u> | <u>Capital Lease</u> | <u>Total Outstanding Debt</u> |
|--------------------|-----------------------------|-----------------------------------|----------------------|-----------------------------------|
| 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 |

No debt was outstanding prior to FY2008.

Amount of outstanding debt excluding Premium and Discount.

Additional details regarding outstanding debt can be found in the notes to the financial statements.

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

| Fiscal Year | 75% of Sales Tax Revenue | Operating Revenues | Operating Grants | Less Operating Expenses Net of Depreciation | Net Available Revenues | Schedule Payments for Sales and Use Tax Bonds and Contractual Obligations | | | | Coverage Ratio |
|----------------|-----------------------------|-----------------------|---------------------|--|---------------------------|--|---------------|---------------------------------|---------------|-------------------|
| | | | | | | Principal | Interest | Less IRS Interest Subsidy | Total | |
| 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 2009. Additional information regarding outstanding debt can be found in the notes 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 Transit ways | 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) | |
| 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 |
| 2004 | 23,128,816 | 96,428,515 | 57,809,095 | 618,237,026 | 238,458,131 | 3,699 | 1,553 | 18 | 6 | 18 | 25 | 14.8 | 102.0 | 1,285 | 473,368 |

Source: Metropolitan Transit Authority Office of Budget Services

BOF = Bus Operating Facility

TC = Transit Centers

P&R = Park & Ride Lots

* Includes METROLIFT