

**Metropolitan Transit Authority
of Harris County, Texas**

**Defined Contribution Plan
Annual Financial Statements**

Years Ended December 31, 2019 and 2018

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Metropolitan Transit Authority of Harris County, Texas
Defined Contribution Plan

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INDEPENDENT AUDITOR'S REPORT

To the Participants and Management of
Metropolitan Transit Authority Defined Contribution Plan

Report on the Basic Financial Statements

We have audited the accompanying basic financial statements of the Metropolitan Transit Authority Defined Contribution Plan (the "Plan"), which comprise the Statements of Fiduciary Net Position as of December 31, 2019 and 2018, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related Notes to the basic financial statements.

Management's Responsibility for the Basic Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the basic financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2019 and 2018, and changes in net assets available for benefits therein for the years then ended, in accordance with US GAAP.

Other Matters***Required Supplementary Information***

US GAAP requires that the management's discussion and analysis, as listed in the table of contents, be presented to supplement the Plan's basic financial statements. Such information, although not a part of the Plan's 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 Plan's 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 US GAAS, 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 Plan's basic financial statements, and other knowledge we obtained during our audit of the Plan's 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.

McConnell & Pomeroy LLP

Houston, Texas
March 26, 2021

Metropolitan Transit Authority of Harris County, Texas
Defined Contribution Plan
Management's Discussion and Analysis (Unaudited)

Management's Discussion and Analysis (Unaudited)

This discussion and analysis section provides an overview of the performance of the Metropolitan Transit Authority (METRO) Defined Contribution Pension Plan (Plan) and should be read in conjunction with the basic financial statements and other information found in this report.

The Plan is a single employer, 401(a) defined contribution pension plan which is designed to assist full-time employees in accumulating resources for their retirement. This Plan became effective for new full-time employees not covered by the collective bargaining agreement on September 30, 2007 and on September 30, 2012 for those covered by the agreement. It also includes employees who were participants of METRO's Union and Non-Union Pension Plans (Pension Plans) but changed their status from union position to a non-union or vice versa after the Pension Plans closed for new employees. This is the only retirement plan available to new full-time employees and during the last three calendar years the number of participants increased to 3,107 for 2019, 2,835 for 2018 and 2,439 for 2017.

METRO contributes two (2) percent of the employee's compensation and matches up to four (4) percent of employee's compensation based on their contributions to their 457(b) Deferred Compensation Plan account. Contributions from METRO are deposited into individual employee accounts, maintained by a third-party record-keeper, either weekly or semi-weekly depending on the related payroll cycle. Vesting rates on METRO's contributions are forty percent after the second year and twenty percent annually thereafter, one hundred percent vesting occurs after five years. Pension contributions are authorized each year by METRO's Board of Directors as part of the annual budgeting process.

The discussion and analysis provide additional information regarding the activities of the Plan. For additional financial information or any questions, please contact the Office of the Controller, Metropolitan Transit Authority of Harris County, Texas, P.O. Box 61429 Houston, Texas 77208-1429.

Financial Highlights

METRO contributes to active participants' defined contribution account each pay period which totaled \$7.4 million for 2019 and \$6.1 million for 2018. The 2019 increase primarily relates to the turnover of employees who were participants in the Defined Benefit Pension Plans to new hired employees who become participants in the Defined Contribution Pension Plan. Withdrawals increased during 2019 by \$0.6 million or 50.7 percent and during 2018 by \$0.3 million or 37.7 percent. The changes over the last three years in the withdrawal amounts relates to the number of participants terminating employment with METRO and transferring their balances to other retirement accounts.

Total assets / plan fiduciary net position increased during 2019 by \$11.5 million or 45.8 percent and during 2018 by \$3.1 million or 13.9 percent. The changes over the last three years in total assets/plan fiduciary net position generally relates to investment returns which were driven by significant changes in market conditions and offset by contributions and withdrawals.

Metropolitan Transit Authority of Harris County, Texas
Defined Contribution Plan

Management's Discussion and Analysis (Unaudited)

Following is the Plan's summary of fiduciary net position and changes in fiduciary net position for the current and past three plan years:

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|----------------------|
| <u>Summary of Plan fiduciary net position:</u> | | | |
| Assets: | | | |
| Investments, at fair value | \$ 36,642,345 | \$ 25,124,886 | \$ 22,063,302 |
| Contribution receivable from METRO | 81,585 | 68,878 | 55,380 |
| Total assets / Plan fiduciary net position | <u>\$ 36,723,930</u> | <u>\$ 25,193,764</u> | <u>\$ 22,118,682</u> |
| <u>Changes in Plan fiduciary net position:</u> | | | |
| Additions: | | | |
| Investment Income/(Loss) | | | |
| Net appreciation/(depreciation) in fair value of investments | \$ 2,393,966 | \$ (4,414,958) | \$ 1,425,203 |
| Interest and dividend income | 3,443,300 | 2,515,955 | 1,397,475 |
| Total investment gain/(loss) | 5,837,266 | (1,899,003) | 2,822,678 |
| Contributions from METRO | 7,412,215 | 6,106,955 | 5,307,055 |
| Total additions | 13,249,481 | 4,207,952 | 8,129,733 |
| Deductions: | | | |
| Withdrawals | (1,671,516) | (1,108,888) | (805,551) |
| Administrative expenses | (47,799) | (23,982) | (13,861) |
| Total deductions | (1,719,315) | (1,132,870) | (819,412) |
| Changes in Plan fiduciary net position | 11,530,166 | 3,075,082 | 7,310,321 |
| Beginning of the year | 25,193,764 | 22,118,682 | 14,808,361 |
| End of the year | <u>\$ 36,723,930</u> | <u>\$ 25,193,764</u> | <u>\$ 22,118,682</u> |

Metropolitan Transit Authority of Harris County, Texas

Defined Contribution Plan

Management's Discussion and Analysis (Unaudited)

Fund Performance

The growth in the value of the Plan's assets during the last three years primarily relates to METRO's contributions as new employees are automatically placed into this Plan, investment returns and more employees taking advantage of METRO's four (4) percent matching opportunity. Investments, their returns, along with comparison to the related benchmark is reflected for the last three years in the following table:

| Investment Name | Ticker | 2019 | | 2018 | | 2017 | |
|---|--------|---------------|------------------|---------------|------------------|---------------|------------------|
| | | Annual Return | Market Benchmark | Annual Return | Market Benchmark | Annual Return | Market Benchmark |
| Great-West Lifetime 2015 Fund Inst | MXNYX | 15.53% | N/A | -4.03% | N/A | 11.54% | N/A |
| Great-West Lifetime 2020 Fund Inst | MXAKX | 16.80% | N/A | -4.58% | N/A | 12.81% | N/A |
| Great-West Lifetime 2025 Fund Inst | MXQBX | 18.43% | N/A | -5.41% | N/A | 14.56% | N/A |
| Great-West Lifetime 2030 Fund Inst | MXAYX | 20.52% | N/A | -6.41% | N/A | 16.60% | N/A |
| Great-West Lifetime 2035 Fund Inst | MXTBX | 22.58% | N/A | -7.56% | N/A | 18.69% | N/A |
| Great-West Lifetime 2040 Fund Inst | MXBGX | 24.18% | N/A | -8.39% | N/A | 19.78% | N/A |
| Great-West Lifetime 2045 Fund Inst | MXWEX | 25.14% | N/A | -9.00% | N/A | 20.76% | N/A |
| Great-West Lifetime 2050 Fund Inst | MXBSX | 25.28% | N/A | -9.21% | N/A | 21.16% | N/A |
| Great-West Lifetime 2055 Fund Inst | MXZHX | 25.19% | N/A | -9.42% | N/A | 21.24% | N/A |
| Great-West MFS Intl Value Inst | MXJVB | 22.43% | 20.01% | -15.30% | -13.79% | 26.93% | 25.03% |
| American Funds New Perspective R6 | RNPGX | 30.48% | 20.01% | -5.56% | -13.79% | 29.30% | 25.03% |
| American Funds New World R6 | RNWGX | 28.03% | 20.01% | -11.97% | -13.79% | 33.06% | 25.03% |
| Franklin Mutual International R6 | FIMFX | 14.89% | 20.01% | -17.40% | -13.79% | 14.11% | 25.03% |
| Oppenheimer International Growth I | OIGIX | 29.16% | 20.01% | -19.22% | -13.79% | 27.15% | 25.03% |
| Vanguard Total Intl Stock Index Admiral | VTIAX | 21.51% | 20.01% | -14.43% | -13.79% | 27.55% | 25.03% |
| Nuveen Real Estate Securities I | FARCX | 25.56% | N/A | -5.51% | N/A | 5.61% | N/A |
| Franklin Gold & Precious Metals Adv. | FGADX | 51.87% | N/A | -17.89% | N/A | 0.05% | N/A |
| MFS Technology R6 | MTCLX | 36.23% | N/A | 1.94% | N/A | 38.90% | N/A |
| Vanguard REIT Index Adm | VGSLX | 28.94% | N/A | -5.95% | N/A | 4.94% | N/A |
| Columbia Small Cap Index A | NMSAX | 22.30% | 25.52% | -8.95% | -11.01% | 12.81% | 14.65% |
| Janus Henderson Venture N | JVTNX | 30.98% | 25.52% | -6.46% | -11.01% | 24.45% | 14.65% |
| Undiscovered Mgrs Behavioral Value R6 | UBVFX | 23.34% | 25.52% | -15.20% | -11.01% | 13.53% | 14.65% |
| Ariel Appreciation Fund | CAAPX | 24.60% | 26.20% | -13.99% | -11.08% | 15.10% | 16.24% |
| Janus Enterprise Fund T | JAENX | 35.06% | 26.20% | -1.05% | -11.08% | 26.35% | 16.24% |
| Vanguard Mid Cap Index Admiral | VIMAX | 31.03% | 26.20% | -9.23% | -11.08% | 19.25% | 16.24% |
| Columbia Contrarian Core Instl 3 | COFYX | 33.08% | 31.49% | -8.81% | -4.38% | 21.89% | 21.83% |
| Columbia Dividend Income Adv | CVIRX | 28.17% | 31.49% | -4.41% | -4.38% | 20.80% | 21.83% |
| Great-West S&P 500 Index Fund Inv | MXVIX | 30.84% | 31.49% | -4.89% | -4.38% | 21.18% | 21.83% |
| Pioneer Fundamental Growth K | PFGKX | 34.40% | 31.49% | -0.20% | -4.38% | 23.19% | 21.83% |
| American Funds American | RLBGX | 19.55% | N/A | -2.42% | N/A | 15.84% | N/A |

Metropolitan Transit Authority of Harris County, Texas

Defined Contribution Plan

Management's Discussion and Analysis (Unaudited)

| Investment Name | Ticker | 2019 | | 2018 | | 2017 | |
|--|--------|---------------|------------------|---------------|------------------|---------------|------------------|
| | | Annual Return | Market Benchmark | Annual Return | Market Benchmark | Annual Return | Market Benchmark |
| Balanced R6 | | | | | | | |
| Fidelity Puritan | FPURX | 21.25% | N/A | -4.16% | N/A | 18.74% | N/A |
| BlackRock High Yield Bond Portfolio K | BRHYX | 15.58% | 8.72% | -2.76% | 0.01% | 8.31% | 3.54% |
| Columbia US Government Mortgage Instl | CUGYX | 6.97% | 8.72% | 2.11% | 0.01% | 3.37% | 3.54% |
| JPMorgan Global Bond Opportunities R6 | GBONX | 10.73% | 8.72% | -1.74% | 0.01% | 6.98% | 3.54% |
| Metropolitan West Total Return Bond Pl | MWTSX | 9.23% | 8.72% | 0.29% | 0.01% | 3.49% | 3.54% |
| MFS Emerging Markets Debt R6 | MEDHX | 14.17% | 8.72% | -4.91% | 0.01% | 9.63% | 3.54% |
| Vanguard Inflation-Protected Secs Adm | VAIPX | 8.16% | 8.72% | -1.39% | 0.01% | 2.91% | 3.54% |
| Vanguard Inter-Term Investment-Grade | VFIDX | 10.49% | 8.72% | -0.47% | 0.01% | 4.27% | 3.54% |
| Vanguard Total Bond Market Index Adm | VBTLX | 8.71% | 8.72% | -0.03% | 0.01% | 3.57% | 3.54% |
| Great-West Guaranteed Interest Fund | N/A | 1.75% | N/A | 1.80% | N/A | 1.70% | N/A |

Plan Fees

The Plan charges fees to participants' account for investment management, advisory and record-keeping services that are directly offset from the investment funds' earnings. The fees vary by investment fund and are calculated based on the fund's daily asset value. According to the Fee Disclosure Report provided by Empower as of December 31, 2019 and 2018, the estimated fees were as follows:

December 31, 2019

| Service | Annual Estimate | Estimated Average Cost Per Participant | Estimated Percentage of Total Assets |
|----------------------------------|-----------------|--|--------------------------------------|
| Payments to Investment Providers | \$ 178,864 | \$ 57.00 | 0.49% |
| Payments to Recordkeeper | 36,660 | 12.00 | 0.10% |
| Payments to Others | 10,766 | 3.00 | 0.03% |
| Total Payment Estimate | \$ 226,290 | \$ 72.00 | 0.62% |

December 31, 2018

| Service | Annual Estimate | Estimated Average Cost Per Participant | Estimated Percentage of Total Assets |
|----------------------------------|-----------------|--|--------------------------------------|
| Payments to Investment Providers | \$ 128,593 | \$ 45.00 | 0.51% |
| Payments to Recordkeeper | 25,346 | 9.00 | 0.10% |
| Payments to Others | 8,065 | 3.00 | 0.03% |
| Total Payment Estimate | \$ 162,004 | \$ 57.00 | 0.64% |

For a copy of the complete Fee Disclosure Report, please contact the Plan Administrator, Metropolitan Transit Authority of Harris County, Texas, P.O. Box 61429, Houston, Texas 77208-1429.

BASIC FINANCIAL STATEMENTS

Metropolitan Transit Authority of Harris County, Texas
Defined Contribution Plan

Statements of Fiduciary Net Position
December 31, 2019 and 2018

| Assets: | <u>2019</u> | <u>2018</u> |
|----------------------------------|--------------------------|--------------------------|
| Investments, at fair value | \$ 36,642,345 | \$ 25,124,886 |
| Employer contribution receivable | <u>81,585</u> | <u>68,878</u> |
| Total assets | <u><u>36,723,930</u></u> | <u><u>25,193,764</u></u> |
| Fiduciary net position: | | |
| Restricted for pensions | <u>\$ 36,723,930</u> | <u>\$ 25,193,764</u> |

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

Metropolitan Transit Authority of Harris County, Texas
Defined Contribution Plan

Statements of Changes in Fiduciary Net Position
Years Ended December 31, 2019 and 2018

| | <u>2019</u> | <u>2018</u> |
|--|----------------------|----------------------|
| Additions: | | |
| Investment income/(loss): | | |
| Interest and dividend income | \$ 3,443,300 | \$ 2,515,955 |
| Net appreciation/(depreciation) in fair value of investments | <u>2,393,966</u> | <u>(4,414,958)</u> |
| Total investment income/(loss) | 5,837,266 | (1,899,003) |
| Contributions from METRO | <u>7,412,215</u> | <u>6,106,955</u> |
| Total additions | <u>13,249,481</u> | <u>4,207,952</u> |
| Deductions: | | |
| Withdrawals | (1,671,516) | (1,108,888) |
| Administrative expenses | <u>(47,799)</u> | <u>(23,982)</u> |
| Total deductions | <u>(1,719,315)</u> | <u>(1,132,870)</u> |
| Changes in Plan fiduciary net position | 11,530,166 | 3,075,082 |
| Fiduciary net position – restricted for pensions: | | |
| Beginning of the year | <u>25,193,764</u> | <u>22,118,682</u> |
| End of the year | <u>\$ 36,723,930</u> | <u>\$ 25,193,764</u> |

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

Metropolitan Transit Authority of Harris County, Texas

Defined Contribution Plan

Notes to the Basic Financial Statements

1. DESCRIPTION OF THE PLAN

The following description of Metropolitan Transit Authority (METRO) Defined Contribution Plan (the “Plan”) provides only general information. Participants should refer to the Plan document for a more complete description of the Plan’s provisions.

General

The Plan is a single employer, 401(a) defined contribution pension plan that is qualified under Section 401(a) of the Internal Revenue Code (the “IRC”) and is also a governmental plan under Section 414(d) of the IRC. The Plan is not covered by the Employee Retirement Income Security Act of 1974.

Eligibility

The Plan was established with the objective of assisting METRO’s employees in accumulating resources for their retirement. The Plan became effective for new full-time employees who were not covered under the collective bargaining agreement and hired after September 30, 2007. Subsequently, the Plan also became effective for new employees who were covered under the collective bargaining agreement and hired after September 30, 2012. It also includes employees who were participants of METRO’s Union and Non-Union Pension Plans (Pension Plans) but changed their status from union position to a non-union or vice versa after the Pension Plans closed for new employees. Full-time employees are eligible to participate in the Plan upon their employment with METRO. The following table presents information of Plan participants during plan years ended December 31, 2019 and 2018:

| Participants | 2019 | 2018 |
|--|--------------|--------------|
| Eligible participants – January 1st | 2,835 | 2,439 |
| <u>Less:</u> Terminated participants who removed funds | 359 | 181 |
| <u>Add:</u> New participants | 631 | 577 |
| Eligible participants – December 31st | <u>3,107</u> | <u>2,835</u> |

Contributions to Participants 401(a) Account

Only METRO contributes to the participants 401(a) account. METRO’s Board of Directors authorized these contributions and are included in the annual operating budget. The base contribution is two (2) percent of the participant’s compensation as defined under the Plan’s provisions. In addition to the base contribution, METRO matches up to four (4) percent of the employee’s compensation based on their contribution to their 457(b) Deferred Compensation Plan account.

METRO’s contributions are deposited into the employee’s 401(a) individual account during the normal weekly or bi-weekly payroll cycle. Terminated employees can remain in the Plan but will no longer receive employer contributions.

Participants’ Accounts

Each participant has an individual 401(a) account which tracks contributions made by METRO, investments they purchased/sold and related fees. New participants are automatically invested in a target date fund based on their date of birth and can reallocate those contributions between 40 investment options established under the Plan. Ultimately, participants control how funds in their account are invested in the available investment line-up.

Metropolitan Transit Authority of Harris County, Texas

Defined Contribution Plan

Notes to the Basic Financial Statements

Vesting

Participant's vesting in the employer contributions is based on years of service and the vesting rate which is forty percent after the second year of service, and twenty percent annually thereafter. Participants are one hundred percent vested after the fifth year of service. A year of service means a twelve-consecutive-month period during which the employee completes at least one thousand hours of service.

Participant Loans

The Plan does not permit participant loans.

Plan Administration and Fees

METRO is the Plan Administrator with the general administration and record keeping services provided by Empower Retirement, a subsidiary of Great-West Life & Annuity Insurance Company. Fees associated with administration, recording keeping, money managers and discretionary managed account services are paid from the participants' accounts.

Payment of Benefits

A participant's 401(a) defined contribution pension account balance is available upon severance from METRO's service, attainment of age 65, or death based on their vesting level. 401(a) Plan participants age 65 and older are eligible to take distributions, without penalty, from their 401(a) accounts while still in service with METRO. A participant may elect to receive: 1) a single lump sum amount equal to the value of their account, 2) a partial lump-sum payment of a specified amount, with the balance payable in installment payments for a period of years, 3) annuity payments payable either monthly, quarterly, or annually over a period not exceeding the life expectancy of the participant, or, in certain circumstances, the joint life expectancy of the participant and a "designated beneficiary" (as defined in the Internal Revenue Code (Code), or 4) installment payments for a period of years. Upon termination from METRO, or attainment of age 70 and a half, funds may be rolled over into an eligible retirement plan (as defined in the Code), or an IRA.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying basic financial statements of the Plan are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB).

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Contributions are reported when payments become due from METRO, the Plan sponsor, while investment income (net of investment and administrative fees) are reported when earned. Payments made to participants upon termination or retirement are reported when paid.

Investment Policy

The investment policy focuses on the participant and their goal of saving resources for retirement. Some of the major topics in the policy comprising investment objectives, roles and responsibilities, performance evaluation, investment options, and related education for participants.

Metropolitan Transit Authority of Harris County, Texas

Defined Contribution Plan

Notes to the Basic Financial Statements

Investment options included in the policy consist of 40 mutual funds that cover a wide range of investment strategies that include risk levels and asset classes. Participants can select among these investment options when customizing an investment portfolio that meets their risk tolerance levels and financial goals. To implement and monitor their long-term investment strategy, participants can use the online administrative and investment tools provided by the Plan's record-keeper and service provider Empower Retirement, previously known as Great-West Life & Annuity Insurance Company.

Investment Valuation

The Plan's investments are stated at fair value which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Participants Accounts and Income Recognition

Changes in the value of Participant's account relate to contributions from METRO, interest, dividends, investments sales and change in market value. Purchases and sales of securities are recorded on a trade-date basis. Dividends are processed the evening of the execution date and recorded with a drop date on the next business day. Interest is credited to participant-guaranteed accounts based on the rate communicated by Empower. Share values of mutual funds are received from the National Security Clearing Corporation, Interactive Data Corporation or the mutual fund company.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the Plan's financial statements. Actual results could differ from those estimates.

3. CUSTODIAL CREDIT RISK

For investments, custodial credit risk is the risk that in the event of the failure of the counterparty, the Plan will not be able to recover the value of their investments or collateral securities that are in the possession of the outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Plan, and are held by either the counterparty or the counterparty trust department. All Plan's investments are held by the individual mutual funds' asset custodians in the Plan's name and therefore, are not exposed to custodial credit risk.

4. FAIR VALUE MEASUREMENTS

The Plan categorizes its fair value hierarchy as established by U.S. generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. In determining fair value, the Plan utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible in its assessment of fair value. Following is a description of the valuation methodologies used for assets measured at fair value:

Metropolitan Transit Authority of Harris County, Texas

Defined Contribution Plan

Notes to the Basic Financial Statements

Investments disclosed as Level 1 includes individual mutual funds and those that invest in multiple mutual funds (fund to funds) when the underlying fund is actively traded on a nationally recognized stock exchange. Investments that guarantee a return based on the purchase of governmental securities are disclosed as Level 2.

All investments are recorded at their net asset value (unit value) and calculated daily after the close of the current trading day by each mutual fund. This value is used to calculate the daily ending investment balance for each participant and to price investment transactions settling at the end of the day.

The following tables set forth by level, within the fair value hierarchy, a summary of the Plan's investments measured at fair value as of December 31, 2019 and December 31, 2018:

2019 Fair Value Measurement Based on Reporting Hierarchy

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------------|--------------|---------|---------------|
| Mutual funds: | | | | |
| Domestic stock funds*1 | \$ 3,103,283 | \$ - | - | \$ 3,103,283 |
| International stock funds*2 | 1,591,636 | - | - | 1,591,636 |
| Balanced fund*3 | 297,434 | - | - | 297,434 |
| Target retirement date funds*4 | 27,919,424 | - | - | 27,919,424 |
| Specialty funds*5 | 582,513 | - | - | 582,513 |
| Bond funds*6 | 1,034,043 | - | - | 1,034,043 |
| Great-West Guaranteed Interest Funds | - | 2,114,012 | - | 2,114,012 |
| Total investments, at fair value | \$ 34,528,333 | \$ 2,114,012 | \$ - | \$ 36,642,345 |

2018 Fair Value Measurement Based on Reporting Hierarchy

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------------------------|---------------|--------------|---------|---------------|
| Mutual funds: | | | | |
| Domestic stock funds*1 | \$ 1,723,296 | \$ - | - | \$ 1,723,296 |
| International stock funds*2 | 839,352 | - | - | 839,352 |
| Balanced fund*3 | 196,828 | - | - | 196,828 |
| Target retirement date funds*4 | 19,933,976 | - | - | 19,933,976 |
| Specialty funds*5 | 323,601 | - | - | 323,601 |
| Bond funds*6 | 570,013 | - | - | 570,013 |
| Great-West Guaranteed Interest Funds | - | 1,537,820 | - | 1,537,820 |
| Total investments, at fair value | \$ 23,587,066 | \$ 1,537,820 | \$ - | \$ 25,124,886 |

*1. Domestic stock funds

Columbia Small Cap Index Fund (Class A) seeks total return before fees and expenses that corresponds to the total return of the S&P SmallCap 600 Index (Index). The Index tracks the performance of 600 domestic companies traded on major stock exchanges. The Index is heavily weighted with the stocks of companies with small market capitalizations.

Metropolitan Transit Authority of Harris County, Texas

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Ariel Appreciation Fund seeks long-term capital appreciation by investing in mid-capitalization undervalued companies that show strong potential for growth. This Fund invests primarily in equity securities of U.S. companies and generally in companies with market capitalizations between \$2 billion and \$15 billion, measured at the time of initial purchase. The essence of this Fund's strategy is a combination of patience and stock selection.

Janus Henderson Enterprise Fund (T Class) seeks long-term growth of capital by investing primarily in common stocks selected for their growth potential, and normally invests at least 50 percent of its equity assets in medium-sized companies. Medium-sized companies are those whose market capitalization falls within the range of companies in the Russell Midcap Growth Index. The portfolio managers look at companies one at a time to determine if a company is an attractive investment opportunity and if it is consistent with the Fund's investment policies.

Columbia Dividend Income Fund (Advisor Class) seeks total return, consisting of current income and capital appreciation by investing at least 80 percent of its net assets (including the amount of any borrowings for investment purposes) in a diversified portfolio of income-producing (dividend-paying) equity securities, which will consist primarily of common stocks but also may include preferred stocks and convertible securities. This Fund invests principally in securities of companies believed to be undervalued but also may invest in securities of companies believed to have the potential for long-term growth. This Fund may invest in companies that have market capitalizations of any size.

Janus Henderson Venture Fund (N Class) seeks capital appreciation by using a research-driven investment process focused on identifying quality small-cap companies with differentiated business models and sustainable competitive advantages. This Fund pursues its investment objective by investing at least 50 percent of its equity assets in small-sized companies and in larger companies with strong growth potential. This Fund is designed for long-term investors seeking an equity portfolio, including common stock.

Undiscovered Managers Behavioral Value Fund (R6 Class) seeks to provide capital appreciation by investing in common stocks of U.S. companies that the Fund's sub-advisor, Fuller & Thaler Asset Management, Inc, believed were mispriced based on behavioral biases. Fuller & Thaler believes that behavioral biases on the part of investors may cause the market to overreact to old, negative information and underreact to new, positive information concerning a company. They generally utilize a three-pronged approach that includes (i) positive signals such as significant share purchases by company insiders or stock repurchase activity by the company, (ii) evidence of overreaction due to behavioral factors that have resulted in an absolute or relative decline in valuation and (iii) analysis of the company fundamentals with regard to business model, valuation and credit risk.

Vanguard Mid-Cap Index Fund (Admiral Shares) seeks to track the performance of a benchmark index that measures the investment return of mid-capitalization stocks. The Fund employs an indexing investment approach designed to track the performance of the CRSP US Mid Cap Index, a broadly diversified index of stocks of mid-size U.S. companies. The Fund attempts to replicate the target index by investing all, or substantially all, of its assets in the stocks that make up the Index, holding each stock in approximately the same proportion as its weighting in the Index.

Columbian Contrarian Core Fund (Institutional 3 Class) seeks total return, consisting of long-term capital appreciation and current income by investing at least 80 percent of its net assets in equity securities of U.S. companies that have large market capitalizations that its investment manager believes are undervalued and have the potential for long-term growth and current income. The Fund may also invest up to 20 percent of its net assets in foreign securities.

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Great-West S&P 500 Index Fund (Investor Class) seeks investment results that track the total return of the common stocks that comprise the Standard & Poor's ("S&P") 500 Index (Index). The Fund will invest at least 80 percent of its net assets in common stocks included in the Index. The Index is a market capitalization-weighted index of the 500 leading companies in leading industries of the U.S. economy. It is widely regarded as the best single gauge of the large cap U.S. equities market.

Pioneer Fundamental Growth Fund (K Class) seeks long-term capital growth by investing at least 80 percent of its net assets in equities of large companies included in the Russell 1000 Growth Index (Index). The Index is a large capitalization index that measures the performance of those companies in the Russell 1000 Index with higher price-to-book ratios and higher forecasted growth values.

***2. International Stock Funds**

Great-West MFS International Value Fund (Institutional Class) seeks long-term capital growth by investing at least 80 percent of its net assets (plus the amount of any borrowings for investment purposes) in equity securities. This Fund invests primarily in companies outside the U.S., including those in emerging markets.

American Funds New Perspective Fund (R6 Class) seeks to provide long-term capital growth with a secondary goal of future income by taking advantage of investment opportunities generated by changes in international trade patterns and economic and political relationships by investing in common stocks of companies located around the world. In pursuing its primary investment objective, the Fund invests primarily in common stocks that the investment adviser believes have the potential for growth. In pursuing its secondary objective, the Fund invests in common stocks of companies with the potential to pay dividends in the future.

American Funds New World Fund (R6 Class) seeks long-term capital appreciation by investing primarily in common stocks of companies with significant exposure to countries with developing economies and/or markets. The Fund may also invest in debt securities of issuers, including issuers of lower rated bonds with exposure to these countries. In determining whether a country is qualified, the Fund's investment adviser will consider such factors as the country's per capita gross domestic product, the percentage of the country's economy that is industrialized, market capital as a percentage of gross domestic product, the overall regulatory environment, the presence of government regulation limiting or banning foreign ownership, and restrictions on repatriation of initial capital, dividends, interest and/or capital gains.

Franklin Mutual International Fund (R6 Class) seeks capital appreciation with a secondary goal of income by investing at least 80 percent of its net assets in securities of non-U.S. issuers. The investment manager focuses the Fund's investments on securities believed to be available at market prices less than their value based on certain recognized or objective criteria (intrinsic value). The Fund invests primarily in equity securities of Asian and European companies that the investment manager believes are undervalued.

Oppenheimer International Growth Fund (I Class) seeks capital appreciation by investing in the common stock of growth companies that are domiciled or have their primary operations outside of the United States. It may invest 100 percent of its assets in securities of foreign companies. The Fund may invest in emerging markets as well as in developed markets throughout the world.

Vanguard Total International Stock Index Fund (Admiral Shares) seeks to track the performance of a benchmark index that measures the investment return of stocks issued by companies located in developed and emerging markets, excluding the U.S. The Fund employs an indexing investment approach designed to track the performance of the FTSE Global All Cap ex US Index, a float-adjusted market-capitalization-weighted index designed to measure equity market performance of companies located in developed and emerging markets. The Index includes approximately 6,013

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stocks of companies located in 48 markets. The Fund invests all, or substantially all, of its assets in the common stocks included in its target index.

***3. Balanced Funds**

Fidelity Puritan Fund seeks income and capital growth consistent with reasonable risk. This Fund invests approximately 60 percent of assets in stocks and other equity securities and the remainder in bonds and other debt securities, including lower-quality debt securities, when its outlook is neutral and invests at least 25 percent of total assets in fixed-income senior securities. This Fund invests in domestic and foreign issuers and growth and/or value stocks.

American Funds American Balanced Fund (Class R6) seeks to conserve capital, current income and long-term growth of capital and income by using a balanced approach to invest in a broad range of securities, including common stocks and investment-grade bonds with a wide range of maturities. The fund also invests in securities issued and guaranteed by the U.S. government and by federal agencies and instrumentalities. Normally the fund will maintain at least 50 percent of the value of its assets in common stocks and at least 25 percent of the value of its assets in debt securities, including money market securities.

***4. Target Retirement Date Funds**

Great-West Lifetime 2015 Fund; Great-West Lifetime 2020 Fund; Great-West Lifetime 2025 Fund; Great-West Lifetime 2030 Fund; Great-West Lifetime 2035 Fund; Great-West Lifetime 2040 Fund; Great-West Lifetime 2045 Fund; Great-West Lifetime 2050 Fund; and Great-West Lifetime 2055 Fund (Institutional Class) seek capital appreciation and income consistent with their current asset allocation. Each Fund invests in a professionally selected mix of underlying funds that is tailored for investors planning to retire in, or close to 2015, 2020, 2025, 2030, 2035, 2040, 2045, 2050 or 2055 (which is assumed to be at age 65), respectively.

***5. Specialty Funds**

Franklin Gold and Precious Metals Fund seeks capital appreciation, with current income as its secondary goal, by investing at least 80 percent of its net assets in securities of gold and precious metals operation companies located anywhere in the world, and in general invests predominantly in non-U.S. companies. This Fund looks for companies with established track records as well as those having low-cost reserves to bring into production, particularly companies with attractive production profiles, strong reserve bases and active exploration programs that can potentially drive future reserve and production growth.

Nuveen Real Estate Securities Fund seeks to provide above average income potential and long-term capital appreciation by investing 80 percent of the sum of its net assets and the amount of any borrowings for investment purposes in income-producing common stocks of publicly traded companies engaged in the real estate industry. These companies derive at least 50 percent of their revenues or profits from the ownership, construction, management, financing or sale of real estate, or have at least 50 percent of the fair market value of their assets invested in real estate. A majority of this Fund's total assets will be invested in real estate investment trusts ("REITs"). REITs are publicly traded corporations or trusts that invest in residential or commercial real estate.

MFS Technology (Class R6) seeks capital appreciation by investing at least 80 percent of the Fund's net assets in securities of issuers principally engaged in offering, using or developing products, processes, or services that will provide or will benefit significantly from technological advances and improvements. These issuers are in such fields as computer systems and software, networking and telecommunications, internet, business services, and electronics.

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Vanguard REIT Index (Admiral Shares) seeks to provide a high level of income and moderate long-term capital appreciation by tracking the performance of a benchmark index that measures the performance of publicly traded equity REITs and other real estate-related investments. The Fund employs an indexing investment approach designed to track the performance of the MSCI US REIT Index, an index that is a free float-adjusted market capitalization weighted index comprised of equity real estate investments trusts (REITs). REITs are companies that in most cases own and operate income producing real estate assets.

***6. Bond Funds**

MFS Emerging Markets Debt Fund (Class R6) seeks total return with an emphasis on high current income, but also considering capital appreciation. This Fund normally invests at least 80 percent of its net assets in debt instruments of issuers that are tied economically to emerging market countries. Emerging market countries are countries whose financial and capital markets are in the development phase and include countries located in Latin America, Asia, Africa, the Middle East, and developing countries of Europe, primarily Eastern Europe.

BlackRock High Yield Bond Portfolio Fund (Class K shares) seeks to maximize total return, consistent with income generation and prudent investment management. The Fund invests primarily in non-investment grade bonds with maturities of ten years or less. The Fund normally invests at least 80 percent of its assets in high yield bonds.

Columbia US Government Mortgage Fund (Class Inst3) seeks to provide shareholders with current income as its primary objective and, as its secondary objective, preservation of capital. Under normal circumstances, at least 80 percent of the Fund's net assets (including the amount of any borrowings for investment purposes) are invested in mortgage-related securities. Mortgage-related securities include those that are either issued or guaranteed as to principal and interest by the U.S. Government, its agencies, authorities or instrumentalities (U.S. Government Securities), those issued by non-U.S. governments, as well as residential and commercial mortgage-backed securities issued by non-governmental entities.

JP Morgan Global Bond Opportunities Fund (Class R6) seeks to provide total return by investing across sectors in developed and emerging markets located around the world. J.P. Morgan Investment Management Inc. has broad discretion to shift the Fund's exposure to strategies, sectors, countries or currencies based on changing market conditions and its view of the best mix of investment opportunities.

Metropolitan West Total Bond Plan Fund seeks to maximize long-term return by investing in a diversified portfolio of fixed-income securities of varying maturities with a portfolio duration of two to eight years. The Fund's dollar-weighted average maturity is expected to range from two to fifteen years. The Fund invests in the U.S. and abroad, including emerging markets, and may purchase securities of varying maturities issued by domestic and foreign corporations and governments.

Vanguard Inflation-Protected Securities Fund (Admiral Class) seeks to provide inflation protection and income consistent with investment in inflation-indexed securities by investing at least 80 percent of its assets in inflation-indexed bonds issued by the U.S. government, its agencies and instrumentalities, and corporations. The Fund may invest in bonds of any maturity; however, its dollar-weighted average maturity is expected to be in the range of 7 to 20 years. At a minimum, all bonds purchased by the Fund will be rated investment-grade or, if unrated, will be considered by the advisor to be investment-grade.

Vanguard Intermediate-Term Investment-Grade Fund (Admiral Shares) seeks to provide a moderate and sustainable level of current income by investing in a variety of high-quality and, to a lesser extent, medium-quality fixed income securities, at least 80 percent of which will be short- and

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intermediate-term investment-grade securities. The Fund is expected to maintain a dollar-weighted average maturity of 5 to 10 years.

Vanguard Total Bond Market Index Fund (Admiral Shares) seeks to track the performance of a broad, market-weighted bond index. The Fund employs an indexing investment approach designed to track the performance of the Bloomberg Barclays U.S. Aggregate Float Adjusted Index. This Index represents a wide spectrum of public, investment-grade, taxable, fixed income securities in the United States—including government, corporate, and international dollar-denominated bonds, as well as mortgage-backed and asset-backed securities—all with maturities of more than 1 year. The Fund maintains a dollar-weighted average maturity consistent with that of the Index, which generally ranges between 5 and 10 years.

5. FORFEITURE ACCOUNT

Participant account balances are transferred to a forfeiture account within the Plan when a participant separates from service prior to being one hundred percent vested. Per the Plan document, METRO may use the forfeited funds to first offset Plan expenses, then to reduce its contributions, and then to reallocate any remainder balance to participants in the same manner as METRO's contributions are allocated.

The following table summarizes transactions that occurred within the forfeiture account during plan year 2019 and 2018 as well as the Plan's forfeiture account balance as of December 31, 2019 and 2018:

| | 2019 | 2018 |
|-------------------------|---------------------|---------------------|
| Beginning balance | \$ 1,233,326 | \$ 827,308 |
| Non-vested transfers | 535,270 | 388,639 |
| Investment income | 26,375 | 17,380 |
| Administrative Expenses | (14,943) | - |
| Ending balance | <u>\$ 1,780,030</u> | <u>\$ 1,233,326</u> |

6. TERMINATED PARTICIPANTS

As of December 31, 2019 and 2018, the Plan had 48 and 50 terminated vested participants who had account balances totaling \$379,517 and \$417,612, respectively. These participants no longer receive contributions from METRO and their account balances are adjusted only for fees, investment earnings and withdrawals.

7. RELATED PARTY TRANSACTIONS

The costs of administering the Plan is paid with the monthly administrative fee charged to participant accounts, an annualized asset-based fee assessed to the Plan's investment funds, and interest earned on assets held in the Plan's custodial account which is administered by the Plan's custodian.

8. INCOME TAX STATUS

The Plan has not obtained a determination letter from the Internal Revenue Services since METRO adopted a pre-approved prototype plan from Great-West Retirement Services and has not made any extensive modifications to such prototype plan. The Plan Administrator believes that the Plan

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complies with the applicable requirements of the Internal Revenue Code and, therefore, qualifies as a tax-favored Plan.

9. PLAN TERMINATION

METRO as Plan Sponsor has the right to amend, suspend, or terminate the Plan if the amounts of the Participant's balances are not affected. Upon termination of the Plan, Participants or their beneficiaries would become fully vested in their accounts as provided in the Plan's controlling document. METRO also has the right to discontinue contributions and add or eliminate any investment option, in whole or in part.

10. RISKS AND UNCERTAINTIES

The Plan provides for participant directed investments that are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investments and the level of uncertainty related to the changes in the value of investments, it is at least reasonably possible, that changes in risks in the near term could materially affect participants' account balances and the amounts reported in the Statements of Fiduciary Net Position and the Statements of Changes in Fiduciary Net Position.

11. SUBSEQUENT EVENTS

The Plan's management has evaluated subsequent events through March 26, 2021; the date the Plan's financial statements were available to be issued. No changes were made, or are necessary to be made, to the Plan's financial statements, as a result of this evaluation.

Effective July 2020, the Plan changed the Trustee from Wells Fargo Bank to Great-West Life & Annuity Insurance Company.