Washington Metropolitan Area Transit Authority

# Board Action/Information Summary

| ◉ Action ○ Information | MEAD Number: 201647 | Resolution: ◉ Yes ○ No |
|---|---|---|

**TITLE:**

FY 2014 External Audit Deliverable

**PRESENTATION SUMMARY:**

McGladrey, LLP submitted FY2014 external audit report & related materials for acceptance.

**PURPOSE:**

To request acceptance of the Fiscal Year 2014 External Audit Deliverable submitted by McGladrey, LLP.

**DESCRIPTION:**

**Key Highlights:**

- An audit of Metro's financial statements was conducted by McGladrey, LLP for the period of July 1, 2013, through June 30, 2014.
- McGladrey, LLP issued a modified opinion.

**Background and History:**

The WMATA Compact, Section 70, states that an audit shall be made of the financial accounts of the Authority, shall be prepared in accordance with generally accepted accounting principles, and shall be filed with the Chairman and other officers as the Board shall direct.

**Discussion:**

This action item supports Metro's strategic goal to ensure financial stability and invest in our people and assets by having McGladrey, LLP conduct an audit of Metro's financial statements in accordance with Government Auditing Standards for the period of July 1, 2013, through June 30, 2014. WMATA received a modified (Qualified) Opinion. The basis for the Qualified Opinion is McGladrey was unable to determine the effect of an error on the net position classifications. A modified opinion means except for the matter described in the "Basis for Qualified Opinion," the financial statements present fairly, in all material respects, the financial position of the business-type activities of the WMATA, as of June 30, 2014, and changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McGladrey, LLP submitted the following Fiscal Year 2014 external audit report for acceptance:

- Independent Auditor's Report on the Financial Statements

**FUNDING IMPACT:**

| Define current or potential funding impact, including source of reimbursable funds. | |
|---|---|
| Project Manager: | Joseph Wilson III |
| Project Department/Office: | Office of Inspector General |

**TIMELINE:**

| | |
|---|---|
| **Previous Actions** | October 2013<br>• Board acceptance of the FY2013 Financial Statement Audit Deliverable |
| **Anticipated actions after presentation** | August 2015<br>• Committee acceptance of the FY2014 Financial Statement Audit Deliverable<br>• Board vote on the acceptance of FY2014 External Audit Deliverable |

**RECOMMENDATION:**

Acceptance of the Fiscal Year 2014 External Audit Deliverable submitted by McGladrey, LLP

# Washington Metropolitan Area Transit Authority (WMATA)

## Fiscal Year Ended June 30, 2014
## Audit Communications to those Charged with Governance

August 6, 2015

McGladrey

Assurance ▪ Tax ▪ Consulting

# Agenda



McGladrey

# Audit Scope

A. Basic Financial Statements

B. Report on Compliance and Internal Controls over Financial Reporting Based on Audit of the Financial Statements

C. Schedule of Expenditures of Federal Awards pursuant to OMB Circular A-133 (Single Audit)

D. Report on Compliance with Requirements that could have a Direct and Material Effect on Each Major Program and On Internal Control over Compliance in Accordance with OMB Circular A-133

E. Longshore and Harbor Workers' Compensation Act Reports

F. National Transit Database (NTD) Reports

G. Regional Customer Services Center and Regional Software Maintenance Agreement (RCSC/RSMA) Reports

# Audit Deliverables

- Independent Auditor's Report – dated August 6, 2015
- Single Audit of Federal Funds (including Reports on Schedule of Expenditures of Federal Awards (SEFA) and Compliance with Federal Laws and Regulations) – substantially complete; targeted issuance prior to August 30, 2015
- Internal Control Letter – substantially complete; targeted issuance prior to August 30, 2015
- Agreed Upon Procedures Report on the National Transit Database (NTD) – issued June 29, 2015

# Audit Results

- **Independent Auditor's Report - Modified**

- **Basis for Modified Opinion**

  *Management has reported amounts of restricted net position in the accompanying the financial statements, but is unable to substantiate such amounts with proper supporting financial information. Accounting principles generally accepted in the United States of America require the financial statements to report the amount of net position at the end of the reporting period that is restricted. We are unable to determine the effect such error has on the net position classifications.*

- **Report on required supplementary information**

- **Management Discussion and Analysis – FY 2012 information**

  *We were unable to apply certain procedures to the condensed financial information for the year ended June 30, 2012 included in the management's discussion and analysis.*

# Questions

Questions?

SUBJECT: REVIEW AND ACCEPTANCE OF FY2014 EXTERNAL AUDIT DELIVERABLES

RESOLUTION
OF THE
AUDITS & INVESTIGATIONS COMMITTEE
OF THE
BOARD OF DIRECTORS
OF THE
WASHINGTON METROPOLITAN AREA TRANSIT AUTHORITY

WHEREAS, McGladrey, LLP has submitted the Fiscal Year (FY) 2014 external audit report and financial statements and related materials for acceptance and has presented them to the Board of Directors; now, therefore be it

*RESOLVED*, That the Audits and Investigations Committee of the Board of Directors accepts the Independent Auditor's Report on the Financial Statements; and be it finally

*RESOLVED*, That to allow the Washington Metropolitan Area Transit Authority to pursue financing options, this Resolution shall be effective immediately.

Reviewed as to form and legal sufficiency,

Mark R. Pohl
Acting General Counsel

WMATA File Structure No.:
13.3.4 Audits of WMATA by Non-Governmental Entities

# Management's Discussion and Analysis

As management of the Washington Metropolitan Area Transit Authority (Authority), we offer readers of the basic financial statements this overview and analysis of the financial activities of the Authority as of June 30, 2014, 2013 (as restated) and 2012 (as restated). This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any noteworthy changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements (for the years ended June 30, 2014 and 2013) taken as a whole.

**Fiscal Year 2014 Financial Highlights**

- Capital assets before depreciation and amortization changed by $701.9 million or 4.2 percent. This change includes 768.6 million of new capital asset investments in line with the Authority's six-year capital improvement plan. The new investments were primarily for purchases of new buses, system-wide rehabilitation of track and track circuitry, rail yard expansions, overhaul of more than 35 system escalators, 12 full station lighting enhancements, replacement of parking garage light fixtures, bus and rail facility rehabilitations.

- Change in net position decreased by $104.1 million or 1.3 percent primarily due to:

    - $62.7 million in unfunded OPEB liability increase
    - $30.5 million in planned use of operating fund balance
    - $23.0 million variance between capital contributions from federal and jurisdictions and depreciation

**Overview of the Basic Financial Statements**

This required annual report consists of three parts: Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The basic financial statements also include notes that provide in more detail some of the information in the basic financial statements.

**Basic Financial Statements.** The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America for governmental entities as applied to an enterprise using the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

The Authority's basic financial statements are the Statements of Net Position, the Statements of Revenues, Expenses and Changes in Net Position and the Statements of Cash Flows.

The Statements of Net Position presents financial information on all of the Authority's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the Authority's financial position; however, the reader should also consider other indicators, such as the rate of growth of operating subsidies, passenger fares, ridership levels, general economic conditions in the metropolitan area and the age and condition of capital assets used by the Authority.

The Statements of Revenues, Expenses and Changes in Net Position reports all of the revenues, subsidies, and capital contributions earned and expenses incurred during the reporting periods.

The Statements of Cash Flows provides information on cash receipts and cash payments during the reporting periods.

The basic financial statements can be found on pages 14-18 of this report.

# Management's Discussion and Analysis

## Overview of the Basic Financial Statements (Continued)

**Notes to the Basic Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 19-56 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits and Other Postemployment Benefits (OPEB) to its employees. Required supplementary information can be found on pages 57-58 of this report.

## Financial Analysis

### Statements of Net Position

As noted earlier, net position may serve over time as an indicator of the Authority's financial position. The reader should consider other indicators such as the age and condition of the Authority's rail and bus system, as well as its need for increasing operating subsidies and ridership levels. The following table provides an overview of the Authority's financial position for the years ended June 30, 2014, 2013 and 2012:

**Table 1**
**Condensed Statements of Net Position**
**June 30, 2014, 2013 and 2012**
**(in thousands)**

| | 2014 | (As Restated) 2013 | (As Restated) 2012 |
|---|---|---|---|
| Current assets | $ 670,231 | $ 545,761 | $ 763,828 |
| Noncurrent assets | 623,913 | 737,113 | 761,034 |
| Capital assets | 8,840,110 | 8,732,548 | 8,500,548 |
| Total assets | 10,134,254 | 10,015,422 | 10,025,410 |
| Total deferred outflows of resources | - | - | (82) |
| Current liabilities | 916,909 | 678,544 | 703,043 |
| Noncurrent liabilities | 1,210,863 | 1,288,951 | 1,231,809 |
| Total liabilities | 2,127,772 | 1,967,495 | 1,934,852 |
| Total deferred inflows of resources | 74,776 | 12,089 | 14,651 |
| Net Position: | | | |
| Net investment in capital assets | 8,211,764 | 8,088,386 | 8,377,565 |
| Restricted | | | |
| Capital projects | 134,943 | 199,473 | 88,641 |
| Other | - | 74,198 | - |
| Unrestricted | (415,001) | (326,221) | (390,381) |
| Total net position | $ 7,931,706 | $ 8,035,836 | $ 8,075,825 |

# Management's Discussion and Analysis

**Statements of Net Position (Continued)**

**Current Year**

The largest portion of the Authority's net position $8,211.8 million reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those assets. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Capital assets before depreciation and amortization changed by $701.9 million or 4.2 percent. This change includes $768.6 million of new capital asset investments in line with the Authority's six-year capital improvement plan. The new investments were primarily for purchases of new buses, system-wide rehabilitation of track and track circuitry, rail yard expansions, overhaul of more than 35 system escalators, 12 full station lighting enhancements, replacement of parking garage light fixtures, bus and rail facility rehabilitations.

Current assets increased by $124.5 million or 22.8 percent, due largely to the contribution receivables of bus and rail federal grants for fiscal year 2014, which are in line with the Authority's fiscal year 2014 capital spending.

Current liabilities increased by $238.4 million or 35.1 percent primarily due to the increase in short-term debt (line of credit) usage.

Noncurrent liabilities decreased by $69.7 million or 5.4 percent, due mostly to railcar lease terminations which was partially offset by an increase in unfunded OPEB liability, due to an increase in retirees.

**Prior Year**

The largest portion of the Authority's net position, $8,088.4 million, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position has an unrestricted component, which includes the net pension trust assets and the unfunded OPEB liability.

Capital assets before depreciation and amortization increased by $828.8 million, largely attributable to the purchases of buses, the opening of a new bus garage facility, and system-wide rehabilitation of track and track circuitry, rail yards, rail line segments and infrastructure, escalators, bus and rail facility rehabilitations. Capital contributions were $665.1 million, including funding from the Passenger Rail Investment and Improvement Act.

# Management's Discussion and Analysis

## Statements of Revenues, Expenses, and Changes in Net Position

The following financial information was derived from the Statements of Revenues, Expenses, and Changes in Net Position and reflects how the Authority's net position changed during the fiscal year:

**Table 2**
**Statements of Revenues, Expenses, and Changes in Net Position**
**For the Years Ended June 30, 2014, 2013 and 2012**
**(in thousands)**

| | 2014 | (As Restated) 2013 | (As Restated) 2012 |
|---|---|---|---|
| **OPERATING REVENUES** | | | |
| Passenger | $ 811,628 | $ 817,615 | $ 777,528 |
| Advertising | 19,846 | 16,732 | 18,284 |
| Rental | 22,826 | 22,246 | 20,604 |
| Other | 280 | 236 | 254 |
| Total operating revenues | 854,580 | 856,829 | 816,670 |
| **NONOPERATING REVENUES** | | | |
| Investment income | 585 | 818 | 1,309 |
| Interest income from leasing transactions | 19,053 | 32,936 | 34,882 |
| Other | 16,232 | 16,300 | 18,812 |
| Total nonoperating revenues | 35,870 | 50,054 | 55,003 |
| Total revenues | 890,450 | 906,883 | 871,673 |
| **OPERATING EXPENSES** | | | |
| Labor | 699,143 | 655,141 | 656,553 |
| Fringe benefits | 544,069 | 524,383 | 475,104 |
| Services | 183,689 | 227,379 | 214,309 |
| Materials and supplies | 148,523 | 145,155 | 139,418 |
| Utilities | 84,691 | 81,561 | 79,413 |
| Casualty and liability costs | 26,354 | 26,461 | 24,764 |
| Leases and rentals | 5,925 | 4,969 | 4,000 |
| Miscellaneous | 2,998 | 2,604 | 467 |
| Depreciation and amortization | 642,519 | 622,409 | 528,720 |
| Total operating expenses | 2,337,911 | 2,290,062 | 2,122,748 |
| **NONOPERATING EXPENSES** | | | |
| Interest expense | 34,566 | 48,050 | 51,377 |
| Total expenses | 2,372,477 | 2,338,112 | 2,174,125 |
| Loss before capital grants/subsidies | (1,482,027) | (1,431,229) | (1,302,452) |
| Jurisdictional subsidies: | | | |
| Operations | 743,875 | 711,103 | 680,385 |
| Interest | 14,510 | 15,087 | 16,495 |
| Capital contributions from federal and jurisdictions | 619,512 | 665,050 | 303,832 |
| | (104,130) | (39,989) | (301,740) |
| Net position beginning of year | 8,035,836 | 8,075,825 | 8,377,565 |
| Net position, ending of year | $ 7,931,706 | $ 8,035,836 | $ 8,075,825 |

# Management's Discussion and Analysis

**Statements of Revenues, Expenses, and Changes in Net Position (Continued)**

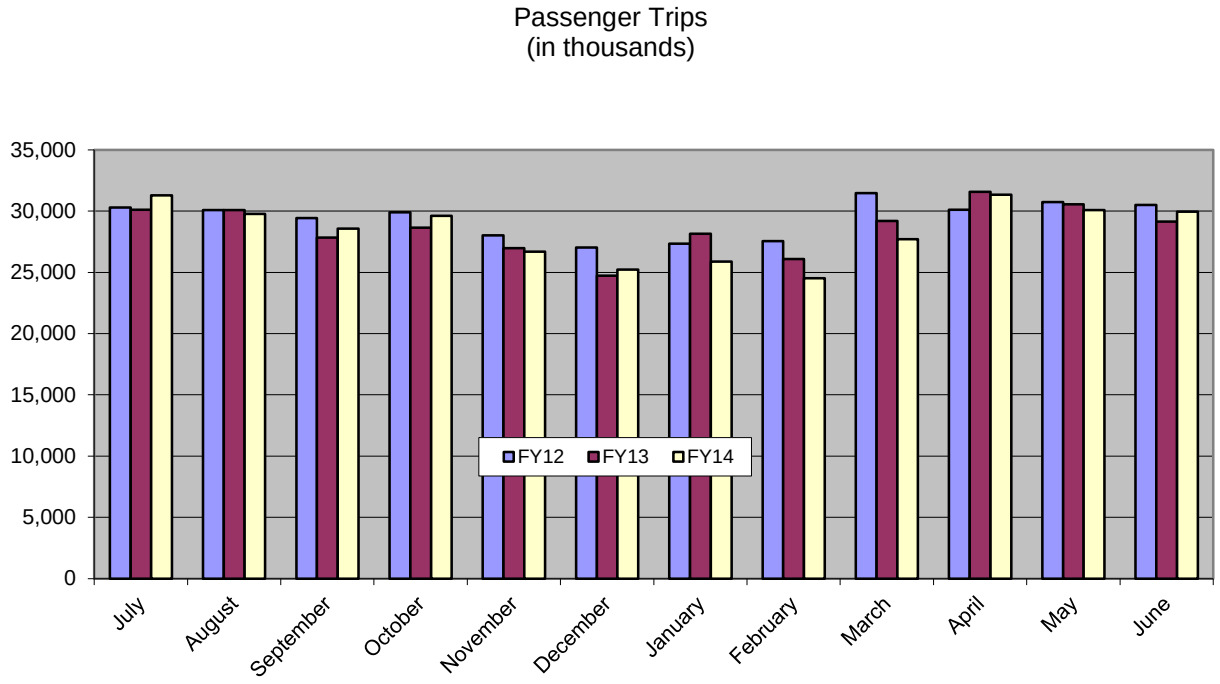
**Revenues**

**Current Year**

Total revenues for fiscal year 2014 are $890.5 million. Operating revenues, including passenger revenue, totaled $854.6 million, a decrease from fiscal year 2013 of $2.2 million or 0.3 percent as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, decreased by $6.0 million or 0.7 percent. The decrease in passenger revenue is primarily attributable to a decrease in total passenger trips driven by several factors including the federal government sequestration for 16 days; and the closing of federal and regional governments, businesses and schools due to several winter storms.

Passenger trips for the last three years are shown below:



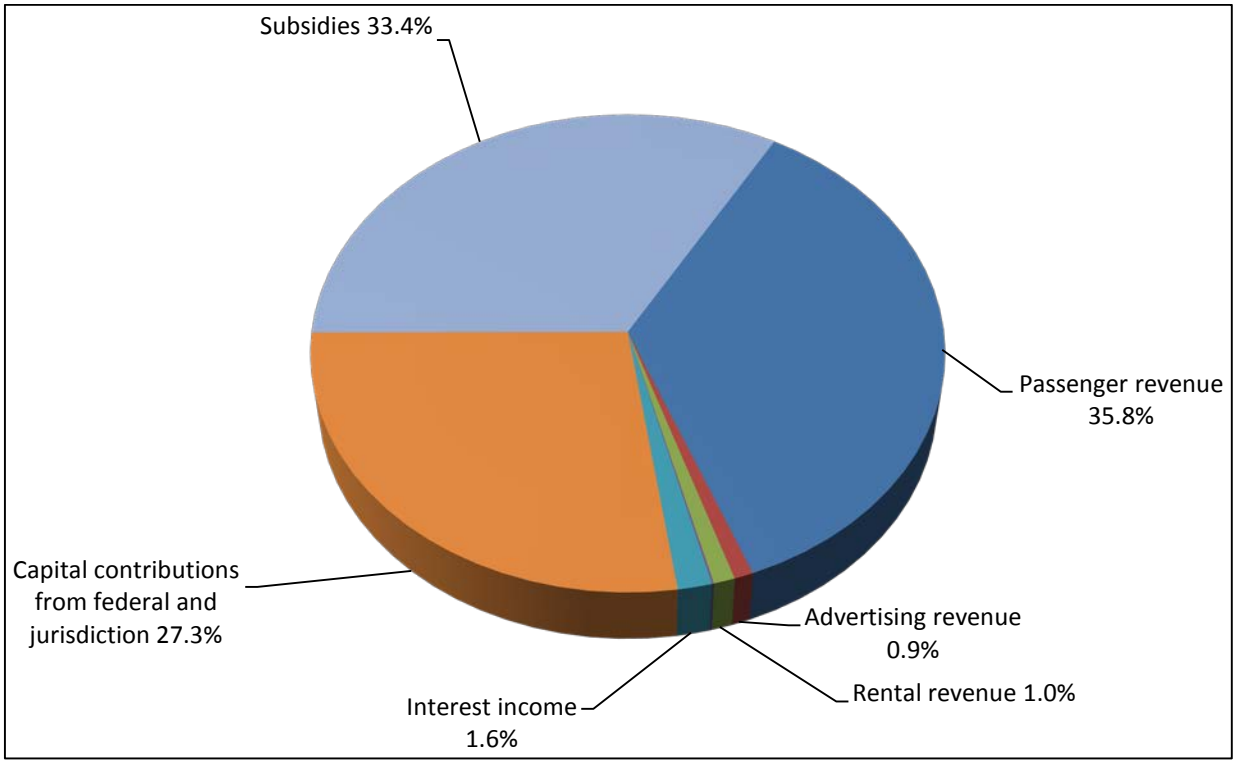

Interest income from lease transactions decreased by $13.9 million or 42.2 percent due to railcar lease terminations.

Management's Discussion and Analysis

**Statements of Revenues, Expenses, and Changes in Net Position (Continued)**

**Revenues (Continued)**

## Fiscal Year 2014 Revenues




**Prior Year**

Total revenues for fiscal year 2013 totaled $906.9 million. Operating revenues, which include passenger revenue, totaled $856.8 million, an increase of $40.2 million or 4.9 percent as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, increased by $40.1 million or 5.2 percent. The passenger revenue increase can be attributable to a new fare schedule effective on July 1, 2012, creating a higher average adult fare per passenger trip; however, the revenue increase was slightly offset by decreases in total passenger trips.

# Management's Discussion and Analysis

**Statements of Revenues, Expenses, and Changes in Net Position (Continued)**

**Expenses**

**Current Year**

Total expenses increased by $34.4 million in fiscal year 2014 as compared to prior fiscal year 2013. Operating expenses increased by $47.8 million or 2.1 percent as compared to fiscal year 2013. A review of significant changes is described below.

Salaries and benefits overall increased by $63.7 million or 5.4 percent. Salaries and benefits increased due to negotiated salary increases per the two new collective bargaining agreements (CBA) with the two largest labor unions with an average wage increase of 2 percent. Additionally, an Authority-wide hiring initiative increased headcount by 570 new employee.

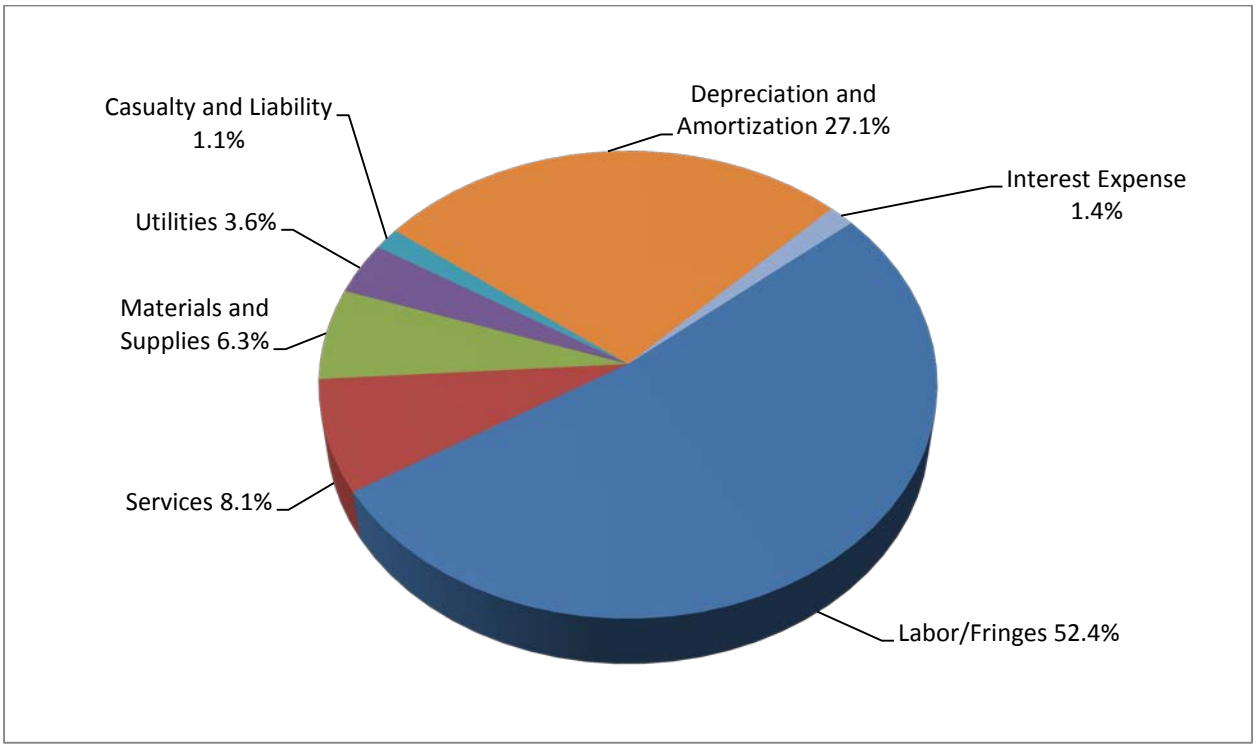
Services for the year decreased by $43.7 million or 19.2 percent due to the reduction and closeout of contractual services in the Offices of: Safety, Transit Infrastructure and Engineering Services, Bus Maintenance and Car Maintenance in addition to a favorable SmarTrip® contract settlement.

Materials and supplies increased by $3.4 million or 2.3 percent. Higher costs for replacement parts and maintenance on the 2K, 3K, and 5K railcars, cost overruns and repairs due to accidents and bus vandalism, all contributed to the rise in materials and supplies.

Utilities increased by $3.1 million or 3.8 percent, primarily due to increased electricity rates and the expiration of the compressed natural gas tax credit.

Depreciation and amortization expenses decreased by $20.1 million or 3.2 percent due to capitalized cost adjustments and year-end accruals.

## Fiscal Year 2014 Expenses



# Management's Discussion and Analysis

**Statements of Revenues, Expenses, and Changes in Net Position (Continued)**

**Expenses (Continued)**

**Prior Year**

Total expenses increased by $164.0 million in fiscal year 2013 when compared to prior fiscal year 2012. Operating expenses increased by $167.3 million or 7.9 percent as compared to fiscal year 2012. A review of significant changes is described below.

Salaries and benefits overall increased by $47.9 million or 4.2 percent. Salaries and benefits were influenced by increases in wages, pension costs and higher health benefits.

Services for the year increased by $13.1 million or 6.1 percent. The rise in service expenses were attributed to an increase use of contractors and consultants relating to safety initiatives, rail operations, and elevator and escalator maintenance.

Materials and supplies increased by $5.7 million or 4.1 percent. Higher material and supplies cost, as well as purchasing parts for vehicle maintenance.

Utilities increased by $2.1 million or 2.7 percent, due to an increase in electricity rates.

Depreciation and amortization expenses increased by $93.7 million or 17.7 percent due largely to an additional $828.8 million in depreciable assets placed into service in fiscal year 2013.

**Capital Assets and Debt Administration**

The following table shows the capital assets of the Authority:

**Table 3**
**Schedule of Capital Assets**
**June 30, 2014, 2013 and 2012**
**(in thousands)**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Land | $ 474,193 | $ 456,727 | $ 456,727 |
| Buildings and improvements | 853,272 | 807,967 | 715,935 |
| Transit facilities | 8,838,195 | 8,564,259 | 8,134,324 |
| Revenue vehicles | 2,910,389 | 2,848,894 | 2,726,122 |
| Other equipment | 2,735,393 | 2,657,592 | 2,425,296 |
| Construction in progress | 528,996 | 303,068 | 351,289 |
| Intangible costs | 1,209,357 | 1,209,357 | 1,209,357 |
| | 17,549,795 | 16,847,864 | 16,019,050 |
| Less accumulated depreciation and amortization | 8,709,685 | 8,115,316 | 7,518,502 |
| Net capital assets | $ 8,840,110 | $ 8,732,548 | $ 8,500,548 |

# Management's Discussion and Analysis

**Capital Assets and Debt Administration (Continued)**

**Capital Assets**

**Current Year**

The Authority's net capital asset balance was $8.8 billion (net of accumulated depreciation and amortization) as of June 30, 2014, an increase of $107.6 million or 1.2 percent. Capital assets before depreciation and amortization increased by $701.9 million or 4.2 percent as described below.

Land increased by $17.5 million or 3.8 percent, as a result of the Andrews Federal Campus land purchase, which will be used to construct a new replacement garage for the Southern Avenue garage.

Buildings and improvements increased by $45.3 million or 5.6 percent, as a result of Northern, Western and Landover bus garage facility enhancements and other building renovations.

Transit facilities increased by $273.9million or 3.2 percent, as a result of bus and rail station, tunnel and parking rehabilitation activities.

Revenue vehicles increased by $61.5 million or 2.2 percent, as a result of placing new 40-foot buses and paratransit vans into service. In addition, costs associated with rail car rehabilitation contributed to the increase.

Other equipment increased by $77.8 million or 2.9 percent, as a result of new equipment for station and bus repairs, bus cameras, parking lot readers, data network and communication equipment.

Construction in progress increased by $225.9 million or 74.5 percent largely due to bus, railcar and escalator replacements, a test facility for new and rehabilitated railcars, and construction of two new facilities for the Metro Transit Police Department.

Accumulated depreciation and amortization increased by $594.4 million or 7.3 percent due to an increase of additional assets placed into service.

Additional information on the Authority's capital assets can be found in note 5 on pages 29-30 of this report.

**Prior Year**

The Authority's net capital asset balance was $8.7 billion (net of accumulated depreciation and amortization) as of June 30, 2013, an increase of $232.0 million or 2.7 percent. Capital assets before depreciation and amortization increased by $828.8 million as described below.

Transit facilities increased by $429.9 million or 4.6 percent as a result of the opening of the new Shepherd Parkway bus garage and bus and rail station, tunnel and parking rehabilitation activities.

Other equipment increased by $232.3 million or 9.5 percent as a result of new equipment for station and bus repair, bus cameras, parking lot readers, data network and communication equipment.

Revenue vehicles increased by $122.8 million or 4.5 percent, as a result of placing new hybrid electric buses into service. In addition, costs associated with rail car rehabilitation contributed to the increase.

# Management's Discussion and Analysis

## Future Capital Plans

On June 24, 2010, the Authority's Board of Directors approved a six-year, $5.0 billion Capital Funding Agreement (CFA) with the Authority's jurisdictional partners. The prior six-year agreement expired on June 30, 2010. The current agreement provides the Authority with the resources to, among other things, enter into multi-year agreements to procure new rail cars to replace the oldest cars in the fleet, advance safety initiatives, replace deteriorated or damaged track, repair and upgrade stations and tunnels, replace obsolete communications and train control equipment, perform general building maintenance at many Authority facilities, and procure new buses to replace the oldest vehicles in the fleet.

As part of the agreement, the Board of Directors is responsible for approving a new six-year capital plan prior to the start of each fiscal year. On May 22, 2014, the Board approved a new six-year plan, which includes $5.6 billion in capital investments by the Authority's jurisdictional partners. Under the terms of the agreement, the Authority is required to update the jurisdictions and the Board of Directors quarterly about the progress of the capital program.

## Rail Expansion

The Dulles Corridor Metrorail Project (also known as the "Silver Line") under the direction of the Metropolitan Washington Airports Authority (MWAA) will expand the current system from 106.3 miles to a total of 129.4 miles in two phases.

The first phase adds 11.7 miles to the existing Metrorail system from west of the existing East Falls Church Metrorail station to Wiehle Avenue in the Reston area of Fairfax County along the Dulles corridor. The expansion includes construction of five new stations, a large park-and-ride lot at Wiehle Avenue and expanded storage capacity at the West Falls Church rail yard.

The second phase of the project includes extending the Metrorail system beginning at Wiehle Avenue to Reston Town Center, Herndon, Dulles International Airport and terminating in Eastern Loudoun County in Ashburn. Phase II of the rail expansion project is slated to be operational by 2019.

During fiscal year 2015, MWAA will transfer ownership of approximately $3.0 billion of phase one "Silver Line" assets to the Authority that includes, but is not limited to, rail infrastructure and trains. The Authority will assume operational responsibility of the 11.7-mile extension of the region's Metrorail system. This phase of the Silver line rail service projects an annualized increase in passenger revenue and passenger trips in the range of four to five percent.

## Bonds and Other Debt

The Authority's total outstanding bond debt as of June 30, 2014 and 2013 was $287.8 million and $309.1 million, respectively. By insuring some of its bonds, the Authority had obtained at the time of issuance, AAA rating from Standard and Poor's for those issuances. As of June 30, 2014, the bonds' uninsured rating is AA- from Standard and Poor's and Aa3 from Moody's.

Additional information on the Authority's bonds and other debt can be found in notes 6 on pages 31-33, note 11 on page 52, note 12 on pages 53-54 and note 14 on page 55-56 of this report.

# Management's Discussion and Analysis

## Lease Obligations

Information on these transactions can be found in notes 10 and 11 on pages 50-52 of this report.

## Economic Factors

The Washington, D.C. metropolitan area (D.C. Metro) economy and job market, supported in large part by the federal government, remained strong in comparison to national results. The federal government is the largest employer in the region and accounts for more than 30.0 percent of the regional employment, according to data compiled by EMSI for The Atlantic magazine. The D.C. Metro regional unemployment rate of 5.3 percent compares favorably to the national unemployment rate of 6.3 percent as of June 2014. Adding nearly ten thousand new jobs during the year ending, June 30, 2014 and ranking in the top 15 major job markets, the regional economy remains healthy.

## Requests for Information

This financial report is designed to provide interested readers with a general overview of the Authority's finances. Questions concerning this report or requests for additional financial information should be directed to the Comptroller, Office of Accounting, Washington Metropolitan Area Transit Authority, 600 Fifth St., NW, Washington, D.C. 20001, telephone number (202) 962-1605.

# Statements of Net Position

## June 30, 2014 and 2013

(in thousands)

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents (note 3) | $ 21,611 | $ 94,663 |
| Investments (note 3) | 193,033 | 103,598 |
| Contributions receivable from federal and jurisdictions (note 4) | 214,144 | 135,149 |
| Accounts receivable and other assets, net | 84,981 | 50,595 |
| Current portion of prefunded lease defeasnace contract (notes 10 and 11) | 31,718 | 44,357 |
| Materials and supplies inventory (net of allowance of $2,488 in 2014 and $3,688 in 2013) | 124,744 | 117,399 |
| Total current assets | 670,231 | 545,761 |
| Noncurrent assets: | | |
| Long-term portion of contributions receivable from federal and jurisdictions (note 4) | 174,420 | 180,780 |
| Net pension asset (note 7) | 184,238 | 172,734 |
| Prefunded lease defeasance contract (notes 10 and 11) | 265,255 | 383,598 |
| Capital assets (note 5): | | |
| Construction in progress | 528,996 | 303,068 |
| Land | 474,193 | 456,727 |
| Transit facilities and equipment, net | 7,836,921 | 7,972,753 |
| Total noncurrent assets | 9,464,023 | 9,469,660 |
| Total assets | $ 10,134,254 | $ 10,015,421 |

The accompanying notes are an integral part of these basic financial statements.

# Statements of Net Position (Continued)

## June 30, 2014 and 2013

## (in thousands)

| | 2014 | 2013 |
|---|---|---|
| **LIABILITIES** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 313,017 | $ 257,211 |
| Accrued salaries and benefits | 115,283 | 119,628 |
| Accrued interest payable | 7,624 | 8,092 |
| Unearned revenue | 222,023 | 188,261 |
| Current portion of estimated liability for injury and damage claims (notes 9 and 11) | 32,937 | 39,857 |
| Current portion of retainage on contracts (note 11) | 11,067 | 803 |
| Lines of credit debt (notes 6 and 11) | 170,000 | - |
| Current portion of bonds payable and other debt (notes 6 and 11) | 13,240 | 20,335 |
| Current portion of obligations under lease agreements (notes 10 and 11) | 31,718 | 44,357 |
| Total current liabilities | 916,909 | 678,544 |
| Noncurrent liabilities: | | |
| Estimated liability for injury and damage claims (notes 9 and 11) | 99,170 | 97,373 |
| Retainage on contracts (note 11) | 13,098 | 23,057 |
| Bonds payable and other debt (notes 6 and 11) | 274,515 | 288,769 |
| Obligations under lease agreements (notes 10 and 11) | 265,255 | 383,598 |
| Unfunded OPEB liability (note 8) | 558,825 | 496,154 |
| Total noncurrent liabilities | 1,210,863 | 1,288,951 |
| Total liabilities | 2,127,772 | 1,967,495 |
| Commitments and contingencies (notes 7, 8, 9 and 10) | | |
| Deferred inflows of resources: | | |
| Jurisdictional operating advance | 64,969 | - |
| Deferred gain on tax advantage lease | 8,979 | 12,206 |
| Accumulated increase in fair value of hedging derivatives | 828 | (117) |
| Total deferred inflows of resources | 74,776 | 12,089 |
| **NET POSITION** | | |
| Net investment in capital assets | 8,211,764 | 8,088,386 |
| Restricted | | |
| Capital projects | 134,943 | 199,473 |
| Contingency | - | 60,899 |
| Smart card reserve | - | 12,540 |
| Other | - | 759 |
| Unrestricted | (415,001) | (326,221) |
| Total net position | $ 7,931,706 | $ 8,035,836 |

The accompanying notes are an integral part of the basic financial statements.

## Statements of Revenues, Expenses, and Changes in Net Position
## For the Years Ended June 30, 2014 and 2013

(in thousands)

| | 2014 | 2013 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Passenger | $ 811,628 | $ 817,615 |
| Advertising | 19,846 | 16,732 |
| Rental | 22,826 | 22,246 |
| Other | 280 | 236 |
| Total operating revenues | 854,580 | 856,829 |
| **OPERATING EXPENSES** | | |
| Labor | 699,143 | 655,141 |
| Fringe benefits | 544,069 | 524,383 |
| Services | 183,689 | 227,379 |
| Materials and supplies | 148,523 | 145,155 |
| Utilities | 84,691 | 81,561 |
| Casualty and liability costs | 26,354 | 26,461 |
| Leases and rentals | 5,925 | 4,969 |
| Miscellaneous | 2,998 | 2,604 |
| Depreciation and amortization | 642,519 | 622,409 |
| Total operating expenses | 2,337,911 | 2,290,062 |
| Operating loss | (1,483,331) | (1,433,233) |
| **NONOPERATING REVENUES (EXPENSES)** | | |
| Investment income | 585 | 818 |
| Interest income from leasing transactions | 19,053 | 32,936 |
| Interest expense from leasing transactions | (19,053) | (32,936) |
| Interest expense | (15,513) | (15,114) |
| Other | 16,232 | 16,300 |
| Jurisdiction subsidies: | | |
| Operations | 743,875 | 711,103 |
| Interest | 14,510 | 15,087 |
| Total nonoperating revenues (expenses), net | 759,689 | 728,194 |
| Loss before capital contributions from federal and jurisdiction | (723,642) | (705,039) |
| Capital contributions from federal and jurisdictions | 619,512 | 665,050 |
| Change in net position | (104,130) | (39,989) |
| Total net position, beginning of year | 8,035,836 | 8,075,825 |
| Total net position, ending of year | $ 7,931,707 | $ 8,035,836 |

The accompanying notes are an integral part of these basic financial statements.

# Statements of Cash Flows

## For the Years Ended June 30, 2014 and 2013

(in thousands)

| | 2014 | 2013 |
|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Cash received from operations | $ 820,194 | $ 806,975 |
| Cash paid to suppliers | (370,176) | (422,959) |
| Cash paid to employees | (1,204,595) | (1,095,925) |
| Cash paid for operating claims | (29,723) | (29,584) |
| **Net cash used in operating activities** | (784,300) | (741,493) |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | |
| Cash received from jurisdictional subsidies | 840,080 | 716,000 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | |
| Construction of capital assets | (758,984) | (851,108) |
| Capital contributions from federal and jurisdictions | 555,590 | 773,602 |
| Payment of interest and fiscal charges | (15,981) | (15,787) |
| Principal paid on bonds | (21,349) | (27,360) |
| Proceeds from new debt, net | 170,000 | - |
| Interest subsidy for revenue bonds | 14,510 | 15,087 |
| **Net cash used in capital and related financing activities** | (56,214) | (105,566) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Proceeds from sale and maturities of investments | 8,710,616 | 9,331,844 |
| Purchases of investments | (8,800,075) | (9,261,225) |
| Interest received from operational investments | 16,841 | 17,539 |
| **Net cash provided by (used in) investing activities** | (72,618) | 88,158 |
| Net change in cash and cash equivalents | (73,052) | (42,901) |
| Cash and cash equivalents, beginning of year | 94,663 | 137,564 |
| Cash and cash equivalants, ending of year | $ 21,611 | $ 94,663 |

The accompanying notes are an integral part of these basic financial statements.

# Statements of Cash Flows (Continued)

## For the Years Ended June 30, 2014 and 2013

(in thousands)

| | 2014 | 2013 |
|---|---|---|
| **RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES** | | |
| Operating loss | $ (1,483,331) | $ (1,433,233) |
| Adjustments to reconcile operating loss to net cash used in Operating activities: | | |
| Depreciation and amortization expense | 643,755 | 622,409 |
| Bond premium accretion | (1,236) | (1,680) |
| Effect of changes in operating assets and liabilities | | |
| Accounts receivables (net) and other assets | (34,386) | (1,476) |
| Unearned revenue: Operating | (1,829) | (48,178) |
| Accumulated fair value of hedging derivatives | 945 | (199) |
| Materials and supplies inventory | (7,345) | (4,817) |
| Net pension asset | (11,504) | (15,726) |
| Accounts payable: Operating | 57,427 | 45,491 |
| Accrued salaries and benefits | (4,345) | 5,281 |
| Estimated liability for injury and damage claims | (5,122) | (3,123) |
| Retainage on contracts | - | (285) |
| OPEB obligation | 62,671 | 94,043 |
| Total adjustments | 699,031 | 691,740 |
| Net cash used in operating activities | $ (784,300) | $ (741,493) |
| **Noncash operating, investing, capital and financing activities:** | | |
| Increase (decrease) in fair value of investments | $ 8 | $ (389) |
| Interest expense from leasing transaction | $ (19,053) | $ (32,936) |
| Interest income from leasing transaction | $ 19,053 | $ 32,936 |
| Capital contributions from federal and jurisdictions | $ 63,922 | $ (108,552) |

The accompanying notes are an integral part of these basic financial statements.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies

#### (a) Organization

The Washington Metropolitan Area Transit Authority (Authority) was created, effective February 20, 1967, by the Interstate Compact (Compact) by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774, approved November 6, 1966. The Authority was created to plan, construct, finance and operate a public transit system serving the Washington Metropolitan Area Transit Zone (Zone). The Zone includes the following participating local jurisdictions: the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park; and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia, and Montgomery, Anne Arundel, Charles and Prince George's in Maryland.

The Authority is governed by a Board of Directors consisting of eight voting principal Directors and eight alternate Directors with each signatory to the compact and the Federal government appointing two voting Directors and two alternate Directors each. The Directors and Alternates for Virginia are appointed by the Northern Virginia Transportation Commission; for the District of Columbia, by the City Council; for Maryland, by the Washington Suburban Transit Commission; for the Federal Government, by the Administrator of General Services.

The Board of Directors (Board) governs and sets policy for the Authority. Subject to policy direction and delegations from the Board, the General Manager is responsible for all activities of the Authority. The staff carries out these activities through the approved organizational structure of the Authority.

#### (b) Financial Reporting Entity

In evaluating the Authority as a reporting entity, management has analyzed all potential component units that may fall within the Authority's oversight and control, and, as such, be included within the Authority's basic financial statements. As defined by GAAP, a legally separate organization should be reported as a component unit of the Authority if any of the following criteria are met:

1) The Authority appoints the voting majority of the separate organization's Board, and the Authority has either:

    a. a financial benefit or burden relationship with the separate organization or,

    b. the Authority is able to impose its will upon the separate organization.

2) The separate organization is fiscally dependent upon the Authority, and also has a financial benefit or burden relationship with the Authority.

3) It would be misleading to exclude the separate organization from the financial statements of the Authority due to the nature and significance of the organization's relationship with the Authority.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies (Continued)

#### (b) Financial Reporting Entity (Continued)

The relative importance of each criterion must be evaluated in light of specific circumstances. The decision to include or exclude a potential component unit is left to the professional judgment of management. Included within the Authority's financial reporting entity are the planning, development and operation of the transit facilities serving the Washington, D.C. metropolitan area which are funded from the combined resources of the U.S. Government, the State of Maryland, the Commonwealth of Virginia, the District of Columbia, the participating local jurisdictions, and the Authority's operations. The Authority does not report any component units within its financial reporting entity.

This report includes only the business-type activities of the Authority and does not include its fiduciary pension trust fund activities.

#### (c) Basis of Accounting

The Authority is a single enterprise fund and maintains its records on the accrual basis of accounting using the economic resource measurement focus. The activities of the Authority are similar to those of proprietary funds of local jurisdictions, and are therefore reported in conformity with government accounting and financial reporting principles issued by The Governmental Accounting Standards Board (GASB). The Authority records revenues when earned and records expenses when a liability is incurred, regardless of the timing of cash flows.

#### (d) Receivables and Payables

The major components of the accounts receivable balance are payments due from governmental agencies (69.8 and 96.0 percent, June 30, 2014 and 2013, respectively), companies (29.7 and 4.0 percent, June 30, 2014 and 2013, respectively), and other (0.5 percent, June 30, 2014). There are no allowances for doubtful accounts as the Authority expects to collect all receivables.

The major components of the accounts payable balance are payments due to vendors and contractors (42.6 and 66.5 percent, June 30, 2014 and 2013, respectively), governmental agencies (51.8 and 29.1 percent, June 30, 2014 and 2013, respectively) and other payables (5.6 and 4.4 percent, June 30, 2014 and 2013, respectively).

#### (e) Revenues and Expenses

The Authority distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses are those that result from providing services in connection with the Authority’s principal ongoing operation. The principal operating revenues of the Authority are charges to customers for transportation that result in passenger fares. The Authority also recognizes as operating revenue amounts received for rental and advertisements. These amounts are recorded as revenue at the time services are performed. Cash received for services that have not been performed are recorded as unearned revenue.

Operating revenues and expenses also include all revenues and expenses not associated with capital and related financing, noncapital financing, or investing activities, and expenses contributed to pension plans administered by the Authority.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies (Continued)

#### (e) Revenues and Expenses (Continued)

Non-operating revenues include jurisdictional subsidies, investment income and interest income from leasing transactions and non-operating expenses include interest expenses.

#### (f) Unearned Revenue

Unearned revenues are payments received in advance of providing goods and services such as unredeemed fare media, capital advances from the jurisdictions, third-party advances for reimbursable capital projects and insurance proceeds.

#### (g) Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### (h) Investments

Investments are stated at fair value, which is based on quoted market prices. Advanced contributions and interest earned on such contributions are invested on a short-term basis.

#### (i) Materials and Supplies Inventory

Materials and supplies inventory, which includes replacement parts, is stated at the lower of cost or market using the average cost methodology and net of an allowance for obsolete inventory.

#### (j) Capital Assets

The Authority's capital assets are comprised of transit facilities, buildings and improvements, revenue vehicles and other equipment. Capital assets are reported at historic costs and include labor (approximately $200 million in fiscal year 2014) and other ancillary costs associated with putting the capital asset into use.

Determinations of the cost of rapid rail assets placed in service are made with the assistance of the Authority's consulting engineers. Such cost determinations are based upon the historical costs of the project provided by the Modular Input Output System (MIOS) reports. Interest expense related to construction and amounts expended for testing each phase of the rail system prior to commencement of revenue-producing operations are capitalized.

Transit facilities and equipment in service are depreciated or amortized using the straight-line method over the estimated useful lives of the assets. A full month's depreciation is calculated in the month an asset is placed in service. The useful lives employed in computing depreciation and amortization on principal classes of transit facilities and equipment are as follows:

| | |
|---|---|
| Buildings and improvements | 20-45 years |
| Transit facilities | 10-75 years |
| Revenue vehicles | 12-35 years |
| Other equipment | 2-20 years |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies (Continued)

#### (j) Capital Assets (Continued)

Capital assets include amounts, which are replacement parts with a unit cost of $500 or more and an estimated useful life in excess of one year. Other capital assets are defined as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Any donated capital assets are recognized at their fair value on the date of donation. The Authority's policy is to expense maintenance and repair costs as incurred.

#### (k) Master Commodity Swap Arrangements

The Authority enters into agreements to fix the price associated with the purchase of fuel for specified periods of time. These agreements enable the Authority to plan its fuel costs for the year and to protect itself against increases in the market price of fuel. These agreements are reported at fair value and amounts due to the Authority are included in “Deferred outflows of resources” and amounts owed by the Authority are included in “Deferred inflows of resources”.

#### (l) Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period, and as such will not be recognized as an outflow of resources (expense) until that time. These items are reported as a category below the assets on the statement of net position.

Deferred inflows of resources represent an acquisition of net position that applies to a future period, and as such will not be recognized as an inflow of resources (revenue) until that time. These items are reported as a category below the liabilities on the statement of net position.

The Authority has three items that qualify for this type of reporting: the accumulated change in the fair value component of the master commodity swap agreement for diesel fuel (the fuel swap), deferred lease revenue received from sale-leaseback of railcars, and jurisdictional operating advances.

As of the fiscal years ended June 30, 2014 and 2013 respectively, the jurisdictional operating advance was $65.0 million and $0.0 million, the deferred gain on tax advantage leases was $8.9 million and $12.2 million, and the accumulated increase in fair value for the fuel swap was $0.8 million and ($0.1) million, and is reported as a deferred inflow of resources on the statement of net position.

#### (m) Grants and Jurisdictional Subsidy

The Authority’s capital program is supported primarily through funding from federal grants and jurisdictions capital contributions. Additionally, the Authority operates at a loss, which is fully subsidized by contributions from participating jurisdictions. In fiscal year 2013 and 2014, jurisdictional operating subsidy accounted for approximately 45 percent of revenues. Any reduction in jurisdictional support or federal grants will have a major impact on the Authority’s operations.

Capital grants and operating grants are recognized as revenue when all applicable eligibility requirements on incurred expenditures have been met on awarded grants. Revenue is recognized on the federal share of capital grants upon grant award and the incurrence of eligible expenditures approved for reimbursement from the federal grant awarding agencies (Federal Transit Administration and Department of Homeland Security). Revenue is recognized on the jurisdictional share of capital grants upon appropriation of funds from the jurisdictions to which the appropriation pertains has begun. Operating subsidy is recognized as revenue when

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

**(1) Summary of Significant Accounting Policies (Continued)**

**(m) Grants and Jurisdictional Subsidy (Continued)**

the jurisdictions appropriate the amount to the Authority and the period to which the appropriation pertains has begun.

The determination of the Authority's jurisdictional subsidies is based on its operating loss and non-operating revenues, and does not include depreciation expense or the non-cash amount related to other postemployment benefits (OPEB).

**(n) Investment (Interest) Income**

Investment income is interested generated from the following sources: Advance contributions for capital and operating needs, construction grant funds, and capital improvement grant funds. Interest from these sources is recognized when earned and is included in the Statement of Revenues, Expenses and Changes in Net Position.

**(o) Net Position**

The Authority's financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted net position.

- *Net Investment in capital assets* - This category groups all capital assets related to infrastructure into one component of net position. Accumulated depreciation and the unexpended balances of debt that are attributed to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted net position* – This category presents net position with external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted net position* - This category presents the net position that does not meet the definition of "restricted" or "net investments in capital assets." Components of unrestricted net position include amounts to fund future operational expenses and other targeted programs.

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Authority considers restricted funds to have been spent first.

**(p) Use of Estimates**

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows and liabilities, deferred inflows, capital contributions, and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(q) Recent Pronouncements Adopted**

The Authority, in fiscal year 2014, adopted the following GASB Statements:

**GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*** - This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies (Continued)

#### (q) Recent Pronouncements Adopted (Continued)

assets and liabilities. The provisions of this Statement are effective for the Authority's fiscal year ended June 30, 2014, and were adopted retrospectively for the fiscal year ending June 30, 2013. Based on the implementation of Statement No. 65, the Authority's fiscal year 2013 beginning net position was restated by $2.8 million to account for bond issuance costs, which are no longer capitalized pursuant to this Statement. In addition, fiscal year 2013 expenses decreased by $0.2 million, and $12.2 million of deferred gain on tax advantage lease reclassified from current and noncurrent liabilities to deferred inflows of resources.

**GASB Statement No. 66, *Technical Corrections- 2012 - an Amendment of GASB Statements No. 10 and No. 62* -** This Statement amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues,* by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This Statement also amends Statement No.62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA* Pronouncements to resolve conflicts between Statement No. 62 and other GASB pronouncements. The adoption of this GASB Statement had no impact on the basic financial statements of the Authority.

**GASB Statement No. 67, *Financial Reporting for Pension Plans* –** This Statement replaces the requirements of *Statements No.* 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and *Statement No. 50, Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The adoption of this GASB Statement had no impact on the basic financial statements of the Authority.

**GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* –** This Statement establishes accounting and financial reporting standards for guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. The adoption of this GASB Statement had no impact on the basic financial statements of the Authority.

#### (r) Recent Pronouncements Not Adopted

The GASB has issued several pronouncements prior to the year ended June 30, 2014 that have effective dates that may impact future financial presentation. The Authority has not adopted the following statements, and the implications on the fiscal practices and financial reports are being evaluated. However, the Authority anticipates that GASB Statement No. 68 will have a significant impact on the basic financial statements.

| GASB Statement No. | GASB Statement | Adoption Required In Fiscal Year |
|---|---|---|
| 68 | Accounting and Financial Reporting for Pensions | 2015 |
| 69 | Government Combinations and Disposals of Government Operations | 2015 |
| 71 | Pension Transition for Contributions made Subsequent to the Measurement Date – an Amendment of GASB No. 68 | 2015 |
| 72 | Fair Value Measurement and Application | 2016 |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (1) Summary of Significant Accounting Policies (Continued)

#### (s) Tax Status

The Authority is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded.

#### (t) Reclassifications

Certain reclassifications were made to the fiscal year 2013 financial statements to conform to the fiscal year 2014 financial statement presentation.

### (2) Plans of Financing

The planning, development and operation of the transit facilities serving the Washington, D.C. metropolitan area are funded from the combined resources of the U.S. Government, the State of Maryland, the Commonwealth of Virginia, the District of Columbia, the participating local jurisdictions, and the Authority's operations.

The Authority's operations are funded primarily by farebox revenues from passengers and operating subsidy payments from participating jurisdictions. In establishing its budget each year, the Authority makes an estimate of the revenues it expects to receive from operation of the system based on the current or projected fare schedule and ridership. The majority of the balance of the Authority's operating budget is provided through operating subsidy payments from the participating jurisdictions.

The Authority’s Capital Improvement Program is based on the results of an extensive needs assessment and the requirement to align resources to rehabilitate the existing systems adequately and to grow ridership. The Authority’s capital budget is funded generally by grants that use federal funds and substantial jurisdictional contributions provided by participating jurisdictions, in excess of federal match requirements, and the issuance of debt.

### (3) Cash, Deposits and Investments

As provided in the amended Compact, any monies of the Authority may, at the discretion of the Board and subject to any agreement or covenant between the Authority and the holders of its obligations limiting or restricting classes of investments, be invested in the following:

1) Direct obligation of, or obligations guaranteed by, the United States;

2) Bonds, debentures, notes, or other evidences of indebtedness issued by agencies of the United States;

3) Domestic and Eurodollar certificates of deposit;

4) Securities that qualify as lawful investments and may be accepted as security for fiduciary, trust and public funds under the control of the United States or any officer or officers thereof; or securities eligible as collateral for deposits of monies of the United States; or

5) Bonds, debentures, notes or other evidences of indebtedness issued by a domestic corporation provided that such obligations are nonconvertible and at the time of their purchase are rated in the highest rating categories by one or more nationally recognized bond rating agencies.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (3) Cash, Deposits and Investments (Continued)

#### (a) Cash and Cash Equivalents

The Authority's bank balances as of June 30, 2014 and 2013 are grouped to give an indication of the level of custodial risk assumed by the Authority as follows (in thousands):

| | 2014 | | 2013 | |
|---|---|---|---|---|
| Cash and Cash Equivalents | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| Deposits insured or collateralized | $ 14,989 | $ 23,292 | $ 88,077 | $ 89,814 |
| Cash on hand | 6,622 | - | 6,586 | - |
| Total cash and deposits | $ 21,611 | $ 23,292 | $ 94,663 | $ 89,814 |

The Authority's bank deposit account balances are Federal Deposit Insurance Corporation (FDIC) insured up to $250,000, and any excess amounts are secured at 102 percent, by the pledge of eligible collateral. The depository banks pledge collateral to the Authority, which is held in a restricted account at the Federal Reserve Bank as a custodian, and at the Bank of New York Mellon as a custodian and collateral agent. The carrying amount of the deposits collateralized includes $0.8 million held in a separate account for a third party administrator. In addition, one depository bank has pledged an Irrevocable Standby Letter of Credit as collateral, issued by the Federal Home Loan Bank, which is held by the Authority. Under GASB Statement Number 40, $7.2 million of the $23.3 million in total cash and deposits was exposed to custodial credit risk, as a result of an intraday transfer, and the amount was uninsured and the related collateral was held in the Authority's transferring bank's account.

#### (b) Investments

As of June 30, 2014, the Authority had the following investments and maturities (in thousands):

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 6 Months | 7 Months - 1 Year | 1-3 Years | More than 3 Years |
| Money market funds | $ 209 | $ 209 | $ - | $ - | $ - |
| Repurchase agreements | 190,101 | 190,101 | - | - | - |
| United States treasuries | 2,674 | - | - | - | 2,674 |
| United States agencies | - | - | - | - | - |
| | 192,984 | 190,310 | - | - | 2,674 |
| Accrued interest | 49 | - | - | - | - |
| Total | $ 193,033 | $ 190,310 | $ - | $ - | $ 2,674 |

The Authority's Repurchase Agreement balance as of June 30, 2014 and June 30, 2013 includes Parking Surcharge and Compensation and Third Party Reserve funds in the amount of $69.1 million and $55.6 million, respectively.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (3) Cash, Deposits and Investments (Continued)

#### (b) Investments (Continued)

As of June 30, 2013, the Authority had the following investments and maturities (in thousands):

| | | Investment Maturities | | | |
|---|---|---|---|---|---|
| Investment Type | Fair Value | Less than 6 Months | 7 Months - 1 Year | 1-3 Years | More than 3 Years |
| Money market funds | $ 197 | $ 197 | $ - | $ - | $ - |
| Repurchase agreements | 99,648 | 99,648 | - | - | - |
| United States treasuries | 2,685 | - | - | - | 2,685 |
| United States agencies | 1,002 | 1,002 | - | - | - |
| | 103,532 | 100,847 | - | - | 2,685 |
| Accrued interest | 66 | 66 | - | - | - |
| Total | $ 103,598 | $ 100,913 | $ - | $ - | $ 2,685 |

**Interest Rate Risk**

The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing rates. However, as a means of limiting its exposure to fair value losses caused by rising interest rates, the Authority's practice is to structure its investment portfolio maturities to meet cash flow requirements. This results in short term maturities for investments for operations and intermediate maturities for capital projects investments. On average, investment maturities are less than two years at June 30, 2014 and 2013.

**Credit Risk**

The Authority's Compact, Article XVI, section 69(b), signed by the governing jurisdictions, includes, but does not limit to, investments that are direct obligations of or obligations guaranteed by the United States of America as well as evidences of indebtedness issued by agencies of the United States of America or indebtedness issued by a domestic corporation, provided that such obligations are rated at the time of purchase in the highest rating categories by a nationally recognized bond rating agency. The Authority's investments which have the implicit guarantee of the United States government, were, at the time of purchase, awarded the highest rating by one or more of the nationally recognized rating organizations: Standard and Poor's, Moody's Investor Service or Fitch Ratings.

**Custodial Credit Risk**

The Authority does not have a formal policy for custodial credit risk, however, the Authority selects custodians with at least an A+ rating by one or more of the nationally recognized rating organizations: Standard and Poor's, Moody's Investor Service, or Fitch Ratings. In the event of failure of the counterparty, the Authority will be able to recover the value of its investments or collateral securities that are in the possession of an agent of the Authority. The Authority is not exposed to custodial risk because all securities are in the Authority's name and held exclusively for the use of the Authority.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (4) Contributions Receivable from Federal and Jurisdictions

Since inception, the Authority has operated at a loss, which has been fully subsidized each year by the participating jurisdictions. For purposes of determining the current year's operating loss to be funded by the local participating jurisdictions, the Authority calculates the results of transit operations on an agreed-upon basis different from that reflected in the Statement of Revenues, Expenses and Changes in Net Position.

The cumulative effects of the different agreed-upon bases, which result in long-term contributions receivable, are as follows at June 30, 2014 and 2013 (in thousands):

| | 2014 | 2013 | Change |
|---|---|---|---|
| Agreed-upon funding of employee vacation liability and related taxes | $ 69,840 | $ 63,801 | $ 6,039 |
| Agreed-upon funding of claims for injuries and damages | 104,580 | 116,979 | (12,399) |
| Total accumulated difference | $ 174,420 | $ 180,780 | $ (6,360) |

The current portion of contributions receivable from federal and jurisdictions at June 30, 2014 and 2013 of $214.1 million and $135.1 million respectively are related primarily to federal grants.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (5) Capital Assets

Capital assets activity for the year ended June 30, 2014 was as follows (in thousands):

| | June 30, 2013 | Additions | Reductions | June 30, 2014 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 456,727 | $ 17,484 | $ (18) | $ 474,193 |
| Construction in progress | 303,068 | 751,112 | (525,184) | 528,996 |
| Total capital assets not being depreciated | 759,795 | 768,596 | (525,202) | $ 1,003,189 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 807,967 | 45,305 | | 853,272 |
| Transit facilities | 9,763,326 | 273,936 | | 10,037,262 |
| Revenue vehicles | 2,848,894 | 70,049 | (8,554) | 2,910,389 |
| Other equipment | 2,667,882 | 118,410 | (40,609) | 2,745,683 |
| Total capital assets being depreciated | 16,088,069 | 507,700 | (49,163) | 16,546,606 |
| Less accumulated depreciation and amortization for: | | | | |
| Buildings and improvements | 393,381 | 32,638 | | 426,019 |
| Transit facilities | 4,198,049 | 285,035 | | 4,483,084 |
| Revenue vehicles | 1,518,614 | 155,523 | (8,554) | 1,665,583 |
| Other equipment | 2,005,272 | 170,336 | (40,609) | 2,134,999 |
| Total accumulated depreciation and amortization of intangible costs | 8,115,316 | 643,532 | (49,163) | 8,709,685 |
| Total capital assets being depreciated, net | 7,972,753 | (135,832) | - | 7,836,921 |
| Total capital assets, net | $ 8,732,548 | $ 632,764 | $ (525,202) | $ 8,840,110 |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (5) Capital Assets (Continued)

Capital assets activity for the year ended June 30, 2013 was as follows (in thousands):

| | June 30, 2012 | Additions | Reductions | June 30, 2013 |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 456,727 | $ - | $ - | $ 456,727 |
| Construction in progress | 351,289 | 851,107 | (899,329) | 303,068 |
| Total capital assets not being depreciated | 808,016 | 851,107 | (899,329) | 759,795 |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 715,935 | 92,032 | - | 807,967 |
| Transit facilities | 9,333,391 | 429,935 | - | 9,763,326 |
| Revenue vehicles | 2,726,122 | 141,440 | (18,668) | 2,848,894 |
| Other equipment | 2,435,586 | 235,922 | (3,626) | 2,667,882 |
| Total capital assets being depreciated | 15,211,034 | 899,329 | (22,294) | 16,088,069 |
| Less accumulated depreciation and amortization for: | | | | |
| Buildings and improvements | 359,160 | 34,221 | - | 393,381 |
| Transit facilities | 3,951,452 | 246,597 | - | 4,198,049 |
| Revenue vehicles | 1,397,604 | 139,678 | (18,668) | 1,518,614 |
| Other equipment | 1,810,286 | 198,613 | (3,626) | 2,005,273 |
| Total accumulated depreciation and amortization of intangible costs | 7,518,502 | 619,109 | (22,294) | 8,115,317 |
| Total capital assets being depreciated, net | 7,692,531 | 280,220 | - | 7,972,752 |
| Total capital assets, net | $ 8,500,548 | $ 1,131,327 | $ (899,329) | $ 8,732,547 |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (6) Bonds Payable and Other Debt

#### (a) Bonds Payable

Pursuant to the Compact and the Bond Resolution of the Authority, the following bonds were outstanding at June 30, 2014 and 2013 (in thousands):

| | 2014 | | | 2013 |
|---|---|---|---|---|
| | Principal | Unamortized Premium | Net | Net |
| Series 2003, 4.60% dated October 23, 2003, due semi-annually through July 1, 2014 | $ 5,680 | $ - | $ 5,680 | $ 19,414 |
| Series 2009A, 4.677% dated June 9, 2009, due semi-annually through July 1, 2032 | 216,655 | 11,329 | 227,984 | 235,599 |
| Series 2009B, 4.749% dated June 9, 2009, due semi-annually through July 1, 2034 | 55,000 | (909) | 54,091 | 54,091 |
| | $ 277,335 | $ 10,420 | $ 287,755 | $ 309,104 |

The Authority is required to make semi-annual payments of principal and interest on each series of bonds. The Authority must comply with certain covenants associated with these outstanding bonds; the more significant of which are:

- The Authority must punctually pay principal and interest according to provisions in the bond document.
- Except for certain instances, the Authority cannot sell, mortgage, lease, or otherwise dispose of transit system assets without filing a certification by the General Manager and Treasurer with the Trustee and Bond Insurers that such action will not impede or restrict the operation of the transit system.
- The Authority must, at all times maintain certain insurance or self-insurance covering the assets and operations of the transit system.

Additional information on the Authority's covenant compliance can be found in note 14(a) – Long Term Debt on page 58.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (6) Bonds Payable and Other Debt (Continued)

#### (b) Bonds Debt Service Requirements

Debt service requirements for the bonds payable are as follows (in thousands):

| Fiscal Year | Principal | Interest | Total |
|---|---|---|---|
| 2015 | $ 13,240 | $ 14,934 | $ 28,174 |
| 2016 | 7,900 | 14,429 | 22,329 |
| 2017 | 8,285 | 14,035 | 22,320 |
| 2018 | 8,690 | 13,618 | 22,308 |
| 2019 | 9,125 | 13,172 | 22,297 |
| 2020-2024 | 53,090 | 58,143 | 111,233 |
| 2025-2029 | 68,535 | 42,277 | 110,812 |
| 2030-2034 | 88,215 | 21,447 | 109,662 |
| 2035 | 20,255 | 709 | 20,964 |
| | 277,335 | 192,764 | 470,099 |
| Plus unamortized premium | 10,420 | - | 10,420 |
| | $ 287,755 | $ 192,764 | $ 480,519 |

#### (c) Issuance and Refunding of Debt

The Series 2003 Gross Revenue Transit Refunding Bonds reflect a principal balance as of June 30, 2014 of $5.7 million. The Series 2003 Bonds mature on July 1, 2014.

On June 9, 2009, the Authority issued $242.7 million of the Series 2009A Gross Revenue Transit Bonds, with an average interest rate of 4.67 percent, to retire a portion of commercial paper notes payable. The Authority also issued $55.0 million of the 2009B Gross Revenue Transit Bonds, with an average net interest rate of 4.79 percent. The 2009B Funds are being used to finance capital cost components for the Authority's Metro Matters Programs. The 2009B Gross Revenue Transit Bonds were issued under the Build America Bond (BAB) Program.

The American Recovery and Reinvestment Act of 2009 created the BAB program, which authorizes state and local governments (Municipal Issuers) to issue BABs as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds. The Municipal Issuers receive a direct federal subsidy payment for a portion of their borrowing costs on BABs equal to 35 percent of the total coupon interest paid to investors.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (6) Bonds Payable and Other Debt (Continued)

#### (d) Lines of Credit

The total amounts available under the three "364-day" lines of credit were $150.0 million in fiscal year 2013. During fiscal year 2014 the Authority entered into a fourth "364-day" line of credit and the total amount available under the four lines of credit increased from $150.0 million to $302.5 million. The availability fees and accrued interest were payable either monthly or quarterly, depending on the terms of the agreements, commencing July 2010. All principal and interest are computed based on the London Interbank Offered Rate (LIBOR) plus a margin ranging from 68 basis points to 90 basis points. One line of credit is due and payable in March 2015 and the remaining three lines of credit are due in June 2015. The one-month LIBOR rate was 0.15 percent and 0.19 percent for June 30, 2014 and June 30, 2013, respectively. For year ending June 30, 2014 and 2013, there was a $170.0 million and $0 outstanding debt balance on the Lines of Credit, respectively.

Additional information on the Lines of Credit can be found in note 14(b) - Lines of Credit Covenant Noncompliance on page 58 and note 12(g) – Subsequent Events on page 55.

#### (e) Interest Expense

Interest expense on bonds for the years ended June 30, 2014 and 2013 was $14.8 million and $15.1 million, respectively.

Interest expense for the Line of Credit for the years ended June 30, 2014 and 2013 was $724,000 and $27,000, respectively.

### (7) Pension Plans

The Authority is the administrator of five defined benefit, single-employer retirement plans covering substantially all of its employees: Salaried Personnel, Transit Police, Union Local 689, Union Local 922 and Union Local 2. Each plan issues an available financial report which may be obtained by writing or calling the plan administrator.

WMATA Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Transit Employees' Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Transit Police Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Local 922 Retirement Plan
c/o WMATA, HRMP, Benefit Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Local 2 Retirement Plan
c/o WMATA, HRMP, Benefit Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (7) Pension Plans (Continued)

#### (a) Plan Descriptions

##### (i) Salaried Personnel Plan

All full-time regular management and non-union employees hired prior to January 1, 1999, and certain Transit Police Officials who are not covered by any other Washington Metropolitan Area Transit Authority (WMATA) pension plan, and Special Police Officers represented by Teamsters Union Local 639 are eligible to participate in the Salaried Personnel Plan. The plan is governed by the Authority's Board of Directors with consideration of both the applicable union agreements and Authority personnel practices. The normal retirement eligibility is age 65 with 5 years of credited service. The annual normal retirement benefit comprises of 1.6 percent of final average compensation multiplied by years of credited service (including any unused sick leave as credited service for purpose of normal retirement benefit), plus 0.9 percent of final average compensation in excess of the Social Security breakpoint multiplied by years of credited service (including any unused sick leave as credited service for purpose of normal retirement benefit amount) not in excess of 20 years. Early retirement benefits are available upon reaching age 55 with 10 years of credited service or meeting the "Rule of 83" with years of service and age. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability and terminated vested employment. The Authority contributes the total cost of the plan. After five years of service, participants are 100 percent vested.

##### (ii) Transit Police Plan

Transit Police Officers and Transit Police Officials of the Authority are eligible to participate in the Transit Police Plan. The plan is governed by the terms of the employees' collective bargaining agreement. The normal retirement age is upon completing 25 years of credited service, but no later than age 65. The normal retirement benefit is 2.56 percent of final average earnings multiplied by years of credited service. The resulting benefit, if paid following the participant's 66$^{th}$ birthday, will be reduced by 0.50 percent of final average earnings for each year of credit service. Employees are required to contribute 7.27 percent of compensation beginning October 1, 2003. The Authority is responsible for contributions required in excess of the employee contribution level. The Authority may limit the amount of contribution to 17.05 percent of gross earnings in any plan year and defer any balance. This deferral can be for no more than three consecutive plan years or for no more than four plan years out of any consecutive seven years. The benefit provisions and employee contribution obligations are established pursuant to a collective bargaining agreement between the Authority and the Fraternal Order of Police. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability and terminated vested employment disability benefits. After ten years of service, participants are 100 percent vested.

##### (iii) Union Local 689 Plan

Any regular full-time or part-time Authority employee, who is a member of Union Local 689 of the Amalgamated Transit Union (Local 689), after a 90-day probationary period is eligible to participate in the Union Local 689 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal retirement allowance upon either attainment of age 70; attainment of age 65 and the completion of 10 years of continuous service; upon completion of 27 years of continuous service regardless of age; or after the sum of years of service plus attained age is 83 or more. The normal retirement monthly pension is 1.85 percent of the highest 4-year average monthly total compensation times the number of years of continuous service up to 27 years; plus 1.95 percent of average compensation times continuous service in excess of 27 years of service. The minimum benefit is

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

**(7) Pension Plans (Continued)**

**(a) Plan Descriptions (Continued)**

**(iii) Union Local 689 Plan (Continued)**

$600 monthly. The Authority contributes the total cost of the plan. For each fiscal year, the Authority shall contribute the required contribution as determined by the plan actuary. The plan also provides early retirement, disability and pre-retirement spouse death benefits. After ten years of service, participants are 100 percent vested.

**(iv) Union Local 922 Plan**

All regular full-time and part-time employees, who are members of Union Local 922, after a 90-day probationary period, are eligible to participate in the Union Local 922 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal pension benefits after attaining age 65 and 10 years of credited service; upon completion of 27 years of credited service regardless of age; or after the sum of years of service plus attained age is 83 or more.

**(iv) Union Local 922 Plan (Continued)**

Effective for employees retiring on or after November 1, 2007, the annual retirement benefits are equal to 1.85 percent of the average compensation for each year (or fraction thereof based on completed months) of service up to 27 years at retirement, plus 1.95 percent of average compensation for each year (or fraction thereof based on completed months) of service in excess of 27 years at retirement plus 1.0 percent for years of service prior to May 1, 1973. The minimum benefit is $175 monthly. The plan provides retired participants annual cost-of-living increases, permits early retirement, and provides for benefits in the event of death, disability and terminated employment. The Authority contributes that amount required to fund the normal cost of the plan plus an additional amount necessary to amortize the unfunded actuarial accrued liability as required by the collective bargaining agreement between the Authority and Union Local 922. After ten years of service, participants are 100 percent vested.

**(v) Union Local 2 Plan**

All full-time employees covered by the Local 2 bargaining agreement hired prior to January 1, 1999 and not covered by any other WMATA pension plan are eligible to participate in the Local 2 Plan. The plan is governed by the Authority's Board of Directors with consideration of both the applicable union agreements and Authority personnel practices. The normal retirement eligibility is age 65 with 5 years of credited service. The annual normal retirement benefit comprises of 1.6 percent of final average compensation multiplied by years of credited service (including any unused sick leave as credited service for purpose of normal retirement benefit), plus 0.9 percent of final average compensation in excess of the Social Security breakpoint multiplied by years of credited service (including any unused sick leave as credited service for purpose of normal retirement benefit amount) not in excess of 20 years. Early retirement benefits are available upon reaching age 55 with 10 years of credited service or meeting the "Rule of 83" with years of service and age. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability, and terminated vested employment. The Authority contributes the total cost of the plan. After five years of service, participants are 100 percent vested.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (7) Pension Plans (Continued)

#### (b) Funding Status and Annual Pension Cost

##### (i) Salaried Personnel Plan

The Salaried Personnel Plan's funding policy, as approved by the Board of Directors, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The actuarial cost method is the individual entry age normal method of funding.

As of July 1, 2013, the plan was 73.1 percent funded. The actuarial accrued liability for benefits was $485.0 million, and the actuarial value of assets was $354.5 million, resulting in an unfunded actuarial accrued liability (UAAL) of $130.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $25.3 million, and the ratio of UAAL to covered payroll was 515.5 percent.

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

##### (ii) Transit Police Plan

The Transit Police Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the current year's normal cost. The percentage of payroll that the Authority contributes is actuarially determined using the aggregate cost funding method. The entry age actuarial cost method is used as a surrogate for calculating information related to the plan's funding progress.

As of January 1, 2014, the plan was 74.1 percent funded. The actuarial accrued liability for benefits was $222.4 million, and the actuarial value of assets was $164.8 million, resulting in a UAAL of $57.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $34.1 million, and the ratio of UAAL to covered payroll was 169.0 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

##### (iii) Union Local 689 Plan

The Union Local 689 Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the current year's normal cost. The actuarial funding method used to compute the contribution requirements is the entry age normal method. The entry age actuarial cost method is used in calculating information related to the plan's funding progress.

As of January 1, 2014, the plan was 72.3 percent funded. The actuarial accrued liability for benefits was $3,176.9 million, and the actuarial value of assets was $2,295.6 million, resulting in a UAAL of $881.3 million. The covered payroll (annual payroll of active employees covered by the plan) was $736.9 million, and the ratio of UAAL to covered payroll was 119.6 percent.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

**(7) Pension Plans (Continued)**

**(b) Funding Status and Annual Pension Cost (Continued)**

**(iii) Union Local 689 Plan (Continued)**

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**(iv) Union Local 922 Plan**

The Union Local 922 Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic contributions, expressed both in dollar amounts and as a percentage of covered payroll, sufficient to cover normal costs and amortize any unfunded actuarial accrued liability over the 30-year period that began on the valuation date. The actuarial method used to compute contribution requirements is the projected unit credit method.

As of January 1, 2014, the plan was 92.4 percent funded. The actuarial accrued liability for benefits was $175.1 million, and the actuarial value of assets was $161.9 million, resulting in an UAAL of $13.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $32.3 million, and the ratio of UAAL to covered payroll was 41.0 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**(v) Union Local 2 Plan**

The Union Local 2 Plan's funding policy, as approved by the Board of Directors, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The actuarial cost method is the individual entry age method of funding.

As of July 1, 2013 the plan was 82.1 percent funded. The actuarial accrued liability for benefits was $152.2 million, and the actuarial value of assets was $125.0 million, resulting in an UAAL of $27.2 million. The covered payroll (annual payroll of active employees covered by the plan) was $10.6 million, and the ratio of UAAL to covered payroll was 256.7 percent.

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (7) Pension Plans (Continued)

#### (b) Funding Status and Annual Pension Cost (Continued)

**(vi)** The Authority's annual pension cost (APC) and related assumptions for the current year are as follows, based upon the most recent actuarial valuation (dollars in thousands):

| | Salaried Personnel Plan | Transit Police Plan | Union Local 689 Plan | Union Local 922 Plan | Union Local 2 Plan |
|---|---|---|---|---|---|
| Contribution rates:* | | | | | |
| Authority | 81.3% | 24.8% | 15.1% | 20.1% | 45.0% |
| Employees (Plan Members) | 0.0% | 7.3% | 0.0% | 0.0% | 0.0% |
| Annual pension cost | $ 20,651 | $ 8,450 | $ 99,596 | $ 6,523 | $ 4,769 |
| Contributions made: | | | | | |
| Authority | $ 20,585 | $ 8,450 | $ 111,494 | $ 6,513 | $ 4,758 |
| Actuarial valuation date | 7/1/2013 | 1/1/2014 | 1/1/2014 | 1/1/2014 | 7/1/2013 |
| Actuarial cost method | Individual entry age | Aggregate cost | Entry age normal | Projected unit credit | Individual entry age |
| Amortization method | Level dollar | N/A | N/A | Level dollar | Level dollar |
| Amortization period | 15 years | N/A | N/A | 30 years | 15 years |
| Remaining amortization period | Open | N/A | N/A | Open | Open |
| Asset valuation method | Smoothed market value | Smoothed market value | 5-yr assumed yield | Actuarial value of assets | Smoothed market value |
| Actuarial assumptions: | | | | | |
| Investment rate of return | 8.0% | 8.0% | 7.9% | 7.0% | 8.0% |
| Projected salary increases | 3.5-8.0% | 4.75-9.0% | 3.5% | 4.5% | 3.5-8.0% |
| Post-retirement benefit | up to 1.0% | up to 6.0% | 3.0% | 3.0% | up to 1.0% |
| Inflation rate | 2.5% | 2.5% | 3.0% | 3.0% | 2.5% |

*As a percentage of covered payroll

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (7) Pension Plans (Continued)

#### (b) Funding Status and Annual Pension Cost (Continued)

The significant components of the APC and changes in the net pension asset are as follows, based upon the most recent actuarial valuation (in thousands):

| | Salaried Personnel Plan | Transit Police Plan | (As Restated) Union Local 689 Plan | Union Local 922 Plan | Union Local 2 Plan | (As Restated) Total |
|---|---|---|---|---|---|---|
| | 7/1/2013 | 1/1/2014 | 1/1/2014 | 1/1/2014 | 7/1/2013 | |
| Annual required contribution | $ 20,585 | $ 8,450 | $ 102,444 | $ 6,512 | $ 4,758 | $ 142,749 |
| Interest on net pension assets | (143) | - | (13,220) | (135) | (24) | (13,522) |
| Adjustment to annual required contribution | 209 | - | 10,372 | 146 | 35 | 10,762 |
| Annual pension cost (income) | 20,651 | 8,450 | 99,596 | 6,523 | 4,769 | 139,989 |
| Adjustments to beginning balance | - | 307 | - | - | - | 307 |
| Contributions made | (20,585) | (8,450) | (111,494) | (6,513) | (4,758) | (151,800) |
| Increase (Decrease) in net pension asset | 66 | 307 | (11,898) | 10 | 11 | (11,504) |
| Net pension asset, beginning of year | (1,790) | (307) | (168,407) | (1,934) | (296) | (172,734) |
| Net pension assets, end of year | $ (1,724) | $ - | $ (180,305) | $ (1,924) | $ (285) | $ (184,238) |
| | 7/1/2012 | 1/1/2013 | 1/1/2013 | 1/1/2013 | 7/1/2012 | Total |
| Annual required contribution | $ 19,998 | $ 7,885 | $ 81,062 | $ 5,698 | $ 4,822 | $ 119,465 |
| Interest on net pension assets | (148) | - | (11,978) | (136) | (25) | (12,287) |
| Adjustment to annual required contribution | 217 | - | 9,398 | 146 | 36 | 9,797 |
| Annual pension cost (income) | 20,067 | 7,885 | 78,482 | 5,708 | 4,833 | 116,975 |
| Contributions made | (19,998) | (7,885) | (94,299) | (5,698) | (4,822) | (132,702) |
| Increase (Decrease) in net pension asset | 69 | - | (15,817) | 10 | 11 | (15,727) |
| Net pension asset, beginning of year | (1,859) | (307) | (152,590) | (1,944) | (307) | (157,007) |
| Net pension assets, end of year | $ (1,790) | $ (307) | $ (168,407) | $ (1,934) | $ (296) | $ (172,734) |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (7) Pension Plans (Continued)

#### (c) Trend Information

A summary of trend information for each plan follows, based upon the most recent actuarial valuation (dollars in thousands):

| | Fiscal Year Ended | Annual Pension Cost (Income) | Percentage of APC Contribution | Net Pension Asset |
|---|---|---|---|---|
| Salaried Personnel Plan | 6/30/14 | $ 20,651 | 99.7% | $ (1,724) |
| | 6/30/13 | $ 20,067 | 99.7% | $ (1,790) |
| | 6/30/12 | $ 18,416 | 84.0% | $ (1,859) |
| Transit Police Plan | 6/30/14 | $ 8,450 | 100.0% | $ 0 |
| | 6/30/13 | $ 7,885 | 100.0% | $ (307) |
| | 6/30/12 | $ 7,719 | 100.0% | $ (307) |
| Union Local 689 | 6/30/14 | $ 99,596 | 111.9% | $ (180,305) |
| (As Restated) | 6/30/13 | $ 78,482 | 120.2% | $ (168,407) |
| (As Restated) | 6/30/12 | $ 61,788 | 94.7% | $ (152,590) |
| Union Local 922 | 6/30/14 | $ 6,523 | 99.8% | $ (1,924) |
| | 6/30/13 | $ 5,708 | 99.8% | $ (1,934) |
| | 6/30/12 | $ 5,938 | 99.8% | $ (1,945) |
| Union Local 2 | 6/30/14 | $ 4,769 | 99.8% | $ (285) |
| | 6/30/13 | $ 4,833 | 99.8% | $ (296) |
| | 6/30/12 | $ 4,966 | 82.4% | $ (307) |

Schedules related to the funded status of the pension plans included in this note are located in the Required Supplementary Information located on page 59 of these financial statements.

#### (d) Defined Contribution Retirement Plan

The Authority offers a defined contribution retirement plan, Washington Metropolitan Area Transit Authority Defined Contribution Retirement Plan and Trust, for salaried employees under the terms of the Internal Revenue Code 401(a). The 401(a) plan, adopted on December 10, 1998 for employees hired on or after January 1, 1999, provides for the Authority to contribute an amount equivalent to 4 percent of the employee's base salary into a trust. The employee is not required to make contributions into the 401(a) plan; however, if the employee contributes up to 3 percent of base salary to the 457 Deferred Compensation plan, the Authority will contribute an additional amount of up to 3 percent to the 401(a) plan to equal the employee's contribution to the 457 plan. Employees are 100 percent vested after three years of service. A year of vesting is 1,000 hours of service in a calendar year. There is no interim vesting. Accrued 401(a) benefits will be paid to the employee (or rolled over) upon leaving Authority employment any time after full vesting. The provisions of the plan can be amended by the Board of Directors. This right to amend the plan is subject to the condition that all of the plan assets be used exclusively for the benefit of the participants, retired participants and their beneficiaries under the plan.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (7) Pension Plans (Continued)

#### (d) Defined Contribution Retirement Plan (Continued)

The Authority contributed $8.8 million and $6.0 million for the years ended June 30, 2014 and 2013, respectively.

#### (e) Deferred Compensation

The Authority offers a deferred compensation plan for all active employees under the terms of the Internal Revenue Section 457(g). Under the 457 plan, employees are permitted to defer up to 100 percent of salary, on a pre-tax basis, not to exceed limits prescribed in the Internal Revenue Code. Deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Authority does not match employees' contributions to the 457 plan.

### (8) Other Postemployment Benefits (OPEB)

#### Plan Descriptions

The Authority contributes to four single-employer defined benefit healthcare plans: Union Local 689, Union Local 2, Transit Police and Non-represented. Transit Police and Non-represented provide healthcare, prescription drug and life insurance benefits to retirees and their dependents. Union Local 2 and Union Local 689 provides healthcare, prescription drug and life insurance benefits to employees hired before January 1, 2010.

The Union Local 689, Union Local 2, and Transit Police plans are governed by the terms of their respective collective bargaining agreements. The Non-represented plan is governed by the Authority's Board of Directors.

#### Funding policy and Annual OPEB Cost

For the Union Local 689, Union Local 2, and Transit Police plans, contribution requirements of the plan members and the Authority are established and may be amended through negotiation between the Authority and the unions. For the Non-represented plan, the Board of Directors established and may amend the contribution requirements for the plan members and the Authority.

The Authority's OPEB cost for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (8) Other Postemployment Benefits (OPEB) (Continued)

**Funding policy and Annual OPEB Cost (Continued)**

The Authority's annual OPEB cost for the years ended June 30, 2014, and the related information are as follows (dollar amounts in thousands):

| | Union Local 689 | Union Local 2 | Transit Police | Non-Represented | Total |
|---|---|---|---|---|---|
| Contributions rates: | | | | | |
| Authority | Pay-as-you-go | Pay-as-you-go | Pay-as-you-go | Pay-as-you-go | - |
| Employees ( plan members) | N/A | N/A | N/A | N/A | - |
| Annual required contribution | $ 51,005 | $ 10,076 | $ 6,422 | $ 32,345 | $ 99,848 |
| Interest on net OPEB obligation | 12,131 | 2,040 | 1,239 | 4,436 | 19,846 |
| Adjustment to annual required contribution | (11,589) | (1,949) | (1,184) | (4,237) | (18,959) |
| Annual OPEB cost | 51,547 | 10,167 | 6,477 | 32,544 | 100,735 |
| Contribution made | (23,224) | (3,089) | (1,841) | (9,910) | (38,064) |
| Increase in net OPEB obligation | 28,323 | 7,078 | 4,636 | 22,634 | 62,671 |
| Net OPEB obligation - July 1, 2013 | 303,268 | 50,999 | 30,983 | 110,904 | 496,154 |
| Net OPEB obligation - June 30, 2014 | $ 331,591 | $ 58,077 | $ 35,619 | $ 133,538 | $ 558,825 |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (8) Other Postemployment Benefits (OPEB) (Continued)

**Funding policy and Annual OPEB Cost (Continued)**

The Authority's annual OPEB cost for the year ended June 30, 2013, and the related information are as follows (dollar amounts in thousands):

| | Union Local 689 | Union Local 2 | Transit Police | Non-Represented | Total |
|---|---|---|---|---|---|
| Contributions rates: | | | | | |
| Authority | Pay-as-you-go | Pay-as-you-go | Pay-as-you-go | Pay-as-you-go | - |
| Employees ( plan members) | N/A | N/A | N/A | N/A | - |
| Annual required contribution | $ 85,946 | $ 13,891 | $ 8,260 | $ 34,779 | $ 142,876 |
| Interest on net OPEB obligation | 9,953 | 1,638 | 988 | 3,505 | 16,084 |
| Adjustment to annual required contribution | (9,508) | (1,565) | (944) | (3,349) | (15,366) |
| Annual OPEB cost | 86,391 | 13,964 | 8,304 | 34,935 | 143,594 |
| Contribution made | (31,942) | (3,922) | (2,021) | (11,666) | (49,551) |
| Increase in net OPEB obligation | 54,449 | 10,042 | 6,283 | 23,269 | 94,043 |
| Net OPEB obligation - July 1, 2012 | 248,819 | 40,957 | 24,700 | 87,635 | 402,111 |
| Net OPEB obligation - June 30, 2013 | $ 303,268 | $ 50,999 | $ 30,983 | $ 110,904 | $ 496,154 |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (8) Other Postemployment Benefits (OPEB) (Continued)

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plans, and the net OPEB obligations for fiscal years 2014, 2013 and 2012 for each of the plans were as follows (dollar amounts in thousands):

| | Fiscal Year Ended | Annual OPEB Cost | Percentage of OPEB Cost Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| Union Local 689 | 6/30/2014 | $ 51,547 | 45.1% | $ 331,591 |
| | 6/30/2013 | $ 86,391 | 37.0% | $ 303,268 |
| | 6/30/2012 | $ 82,535 | 35.0% | $ 248,819 |
| Union Local 2 | 6/30/2014 | $ 10,167 | 30.4% | $ 58,077 |
| | 6/30/2013 | $ 13,964 | 28.1% | $ 50,999 |
| | 6/30/2012 | $ 13,583 | 24.8% | $ 40,957 |
| Transit Police | 6/30/2014 | $ 6,477 | 28.4% | $ 35,619 |
| | 6/30/2013 | $ 8,304 | 24.3% | $ 30,983 |
| | 6/30/2012 | $ 7,878 | 23.2% | $ 24,700 |
| Non-Represented | 6/30/2014 | $ 32,544 | 30.5% | $ 133,538 |
| | 6/30/2013 | $ 34,935 | 33.4% | $ 110,904 |
| | 6/30/2012 | $ 33,345 | 31.6% | $ 87,635 |

**Funded Status and Funding Progress**. The funded status of the plans, as of June 30, 2014, was as follows (dollar amounts in thousands):

| | Union Local 689 | Union Local 2 | Transit Police | Non-Represented | Total |
|---|---|---|---|---|---|
| Actuarial accrued liability (a) | $ 826,384 | $ 147,825 | $ 90,872 | $ 427,444 | $ 1,492,525 |
| Actuarial value of plan assets (b) | - | - | - | - | - |
| Unfunded actuarial accrued liability (funding excess) (a) - (b) | $ 826,384 | $ 147,825 | $ 90,872 | $ 427,444 | $ 1,492,525 |
| Funded ratio (b)/(a) | 0.0% | 0.0% | 0.0% | 0.0% | 0.0% |
| Covered payroll (c) | N/A | N/A | N/A | N/A | $ 734,000 |
| Unfunded actuarial accrued liability ( funding excess) as a percentage of covered payroll {(a)-(b)}/ (c) | N/A | N/A | N/A | N/A | 203.3% |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (8) Other Postemployment Benefits (OPEB) (Continued)

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status of the plan and annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the financial accrued liabilities for benefits.

**Actuarial Methods and Assumptions**

Projections of benefits are based on the substantive plan (the plan as understood by employer and plan members) and include the types of benefits in force at the valuation date and pattern of sharing benefits costs between the Authority and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The Authority's significant methods and assumptions were as follows:

| | Union Local 689 | Union Local 2 | Transit Police | Non-Represented |
|---|---|---|---|---|
| Actuarial valuation date | 7/1/2013 | 7/1/2013 | 7/1/2013 | 7/1/2013 |
| Actuarial cost method | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit | Projected Unit Credit |
| Amortization method | Level percentage of pay, open | Level percentage of pay, open | Level percentage of pay, open | Level percentage of pay, open |
| Remaining amortization period | Open-30 years | Open-30 years | Open-30 years | Open-30 years |
| Asset valuation method | N/A | N/A | N/A | N/A |
| Actuarial assumptions: | | | | |
| Discount Rate | 4.0% | 4.0% | 4.0% | 4.0% |
| Projected salary increases | 4.5% | 4.5% | 4.5% | 4.5% |
| Inflation rate | 2.5% | 2.5% | 2.5% | 2.5% |
| Healthcare cost trend rate: | | | | |
| Pre-65 Years Old | 7.9% | 7.9% | 7.9% | 7.9% |
| 65 Years and older | | 7.2% | 7.2% | 7.2% |
| - Local 689 Current Retires | 7.0% | | | |
| - Local 689 Future Retires | 7.1% | | | |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (8) Other Postemployment Benefits (OPEB) (Continued)

**Defined Contribution Plan**

The Authority contributes to one cost-sharing multiple-employer defined contribution healthcare plan: Union Local 922. This plan provides healthcare, prescription drug and life insurance benefits to retirees and their dependents.

Effective November 1, 2007, the Authority contributed to the 922 Employees Health Trust on behalf of each employee on its payroll covered by the Union Local 922 agreement and each retiree under age 65, a monthly contribution of $800. The Health Trust determines the extent of any employee and retiree contributions necessary to fund the remaining cost of the benefits. The Authority's contributions were $3.6 million and $4.0 million for the years ended June 30, 2014 and 2013, respectively.

Schedules related to the funded status of the OPEB plans included in this note are located in the Required Supplementary Information located on page 60 of these financial statements.

### (9) Commitments and Contingencies

#### (a) Litigation and Claims

The Authority is exposed to liability for third party bodily injury and property damage; injury to its employees arising out of and in the course of their employment; physical damage to and loss of its property; and liability for financial loss as a result of decisions and judgments made by the Authority. The Authority self-insures for:

(1) Third party bodily injury and property damage (BI/PD) liability claims up to $5.0 million per occurrence, except for Metro Access auto liability claims where the self-insured retention is $2.0 million per occurrence.
(2) Workers compensation claims up to $2.5 million per occurrence,
(3) Employment practices liability claims up to $1.0 million per occurrence,
(4) First party property or business interruption loss up to $10.0 million for loss or damage to railcars caused by the perils of collision and derailment, and $5.0 million for loss or damage to named stations and tunnels; up to $1.0 million for all other loss or damage; and up to 5 percent of TIV (total insurable value) for the perils of flood and earthquake,
(5) Directors and Officers, Employment Practices Liability, Fiduciary Liability, Crime (including Employee Dishonesty), Pollution Liability, and Privacy/Network Security Liability claims up to $1.0 million per occurrence, and
(6) Medical Facilities Liability claims up to $0.3 million per occurrence.

**Key Insurance Program Changes**

In fiscal year 2012, the Authority purchased Excess Liability insurance with an annual aggregate limit of $145.0 million excess of an $8.0 million per occurrence SIR (Self-Insured Retention) for MetroBus and MetroAccess liability and a $5.0 million per occurrence SIR for all other liability.

In fiscal year 2013, the Excess Liability insurance program again had an aggregate limit of $145.0 million, but was restructured to establish a uniform SIR of $5.0 million per occurrence; legal expenses are not included in this amount. Further, additional premiums are due if paid claims exceed thresholds as defined in the policy. The Excess Liability insurance program was renewed for fiscal year 2014 at

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

**(9) Commitments and Contingencies (Continued)**

**(a) Litigation and Claims (Continued)**

the same level as in fiscal year 2013 with the exception of adding coverage for MetroAccess auto liability claims with a SIR of $2.0 million per occurrence.

**Open Liability Claims $1.0 million and Greater**

Third Party Claims

Red Line Collision, June 22, 2009: Commercial insurance paid for most of the loss. Of the total incurred amount of $45.1 million, $14.5 million is the net cost to the Authority. All claims have been closed except for one, which the Authority expects to close in early fiscal year 2015.

As of June 30, 2014, there were three (3) other liability claims with open reserves greater than $1.0 million falling within the $5.0 million SIR as follows:

Claim 1: $2.0 million
Claim 2: $2.5 million
Claim 3: $2.5 million

Workers' Compensation

As of June 30, 2014, there were five (5) workers' compensation claims with open reserves greater than $1.0 million with an aggregate total of $6.5 million Workers' compensation claims have a longer tail than liability claims, with the expected payout period of these five claims ranging over the next several decades. None of these claims is expected to exceed the $2.5 million per occurrence SIR.

Directors & Officers/Employment Practices Liability (D&O/EPL)

As of June 30, 2014, the Authority continues to work with outside counsel to address allegations brought by the Department of Justice regarding compliance with procurement processes and procedures. It is anticipated that a settlement (or settlements) will be reached with the Department of Justice (DOJ), State of Virginia (VA), State of Maryland (MD), and the District of Columbia (DC) in fiscal year 2015. The order of magnitude of the total of all settlements with DOJ, VA, MD, and DC is estimated to be $7.0 million exclusive of defense costs for outside counsel. The Authority will seek recovery as may be available for these costs under our D&O/EPL policy subject to the $1.0 million SIR.

Loss occurrences are reported to the commercial insurers when it is determined that the loss is covered by insurance and when the loss results in severe bodily injury (e.g. death, dismemberment, brain damage, paralysis, etc.) or when the loss is valued at 50 percent or more of the SIR. When a third party liability or workers compensation claim is either made against the Authority or when there is sufficient reason to believe that the Authority may be liable for the loss, a dollar amount is reserved for that claim (i.e. a case reserve is established). Case values are adjusted as the claims develop. Total case reserves are evaluated by an independent actuary who develops the total liability to be included in the basic financial statements.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (9) Commitments and Contingencies (Continued)

#### (a) Litigation and Claims (Continued)

Changes in the actuarially developed liability for years ended June 30, 2014 and 2013 are as follows (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Estimated net present value of the liability for injury and damage claims, beginning of year | $ 137,230 | $ 140,353 |
| Incurred new claims | 34,082 | 33,839 |
| Changes in estimate for claims of prior periods | (9,005) | (8,580) |
| Payments on claims | (30,199) | (28,382) |
| Estimated net present value of the liability for injury and damage claims, end of year | $ 132,108 | $ 137,230 |
| Due within one year | $ 32,937 | $ 39,857 |

The Authority is a party to a number of claims arising from the construction of the transit system. These matters principally relate to contractor claims for additional compensation in excess of the original contract price. In the opinion of management, including its General Counsel, the ultimate resolution of these matters will not have a material effect on the Authority's financial position and results of operations.

#### (b) Leasing Commitment

The Authority has entered into various operating leases for office space within the District of Columbia, Maryland and Virginia. The terms of the various leases have a time span ranging from four to twenty years, with various option years and escalating increases over the lease periods.

Additionally, the Authority leases space within the District of Columbia, Maryland and Virginia for various communications and testing equipment used throughout the Metro system.

Lease payments for years ended June 30, 2014 and 2013 were $4.0 million and $1.3 million.

The Authority’s minimum future lease payments as of June 30, 2014 are as follows (in thousands):

| Fiscal Year | Total |
|---|---|
| 2015 | $ 4,698 |
| 2016 | 3,317 |
| 2017 | 2,847 |
| 2018 | 2,093 |
| 2019 | 2,141 |
| 2020-2024 | 3,767 |
| | $ 18,863 |

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (9) Commitments and Contingencies (Continued)

#### (c) Master Commodity Swap Agreements

Objective: The Authority enters into master commodity swap agreements or contracts as a hedge against the price volatility of diesel fuel. In fiscal year 2014, the Authority maintained one diesel fuel swap agreement. The swap agreement expired on June 30, 2014. The agreement allowed the Authority to plan and manage its diesel fuel, reduce risk, and improve budget stability.

Payment between the swap parties is the difference between the swap price per gallon and the unweighted arithmetic mean of each of the closing settlement prices. The fuel swap is based on the closing settlement prices quoted by the NYMEX, on each NYMEX trading day, during the settlement period for the No. 2 heating oil futures.

Fair Value: In fiscal year 2014, the Authority entered into a diesel swap agreement to manage its diesel fuel price risk for fiscal year 2015. As of June 30, 2014, the swap agreement had a fair value of $828,000 as shown in Table 1. The fair value is estimated by a mathematical approximation of the market, derived from proprietary models as of a given date, and based on certain assumptions regarding past, present and future market conditions, as well as certain financial information.

Table 1: Diesel fuel swap

| Per Calculation Effective Date | Period Maturity Date | Gallons | Total Quantity (gallons) | Fair Market Value as 6/30/14 |
|---|---|---|---|---|
| 07/01/2014 | 06/30/2015 | 625,000 | 7,500,000 | $ 827,758 |
| | | | | $ 827,758 |

Credit Value: The Authority is exposed to credit risk in the amount of the fair market value. To mitigate the credit risk, the Authority entered into swap agreements with counterparties with long-term investment grade ratings by Standard and Poor's, Moody's, and Fitch.

Termination Risk: The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Also, if at the time of the termination the swap has negative fair market value, the Authority would be liable to the counterparty for a payment equal to the fair market value.

#### (d) Labor Contracts

Eighty three percent of the Authority's labor force is covered by five labor contracts. As of June 30, 2014, two of these contracts which represent 4.3 percent of the labor force are expired and currently either in arbitration or negotiation. At June 30, 2014, the accrued salaries and benefits liability includes an estimated amount related to the settlement of these contracts. Additional information on the Authority's labor contracts can be found in note 12(b) – Subsequent Events.

#### (e) Other

Construction and capital improvement costs are funded by federal grants, jurisdictional matching funds, and third party agreements. As of June 30, 2014, the Authority was committed to expend $226.8 million (unaudited) on future construction, capital improvement and other miscellaneous projects. The federal funding is subject to audit by the U.S. Government; in the opinion of management, disallowed costs, if any, will not have a material effect on the financial position of the Authority.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (10) Leasing Transactions

#### (a) Leasing Historical Information

During fiscal year 1999, the Authority entered into 13 transactions to lease 680 rail cars to 13 equity investors (the "headlease") and simultaneously subleased the rail cars back (the "sublease"). Trusts were created coincident to these transactions to serve as the lessee/sublessor. Under the headlease agreements, the Authority retains the right to use the rail cars and is also responsible for their continued maintenance and insurance.

During fiscal year 2003, the Authority entered into two additional transactions to lease 78 rail cars. These transactions resulted in a net payment to the Authority in fiscal year 2003 of $8.7 million, which will be amortized over the life of the lease.

In August 2003, the Authority entered into a lease transaction for 48 rail cars. This transaction resulted in a net payment to the Authority of approximately $10.0 million, which was recorded as deferred lease revenue and will be amortized over the life of the lease.

The Authority's sublease arrangements have been recorded similar to a capital lease arrangement in that the present value of the future lease payments have been recognized on the Statement of Net Position as obligations under lease agreements.

At closing, the rail cars for the fiscal year 1999 leases had a fair value of $1.2 billion and a net book value of $226.3 million. The rail cars for the fiscal year 2003 leases had a fair value of $194.1 million and a net book value of $66.8 million. The rail cars for the fiscal year 2004 lease had a fair value of $130.8 million and a net book value of $78.8 million

As part of the headlease agreements, the Authority received prepayments equivalent to the net present value of the headlease obligations. The Authority transferred a portion of these proceeds to third party lenders/undertakers, originally rated as AAA/Aaa, in accordance with the terms of contractual obligations known as debt and equity payment undertaking agreements. These agreements constitute commitments by the debt and equity payment undertakers to pay the Authority's sublease and buy-out options under the terms of the subleases. The debt and equity payment undertakers' performance under the agreement is guaranteed by their parent company. As the debt and equity payment undertaking agreements have been structured to meet all future obligations under the sublease, the Authority has recorded the amounts held by the payment undertakers as a prefunded lease commitment on the Statement of Net Position.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (10) Leasing Transactions (Continued)

#### (a) Leasing Historical Information (Continued)

The obligation under lease agreements and the prefunded lease commitment are adjusted annually to reflect the change in the net present value of the related sublease and buy-out options.

The excess of the prepayments received over the prepayment paid to the lease payment undertakers was recorded as deferred lease revenue and will be recognized by the Authority over the life of the lease.

The following table sets forth the aggregate amounts due under the sublease agreements (in thousands):

| | |
|---|---|
| Future minimum payments due: | |
| 2015 | $ 31,718 |
| 2016 | 21,883 |
| 2017 | 21,991 |
| 2018 | 91,287 |
| 2019 | 19,438 |
| 2020-2024 | 74,043 |
| 2025-2029 | 56,657 |
| 2030-2033 | 45,660 |
| Total future minimum payments | 362,677 |
| Less imputed interest | 65,704 |
| Present value of minimum lease payments | $ 296,973 |

#### (b) Leasing Disclosure

The lease agreements, described above, allow the equity investors to replace the companies specified in the agreements as equity payment undertakers (EPU) in the event that the EPU's financial ratings are downgraded below a specified level. In the event a suitable replacement or other mutually acceptable solution cannot be reached, accelerated payment of the liability could be requested. Due to events in the financial markets, certain specified downgrades had occurred for all 16 lease agreements. To date, the Authority has terminated twelve lease agreements, two in fiscal year 2014, one in fiscal year 2012, one in fiscal 2011, three in fiscal year 2010 and five in fiscal year 2009. Termination payments on eleven of the twelve leases were paid from the defeasance accounts with no or very minimal additional liability to the Authority. After reaching a settlement with the one equity investor, which had demanded accelerated payment of the full liability, the lease agreement was terminated. As part of the settlement, all parties agreed not to discuss the terms of the settlement.

To date, one of the equity investors has not exercised their rights and has not notified the Authority to request a change in the defeasance provider. Two equity investors waived the Authority's obligation to replace the defeasance provider. The remaining one equity investor has granted an extension, with an approved

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (10) Leasing Transactions (Continued)

#### (b) Leasing Disclosure (Continued)

extension date to June 30, 2015. The remaining period of these agreements ranges from approximately four to seventeen years.

In summary, as a result of the events described above, it is currently unknown what the cost of the resolutions to any future equity investor's requests will be to the Authority, and as such, no liability has been recognized.

Additional information on the Authority's capital railcar lease transactions can be found in note 12(e) Subsequent Events on page 54.

### (11) Changes in Long-Term Liabilities

Long-term liabilities activity for the years ended June 30, 2014 and 2013 was as follows (in thousands):

| | Injury & Damage Claims | Retainage on Contracts | Lines of Credit | Bonds Payable | Obligations Under Lease Agreements |
|---|---|---|---|---|---|
| Beginning balance, July 1, 2012 | $ 140,353 | $ 24,145 | $ - | $ 337,847 | $ 448,584 |
| Additions | 53,577 | 14,074 | 50,000 | 297 * | |
| Reductions | (56,700) | (14,359) | (50,000) | (29,040) ** | (20,629) |
| Ending balance, June 30, 2013 | $ 137,230 | $ 23,860 | $ - | $ 309,104 | $ 427,955 |
| Due within one year | $ 39,857 | $ 803 | $ - | $ 20,335 | $ 44,357 |
| Noncurrent portion | $ 97,373 | $ 23,057 | $ - | $ 288,769 | $ 383,598 |
| Beginning balance, July 1, 2013 | $ 137,230 | $ 23,860 | $ - | $ 309,104 | $ 427,955 |
| Additions | 34,082 | 15,313 | 215,000 | 401 * | |
| Reductions | (39,205) | (15,008) | (45,000) | (21,750) ** | (130,982) |
| Ending balance, June 30, 2014 | $ 132,107 | $ 24,165 | $ 170,000 | $ 287,755 | $ 296,973 |
| Due within one year | $ 32,937 | $ 11,067 | $ 170,000 | $ 13,240 | $ 31,718 |
| Noncurrent portion | $ 99,170 | $ 13,098 | $ - | $ 274,515 | $ 265,255 |

*This amount includes amortization of bond defeasance of $0.2 million and $0.3 million for the years ended June 30, 2014 and 2013, respectively.

**This amount includes bond debt principal payments of $20.3 million and $27.4 million and accretion of bond premiums of $1.2 million and $1.7 million for the years ended June 30, 2014 and 2013, respectively.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (12) Subsequent Events

#### (a) Silver Line Operations

On July 26, 2014, the Authority opened the first phase of Silver Line rail operations. The Silver Line rail extension represents the largest expansion of Metrorail and the first time a new color line has been added to the Metro map since the Green Line opened in 1991.

The Authority's Board of Directors had previously amended the Authority's Adopted Regional System (ARS) to incorporate a 23.1 mile Dulles Metrorail Extension into the ARS. The construction of this extension has been undertaken in two phases under the direction of the Metropolitan Washington Airports Authority (MWAA). MWAA has transferred the constructed assets of the first phase to the Authority. The asset value of the first phase is approximately $3.0 billion.

#### (b) Collective Bargaining Settlement

As disclosed in note 9(d) – Commitments and Contingencies: Labor Contracts, at June 30, 2014 the Authority had two labor contracts that were expired and currently either in arbitration or negotiation.

On September 24, 2014, the Authority's Board of Directors approved a seven-year collective bargaining agreement with the Fraternal Order of Police/Metro Transit Police Labor Committee covering the period of October 1, 2010 through September 30, 2017. This agreement included wage increases. The fiscal year 2014 impact of these changes to the agreement is reflected in the basic financial statements.

#### (c) Issuance of Grant Anticipation Note

A privately-placed one-year Grant Anticipation Note (GAN) was issued in October 2014 in the amount of $200 million at an interest rate of 0.75 percent and was fully drawn to support the short term cash flow needs of the capital program. Levels of unrestricted cash for the Authority's capital program were impacted by timing delays of federal grant reimbursements due to restrictions imposed by the Federal Transit Administration resulting from findings identified in a June, 2014 Financial Management Oversight Review report. In March 2015, the interest rate increased from 0.75 percent to 0.80 percent as a result of Moody's Ratings Service downgrading the Authority's credit rating. The Authority has executed several optional repayments totaling $150.1 million as of August 3, 2015 on the outstanding GAN balance.

#### (d) January 12, 2015 Yellow Line Incident

On January 12, 2015, there was an incident in which a Metrorail train carrying passengers filled with smoke. Several passengers were injured and one passenger died. The matter is under investigation by the National Transportation Safety Board. As a result of the incident, the Authority is the defendant in five separate lawsuits and has received 199 claims. The Authority carries insurance to cover risk of this sort. The Authority and its insurance carriers are investigating the matter and will either vigorously defend or will settle each suit based on the facts discovered and what is in the best interests of the Authority.

#### (e) Tax Advantage Rail Car Lease

As disclosed in note 10(b) – Leasing Transactions: Leasing Disclosure, at June 30, 2014 the Authority had four active railcar lease agreements.

In December 2014, the Authority terminated one lease agreement by exercising its Early Purchase Option for the WMATA 1998-COM-B4 Trust LILO transaction using funds in the existing defeasance agreement. The termination value of the terminated lease agreement was $7.8 million in December 2014.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (12) Subsequent Events (Continued)

#### (f) Bond Rating

On March 27, 2015, Moody's Rating Service announced a one-step downgrade to the credit rating of Washington Metropolitan Area Transit Authority's $264 million of long-term debt from Aa3 to A1 and changed the outlook from stable to negative. The ratings downgrade was due to the Authority's ramp-up of short-term debt as a tool to support capital projects spending and bridge the restrictions placed upon its federal funds drawdown process. The A1 rating is still within the investment grade quality range.

Moody's outlook revision from stable to negative was based on the Authority's reduced liquidity position, the liquidity risk posed by the June, 2015 Letters of Credit (LOC) renewal dates, and the Authority's intent to use financing to reduce the LOC balances and provide funding for its capital needs.

#### (g) Line of Credit

On June 1, 2015, the Authority paid down $83.8 million, or 28 percent of its $302.5 million short-term lines of credit (LOC).

### (13) Restatement of Beginning Net Position

**GASB 65 Implementation**

The Authority applied GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*, in its fiscal year 2014 financial statements. Under the new guidance, debt issuance costs are no longer presented as an asset to be amortized over the life of the debt, but are to be expensed in the year in which incurred. As a result of applying GASB Statement Number 65, fiscal year 2013 depreciation and amortization expense increased by $2.8 million.

**Capital Contributions from Federal and Jurisdictions – Grant Receivable**

The Authority's financial statements include a $231.1 million cumulative adjustment for amounts associated with the federal share of capital contributions in fiscal year 2013. Historically the Authority recognized capital grant revenues upon grant award, resulting in accelerated revenue recognition. In fiscal year 2014, to better comply with accrual based accounting and GASB guidelines, the Authority recognized revenues for capital contributions and other similar non-exchange transactions only when all eligibility requirements of awarded grants have been met.

**Liability for Railcar**

The Authority's financial statements included a $19.2 million overstatement of a liability for railcar payments in fiscal year 2013.

**Net Pension Asset**

As a result of a change in actuarial cost method for the Local 689 pension plan, the net pension asset was understated by $33.6 million in fiscal year 2013.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (13) Restatement of Beginning Net Position (Continued)

**Reimbursable Projects**

The Authority's financial statements included an adjustment for amounts related to reimbursable projects previously included in the Authority's net position total. This adjustment required that the amounts related to reimbursable project be reclassified out of net position and reported as unearned revenue under current liabilities. This resulted in an overstatement of net position of $10.5 million in fiscal year 2013 and $48.1 million in fiscal year 2012.

**Prefunded Lease Defeasance Contract - Railcars**

The short and long-term portions of the prefunded lease commitments in both assets and the offsetting liabilities were adjusted to eliminate the effects of a previously terminated lease agreement. The effect of this adjustment was to reduce both assets and liabilities in the amount of $69.5 million. This adjustment did not affect net position or changes therein.

The following table set forth the adjustments outlined above to the net position reported as of June 30, 2013 (in thousands):

| | |
|---|---|
| Net position as of June 30, 2013, as previously reported | $ 8,254,574 |
| Capital Contributions - Federal | (231,187) |
| Reimbursable Projects | (37,552) |
| Cumulative Effect of Change in Accounting Principle | (2,801) |
| Net Pension Asset | 33,616 |
| Liability for Railcars | 19,186 |
| Net position as of June 30, 2013, as restated | $ 8,035,836 |

### (14) Long Term Debt

**(a) Bond Covenant Noncompliance**

Pursuant to the 2009 Gross Revenue Bond Resolution (the, "Bond Resolution") of the Authority, section 606.2 requires the Authority to provide to the Trustee and to other entities as provided by law a copy of the audited financial statements within 120 days after the close of the fiscal year. The same section also allows that if the statements are not available then they should be provided "when and if available".

Section 701.2 of the Bond Resolution provides that that the Authority has 60 days after receiving written notice of the failure to cure the situation before it becomes an Event of Default. The Trustee may also grant an extension of time for the Authority to correct the situation if the Authority is diligently pursuing corrective action.

# Notes to Basic Financial Statements

## June 30, 2014 and 2013

### (14) Long Term Debt (Continued)

#### (a) Bond Covenant Noncompliance

The 120 days reporting requirement for fiscal year 2014 audited financial statements was not met by the Authority. As of the date of this report, the Authority has not received notice from the Trustee or the bondholders seeking to exercise any contractual remedy.

#### (b) Lines of Credit Covenant Noncompliance

The Line of Credit Resolutions (the, "LOC Resolutions") of the Authority require the Authority to provide to the issuing financial institutions its financial statements within 120 or 180 days after the end of the fiscal year (depending on the terms of the agreement). Failure to meet these deadlines would be a default under the terms of the LOC Resolution.

The 120 or 180 days reporting requirement for Fiscal Year 2014 financial statements was not met by the Authority. As of the date of this report, the Authority has not received notice from the financial institutions seeking to exercise any contractual remedy. In March 2015, one of the issuing financial institutions renewed one of the Authority's Lines of Credit on substantially the same terms**.**

#### (c) Leasing Transactions Covenant Noncompliance

Under the provisions outlined in Section 10 of the Participation Agreement (the, "Agreement"), the Authority agreed to provide its audited financial statements within 120 days after the end of the fiscal year. The Authority's failure to provide the financial statements constitutes an Event of Default under section 14(c) of the Agreement. The Authority has a 60-day cure period before it becomes a formal Event of Default. These two time periods are available to the Authority as a matter of right and cannot be denied. If the matter can be cured in another 180 days and there is no risk of forfeiture of the rail cars then the cure period can be extended to a maximum of 240 days (including the 60 day cure period) after the due date for the financial statements.

The Authority has provided various certificates required under the Agreement, including one that states that the Authority is diligently pursing the correction of the default and that it is reasonable to assume that the default will be corrected within the extended cure period. The 120 days reporting requirement for providing its fiscal year 2014 audited financial statement was not met by the Authority. As of the date of this report, the Authority has not received notice from the equity investors seeking to exercise any contractual remedy.

# Required Supplementary Information

## Historical Trend Information – Pension Plans

## Schedules of Funding Progress

(dollars in thousands)

| | Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded Actuarial Accrued Liability (UAAL) Funding Excess | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll Funding Excess |
|---|---|---|---|---|---|---|---|
| Salaried Personnel Plan | 7/1/2013 | $ 354,491 | $ 485,050 | $ 130,559 | 73.1% | $ 25,327 | 515.5% |
| | 7/1/2012 | $ 349,099 | $ 480,283 | $ 131,183 | 72.7% | $ 26,551 | 494.1% |
| | 7/1/2011 | $ 345,530 | $ 468,769 | $ 123,239 | 73.7% | $ 27,201 | 453.1% |
| Union Local 2 | 7/1/2013 | $ 124,989 | $ 152,159 | $ 27,170 | 82.1% | $ 10,583 | 256.7% |
| | 7/1/2012 | $ 122,311 | $ 150,696 | $ 28,384 | 81.2% | $ 11,520 | 246.4% |
| | 7/1/2011 | $ 119,718 | $ 149,483 | $ 29,765 | 80.1% | $ 12,852 | 231.6% |
| Union Local 689 Plan | 1/1/2014 | $ 2,295,659 | $ 3,176,944 | $ 881,285 | 72.3% | $ 736,872 | 119.6% |
| | 1/1/2013 | $ 2,105,214 | $ 2,960,131 | $ 854,917 | 71.1% | $ 683,789 | 125.0% |
| | 1/1/2012 | $ 2,122,240 | $ 2,799,940 | $ 677,700 | 75.8% | $ 586,202 | 115.6% |
| Union Local 922 Plan | 1/1/2014 | $ 161,878 | $ 175,140 | $ 13,262 | 92.4% | $ 32,324 | 41.0% |
| | 1/1/2013 | $ 146,197 | $ 170,210 | $ 24,013 | 85.9% | $ 29,593 | 81.1% |
| | 1/1/2012 | $ 135,355 | $ 153,614 | $ 18,259 | 88.1% | $ 27,065 | 67.5% |
| Transit Police Plan | 1/1/2014 | $ 164,850 | $ 222,446 | $ 57,596 | 74.1% | $ 34,086 | 169.0% |
| | 1/1/2013 | $ 154,515 | $ 211,208 | $ 56,693 | 73.2% | $ 32,976 | 171.9% |
| | 1/1/2012 | $ 146,047 | $ 198,840 | $ 52,793 | 73.4% | $ 30,351 | 173.9% |

# Required Supplementary Information

## Historical Trend Information – Postemployment Benefits Other Than Pensions (OPEB)

## Schedules of Funding Progress

(dollars in thousands)

| | | Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - (b) | Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll (Funding Excess) ((b-a))/c |
|---|---|---|---|---|---|---|---|---|
| Union Local 689 | | 7/1/2013 | $ - | $ 826,384 | $ 826,384 | 0.0% | N/A | N/A |
| Union Local 2 | | 7/1/2013 | $ - | $ 147,825 | $ 147,825 | 0.0% | N/A | N/A |
| Transit Police | | 7/1/2013 | $ - | $ 90,872 | $ 90,872 | 0.0% | N/A | N/A |
| Non-Represented | | 7/1/2013 | $ - | $ 427,444 | $ 427,444 | 0.0% | N/A | N/A |
| Fiscal Year 2013 Total | [1] | | | $ 1,492,525 | $ 1,492,525 | 0.0% | $ 734,000 | 203.3% |
| Union Local 689 | | 7/1/2011 | $ - | $ 1,240,733 | $ 1,240,733 | 0.0% | N/A | N/A |
| Union Local 2 | | 7/1/2011 | $ - | $ 179,529 | $ 179,529 | 0.0% | N/A | N/A |
| Transit Police | | 7/1/2011 | $ - | $ 108,046 | $ 108,046 | 0.0% | N/A | N/A |
| Non-Represented | | 7/1/2011 | $ - | $ 498,778 | $ 498,778 | 0.0% | N/A | N/A |
| Fiscal Year 2012 Total | [2] | | | $ 2,027,086 | $ 2,027,086 | 0.0% | $ 841,000 | 241.0% |
| Union Local 689 | | 7/1/2011 | $ - | $ 1,190,044 | $ 1,190,044 | 0.0% | N/A | N/A |
| Union Local 2 | | 7/1/2011 | $ - | $ 178,474 | $ 178,474 | 0.0% | N/A | N/A |
| Transit Police | | 7/1/2011 | $ - | $ 102,334 | $ 102,334 | 0.0% | N/A | N/A |
| Non-Represented | | 7/1/2011 | $ - | $ 477,719 | $ 477,719 | 0.0% | N/A | N/A |
| Fiscal Year 2011 Total | [2] | | | $ 1,948,571 | $ 1,948,571 | 0.0% | $ 841,000 | 231.7% |

[1]The Annual Required Contribution (ARC), Annual OPEB Cost (AOC) and Actuarial Accrued Liability (AAL) are based on the census as of July 1, 2013, and on updated actuarial assumptions.

[2] The Annual Required Contribution (ARC), Annual OPEB Cost (AOC) and Actuarial Accrued Liability (AAL) are based on the results of July 1, 2011 valuation actuarially projected to June 30, 2013 and June 30, 2012.