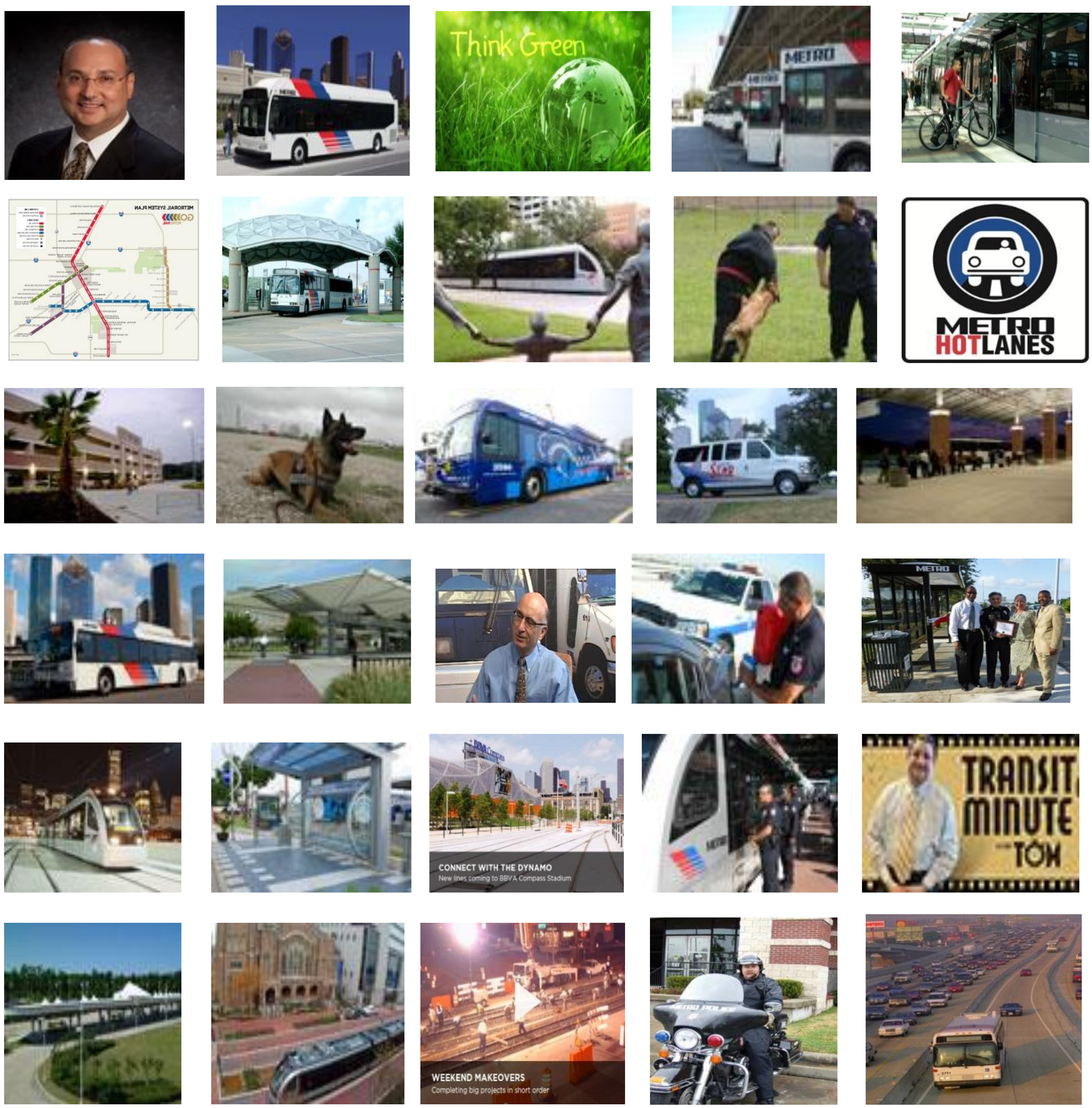
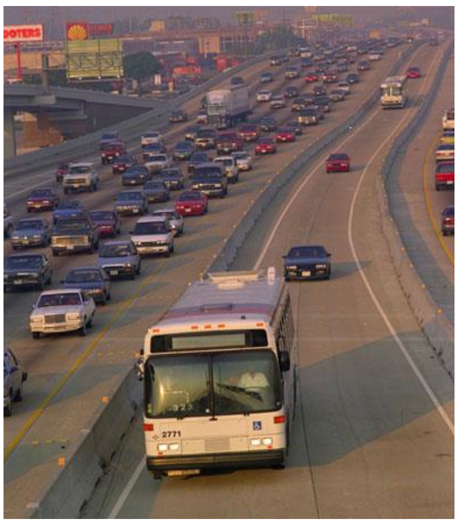
Metropolitan Transit Authority
of Harris County, Texas
Comprehensive Annual Financial Report
for the Years Ended
September 30, 2012 and 2011
(October 1, 2011 to September 30, 2012)



Improving Mobility, Economic Growth, Safety, and Quality of Life

Prepared by the Finance Department with Assistance from Other Groups




POLICE


METRO

Table of Contents


METRO

Introduction Section

This section provides a quick overview of METRO's financial activities during the year and management's responsibilities for quality financial reporting and should be read in conjunction with the rest of this report.

March 22, 2013

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

I am pleased to present METRO's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2012 (FY2012). This report represents the highest form of external financial reporting and has been developed by the Accounting Division with support provided by 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. Besides operating more than 1,200 buses, METRO is currently expanding its 7.5-mile light-rail line (Red Line), with three new lines under construction. METRO's services also include: STAR Vanpool, METROLift, HOV lanes, HOT lanes, Bikes-on-Buses/Trains program, Park & Ride, and road improvement projects.

METRO's revenue sources include a 1% local sales tax imposed across the geographic service area plus fares and federal grants. By voter referendum, 25% of the sales tax proceeds are allocated to non-transit general mobility projects of local governments. By terms of a 2012 referendum, general mobility will continue through 2025 but at a decreasing percentage after 2014.

In November 2011, the Federal Transportation Administration signed a $900 million full funding agreement with METRO to provide support to construction of METRO's North and Southeast Rail Lines. METRO was able to draw down over $300 million in FY2012, including $164 million in reimbursements for prior period expenditures. METRO drew a total of $357 million in capital grant revenues in FY2012 compared to $91.5 million in FY2011. METRO's three new rail lines are expected to be in revenue service by the end 2014.

The METRO region's economy was strong in FY2012, and sales tax collections grew to $593.7 million, an increase of 10.6% over the FY2011 revenues of $536.6 million. Fare revenue fell to $66.9 million, a 2.9% decrease from the FY2011 base of $68.7 million. Operating expenses were essentially flat at $573.5 million, an increase of 0.5% over FY2011.

Largely because of the capital grant receipts, including the prior period reimbursements, METRO's net position grew by $287.0 million to $268.6 million at the end of FY 2012.

Other financial highlights are presented in the Management's Discuss and Analysis section of this report.

The new METRO continues to work closely with the community as it improves transparency and develops innovative ways to implement mobility improvements throughout the service area. Current accomplishments and programs are highlighted below.

Winning the Gold for Financial Transparency

For the third year in a row, METRO won an award for its financial transparency, receiving the highest rating possible from the Texas State Comptroller.

METRO was evaluated on such things as its annual financial report, check register, financial transparency Web page, public information request, and easy access to financial documents. "We are proud to win the award for the third consecutive year," said Gilbert Garcia, chairman of the METRO Board of Directors, in a statement. "Openness and transparency have been top priorities for the New METRO."

And this wasn't the only financial award METRO garnered.

“This award comes on the heels of another honor our finance team recently earned for its hard work on the agency’s Comprehensive Annual Financial Report,” said METRO President and CEO George Greanias. “These recognitions clearly show we’re doing something right when it comes to being a trusted community partner. Congratulations to the entire METRO team.”

METRO is woven into the very fabric of this region. We always strive to remain visible in our community and seek opportunities to engage the public in our efforts to promote public transportation. By working together with the community, we strive to create strong neighborhoods and improve the quality of life for Houston area residents. Every day, area residents count on METRO to go to work, school, libraries, houses of worship, and other everyday activities. METRO sponsors numerous How to Ride educational programs and other outreach activities to educate the community about METRO services.

Each day, METRO works hard toward building a culture of commitment to the community, and here are just a few examples:

STATE OF GOOD REPAIR

State of Good Repair (SOGR) is a new initiative launched by the Federal Transit Administration (FTA) in 2010 to maintain the nation’s bus and rail systems. FTA defines State of Good Repair as an effort that “includes sharing ideas on recapitalization and maintenance issues, asset management practices, and innovative financing strategies. It also includes issues related to measuring the condition of transit capital assets, prioritizing local transit reinvestment decisions, and preventive maintenance practices.” SOGR is a key priority at METRO, and we are committed to ensuring the best in safe, reliable, cost-effective, and responsive transit services now and in the future.

"METRO'S GOT YOU COVERED" WITH 100TH NEW BUS SHELTER FOR 2012

September 2012

"METRO's Got You Covered" at another 100 bus stops throughout the service area with shelters designed to keep bus riders out of the elements and comfortably situated while awaiting the next bus.

On September 25, the 100th shelter for 2012 was installed at 1106 W. Tidwell Rd. (at Wheatley St.) for patrons on the 40 Pecore route.

The "METRO's Got You Covered" program includes design and construction of new shelter foundations, and fabrication and installation of passenger bus shelters. The initiative makes good on METRO's commitment to reinvest in METRO's bus-system backbone. "Bus shelters provide our patrons safety and cover from the elements," said METRO Board Chairman Gilbert Garcia. "The installation of just one shelter has been shown to increase ridership by as much as 20 passengers per day."

The shelters have been well-received in neighborhoods throughout METRO's service area. Adopting a shelter is easy. The program's benefits and requirements are all online. "We are happy to announce that God's Grace Baptist Church has adopted this new shelter, one of about 2,100 in our system. We look forward to working with them and expanding the initiative to build more shelters in the years ahead," said METRO President and CEO George Greanias. "This is a great example of one of our priorities of being a trusted community partner."

For a bus stop to qualify for shelter placement, one or more of the following criteria must be met:

- Boardings (ridership) (35+ daily)
- Proximity to other routes-transfers
- Proximity to activity centers – areas of high population or employment
- Elderly/physically challenged patrons
- Safety issues – lighting and crime

METRO RAIL

Houston, one of the fastest-growing cities in the United States, and the fourth largest, has an exciting and promising future. To keep our edge as an attractive place to live, raise a family, and build a career, and to maintain our standing as a major force in the global economy, we must continually make strides to ease traffic congestion, reduce greenhouse emissions, and improve our air quality.

Houston METRO's comprehensive light- rail plan plays a dynamic role in our city's life, providing smarter, more energy-efficient transportation options in the form of five new rail lines. The lines will connect citizens and visitors to every major activity center in our metropolitan area. They'll provide exceptional new opportunities for residents and businesses alike.

Our Main Street Line, or Red Line, Houston’s first light rail-line, offers undeniable proof that light rail makes sense for our region. The 7.5-mile Main St./Red Line averages nearly 5,000 boardings per mile totaling about 37,000 boardings daily.

We invite you to be part of Houston's future by making METRORail part of your personal transportation plan. View fact sheets, videos, and maps to see how your light-rail system is growing. For the latest information, visit www.gometrorail.org.

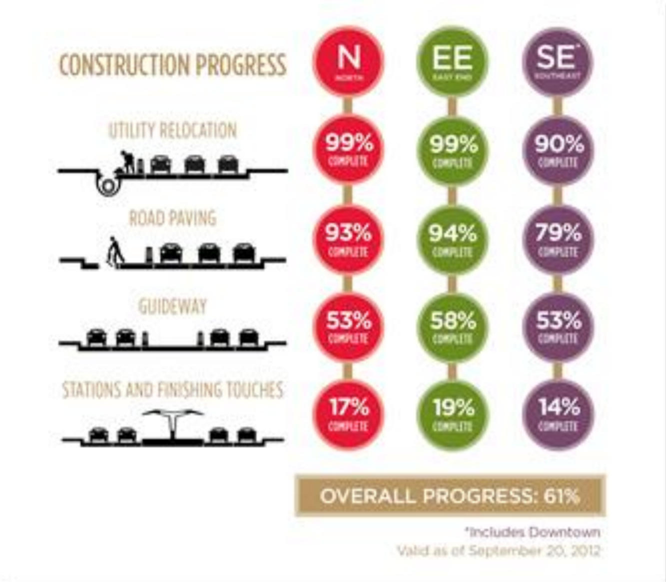
October 11, 2012

METRO has passed several milestones on its way to placing 15 plus miles of new track east, north, and southeast of the central business district. The three new light-rail lines will open for service in 2014. September reports show overall project construction as more than 61 percent complete with station and finishing work coming along at a very rapid pace.

The first steel structural columns for the station canopy have just been erected at the East End/Green Line Lockwood/Eastwood Station. Frames will support station glass roofs, artwork, signage, and lighting. Along the Southeast/Purple Line there is progress to report on the construction of the Kuhlman Gulley Bridge on MLK Boulevard and sound wall on Wheeler Avenue.

“Thanks to tremendous effort, coordination, and teamwork, Houston’s light-rail expansion project moves forward daily, meeting and exceeding deadlines and goals,” said David Couch, senior vice president, capital programs, METRO.

Utility relocations are 90 to 99 percent complete on all three lines, road paving is at 79 percent or more across the projects, and actual guideway for rail cars is already more than halfway finished. Once complete, METRORail will have 22.7 miles of light rail, with15 miles added to the existing light-rail system. METRORail stations now or soon to be under construction include:



North Line (Red)

- Northline Transit Center/HCC, center station
- Cavalcade, center station
- Lindale, split station

East End Line (Green)

- Lockwood/Eastwood, split station
- EaDo/Stadium, center station
- Coffee Plant/Second Ward, center station

Southeast Line (Purple)

- Leeland/Third Ward, split station

For more information on construction progress and stations, visit http://www.gometrorail.org/go/doc/2491/1333831/.

Arts in Transit

METRORail’s Arts in Transit program will transform new stations into art landscapes. Each station will showcase unique and original art from 22 artists, including 20 from the Houston area.

“The Arts in Transit program brings art to each station that reflects the character of its surrounding neighborhood,” said Couch. “This program enriches our communities with a wide variety of art that enhances the appearance of the stations.”

With artwork from local artist Dan Havel, the EaDo/Stadium Station will include original designs that celebrate Houston’s sports teams: the Texans, Astros, Dynamos, and Rockets.

METRO LIGHT-RAIL EXPANSION: "SIX MILES DOWN!"

274 small/disadvantaged businesses, 90% of them local, working on three new lines

Six miles equals about 64,000 linear feet of track in the ground leaving nine miles to go. Ten light-rail stations are now under construction, with schedules reflecting a 2014 opening date for passenger service. There will be 15 new miles of light rail and 24 additional stations when the lines are completed. The development of these additional METRORail lines means a great ride, and jobs for local contractors, construction workers, and engineers all before any passenger boards.

In May 2012, the project had:

1. 1,008 workers who performed 193,000 hours of labor
2. 434 craft labor – made up entirely of local hires
3. 350 subcontractor employees, about 90 percent local
4. 224 partner employees (63 local, 119 relocated to Houston, 42 temporary)

Of the businesses now working on 554 contracts for the light-rail project, 274 are small or disadvantaged and more than 90 percent of them are local. $179 million of the $298 million committed to the SBE/DBE program has already been paid out. That commitment exceeds original contract goals. METRORail contractor HRT is not only hiring a diverse workforce but also ensuring that the local community benefits from the work and money comes back to the community to the extent permitted by federal funding requirements.

As construction progresses, METRO continues to ask the public to make a special effort to support businesses along the light-rail path. With nearly 500 enterprises to choose from, Houstonians can experience diverse communities and cultures while supporting construction-zone businesses.

METRORAIL FAMILY ANNOUNCES THE ARRIVAL OF THE FIRST MEMBER OF ITS 2ND SIEMENS FLEET

Unit 201 will roll into service as the first of a new generation of Houston light-rail cars dubbed H2's. METRO Board Chairman Gilbert Garcia and President and CEO George Greanias joined staff at the Rail Operations Center at 1601 W. Bellfort on October 15, 2012 to unveil the 85-foot addition to its light-rail family.

Garcia said "The new light-rail vehicle (LRV) is not just a rail car. It represents a savings of nearly a year's time in getting optimal service to rail passengers. These units will help us offer more timely and comfortable trips."

Greanias added, "METRORail has a very busy fleet which this year surpassed 90 million boardings. The new units will take the strain off those already in service and provide more flexibility on our current system." Nineteen of the H2's will join the current 18-member, nine-year-old METRORail LRVs over the next year and a half. The new units are similar to their older S70 siblings with a little updating. The S70 LRV is electrically powered from an overhead wire (catenary) system and, fully loaded, carries about 200 passengers per car. The units can be coupled up to four together for more efficient service during peak times.

Each new S70 unit is equipped with eight wide-opening, sliding doors all located in the low floor area, four on each side of the vehicle. The door spacing is optimal for passenger flow the time necessary to enter and exit the vehicle which can cause delays in the schedule. The design of the interior maximizes passenger space, using a knee-to-back seating arrangement and a large standing area with extra hand straps and grab bars for passenger safety.

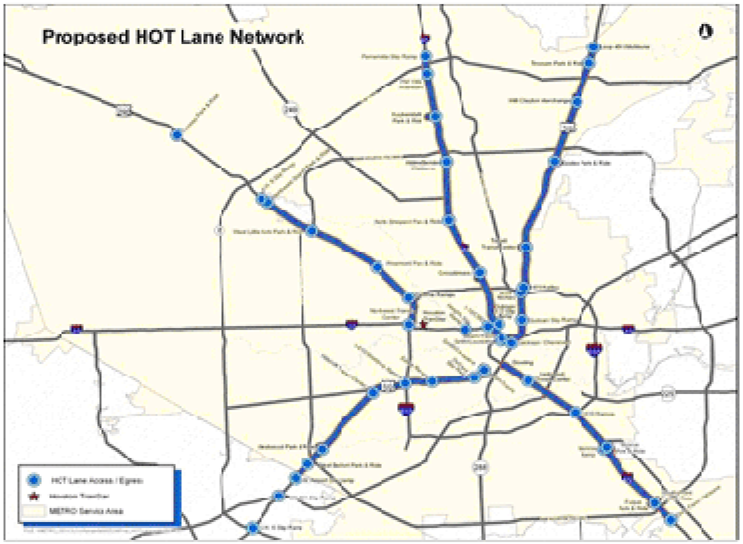
In addition to the amplified passenger space and wide doorways, the updated S70 is also equipped with two designated wheelchair spaces, allowing priority seating for disabled passengers as well as a hydraulic system that permits height control and level boarding.

METRORail is also responding to requests from cyclists by outfitting each new H2 S70 with two bicycle racks, located at front and rear doorways, which may make travel safer during hours when bikes are permitted on board.

The delivery is part of an $83 million contract awarded to Siemens Industry, Inc. for 19 new S70 light-rail vehicles along with spare parts, training, and manuals. The vehicles are manufactured at Siemens' rail vehicle manufacturing plant in Sacramento, California.

METRO HOT LANES

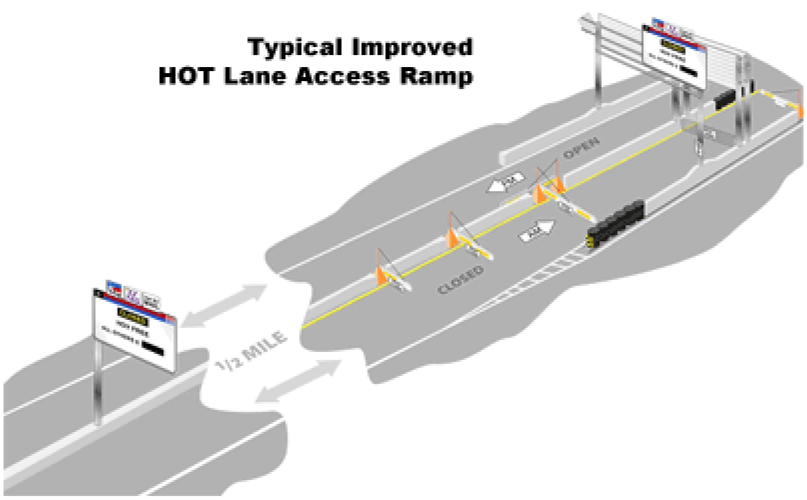
The New METRO has an exciting option to make commuting easier: METRO HOT Lanes. METRO's High Occupancy Vehicle Lanes (HOV Lanes) have been enhanced to give people driving solo in cars the option to pay a small toll to use the lanes.



Current HOV Lane users will see only one significant change: a lane for verification of the number of occupants in the vehicle.

Drivers without passengers are allowed to use the system by paying a toll with an authorized toll tag. This includes a METRO HOT Lanes Toll Tag, Harris County EZ TAG, TxDOT's TxTAG, or the Dallas NTTA Toll Tag.

Traffic monitoring systems will help METRO maintain traffic speeds to ensure optimal travel times for existing HOV Lane users, as well those using the METRO HOT Lanes.



Benefits of METRO HOT Lanes

Provides new options for commuters

Increases safety and promotes quick response to accidents and issues in the lanes due to additional camera monitoring

Improves air quality by reducing traffic congestion

Better utilizes existing HOV Lanes

Carpools, vanpools, and motorcyclists will still ride for free.

HOT Lanes Customer Support can be contacted by dialing 713-462-5263

Conversion of the HOV Lanes to make them compatible for METRO HOT Lanes allows for the following improvements:

- Automated remote-controlled gates at entrances and exits to the HOV Lanes allow for quick opening and closing of the lanes
- Camera monitoring systems
- Enforcement monitoring booths
- Traffic flow monitoring systems

Other METRO HOT Lanes corridors will come online throughout the year (completing by winter 2013).

Anticipated opening dates:

IH 45 North - Open
IH 45 South - Open
US 59 South - Open
US 290 - Spring 2013
US 59 North - Winter 2013

METRO HAS SEVERAL TYPES OF BUS SERVICES: LOCAL AND PARK & RIDE

Local service runs mostly on city streets, stopping at every other corner along its route.

Park & Ride service is for long-distance commuting. METRO's 28 Park & Ride lots provide bus service to key destinations in the service area. One-way fare falls into four zones based on the distance a bus travels.

The Texas Medical Center (TMC) Circulator may be paid with the METRO Q® Fare Card or cash.

Customers can carry a pet on the bus and the rail as long as it is caged properly. Service animals are allowed to accompany riders with disabilities.

Bus and rail riders may bring car seats aboard, but there are no seat belts to strap the car seat to the bus or rail seat. So the caregiver would have to hold the baby or child. Strollers are also allowed. On buses, we suggest removing the child from the stroller and folding the stroller while on-board.

METRO STAR IS IN HOUSTON

Greater Houston's METRO STAR is service to help you save money, reduce your stress, and relax to and from work. STAR offers hundreds of scheduled routes serving an eight-county area including Harris, Brazoria, Chambers, Fort Bend, Galveston, Liberty, Montgomery, and Waller.

STAR is a Cost-Effective Public Transportation Option
STAR riders share the cost of the vehicle, fuel, maintenance routes, and any parking and tolls. Individual cost is divided by the number of riders creating a personal 'fraction' of the total cost. Because STAR vanpools are driven by one or more of the riders, the costs are many times less than other public and private options. STAR vanpools are one of the most efficient users for public and private funding. This efficiency allows STAR vanpools to form quickly and serve locations that other transit services do not or cannot serve cost effectively.

Let Us Help You Be A STAR! Visit METRO's Web Site for More Information.

MACS-WEB METROLIFT'S AUTOMATED COMPUTER SYSTEM

Book Trips 5 a.m. – 5 p.m.,
7 days a week
Confirm or Cancel trips, 24/7
Go online – No more waiting

METRO LIFT

WELCOME TO METROLIFT

The METROLift Program Guide will introduce you to METROLift transportation and provide the basic information you need to use the service. Upon request, this information is available in other formats.

It is important that patrons know METROLift is a shared-ride public transit service. In accordance with the Americans with Disabilities Act (ADA), travel times and the timeliness of service are comparable to fixed-route bus service. Please read this policy brochure carefully to familiarize you with the type and level of service that METROLift provides. Remember that you have a responsibility to use accessible fixed-route METRO bus service when possible.

Now with three ways to book your trip, getting around town has never been easier.

- Reservations on the Phone – Call 713-225-6716 to speak with a representative to book your trip.
- MACS – Call 713-225-6716 then press the # 1 to use our automated trip scheduling system.
- MACS-WEB – Schedule your trip online quickly and easily.

Our goal is to provide safe and reliable transportation. If, after reading this manual, you have questions regarding METROLift, please phone the METROLift Customer Service Department at 713-225-0119.

Transportation Choices:

METRO's fixed-route buses are 100% accessible and require no advance notice to ride. Try one of our convenient routes for yourself to help take control of your mobility. If you are not familiar with bus riding and would like to learn, please call METROLift Customer Service at 713-225-0119 and ask to speak with a Travel Trainer who will assist you.

METRO is a sponsor of the Motorist Assistance Program (M.A.P.), which helps stranded motorists on Houston-area freeways. Uniquely marked M.A.P. trucks and vans are equipped to handle minor automotive emergencies such as overheating, flat tires, and jump-starts. Since 1989, M.A.P. operators from Harris County Sheriff's Department and from METRO have assisted more than 100,000 motorists.

It's simple! Just dial 713-CALLMAP (713-225-5627) to report a stranded motorist. For Verizon customers, the call is free. Just dial *MAP (*627) from your Verizon phone.

It's safe! Don't worry about who will assist you. M.A.P. vehicles are staffed with experienced uniformed METRO operators and Harris County Sheriff's Department deputies.

It's free! M.A.P. is offered 6:00 a.m. to 10:00 p.m. Monday through Friday, free-of-charge. The M.A.P. operator will contact the City of Houston's SafeClear program if additional services are required. M.A.P. is offered to you as a public service by: METRO, Texas Department of Transportation, Harris County Sheriff's Department, Houston Automobile Dealers Association, Verizon Wireless, and Houston TranStar.

GENERAL MOBILITY

GENERAL INFORMATION

In partnership with the city of Houston, Harris County, and the surrounding 14 multicities, METRO's General Mobility Program was established to enhance regional mobility and ease traffic congestion. Funded by a 25 percent allocation from METRO's 1 percent sales tax revenue, the General Mobility Program provides funding for the construction and maintenance of:

- Streets and roadways
- Bridges and grade separations
- Traffic-control signals
- Sidewalks and hike & bike trails
- Streetlights
- Drainage improvements related to transportation facilities, streets, roads, or traffic-control improvements

METRO also provides funding for traffic management programs such as the Motorist Assistance Program (MAP) and SafeClear Program, which provide assistance to disabled vehicles on the region's freeway system.

Since its inception, the General Mobility Program has provided funding totaling more than $2 billion within its service area. In FY2012 alone, funding provided by the program totaled approximately $148.1 million.

Using METRO's services improves the environment while putting money back into your pockets. The latest transit savings report from the American Public Transportation Association shows that riding public transit saves about $9,914 a year.

Each day, METRO works hard toward building a culture of commitment to the community. Some additional interesting facts:

Each day, METRO provides integrated mobility services, which include buses, rail cars, METROLift, Vanpool service (Star), Hot/HOV Lanes, construction activities, and police protection.

Each day, METRO's Risk Management and Service Delivery work to ensure that METRO is exceeding state and federal environmental requirements. One of METRO's major goals is to help protect the environment by recycling.

Each day the goal is to give more back to the community.

Each day performing high-quality maintenance is critical to maintaining a cost-effective fleet, which provides excellent customer service.

Each dollar spent by METRO increases economic activity almost four times.

Please visit METRO's Web site and find out more about how METRO is adding value to our community.

The Accounting Division in the Finance Department had major responsibility for completing this report. The Budget Services Division also contributed, as well as operating departments throughout METRO who provided data and responses to questions from the audit staff. Thanks and appreciation to all.

Debbie Sechler

Debbie Sechler
Interim Sr. Vice President and Chief Financial Officer

Board of Directors
September 30, 2012

Gilbert Andrew Garcia, CFA, Chairman

Allen D. Watson, Vice Chairman

Lisa Gonzales Castañeda, P.E., Secretary

Burt Ballanfant

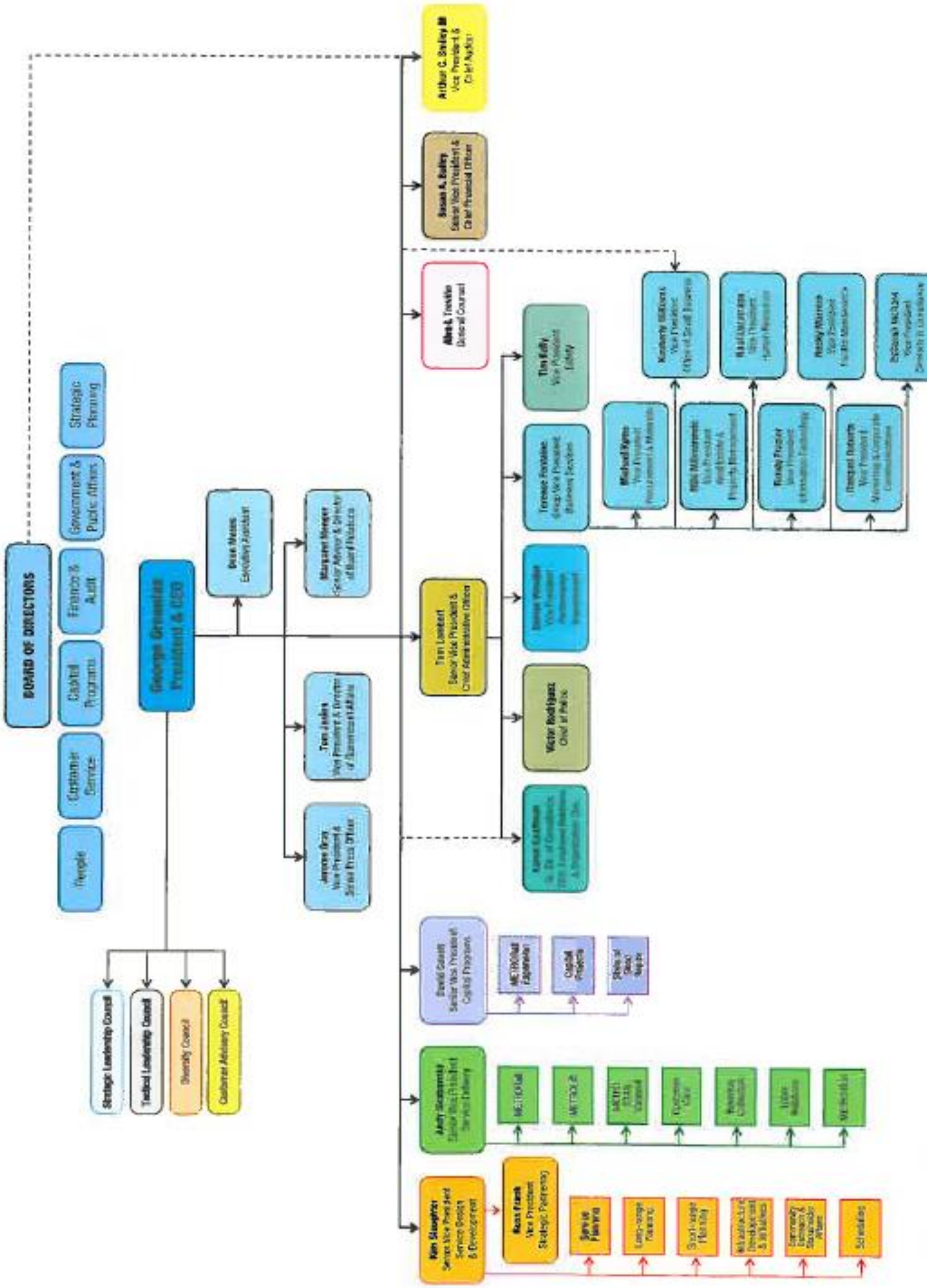
Honorable Dwight Jefferson

Carrin F. Patman

Cindy Siegel

Christof Spieler

Gary Stobb



METRO

NEW METRO Organizational Chart
9/25/12

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 the accuracy, reliability, and fairness of the presentation of 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 law 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. This policy covers risk of loss to all real and personal property, including transit buses, located on METRO's property, but excludes off-property coverage.

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, 2011, which is the twentieth consecutive year that METRO has received this prestigious award. 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.

Contacting

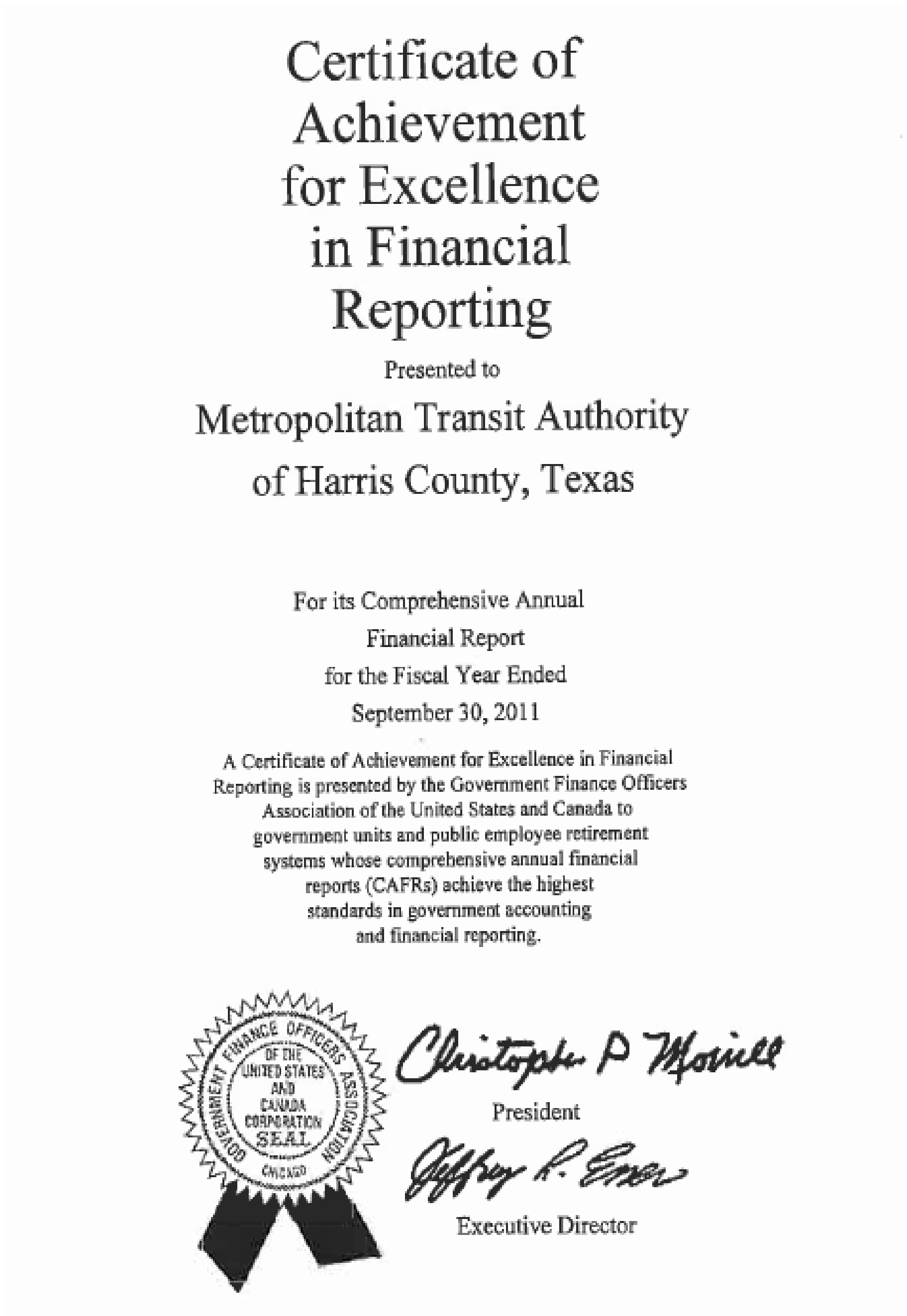
If you have questions about this report or need additional financial information, contact the Metropolitan Transit Authority of Harris County, Texas, Finance Department, P.O. Box 61429, Houston, TX 77208-1429.

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.

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

Acknowledgments

METRO's management expresses its appreciation to the employees 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.



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Transit Authority of Harris County, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2011

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

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
of Harris County, Texas:

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority) as of and for the years ended September 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. 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 2011 or 2010. 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Metropolitan Transit Authority of Harris County, Texas as of September 30, 2012 and 2011, and the changes in its financial position and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2013 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and schedules of funding progress for the Authority's Non-Union and Transport Workers Union Pension Plans and other postemployment benefits on pages 46-51 and 64 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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's 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.

KPMG LLP

March 22, 2013

Starting in 2013, METRO is offering its new Smart Service to customers, after listening to what you, our riders, want.

More riders are using bimodal transit to get around town.

METRO purchased 15 Police Interceptors. Five are in operation, and the rest are being prepared for service.

Buckle up, riders! It's time for the Houston Livestock Show and Rodeo and it's the perfect time to ride METRORail to avoid road gridlock.

Management's Discussion and Analysis (MD&A)

Governmental Accounting Standard No. 34 <u>Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments</u> 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.

This section of the annual report 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, 2012, 2011, and 2010. 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 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-1).

- The balance sheet shows net assets as of September 30, 2012 were $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.

Fiscal Year 2011 vs. 2010

- FY2011 Sales Tax revenues were $536.6 million (Table A-3), 9.5% higher than in FY2010 (Table A-3). Fares in FY2011 were $68.7 million, 6.5% more than in FY2010 (Table A-1). While ridership remained constant, the rise in fare revenue was largely due to METRO's analysis of the deferred revenue account, which recognized higher fares of $3.0 million in FY2011. Sales Tax growth resulted from the economic rebound in Houston, due largely to increases in population and jobs, which are associated with high oil prices and strong energy sector business transactions.

- FY2011 total operating expenses (including depreciation) were $570.5 million, an increase of 1.4% over FY2010 (Table A-1).

- The balance sheet shows net assets as of September 30, 2011 were $1,575.9 million, a decrease of 1.2% over September 30, 2010 (Table A-4).

- Total capital assets (net of depreciation) were $2,292.8 million as of September 30, 2011, an increase of 12.8% over September 30, 2010 (Table A-5). This increase is primarily due to the 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 other 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 Statement of Revenues, Expenses, and Changes in Net Position. METRO's Statement of Net Position presents the same information as a balance sheet. It assesses the balance of a government's assets.

FINANCIAL ANALYSIS OF METRO

Net Assets

Fiscal Year 2012 vs. 2011

The increase in net assets from FY2011 to FY2012 was approximately $268.6 million (Table A-1) or 17.0%. METRO's total operating revenues decreased by $1.8 million to $66.9 million (see Operating Revenue section for additional analysis), with total operating expenses increasing by $3 million to $573.5 million. Accordingly, the operating subsidy (Operating Loss) including depreciation increased 1.0% (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 the Federal Transit Administration for rail expansion under the Full Funding Grant Agreement (FFGA).

The $268.6 million increase in net assets (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.

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. Assets restricted for capital project use decreased by $3.2 million.

Fiscal Year 2011 vs. 2010

The decrease in net assets from FY2010 to FY2011 was approximately $18.4 million (Table A-1) or 1.2%. METRO's total operating revenues increased by 6.5% to $68.7 million (see Operating Revenue section), and total operating expenses increased 1.4% to $570.5 million. Accordingly, the operating subsidy (Operating Loss) including depreciation increased by 0.8% (see Expense Factors section). The net Non-operating revenues (expenses) increased by $174.5 million or 79.3% and capital contribution (Grants, net of funds passed to subrecipients) decreased by $2.5 million or 2.7%.

The $18.4 million decrease in net assets (end of year) from FY2010 to FY2011 is the net increase of $447.1 million in total assets and an increase of $465.6 million in total liabilities. The $447.1 million increase in total assets results largely from increases in both rail expansion and investments (including both restricted and unrestricted), offset by decrease in prepaid rental payments.

The $575.6 million increase in total liabilities results largely from increases in bond issuance of $510.4 million and other postemployment benefits (OPEB) of $30.0 million. These increases are offset by a decrease in deferred rental payments of $21.7 million for lease and sublease agreements for operating facilities and buses.

Total assets (Table A-4) increased by 20.6% to $3,245.8 million with total liabilities increasing by 52.5% to $1,673.2 million. Restricted assets increased $54.2 million.

Table A-1
Changes in METRO's Net Position
(in millions of dollars)

	FY2012	FY2011	Amount of Change	Percentage Change	FY2010
Increased by:					
Transportation fares	$ 66.9	$ 68.7	$ (1.8)	(2.6)	$ 64.5
Non-operating revenues and	419.7	394.4	25.3	6.4	219.9
Capital grant proceeds	357.0	91.5	265.5	290.2	91.9
Decreased by:					
Operating expenses	436.4	432.2	4.20	1.0	418.5
Depreciation and amortization	137.1	138.3	(1.2)	(1.0)	144.0
Funds passed to subrecipients	1.5	2.5	(1.0)	(40.0)	.4
Change in net position	268.6	(18.4)	287.0	(15.6)	(186.6)
Net position beginning of year	1,575.9	1,594.3	(18.4)	(1.2)	1,780.9
Net position end of year	$1,844.5	$1,575.9	$ 268.6	17.0	$1,594.3

Operating Revenue

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% or $1.8 million decrease in transportation fares in FY2012 over FY2011.

Fiscal Year 2011 vs. 2010

The 6.5% increase in FY2011 operating revenue over FY2010 is due to the Authority's analysis of the deferred revenue account, which resulted in an increase of approximately $3.0 million to fare revenue.

Operating Expense

Table A-2

METRO's Total Operating Expenses (including depreciation)

(in thousands of dollars)

	FY2012	FY2011	Amount of Change FY2012-2011	Percentage Change FY2012-2011	FY2010
Scheduled Services - Fixed Route					
Bus & Rail Operations - Direct	$165,926	$165,661	$265	0.2%	$161,548
Contract Service	47,432	44,689	2,743	6.1%	44,366
Materials Distribution	5,967	5,976	(9)	(0.2%)	5,995
Preventative Maintenance	48,876	49,364	(488)	(1.0%)	49,926
Central Shops & Maint. Support	18,103	15,220	2,883	18.9%	13,796
Safety & Training	817	892	(75)	(8.4%)	859
Subtotal Scheduled Services	287,120	281,802	5,318	1.9%	276,490
Non-Scheduled Services - Special					
METROLift	40,205	39,696	509	1.3%	35,916
METROVan	5,250	4,979	271	5.4%	4,328
Special Events	2,346	676	1,670	247.0%	809
Subtotal Non-Scheduled Services	47,801	45,351	2,450	5.4%	41,053
Service Support					
Service Planning & Evaluation	3,131	4,206	(1,075)	(25.7%)	823
Marketing	6,911	7,450	(539)	(7.2%)	6,933
Transit Security	13,214	15,045	(1,831)	(12.2%)	14,485
Insurance & Claims	5,673	5,617	56	1.0%	5,144
Ticket & Fare Collection	3,369	3,868	(499)	(13.0%)	2,029
Facility Maintenance	20,021	16,613	3,408	20.5%	19,193
Subtotal Service Support	52,319	52,799	(480)	(0.9%)	48,607
Traffic Management - Services					
Traffic Management	6,986	7,752	(766)	(9.9%)	8,386
Subtotal Traffic Management	6,986	7,752	(766)	(9.9%)	8,386
Organizational Support					
Business, Community & Gov't Dev.	5,043	4,592	451	9.8%	4,111
Administrative, Financial & Personnel	15,358	18,120	(2,762)	(15.2%)	18,922
Information Systems	14,276	12,361	1,915	15.5%	10,836
Purchasing	2,503	2,894	(391)	(13.5%)	2,838
Oversight, Audit & Legal	5,000	6,536	(1,536)	(23.5%)	7,333
Subtotal Organizational Support	42,180	44,503	(2,323)	(5.2%)	44,040
Depreciation & Amortization	137,095	138,295	(1,200)	(0.9%)	143,977
Total Operating Expenses	**$573,501**	**$570,502**	**$2,999**	**0.5%**	**$562,553**

Expense Factors

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.

Fiscal Year 2011 vs. 2010

Total operating expenses increased by $7.9 million or 1.4%. This increase was primarily due to increases in METRO's contribution to Union Employees Benefit Trust, and higher service planning and evaluation paratransit expenses. The Union Labor Agreement stipulates that METRO's Health benefits contribution would increase to $800 per month per employee effective October 1, 2010, an increase of 6.2%. The increase in paratransit expense is the result of a growing demographic that requires special transit service. The increase in organizational support costs was offset by a decrease in diesel fuel expense.

Depreciation and Amortization

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.

Fiscal Year 2011 vs. 2010

When capital assets are sold or disposed of, the cost and accumulated depreciation are removed from the Authority accounts. In FY2011, METRO disposed of buses and other assets that were no longer needed to provide transit service. As a result of these capital asset disposal and full depreciation of some property, the depreciation and amortization expense in FY2011 decreased $5.7 million or 3.9%.

Sales Tax

Fiscal Year 2012 vs. 2011

METRO collects a 1% Sales Tax in its 1,285-square-mile service area, a tax approved by public vote when METRO was established in 1977. 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.

Fiscal Year 2011 vs. 2010

FY2011 Sales Tax revenues were $46.6 million higher than in FY2010, a 9.5% increase. During the course of FY2011, the Houston regional economy experienced gains in sales tax revenue associated with investment-oriented business-to-business transactions, due largely to high oil prices and strong energy sector profits.

Non-operating Income Discussion

Table A-3
Changes in METRO's Non-operating Revenue
(in millions of dollars)

	FY2012	FY2011	Amount of Change	Percentage Change	FY2010
Non-operating revenues (expenses) and capital contributions					
Sales tax	$593.7	$536.6	$57.1	10.6	$490.0
Investment income	0.6	0.3	0.3	100.0	2.1
Inter-government revenue	2.0	2.0	-	-	2.0
Non-capitalized interest expense	(13.7)	(13.5)	(0.2)	1.5	(7.5)
Other income	3.0	0.6	2.4	400.0	.8
Grant proceeds	56.4	59.6	(3.2)	(5.2)	64.0
Local infrastructure assistance	(222.0)	(188.5)	(33.5)	17.8	(150.1)
Loss from impaired assets	-	-	-	-	(180.3)
Loss on sale of assets	(0.3)	(2.7)	2.4	(88.9)	(1.1)
Total non-operating revenues (expenses)	419.7	394.4	25.3	6.4	219.9
Capital grant proceeds	357.0	91.5	265.5	290.2	91.9
Funds passed to subrecipients	(1.5)	(2.5)	1.0	40.0	(0.4)
Total non-operating revenues (expenses) and capital contributions	$775.2	$483.4	$291.8	60.4	$311.4

Capital Contributions (Grants)

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.

Fiscal Year 2011 vs. 2010

In FY2010 total grants were $155.9 million. In FY2011, the total grant revenue was $151.1 million, a decrease of $4.8 million. The decrease is primarily due to lower federal reimbursements of METRO Police grant-eligible security expenses. In FY2011, METRO's transit security grants totaled $1.8 million, $3.2 million lower than FY2010.

Funds Passed to Subrecipients

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 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.

Fiscal Year 2011 vs. 2010

METRO's average invested General Funds for FY2011 were $78.6 million and for FY2010 were $106.6 million. The decrease was primarily due to outflows for METRORail Expansion and the utilization of General Funds to purchase buses pending the issuance of Series 2011B in September 2011. Annualized yield on METRO's portfolio increased to 0.61% in 2011 from 0.46% in 2010, reflecting a greater concentration of long-term investments with higher yields. The investment portfolio consisted of the following: U.S. Treasuries, Texas Municipal Commercial Paper, Cash, Local Government Investment Pools, and Money Market Mutual Funds during FY2011.

Local Infrastructure Assistance

Fiscal Year 2012 vs. 2011

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 interlocal agreement with its member entities (i.e., 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. In addition to these normal expenses, METRO conveyed $65.3 million of land relating to rail expansion of which $36.3 million was funded by the Federal Transit Administration. These investments in regional mobility totaled $222 million in FY2012 and $188.5 million in FY2011 (Table A-3).

Fiscal Year 2011 vs. 2010

Investments in regional mobility totaled $150.1 million in FY2010 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.

Long-Term Debt

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.

Fiscal Year 2011 vs. 2010

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, accounted for locally as noncurrent long-term debt, and grew from $613.7 million at the end of 2010 to $1,325.5 million at the end of 2011. This represents an increase of $711.8 million or 116.0%, mainly because METRO issued its remaining $461 million of voter-authorized bonds for METRO rail, contractual obligations for the purchase of buses/rail cars, and the reclassification of commercial paper from current to long-term. METRO's debt ratings remain unchanged since FY2010, which are AA for Standard and Poor's and Aa2 for Moody's.

Loss on Sale of Assets

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.

Fiscal Year 2011 vs. 2010

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
METRO's Net Assets
(in millions of dollars)

	FY2012	FY2011	Amount of Change FY2012-2011	Percentage Change FY2012-2011	FY2010
Current Assets	$562.5	$306.7	$255.8	83.4%	$344.7
Capital Assets (Net)	2,580.1	2,292.8	287.3	12.5%	2,032.0
Prepaid and Other Assets	231.9	646.3	(414.4)	(64.1%)	315.1
Total Assets	**3,374.5**	**3,245.8**	**128.7**	**4.0%**	**2,691.8**
Deferred outflow of resources	**-**	**3.2**	**(3.2)**	**N/A**	
Current Liabilities	226.9	217.7	9.2	4.2%	381.7
Other Liabilities	1,299.4	1,455.4	(156.0)	(10.7%)	715.8
Total Liabilities	**1,526.3**	**1,673.2**	**(146.9)**	**(8.8%)**	**1,097.5**
Deferred inflow of resources	**3.7**	**-**	**3.7**	**N/A**	
Net Assets:					
Investments in capital assets	1,730.0	1,641.3	88.7	5.4%	1,663.3
Restricted for capital projects	71.3	74.5	(3.2)	(4.3%)	20.3
Unrestricted	43.2	(139.9)	183.1	56.7%	(89.3)
Total Net Assets	**$1,844.5**	**$1,575.9**	**$268.6**	**17.0%**	**$1,594.3**

CAPITAL ASSETS

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%.

Fiscal Year 2011 vs. 2010

As of September 30, 2011, METRO had invested approximately $3,566.2 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, 2011 totaled $2,292.8 million (Table A-5). This amount represents a net increase (including additions and disposals, net of depreciation) of $260.8 million or 12.8% over September 30, 2010. A significant addition in FY2011 was $317.9 million used to expand METRORail. Additional information is located in financial note 3.

The increase in total capital assets (before depreciation) from FY2010 to FY2011 was $333.5 million, an increase of 10.3%.

Table A-5
METRO's Capital Assets
(in thousands of dollars)

	FY2012	FY2011	Amount of Change FY2012-2011	Percentage Change FY2012-2011	FY2010
Rail and Equipment	$296,767	$292,708	$4,059	1.4%	$292,371
Buildings and Improvements	413,534	416,753	(3,219)	(0.8%)	422,113
Park and Ride Lots	280,976	284,706	(3,730)	(1.3%)	284,529
Buses and Equipment	745,074	712,026	33,048	4.6%	722,335
Transitways	537,974	516,942	21,032	4.1%	514,123
Other Property and Equipment	70,087	74,493	(4,406)	(5.9%)	61,784
Total Capital Assets	**2,344,412**	**2,297,628**	**46,784**	**2.0%**	**2,297,255**
Less: Accumulated Depreciation & Amortization	(1,345,104)	(1,273,381)	(71,723)	5.6%	(1,200,634)
Net Depreciable Property and Improvements	**999,308**	**1,024,247**	**(24,939)**	**(2.4%)**	**1,096,621**
Land	308,091	363,981	(55,890)	(15.4%)	354,529
Construction-in-Progress	1,272,701	904,590	368,111	40.7%	580,889
Capital Assets (Net)	**$2,580,100**	**$2,292,818**	**$287,282**	**12.5%**	**$2,032,039**

OUTSTANDING COMMITMENTS

Fiscal Year 2012 vs. 2011

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 $940 million as of September 30, 2012. Additional analysis is located in financial note 7.

ECONOMIC OUTLOOK FY2013

Houston's economy is expanding steadily mainly due to its position as a global leader in oil and gas technology, and the region's significant trade and export links owing to its location on the Texas Gulf Coast. The region is now widely regarded as an economic powerhouse for innovation in infrastructure modernization, technology development, alternate energy development, and deployment, to name a few. Total employment has increased and population in the region continues to steadily grow as well. While the Houston region continues to enjoy these economic gains, unpredictable energy markets add volatility to the local economy and the chemical industry continues to face competition from lower-cost foreign producers. Predicting these events in the future is very difficult due to the complexity of national and international economies and events, and many uncertainties and instabilities continue to exist.

As we look ahead to FY2013, the slowly healing U.S. economy and rising demand for oil abroad will likely push crude oil prices up a bit, hence continuing the trend towards a strong export demand for the Houston region. Population in the area is also projected to steadily increase. Gross Domestic Product growth for the upcoming year is forecast to be at 2%, about the same as in the current year. All these factors will work together to facilitate economic growth, and thus, a slightly more robust Houston economy is likely in 2013.


217 CYPRESS
METRO
4913

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, 2012 and 2011

	2012	2011
Assets		
Current assets		
Cash	$ 1,769,157	$ 1,860,652
Investments	358,828,979	91,458,100
Investments – restricted	37,265,000	64,489,262
Receivables		
Sales tax	103,035,680	97,394,471
Federal government - Federal Transit Administration	26,811,825	17,050,424
Bus passes and other receivables	13,570,522	12,754,087
Total receivables	143,418,027	127,198,982
Material and supplies inventory	17,532,502	21,648,175
Derivative instrument – diesel fuel swaps	3,691,843	-
Total current assets	562,505,508	306,655,171
Noncurrent assets		
Investments – restricted	129,308,971	415,681,262
Capital assets, net of depreciation	2,580,100,752	2,292,816,954
Prepaid pension	26,678,091	26,781,617
Other noncurrent assets	11,549,753	12,523,059
Prepaid rental payments	64,374,346	191,360,541
Total noncurrent assets	2,812,011,913	2,939,163,433
Total assets	3,374,517,421	3,245,818,604
Deferred outflow of resources - diesel fuel swaps	-	3,151,246
Liabilities		
Current liabilities		
Trade payables	125,067,467	150,161,474
Accrued compensation and benefits	23,759,406	25,055,498
Liabilities for injuries and damages	3,385,061	3,723,095
Commercial paper	26,600,000	-
Other current liabilities	9,005,559	7,295,986
Capital lease obligations	7,899,879	7,707,103
Bond payables	12,895,000	12,297,176
Debt interest payable	18,287,887	8,323,783
Derivative instrument – diesel fuel swaps	-	3,151,246
Total current liabilities	226,900,259	217,715,361
Noncurrent liabilities		
Liabilities for injuries and damages	5,715,969	13,581,122
Commercial paper	162,400,000	190,000,000
Deferred rental payments	64,374,346	191,360,541
Capital lease obligations	83,711,279	91,611,157
Bond payables	839,645,874	852,540,873
Other postemployment benefits	143,594,021	116,266,986
Total noncurrent liabilities	1,299,441,489	1,455,360,679
Total liabilities	1,526,341,748	1,673,076,040
Deferred inflow of resources - diesel fuel swaps	3,691,843	-
Net position		
Net Invested in capital assets	1,729,961,468	1,641,338,563
Restricted assets – debt payments	71,335,683	74,504,866
Unrestricted assets	43,186,679	(139,949,619)
Total net position	$ 1,844,483,830	$ 1,575,893,810

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, 2012 and 2011

	2012	2011
Operating revenues:		
Transportation fares	$ 66,887,319	$ 68,740,526
Operating expenses:		
Scheduled services - fixed route		
Bus and rail operations - direct	165,925,733	165,660,712
Contract service	47,431,837	44,688,976
Material distribution	5,966,531	5,975,735
Preventative maintenance	48,876,170	49,364,186
Central shop and maintenance support	18,103,288	15,220,267
Safety and training	816,598	891,844
Subtotal scheduled services - fixed route	287,120,157	281,801,720
Non-scheduled services -special		
METROLift	40,204,841	39,696,105
METROVan	5,250,084	4,979,360
Hot lanes and special events	2,346,041	676,109
Subtotal non-scheduled services - special	47,800,966	45,351,574
Service support		
Service planning and evaluation	3,130,879	4,205,657
Marketing	6,910,999	7,450,088
Transit security	13,214,108	15,045,472
Insurance and claims	5,673,304	5,616,894
Ticket and fare collection	3,369,283	3,867,527
Facility maintenance	20,020,810	16,613,097
Subtotal service support	52,319,383	52,798,735
Traffic management - services	6,985,562	7,752,239
Organizational support		
Business, community, and governmental development	5,043,321	4,592,198
Administrative, financial, and personnel	15,357,730	18,119,682
Information systems	14,276,491	12,360,853
Purchasing	2,502,794	2,894,124
Oversight, audit and legal	5,000,056	6,536,177
Subtotal organizational support	42,180,392	44,503,034
Depreciation and amortization	137,094,956	138,295,447
Total operating expenses	573,501,416	570,502,749
Operating loss	(506,614,097)	(501,762,223)
Non-operating revenues (expenses):		
Sales tax	593,732,843	536,572,595
Investment income	625,042	327,467
Inter-government revenue	1,986,480	1,986,480
Non-capitalized interest expense	(13,719,644)	(13,525,952)
Other income	3,030,912	643,766
Grant proceeds	56,460,316	59,588,924
Local infrastructure assistance	(222,054,292)	(188,467,654)
Loss on sale or disposal of assets	(316,485)	(2,723,630)
Total non-operating revenues (expenses)	419,745,172	394,401,996
Loss before capital grants	(86,868,925)	(107,360,227)
Capital grant proceeds	356,987,060	91,465,097
Funds passed to subrecipients	(1,528,115)	(2,538,648)
Changes in net position	268,590,020	(18,433,778)
Net position - beginning of the year	1,575,893,810	1,594,327,588
Net position - end of the year	$ 1,844,483,830	$ 1,575,893,810

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, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Receipts from transportation fares	$ 65,245,199	$ 66,372,139
Payments to employees	(237,817,909)	(244,742,260)
Payments to suppliers for goods and services	(177,589,026)	(157,084,492)
Net cash used in operating activities	(350,161,736)	(335,454,613)
Cash flows from noncapital financing activities:		
Sales tax	588,178,778	522,443,698
Proceeds from grants	72,476,157	51,092,996
Receipts from miscellaneous income	2,806,316	641,986
Payments for local infrastructure assistance	(161,564,126)	(183,677,541)
Net cash provided by noncapital financing activities	501,897,125	390,501,139
Cash flows from capital and related financing activities:		
Proceeds from grants	330,337,962	141,567,722
Proceeds from sales tax bonds	-	564,488,808
Proceeds from commercial paper	-	92,400,000
Principal payments related to commercial paper	(1,000,000)	(92,400,000)
Principal payments related to debts	(16,834,700)	(13,657,767)
Long-term debt issuance cost	(971,406)	(2,758,653)
Interest payments related to debts	(38,267,081)	(24,044,336)
Purchase of investments using sales tax bonds proceeds	-	(472,088,808)
Sale of investments relating to sales tax bonds proceeds	313,596,553	86,271,437
Interest rebates from Build America Bonds	1,986,480	1,986,480
Proceeds from sale of assets	853,680	445,949
Capital purchases	(474,606,272)	(365,040,714)
Net cash flows provided (used) by capital and related financing activities	115,095,216	(82,829,882)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	368,622,016	216,745,964
Purchase of investments	(635,859,562)	(188,994,390)
Interest income	315,446	327,465
Net cash flows (used) provided by investing activities	(266,922,100)	28,079,039
Net change in cash	(91,495)	295,683
Cash at beginning of year	1,860,652	1,564,969
Cash at end of year	$ 1,769,157	$ 1,860,652
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (506,614,097)	$ (501,762,223)
Depreciation and amortization	137,094,956	138,295,447
Changes in assets and liabilities:		
Increase in accounts receivable	(3,349,235)	(860,688)
Decrease in inventory and other assets	3,913,598	989,977
Decrease in prepaid pension	103,526	1,068,276
(Decrease) increase in accrued compensation and benefits	(1,296,092)	351,729
Increase in other postemployment benefits	27,327,035	30,003,814
Decrease in liabilities for injuries and damages	(8,203,187)	(3,801,692)
Increase in trade payables and other liabilities	861,760	260,747
Net cash used by operating activities	$ (350,161,736)	$ (335,454,613)
Non cash investing activities		
The net decrease in fair value of investments	$ 208,130	$ 244,592
Inflows from reissuance of commercial paper	813,200,000	1,090,950,000
Outflows from reissuance of commercial paper	(813,200,000)	(1,090,950,000)
Land conveyed to the City of Houston due to rail construction	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 Governmental Accounting Standards Board (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 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. Using this approach, revenues are recognized when earned and expenses are recognized when incurred. In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, all Financial Accounting Standard Board (FASB) pronouncements issued prior to November 30, 1989 should be followed unless those pronouncements conflict with or contradict GASB pronouncements. METRO has elected not to follow FASB pronouncements issued subsequent to that date.

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 the 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, loss for asset impairments, 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 Statement 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 Statement 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 Statement 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 for 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.

Comparative Information

Certain amounts in prior financial statements have been reclassified to conform to the current financial statement presentation.

New Accounting and Reporting Standards

METRO implemented GASB Standard No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during FY2012. Under this standard, the Statement of Net Assets was changed to a Statement of Net Position with additional information on deferred inflows and outflows reported. The only additional item appearing on the new Statement of Net Position for METRO relates to outstanding diesel fuel swaps. GASB has also issued additional accounting and financial reporting standards that are effective in future years and include:

	Effective
GASB Standard No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*	FY2013
GASB Standard No. 61, *The Financial Reporting Entity: Omnibus*	FY2013
GASB Standard No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*	FY2013
GASB Standard No. 68, *Accounting and Financial Report for Pension Plans*	FY2015

2. Deposits and Investment Securities:

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

METRO’s deposit and investment activity complies with the TPFIA or policies (if more restrictive) established by the Board of Directors. Some items required by the TPFIA include: written investment policies, designation of adequately trained investment 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 being 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 $460,066,357 or 87.6% 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, 2012 and 2011 as follows:

	Fiscal 2012	Fiscal 2011
Unrestricted		
Bank deposits	$ 1,684,353	$ 1,458,810
Book balances	1,769,157	1,860,652

Investments

The fair value of METRO's investments is estimated based on quoted market prices. The investments held at September 30, 2012 and 2011 are indicative of the type of investments made by METRO during each fiscal year and consist of the following:

	Fiscal 2012 Fair Value	Fiscal 2011 Fair Value	Credit Ratings
Unrestricted investments			
U.S. Treasury security	$ 10,214,844	$ 10,542,188	
U.S. Agency securities	101,122,725	-	
Local government investment pool	171,877,949	45,792,330	AAAm
Money market mutual fund	10,276,868	13,124,942	AAAm, Aaa
Municipal commercial paper	38,996,053	21,998,640	A-1+, P-1
Certificate of deposit	10,000,000	-	Collateral =Aaa
Municipal bonds	16,340,540	-	SP-1+, F1+/AA2/AA-
Total unrestricted investments	358,828,979	91,458,100	
Restricted investments			
Local government investment pools	166,573,971	477,811,684	AAAm
Money market mutual fund	-	2,358,840	AAAm
Total restricted assets	166,573,971	480,170,524	
Total Investments	$ 525,402,950	$ 571,628,624	

Investment by type and weighted average maturity as of September 30, 2012 and 2011 consisted of the following:

		Investment Maturity		
	Fiscal 2012 Fair Value	Less Than 1 Year	Less Than 2 years	Average Maturity
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	$ 525,402,950	$ 490,338,050	$ 35,064,900	

	Fiscal 2011 Fair Value	Investment Maturity: Less than 1 Year	Investment Maturity: Less Than 3 years	Average Maturity
Investment securities				
U.S. Treasury securities	$ 10,542,188	$ -	$ 10,542,188	1.7 years
Local government investment pool	523,604,014	523,604,014	-	53 days
Municipal commercial paper	21,998,640	21,998,640	-	19 days
Money market mutual funds	15,483,782	15,483,782	-	1 day
Total investments	$ 571,628,624	$ 561,086,436	$ 10,542,188	

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, 2012 and 2011, 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 and security lending activity for fiscal years 2012 and 2011 consisted of the following:

	Fiscal 2012	Fiscal 2011
Investment securities available for lending	$ 111,337,569	$ 10,542,188
Amount on loan	-	7,527,410
Gross earnings	6,187	5,118
Rebates	-	-
Agent fees	2,472	2,047
Amount reported in investment income	3,715	3,071
Percentage on loan	-	71.40%

3. Capital Assets

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

Capital assets	October 1, 2011	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2012
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

METRO has an agreement with the City of Houston to replace their land converted to rail operations. As part of this agreement, METRO conveyed $65,291,832 of land during FY2012 to the City of Houston, which is reported as part of Infrastructure assistance in the Statement of Revenues, Expenses, and Changes in Net Position. METRO funded $29,035,218 with $36,256,614 funded by the Federal Transit Administration. 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.

Construction activity is currently focused on the North, East End, and Southeast rail lines with anticipated completion occurring in 2014. 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 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 2011 were as follows:

Capital assets	October 1, 2010	Additions	Reductions and Retirements	Transfers and Completed Projects	September 30, 2011
Capital assets not depreciated:					
Land	$ 354,529,149	$ -	$ -	$ 9,451,839	$ 363,980,988
Construction in progress	580,888,987	381,459,552	(2,353,560)	(55,405,158)	904,589,821
Total capital assets not depreciated	935,418,136	381,459,552	(2,353,560)	(45,953,319)	1,268,570,809
Capital assets depreciated:					
Administration & operating facilities	422,112,527	-	(11,329,431)	5,969,525	416,752,621
Park and ride lots & transit centers	284,528,892	-	(2,458,099)	2,635,524	284,706,317
Buses and equipment	722,335,271	20,427,282	(46,820,516)	16,084,032	712,026,069
Rail cars	45,553,972	-	-	446,459	46,000,431
Rail infrastructure	246,817,010	-	(3,394,961)	3,285,192	246,707,241
Transitways	514,123,181	-	(10,069)	2,828,528	516,941,640
Other property and equipment	61,783,514	-	(1,994,738)	14,704,059	74,492,835
Total capital assets depreciated	2,297,254,367	20,427,282	(66,007,814)	45,953,319	2,297,627,154
Less: Accumulated depreciation and amortization					
Administration & operating facilities	(215,475,975)	(16,679,632)	11,329,431	-	(220,826,176)
Park and ride lots & transit centers	(156,899,236)	(11,877,712)	2,458,099	-	(166,318,849)
Buses and equipment	(447,942,723)	(60,224,593)	46,360,885	-	(461,806,431)
Rail cars	(11,712,581)	(6,916,491)	-	-	(18,629,072)
Rail infrastructure	(64,427,361)	(11,922,691)	3,394,961	-	(72,955,091)
Transitways	(267,521,553)	(19,136,358)	10,069	-	(286,647,842)
Other property and equipment	(36,654,316)	(11,537,970)	1,994,738	-	(46,197,548)
Total accumulated depreciation and amortization	(1,200,633,745)	(138,295,447)	65,548,183	-	(1,273,381,009)
Total capital assets being depreciated, net	1,096,620,622	(117,868,165)	(459,631)	45,953,319	1,024,246,145
Total capital assets, net	$ 2,032,038,758	$ 263,591,387	$ (2,813,191)	$ -	$ 2,292,816,954

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 defined contribution plan became effective on October 1, 2007 for new employees who were previously eligible for the Non-Union Pension 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 the Board during the annual budgeting process. Monthly pension contributions are placed into trust accounts that will be used to fund pension payments as they become due. Other postemployment benefits are either pay as you go for employees not covered under a collective bargaining agreement or based on a monthly contract amount paid to the Health and Welfare Trust for employees covered under a collective bargaining agreement. 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 Plan's asset custodian, State Street Bank, is responsible for executing and recording all investment transactions authorized by the pension plans' money managers.

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 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) The TWUPP provides 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 administered by a four-member administrative committee. The plan was closed to new participants starting October 1, 2012 with new employees placed into a defined contribution plan.

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, 2012 was $81,715,182 and the pension expense recognized in the financial statements for the current and previous two fiscal years were $14,344,181, $14,055,722, and $13,190,330, respectively. Actual contributions for the current and previous two fiscal years were $14,206,770, $13,224,450, and $12,359,063, respectively.

Non-Union Pension Plan (NUPP) - NUPP 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.

This Plan was closed to new members effective September 30, 2007 with new employees placed into a defined contribution plan.

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, 2012 was $31,775,580 and the pension expense recognized in the financial statements for the current and previous two fiscal years was $8,873,835, $10,962,239, and $11,514,705, respectively. Actual contributions for the current and previous two fiscal years were $8,907,720, $10,725,234, and $11,598,334, respectively. Significant actuarial assumptions used in METRO's plan valuations and funded status is listed below:

	TWUPP	NUPP
Valuation date	January 1st of each year	January 1st of each year
Cost method	Projected unit credit	Projected unit credit
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 2012	RP-2000 Combined Mortality with Projection Scale AA to year 2012
Amortization of gains/losses		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	30 years	30 years
Open to new members	No (as of October 1, 2012)	No

The current and previous fiscal year contributions and changes in the net pension obligations for the period are as follows:

	Fiscal Year 2012		Fiscal Year 2011	
	TWUPP	NUPP	TWUPP	NUPP
Annual required contributions (ARC)	$ 14,206,770	$ 8,833,935	$ 13,224,455	$ 10,725,230
Interest on net pension obligation	(1,245,299)	(361,598)	-	-
Adjustment to ARC	1,382,710	401,498	831,267	237,009
Annual pension cost	14,344,181	8,873,835	14,055,722	10,962,239
Contributions	14,206,770	8,907,720	13,224,450	10,725,234
Change in net pension obligation	137,411	(33,885)	831,272	237,005
Beginning net pension obligation/(asset)	(20,754,991)	(6,026,626)	(21,586,263)	(6,263,631)
Ending net pension obligation/(asset)	$ (20,617,580)	$ (6,060,511)	$ (20,754,991)	$ (6,026,626)
Percentage of pension cost contributed	99.04%	100.38%	94.09%	97.84%
Percentage of ARC contributed	100.00%	100.84%	100.00%	100.00%

The unaudited, funded status of the TWUPP and NUPP pension plans as of January 1, 2012 (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	$173,838	$255,553	$81,715	68.0%	$94,043	86.9%
NUPP	110,276	142,052	31,776	77.6	47,185	67.3

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			
2010	$ 13,190,330	93.70%	$ (21,586,263)
2011	14,055,722	94.09	(20,754,991)
2012	14,344,181	99.04	(20,617,580)
NUPP			
2010	$ 11,514,705	100.73%	$ (6,263,631)
2011	10,962,239	97.84	(6,026,626)
2012	8,873,835	100.38	(6,060,511)

Defined Contribution Pension Plan

METRO contributes 2 percent of the employee's annual salary and will match up to an additional 4 percent of employee contributions. The employee vesting rate is 40 percent after the second year and 20 percent annually thereafter. Contributions by METRO for the current and previous two fiscal years were $769,874, $604,251, and $585,648, respectively, with employees contributing $757,795, $501,089, and $503,642, respectively.

Other Postemployment Benefits Other Than Pension

METRO sponsors two, single-employer, defined benefit Other Postemployment Healthcare Plans, which include the Transport Workers Union Metropolitan Transit Authority Health & Welfare Trust (Trust) and the Non-Union Plan. These plans cover medical, dental, and life insurance for retirees with 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 the 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 $7,347,943, $7,168,000, and $6,724,455, 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. Actual contributions for the current and previous two fiscal years were $4,709,585, $2,503,469, and $3,787,663, respectively. Significant actuarial assumptions used in METRO's Other Post Employment Plans valuations are as follows:

	Trust	Non-Union
Valuation date	Bi-annually on January 1st	Bi-annually on January 1st
Cost method	Projected unit credit	Projected unit credit
Healthcare cost trend rate	Varying from 6.2% declining to 3.9 % after 2100	Varying from 8.6% declining to 4.7% after 2082
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 Disabled lives (sex distinct) RP-2000 Disabled Mortality Table projected to 2012 using Projection Scale AA	Healthy lives (sex distinct) RP-2000 Combined Mortality Table projected to 2011 using Projection Scale AA Disabled lives (sex distinct) RP-2000 Disabled Mortality Table projected to 2011 using Projection Scale AA
Amortization of gains and losses		
Method	Level dollars/reestablished annually	Level dollars/reestablished annually
Period	30 years	30 years
Open to new members	Yes	No

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, 2011 while the Trust was dated January 1, 2012.

	Fiscal Year 2012		Fiscal Year 2011	
	Trust	Non-Union	Trust	Non-Union
Annual required contributions	$ 28,567,946	$ 12,469,800	$ 28,213,826	$ 12,469,800
Interest on prior year net post employment benefit obligation	3,209,716	1,027,621	1,556,902	1,027,621
Adjustment to annual required contributions	(4,461,976)	(1,428,544)	(2,164,322)	(1,428,544)
Other postemployment cost	27,315,686	12,068,877	27,606,406	12,068,877
Contribution	7,347,943	4,709,585	7,168,000	2,503,469
Change in net postemployment benefit obligation	19,967,743	7,359,292	20,438,406	9,565,408
Beginning net postemployment benefit obligation	80,242,904	36,024,082	59,804,498	26,458,674
Ending net postemployment benefit obligation	$100,210,647	$ 43,383,374	$ 80,242,904	$ 36,024,082
Percentage of postemployment benefit cost contributed	26.90%	39.02%	25.96%	20.74%

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			
2010	$ 27,606,406	24.36%	$ 59,804,498
2011	27,606,406	25.96	80,242,904
2012	27,315,686	26.90	100,210,647
Non-union			
2010	$ 10,972,251	34.52%	$ 26,458,674
2011	12,068,877	20.74	36,024,082
2012	12,068,877	39.02	43,383,374

The unaudited, 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, 2011	Non-Union	-	129,261,087	129,261,087	-

5. Self-Insurance:

METRO is self-insured, except for property risk insurance, for which it pays an annual premium to a third-party insurance company. This policy covers risk of loss to all real and personal property, including vehicles, located on METRO's property, but excludes off-property coverage.

METRO is protected by governmental immunity, except as provided by the Texas Tort Claims Act (TTCA). Under the TTCA, liabilities for claims arising from the ownership and use of motor vehicles cannot exceed $100,000 per person and $300,000 per accident for bodily injury and $100,000 per accident for property damages. Bodily injury claims arising from the ownership of real and personal property are also limited to $100,000 per person and $300,000 per accident. Settlements have not exceeded METRO's insurance coverage for any of the past three fiscal years.

During FY2012, METRO completed an independent actuarial study that reduced the liabilities for injuries and damages to $9,101,030 as of September 30, 2012. This change reduced current year operating cost by $4,818,126 and is reflected as a reduction to claims and changes in estimate in the following schedule:

	Balance at the Beginning of the Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at the End of the Fiscal Year
October 1,2011 - September 30, 2012	$ 17,304,217	$ (4,818,126)	$ (3,385,061)	$ 9,101,030
October 1, 2010- September 30, 2011	16,303,230	4,724,080	(3,723,093)	17,304,217

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 FY2012.

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, 2011 was $13,393,768, which included $13,169,171 for land and inception-to-date net earnings of $224,597. METRO's share of land is reported in the Statement 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.

During FY2012, METRO purchased land from the partnership for $1,349,986 to facilitate rail construction with the purchase price established by independent appraisal as required by state law. As part of this agreement, the partnership disbursed $1,326,693 back to METRO resulting in a net increase of $23,293 to capital assets, net of depreciation.

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, 2012 was approximately $940 million of which $735 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.

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.

Funds collected, but not yet distributed under this program, consist of $26.6 million due to Harris County and $11.9 due to the City of Houston.

Lease/sublease agreements for operating facilities and buses

METRO has seven remaining lease/sublease agreement as of September 30, 2012. Two are for facilities, four 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. In October 2011, a final settlement was reached with NorLease, Inc. for all five of their facility lease agreements. Under this settlement, METRO transferred to NorLease, Inc. assets held in trust that were intended to pay for future principal and interest payments and agreed to pay separately for any legal/financial advisory fees associated with negotiating the settlement. In addition to these payments, AIG eliminated their obligation as payment guarantor by paying $29 million to NorLease, Inc.

METRO continues to negotiate with Bank of America, which is the equity investor in the remaining two facility leases, and Wells Fargo and Comerica, which are equity investors for the five buses and fare boxes/radio leases. As of September 30, 2012, 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 seven leases is approximately $19 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. 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 amounts placed with the payment undertakers including the impact of the early termination of five leases are as follows:

	Original Lease Expiration Date	Sublease Early Purchase Option Date	Negotiated Early Purchase Date	Sublease Expiration Date	Amortization Period (Years)
Facility					
Buffalo Bayou	Dec 14, 2075	Jan 1, 2026	-	Jun 14, 2035	34
Fallbrook	Dec 14, 2087	Jan 1, 2026	Oct 21, 2011	Dec 14, 2036	35
Field Service Center	Jun 14, 2068	Jan 1, 2026	Oct 21, 2011	Dec 14, 2034	33
Hiram Clarke	Dec 14, 2075	Jan 1, 2026	Oct 21,2011	Jun 14, 2035	34
Kashmere	Jun 14, 2083	Jan 1, 2026	-	Jun 14, 2037	36
Northwest	Dec 14, 2075	Jan 1, 2026	Oct 21,2011	Jun 14, 2035	34
West	Jun 14, 2083	Jan 1, 2026	Oct 21,2011	Dec 14, 2036	35
Transit Buses	May 02, 2052	-	-	Jan 1, 2012-15	10-13
Transit Buses	Dec 19, 2052	-	-	Jan 1, 2014	12
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:

	Unamortized Balance Remaining with Payment Undertakers September 30, 2011	Current Year Amortization	Negotiated Early Purchase	September 30, 2012 Unamortized Balance after Early Termination Payments
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 (C1)	13,493,634	5,735,631	-	7,758,003
Transit buses (WF1)	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	$ 191,360,541	$ 16,949,882	$ 110,036,313	$ 64,374,346

In addition to the negotiated early purchase of five bus facilities leases, METRO notified the participants of the C1 and WF1 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. Both C1 and WF1 have three individual lots (for a total of six) with C1 - Lot No. 3 final settlement schedule to be completed by December 17, 2012. The remaining C1 and WF1 leases will settle during FY2013-14. METRO anticipates it will exercise all other purchase options as they become available.

	Unamortized Balance Remaining with Payment Undertakers September 30, 2010	Current Year Amortization	Unamortized Balance Remaining with Payment Undertakers September 30, 2011
Facility			
Buffalo Bayou	$ 6,617,239	$ 275,719	$ 6,341,520
Fallbrook	38,137,729	1,526,555	36,611,174
Field Service Center	15,392,950	669,258	14,723,692
Hiram Clarke	19,178,922	799,122	18,379,800
Kashmere	33,909,994	1,304,231	32,605,763
Northwest	18,905,263	787,720	18,117,543
West	23,129,275	925,171	22,204,104
Transit buses	19,229,265	5,735,631	13,493,634
Transit buses	14,378,092	6,116,271	8,261,821
Transit buses	3,644,355	607,392	3,036,963
Transit buses	2,789,935	697,484	2,092,451
Fare boxes/radios	17,705,230	2,213,154	15,492,076
Total	$ 213,018,249	$ 21,657,708	$ 191,360,541

Long-Term Debt

Long-term debt consists of commercial paper, capital leases, and sales and use tax bonds.

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 21, 2013. Commercial paper supported by A-1 has been reported as a long-term liability on the Statement of Net Position.

In the event of a remarketing failure, the credit line will be invoked to fund maturities and will incur interest costs as follows:

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

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

Proceeds from CP were used to make payments for General Mobility expenditures, expanding, maintaining, and improving public transit, or eliminating outstanding notes of the same series. Changes and outstanding CP by series as of September 30, 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	$ 190,000,000	$ 813,200,000	$ (814,200,000)	$ 189,000,000

Series	Amount Issued	Maturity Date	Remaining Days Outstanding	Nominal Rate %
A-1	$ 2,000,000	12/04/2012	65	0.19
A-1	41,500,000	12/05/2012	66	0.20
A-1	50,000,000	12/05/2012	66	0.20
A-1	30,650,000	12/11/2012	72	0.20
A-1	38,250,000	02/07/2013	130	0.21
	162,400,000			
A-3	3,600,000	12/06/2012	67	0.20
A-3	14,000,000	02/20/2013	143	0.21
A-3	9,000,000	02/07/2013	130	0.20
	26,600,000			
Total	$ 189,000,000			

Capital Leases and Sales and Use Tax Bonds

Future payments for capital leases and sales and use tax bonds (excluding amortization of premiums and discounts) are as follows:

	Capital Leases			Sales and Use Tax Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Total
2013	$ 7,899,879	$ 4,245,094	$ 12,144,973	$ 12,895,000	$ 39,623,581	$ 52,518,581	$ 64,663,554
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
2018-2022	47,160,000	5,756,873	52,916,873	133,135,000	166,647,469	299,782,469	352,699,342
2023-2027	-	-	-	112,255,000	135,655,481	247,910,481	247,910,481
2028-2032	-	-	-	123,550,000	107,226,388	230,776,388	230,776,388
2033-2037	-	-	-	150,565,000	69,535,094	220,100,094	220,100,094
2038-2042	-	-	-	184,875,000	24,426,985	209,301,985	209,301,985
	$ 90,037,140	$23,073,122	$113,110,262	$ 789,835,000	$ 695,564,297	$ 1,485,399,297	$ 1,598,509,559

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 years' extensions for the use of land and related improvements for a Park & Ride lot. Land improvements for the Park & Ride lot have been capitalized and will be depreciated over its remaining useful life (6 years) with payments for the land being reported as an operating lease. Capital leased assets are depreciated over their estimated useful life or the life of the lease, if shorter, and have been reported as part of capital assets, net with a corresponding capital lease liability on the Statements of Net Position. Scheduled lease payments over the remaining lease terms are as follows:

	MLPFP					
	Series A		Series B		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 4,605,000	$ 2,154,703	$ 3,100,000	$ 2,070,375	$ 7,705,000	$ 4,225,078
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
2018-2022	24,455,000	2,321,342	22,705,000	3,435,531	47,160,000	5,756,873
	$ 49,525,000	$ 10,924,459	$ 40,020,000	$ 12,099,531	$ 89,545,000	$ 23,023,990

Future payments for other leases:

	Copiers		Park & Ride Land Improvements		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 128,177	$ 4,334	$ 66,702	$ 15,682	$ 194,879	$ 20,016
2014	-	-	69,906	12,478	69,906	12,478
2015	-	-	73,263	9,121	73,263	9,121
2016	-	-	76,781	5,602	76,781	5,602
2017	-	-	77,311	1,915	77,311	1,915
	$ 128,177	$ 4,334	$ 363,963	$ 44,798	$ 492,140	$ 49,132

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

	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

	Remaining Balance of Capital Leases October 1, 2010	Additions	Principal Payments	October 1, 2010 Unamortized Premium	Current Year Amortization of Premium	Combined Balance September 30, 2011
MLPFP						
Series A	$ 58,165,000	$ -	$ (4,255,000)	$ 795,152	$ (66,263)	$ 54,638,889
Series B	45,785,000	-	(2,790,000)	1,093,669	(91,139)	43,997,530
Copiers	378,745	-	(120,688)	-	-	258,057
Park & Ride Land Improvements	480,863	-	(57,079)	-	-	423,784
Total	$ 104,809,608	$ -	$ (7,222,767)	$ 1,888,821	$ (157,402)	$ 99,318,260

Sales and Use Tax Bonds

As of September 30, 2011, METRO completed the issuance of the $640 million of long-term sales and use tax bonds authorized by the voters during the November 2003 election to fund transit projects. Sales and use tax bonds relating to contractual obligations for the purchase of buses and rail cars do not count against the voter-authorized amount. METRO has seven series of sales and use tax bonds outstanding as of September 30, 2012. 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 Statement of Net Position. Scheduled payments over the remaining life of the bonds and changes during the last two fiscal years are as follows:

	Sales and Use Tax Bonds					
	Sales and Use Tax Bonds Series 2009A		Contractual Obligations Series 2009B		Build America Bonds Series 2009C	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 3,135,000	$ 4,313,525	$ 1,150,000	$ 1,808,925	$ -	$ 5,675,656
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
2018-2022	22,100,000	15,155,000	7,545,000	7,254,725	-	28,378,281
2023-2027	28,370,000	8,878,000	9,385,000	5,408,700	-	28,378,281
2028-2032	20,760,000	1,591,750	11,855,000	2,942,263	15,590,000	27,318,500
2033-2037	-	-	5,630,000	285,000	45,650,000	15,453,969
2038-2042	-	-	-	-	21,315,000	1,481,735
	$ 88,465,000	$ 45,638,525	$ 40,580,000	$ 24,516,288	$ 82,555,000	$ 129,389,046

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, 2012 is approximately $45 million. The rebate is reported as Intergovernmental grant revenue in the Statement 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					
	Contractual Obligations Series 2009D		Contractual Obligations Series 2010A		Sales and Use Tax Bonds Series 2011A	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2013	$ 2,545,000	$ 1,171,125	$ 2,770,000	$ 1,626,100	$ -	$ 23,050,500
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
2018-2022	16,550,000	2,024,188	18,420,000	3,394,625	46,890,000	105,698,250
2023-2027	-	-	4,240,000	106,000	60,220,000	92,376,250
2028-2032	-	-	-	-	75,345,000	75,373,875
2033-2037	-	-	-	-	99,285,000	53,796,125
2038-2042	-	-	-	-	163,560,000	22,945,250
	$ 30,195,000	$ 6,963,088	$ 37,625,000	$ 10,509,450	$ 461,010,000	$ 464,666,500

	Sales and Use Tax Bonds				
	Contractual Obligations Series 2011B		Total For Sales and Use Tax Bonds		
Fiscal Year	Principal	Interest	Principal	Interest	Total
2013	$ 3,295,000	$ 1,977,750	$ 12,895,000	$ 39,623,581	$ 52,518,581
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
2018-2022	21,630,000	4,742,400	133,135,000	166,647,469	299,782,469
2023-2027	10,040,000	508,250	112,255,000	135,655,481	247,910,481
2028-2032	-	-	123,550,000	107,226,388	230,776,388
2033-2037	-	-	150,565,000	69,535,094	220,100,094
2038-2042	-	-	184,875,000	24,426,985	209,301,985
	$ 49,405,000	$ 13,881,400	$ 789,835,000	$ 695,564,297	$ 1,485,399,297

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

	Changes in Sales and Use Tax Bonds			Changes in Premium/(Discount)		
Series	October 1, 2011 Principal	Addition	Payments to Retire Bonds	October 1, 2011 Unamortized Premium/ (Discount)	Current Year Amortization of (Premium)/ Discount	Combined Balance September 30, 2012
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	-	(2,460,000)	(1,009,234)	37,379	79,123,145
2009D	32,655,000	-	(2,665,000)	2,386,552	(198,879)	32,177,673
2010A	40,290,000	-	-	3,615,271	(361,527)	43,543,744
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	$ 799,120,000	$ -	$ (9,285,000)	$ 65,718,049	$ (3,012,175)	$ 852,540,874

	Changes in Sales and Use Tax Bonds			Changes in Premium/(Discount)		
Series	October 1, 2010 Principal	Addition	Payments to Retire Bonds	October 1, 2010 Unamortized Premium/ (Discount)	Current Year Amortization of (Premium)/ Discount	Combined Balance September 30, 2011
2009A	$ 94,465,000	$ -	$ (2,955,000)	$ 6,146,416	$ (323,496)	$ 97,332,920
2009B	42,780,000	-	(1,085,000)	866,402	(37,670)	42,523,732
2009C	82,555,000	-	-	(1,046,613)	37,379	81,545,766
2009D	35,050,000	-	(2,395,000)	2,585,431	(198,879)	35,041,552
2010A	40,290,000	-	-	3,976,798	(361,527)	43,905,271
2011A	-	461,010,000	-	47,563,358	-	508,573,358
2011B	-	49,405,000	-	6,510,450	-	55,915,450
Total	$ 295,140,000	$ 510,415,000	$ (6,435,000)	$ 66,602,242	$ (884,193)	$ 864,838,049

The weighted average interest rate paid on outstanding debt is approximately 3.53 percent and ranges from 0.20 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 FY2012 and FY2011 were $4,785,144 and $3,714,092, 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, 2012	Total Minimum Operating Leases Payments
2013	$ 4,880,847
2014	4,978,464
2015	5,078,033
2016	5,179,594
2017	5,283,186
Total	$ 25,400,124

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 Statement 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 69 diesel fuel swap agreements outstanding as of September 30, 2012. 56 of those swaps total 8,316,000 gallons and will settle during FY2013. The remaining 13 will settle in FY2014 and total 7,350,000 gallons. The outstanding swaps represent approximately 67 and 59 percent of the anticipated fuel requirements for each fiscal year. The swaps had a positive value of $3,691,843 as of September 30, 2012 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 FY2012, reduced operating cost by $1,322,798 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:

	Beginning Balance	Expensed	Additions	Ending Balance
October 1, 2011 - September 30, 2012	$ 15,103,541	$ (13,885,104)	$12,999,918	$ 14,218,355
October 1, 2010 - September 30, 2011	13,519,764	(16,287,722)	17,871,499	15,103,541

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. Only the West Park Toll Road future construction modification agreements require Harris County and Fort Bend County to establish either a joint escrow account or additional taxing authority to pay their share of future construction cost. METRO is not required to deposit funds into this account. Inter-local agreements generally have termination dates and it is anticipated these agreements will be renewed or replaced as required.

8. Subsequent Events

During November 2012 voters within METRO's service area passed a referendum approving the continuation of the General Mobility Program through 2025. Expenditures associated with this program are reported as part of Infrastructure Assistance in the Statement of Revenues, Expenses, and Changes in Net Position.

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)
Non-Union Pension plan	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%
	Jan 1, 2010	110,434	144,241	33,807	76.6%	56,962	59.4%
Other Postemployment Benefits	Oct 1, 2012	-	129,261	129,261	-	-	-
	Oct 1, 2011	-	129,261	126,261	-	-	-
	Oct 1, 2010	-	114,269	114,269	-	-	-
Transport Workers Union Pension Plan	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%
	Jan 1, 2010	162,390	227,091	64,701	71.5%	88,184	73.4%
Other Postemployment Benefits	Oct 1, 2012	-	338,260	338,260	-	-	-
	Oct 1, 2011	-	301,284	301,284	-	-	-
	Oct 1, 2010	-	301,284	301,284	-	-	-

Other Postemployment Benefits actuarial studies are done biannually


METRO
METRO

The Unaudited Statistical Section

Provides Multiyear Financial and Operating Information

THE OBJECTIVES OF STATISTICAL SECTION INFORMATION
(Source: GASB Statement 44)

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

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

a. Financial trends information is intended to assist users in understanding and assessing how a government's financial position has changed over time.

b. Revenue capacity information is intended to assist users in understanding and assessing the factors affecting a government's ability to generate its own-source revenues.

c. Demographic and economic information is intended (1) to assist users in understanding the socioeconomic environment within which a government operates and (2) to provide information that facilitated comparisons of financial statement information over time and among governments.

d. Operating information is intended to provide contextual information about a government's operations and resources to assist readers in using financial statement information to understand and assess a government's economic condition.

e. Debt capacity information is intended to assist users in understanding and assessing a government's debt burden and its ability to issue additional debt.

GASB requires 10 years of historical data but allows for a phase- in period, which METRO will complete by FY2014. Analysis for the last three years is provided in the Management's Discussion and Analysis section of this report.

Metropolitan Transit Authority
of Harris County, Texas
Statements of Net Position
September 30, 2012 and the Last Seven Years (Unaudited)

	2012	2011	2010
Assets			
Current assets			
Cash	$ 1,769,157	$ 1,860,652	$ 1,564,969
Cash - restricted	-	-	-
Investments	358,828,979	91,458,100	119,209,517
Investments - restricted	37,265,000	64,489,262	27,175,720
Receivables			
Sales tax	103,035,680	97,394,471	83,314,283
Federal government - Federal Transit Administration	26,811,825	17,050,424	62,448,555
Bus passes and other receivables	13,570,522	12,754,087	21,626,869
Total receivables	143,418,027	127,198,982	167,389,707
Material and supplies inventory	17,532,502	21,648,175	22,400,422
Other current assets	-	-	6,958,099
Derivative instrument – diesel fuel swaps	3,691,843	-	4,967,134
Total current assets	562,505,508	306,655,171	349,665,568
Noncurrent assets			
Investments - restricted	129,308,971	415,681,262	66,206,184
Capital assets, net of depreciation	2,580,100,752	2,292,816,954	2,032,038,758
Prepaid pension	26,678,091	26,781,617	27,849,894
Other noncurrent assets	11,549,753	12,523,059	7,959,529
Prepaid rental payments	64,374,346	191,360,541	213,018,249
Total noncurrent assets	2,812,011,913	2,939,163,433	2,347,072,614
Total assets	3,374,517,421	3,245,818,604	2,696,738,182
Deferred outflow of resources	-	3,151,246	-
Liabilities			
Current liabilities			
Trade payables	125,067,467	150,161,474	124,829,224
Accrued compensation and benefits	23,759,406	25,055,498	24,703,772
Liabilities for injuries and damages	3,385,061	3,723,095	5,317,508
Commercial paper	26,600,000	-	190,000,000
Other current liabilities	9,005,559	7,295,986	15,000,793
Capital lease obligation	7,899,879	7,707,103	7,222,767
Bond payable	12,895,000	12,297,176	6,435,000
Debt interest payable	18,287,887	8,323,783	8,155,478
Derivative instrument – diesel fuel swaps	-	3,151,246	-
Total current liabilities	226,900,259	217,715,361	381,664,542
Noncurrent liabilities			
Liabilities for injuries and damages	5,715,969	13,581,122	10,985,722
Commercial paper	162,400,000	190,000,000	-
Deferred rental payments	64,374,346	191,360,541	213,018,249
Capital lease obligation	83,711,279	91,611,157	99,475,662
Bond payable	839,645,874	852,540,873	301,233,434
Other postemployment benefits	143,594,021	116,266,986	86,263,172
Other noncurrent liabilities	-	-	4,802,679
Total noncurrent liabilities	1,299,441,489	1,455,360,679	715,778,918
Total liabilities	1,526,341,748	1,673,076,040	1,097,443,460
Deferred inflow of resources	3,691,843	-	4,967,134
Net position			
Invested in capital assets, net of related debt	1,729,961,468	1,641,338,563	1,663,280,807
Restricted assets – debt payments	71,335,683	74,504,866	20,307,480
Restricted assets – cash	-	-	-
Unrestricted assets	43,186,679	(139,949,619)	(89,260,699)
Total net position	$ 1,844,483,830	$ 1,575,893,810	$1,594,327,588

2009	2008	2007	2006	2005
$ 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
135,115,133	142,262,789	271,234,401	245,227,457	104,516,140
45,304,780	-	-	-	-
77,761,055	83,275,323	82,267,723	78,514,236	67,495,967
29,699,429	7,508,972	12,837,240	18,970,115	12,653,593
8,501,733	8,762,761	4,047,810	8,342,188	6,488,708
115,962,217	99,547,056	99,152,773	105,826,539	86,638,268
20,605,560	32,086,923	22,901,955	29,758,196	23,278,027
2,212,825	3,054,762	973,238	1,486,436	1,249,029
-				
330,839,656	285,837,420	403,708,464	388,412,293	219,270,989
165,461,944	5,760	555,775	4,370,072	-
1,969,813,283	1,847,947,918	1,634,225,906	1,506,044,662	1,499,727,161
28,597,532	29,655,466	18,713,400	10,633,336	-
7,734,236	2,992,574	3,153,564	3,314,553	3,474,690
234,675,957	256,333,665	277,991,373	299,649,081	321,306,789
2,406,282,952	2,136,935,383	1,934,640,018	1,824,011,704	1,824,508,.640
2,737,122,608	2,422,722,803	2,338,348,482	2,212,423,997	2,043,779,629
8,849,233	-	-	-	-
115,799,760	104,155,476	91,844,230	82,589,611	62,222,230
27,094,159	21,531,490	19,301,412	18,655,986	22,040,633
4,691,532	6,632,936	5,883,512	4,953,276	4,933,521
143,000,000	143,000,000	143,000,000	89,000,000	-
7,403,357	7,832,172	4,136,485	4,683,614	13,454,666
4,256,609	2,406,683	-	-	-
-	-	-	-	-
6,756,159	-	-	-	-
8,849,233	-	-	-	-
317,850,809	285,549,757	264,165,639	199,882,487	102,651,050
15,630,560	16,865,137	15,248,000	13,055,519	12,120,851
-	-	-	-	-
234,675,957	256,333,665	277,991,373	299,649,081	321,306,789
106,859,364	61,039,473	-	-	-
226,057,724	-	-	-	-
58,196,633	31,603,807	-	-	-
5,774,679	-	-	-	-
647,194,917	365,842,082	293,239,373	312,704,600	333,427,640
965,045,726	651,391,839	557,405,012	512,587,087	436,078,690
-	-	-	-	-
1,822,809,038	1,763,904,490	1,613,628,634	1,485,447,390	1,499,727,161
23,410,852	-	-	-	-
-	8,764,498	9,214,638	5,632,666	2,447,541
(65,293,775)	(1,288,024)	158,100,198	208,756,854	105,526,237
$ 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
Statements of Revenues, Expenses, and Changes in Net Position
For the Years Ended September 30, 2012 and the Last Seven Years
(Unaudited)

	2012	2011	2010
Operating revenues:			
Transportation fares	$ 66,887,319	$ 68,740,526	$ 64,538,736
Operating expenses:			
Scheduled services - fixed route			
Bus and rail operations - direct	165,925,733	165,660,712	161,548,458
Contract service	47,431,837	44,688,976	44,365,552
Material distribution	5,966,531	5,975,735	5,994,776
Preventative maintenance	48,876,170	49,364,186	49,926,437
Central shop and maintenance support	18,103,288	15,220,267	13,796,093
Safety and training	816,598	891,844	858,722
Subtotal scheduled services - fixed route	287,120,157	281,801,720	276,490,038
Non-scheduled services-special			
METROLift	40,204,841	39,696,105	35,915,851
METROVan	5,250,084	4,979,360	4,327,517
Special events	2,346,041	676,109	808,861
Subtotal non-scheduled services - special	47,800,966	45,351,574	41,052,229
Service support			
Service planning and evaluation	3,130,879	4,205,657	822,792
Marketing	6,910,999	7,450,088	6,933,097
Transit security	13,214,108	15,045,472	14,484,702
Insurance and claims	5,673,304	5,616,894	5,144,081
Ticket and fare collection	3,369,283	3,867,527	2,029,498
Facility maintenance	20,020,810	16,613,097	19,193,318
Subtotal service support	52,319,383	52,798,735	48,607,488
Traffic management - services	6,985,562	7,752,239	8,386,197
Organizational support			
Business, community and governmental development	5,043,321	4,592,198	4,111,359
Administrative, financial and personnel	15,357,730	18,119,682	18,921,682
Information systems	14,276,491	12,360,853	10,835,724
Purchasing	2,502,794	2,894,124	2,837,551
Oversight, audit and legal	5,000,056	6,536,177	7,333,120
Subtotal organizational support	42,180,392	44,503,034	44,039,436
Depreciation and amortization	137,094,956	138,295,447	143,977,419
Total operating expenses	573,501,416	570,502,749	562,552,807
Operating loss	(506,614,097)	(501,762,223)	(498,014,071)
Non-operating revenues (expenses):			
Sales tax	593,732,843	536,572,595	489,972,748
Investment income	625,042	327,467	2,103,533
Inter-government revenue	1,986,480	1,986,480	1,986,614
Interest expense	(13,719,644)	(13,525,952)	(7,493,528)
Other income	3,030,912	643,766	848,968
Grant proceeds	56,460,316	59,588,924	63,988,363
Local infrastructure assistance	(222,054,292)	(188,467,654)	(150,091,349)
Loss for asset impairments	-	-	(180,308,408)
Loss on sale or disposal of assets	(316,485)	(2,723,630)	(1,095,753)
Total non-operating revenues (expenses)	419,745,172	394,401,996	219,911,188
Loss before capital grants	(86,868,925)	(107,360,227)	(278,102,883)
Capital grant proceeds	356,987,060	91,465,097	91,897,549
Funds passed to subrecipients	(1,528,115)	(2,538,648)	(393,193)
Changes in net position	268,590,020	(18,433,778)	(186,598,527)
Net position - beginning of the year	1,575,893,810	1,594,327,588	1,780,926,115
Net position - end of the year	$ 1,844,483,830	$ 1,575,893,810	$ 1,594,327,588

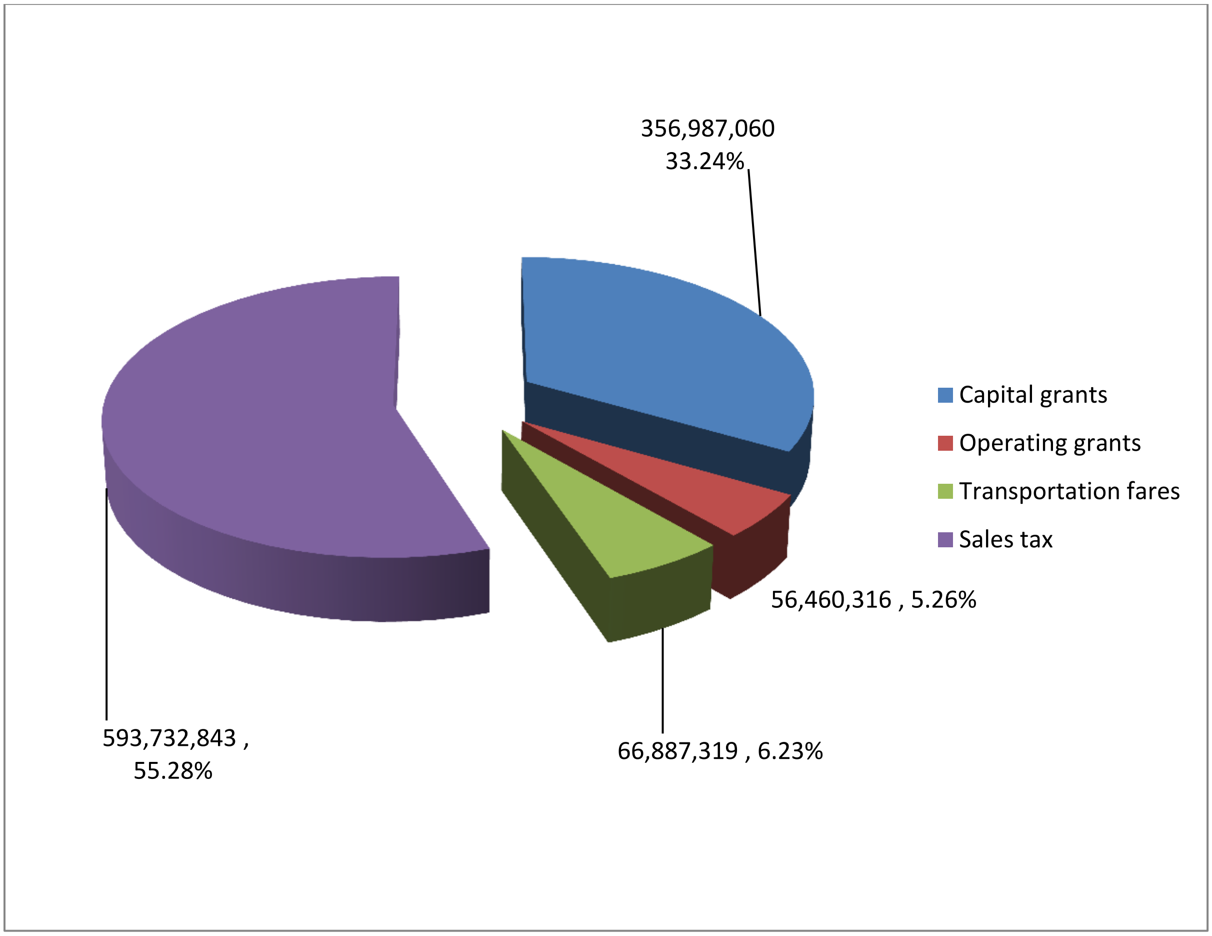
2009	2008	2007	2006	2005
$ 67,083,414	$ 53,805,283	$ 53,266,927	$ 54,186,016	$ 50,137,041
179,245,220	148,355,656	131,195,120	126,865,459	125,262,654
45,638,064	39,517,766	39,844,157	38,906,779	36,332,284
5,662,705	5,804,008	4,603,536	4,299,865	4,241,837
47,705,846	47,194,361	41,396,795	41,755,975	39,384,631
13,192,409	13,086,172	11,650,263	12,956,132	13,480,763
925,202	795,904	728,688	532,939	3,791,481
292,369,446	254,753,867	229,418,559	225,317,149	222,493,650
35,556,663	34,237,245	32,215,665	30,547,646	28,884,037
6,075,378	4,079,490	5,184,800	3,578,916	2,563,513
793,180	624,013	3,053,355	3,506,689	3,636,986
42,425,221	38,940,748	40,453,820	37,633,251	35,084,536
247,023	586,792	415,576	348,891	1,177,777
5,324,367	5,708,560	4,186,209	3,861,995	4,260,466
14,019,638	14,332,699	11,087,339	10,607,564	9,188,740
4,484,705	4,476,482	3,336,401	3,141,878	3,021,310
1,682,347	1,786,021	818,416	971,469	1,227,181
22,752,511	20,863,515	15,883,937	13,940,679	11,283,070
48,510,591	47,754,069	35,727,878	32,872,476	30,158,544
8,310,640	11,514,654	10,585,299	9,549,401	11,011,559
1,373,563	910,623	455,465	447,374	528,487
11,639,038	10,656,994	17,021,569	17,122,603	15,665,098
3,808,872	2,401,196	2,467,722	2,188,249	2,929,732
1,646,574	1,400,093	891,513	1,223,727	1,747,664
7,620,394	3,268,706	2,308,768	2,288,331	2,856,902
26,088,441	18,673,612	23,145,037	23,270,284	23,727,883
140,847,103	124,856,131	120,289,857	107,030,889	107,970,694
558,551,442	496,457,081	459,620,450	435,673,450	430,446,866
(491,468,028)	(442,651,798)	(406,353,523)	(381,487,434)	(380,309,825)
517,972,851	521,179,360	481,721,482	467,645,812	394,015,831
4,307,902	7,165,095	14,240,392	7,923,445	1,803,936
599,650	-	-	-	-
-	-	-	-	-
1,115,401	793,638	648,162	446,526	(874,336)
59,345,052	57,965,428	58,145,684	59,929,875	55,574,154
(116,744,258)	(179,845,280)	(108,530,541)	(115,616,319)	(134,178,117)
-	-	-	-	-
(6,258,755)	(1,169,107)	(1,941,917)	(10,245,545)	(2,392,293)
460,337,843	406,089,134	444,283,262	410,083,794	313,949,175
(31,130,185)	(36,562,664)	37,929,739	28,596,360	(66,360,650)
41,027,564	27,000,158	43,176,821	63,539,611	95,032,960
(352,228)	-	-	-	-
9,545,151	(9,562,506)	81,106,560	92,135,971	28,672,310
1,771,380,964	1,780,943,470	1,699,836,910	1,607,700,939	1,579,028,629
$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*		Since November 2008
			Student, Senior, Disabled	Youth Age 5 to 11	Student, Senior, Disabled
Local/METRORail	$1.00	$1.25	$0.40	$0.25	$0.60
Park & Ride Zone 1	$1.50	$2.00	$0.60	$0.35	$1.00
Park & Ride Zone 2	$2.50	$3.25	$1.10	$0.65	$1.60
Park & Ride Zone 3	$3.00	$3.75	$1.25	$0.75	$1.85
Park & Ride Zone 4	$3.50	$4.50	$1.45	$0.85	$2.25

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

Metropolitan Transit Authority
of Harris County, Texas
Total Revenue by Type
for Fiscal Year 2012



- Investment income of $625,053 reported on the Statement 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)

Fiscal Year	Population PMSA	Per Capita Personal Income	METRO's Total Retail Sales Tax	Unemployment Rate (%)
2012	5,545,354	48,003	593,732,843	6.8
2011	5,381,941	45,799	536,572,595	7.9
2010	5,268,671	44,278	489,972,748	8.2
2009	5,180,848	44,467	517,972,851	7.6
2008	5,042,059	45,077	521,179,360	4.8
2007	4,859,414	43,422	481,721,482	4.3
2006	4,680,314	41,152	467,645,812	5.0
2005	4,529,737	38,196	394,015,831	5.6
2004	4,415,497	35,757	381,932,680	6.2
2003	4,367,710	34,431	357,498,093	6.7

Prior year numbers may have been revised based on new information.

Source: Population and Per Capita Personal Income - Barton A. Smith Professor of Economics, Emeritus University of Houston
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)

	2011			2002		
Employer	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Exxon Mobil	11,000	1	0.41%	6,800	8	0.29%
Shell Oil Company	10,750	2	0.40%	9,324	4	0.40%
National Oilwell Varco Inc.	8,000	3	0.30%	-	-	-
Chevron Companies	7,000	4	0.26%	-	-	-
JP Morgan Chase	6,750	5	0.25%	-	-	-
Jacobs Technology	6,500	6	0.24%	-	-	-
Halliburton	6,200	7	0.23%	14,078	3	0.61%
Center Point Energy	4,776	8	0.18%	-	-	-
KBR Inc.	4,557	9	0.17%	-	-	-
ConocoPhillips	3,750	10	0.14%	-	-	-
Walgreens	3,750	10	0.14%	-	-	-
Continental Airlines	-	-	-	19,440	1	0.84%
Compaq Computer	-	-	-	18,044	2	0.78%
Wal-Mart	-	-	-	8,951	5	0.39%
Reliant Energy Inc.	-	-	-	8,838	6	0.38%
Southwestern Bell/SWB	-	-	-	7,822	7	0.34%
Baker Hughes	-	-	-	6,100	9	0.26%
BP America	-	-	-	6,000	10	0.26%

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

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

Fiscal Year	Commercial Paper	Capital Lease	Sales and Use Tax Bonds	Total
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
2007	-	-	-	-
2006	-	-	-	-

Note: Additional information 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
For the Last Four Years
(Unaudited)

Fiscal Year	75 % of Sales Tax Revenue	Operating Revenues	Operating Grants	Less Operating Expenses Net of Depreciation	Net Available Revenues	Interest Subsidy from IRS for Taxable Bonds	Schedule Payment for Sales & Usage Tax Bonds		Coverage Ratio
							Principal	Interest	
2012	445,299,632	66,887,319	56,460,316	436,406,460	132,240,807	(1,986,480)	9,285,000	29,746,383	3.57
2011	402,429,446	68,740,526	59,588,924	432,207,302	98,551,594	(1,986,480)	6,435,000	14,897,376	5.09
2010	367,479,561	64,538,736	63,988,363	418,575,388	77,431,272	(1,986,614)	-	10,763,005	8.82
2009	388,479,638	67,083,414	59,345,052	417,704,339	97,203,765	(599,650)	-	-	-

*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		Service Area (sq. mile)	Total Actual Rail Passenger Car Revenue Miles
						Emp	Buses*	Rail Cars	BOF	TC	P&R	Rail	HOV Lanes		
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
2003	22,666,399	93,740,511	56,150,814	607,364,245	233,690,569	3,784	1,565	-	6	15	25	-	102.0	1,285	-

Source: Metropolitan Transit Authority Office of Budget Services

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