Metro-North Commuter Railroad Company Cash Balance Plan

Financial Statements as of and for the
Years Ended December 31, 2015 and 2014,
Supplemental Schedules, and
Independent Auditors' Report

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

TABLE OF CONTENTS

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA
Tel: +1-212-492-4000
Fax: +1-212-489-1687
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Metro-North Commuter Railroad Company Cash Balance Plan

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Metro-North Commuter Railroad Company Cash Balance Plan (the "Plan") as of December 31, 2015 and 2014, and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements, which collectively comprise the Plan's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the Plan net position as of December 31, 2015 and 2014, and the respective changes in Plan net position for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 6, Schedule of Changes in the Employer's Net Pension Liability and Related Ratios - Schedule I on page 22, Schedule of Employer Contributions - Schedule II on pages 23 through 24, and Schedule of Investment Returns- Schedule III on page 25 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche LLP

January 23, 2017

This narrative discussion and analysis of the Metro-North Commuter Railroad Company Cash Balance Plan (the "Plan") financial performance provides an overview of the Plan's financial activities for the years ended December 31, 2015 and 2014. It is meant to assist the reader in understanding the Plan's financial statements by providing an overall review of the financial activities during the past two years and the effects of significant changes, as well as a comparison with the prior year's activities and results. This discussion and analysis is intended to be read in conjunction with the Plan's financial statements which begin on page 7.

Overview of Basic Financial Statements

The following discussion and analysis is intended to serve as an introduction to the financial statements. The financial statements are:

- **The Statements of Fiduciary Net Position** presents the financial position of the Plan at fiscal year-end. It provides information about the nature and amounts of resources with present service capacity that the Plan presently controls (assets), consumption of net assets by the Plan that is applicable to a future reporting period (deferred outflow of resources), present obligations to sacrifice resources that the Plan has little or no discretion to avoid (liabilities), and acquisition of net assets by the Plan that is applicable to a future reporting period (deferred inflow of resources) with the difference between assets/deferred outflow of resources and liabilities/deferred inflow of resources being reported as net position. Investments are shown at fair value. All other assets and liabilities are determined on an accrual basis.

- **The Statements of Changes in Fiduciary Net Position** present the results of activities during the year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation (depreciation) in fair value of investments.

- **The Notes to Financial Statements** provide additional information that is essential to understanding the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, contingencies, and subsequent events, if any.

- **Required Supplementary Information,** as required by the GASB, is presented after the notes to the financial statements.

Financial Highlights

The Plan is a single employer, defined benefit pension plan. The Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined Metro-North Commuter Railroad Company ("MNCR") as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the "Management Plan") and the Plan was closed to new participants. The assets of the Management Plan have been merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995.

FINANCIAL ANALYSIS

Fiduciary Net Position
December 31, 2015, 2014, and 2013
(Dollars in thousands)

				Increase/(Decrease)	
	2015	2014	2013	2015-2014	2014-2013
Cash	$ 3	$ -	$ -	$ 3	$ -
Investments, at fair value	606	695	745	(89)	(50)
Accrued interest	3	3	5	-	(2)
Receivable from MNCR	-	21	3	(21)	18
Receivable from investment securities sold	10	-	-	10	-
Total assets	622	719	753	(97)	(34)
Payable for investment securities purchased	10	-	2	10	(2)
Total liabilities	10	-	2	10	(2)
Net position - restricted for pension benefits	$ 612	$ 719	$ 751	$ (107)	$ (32)

CHANGES IN FIDUCIARY NET POSITION

MNCR's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately $2.977 million to the trust fund in 1989. As participants retire, distributions from the Plan have been made by the Trustee. MNCR anticipated that no further contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded accrued liabilities were paid to the Plan in several subsequent years. Per the January 1, 2014 actuarial valuation, the unfunded accrued liability was $18 thousand which included administrative fees reimbursable to the Plan from MNCR. The full amount was paid to the Plan in 2015. Per the January 1, 2015 valuation, the actuarial value of assets exceeded the actuarial accrued liability and as a result no payment was required for 2015. Per the January 1, 2016 valuation, the unfunded accrued liability was $22 thousand and will be paid to the Plan in 2016.

Changes in Fiduciary Net Position
For the Years Ended December 31, 2015, 2014 and 2013
(Dollars in thousands)

				Increase/(Decrease)	
	2015	**2014**	**2013**	**2015-2014**	**2014-2013**
Additions:					
Net investment income/(loss)	$ 6	$ 42	$ (12)	$ (36)	$ 54
Employer contributions	-	14	-	(14)	14
Other	7	-	-	7	-
Total additions	13	56	(12)	(43)	68
Deductions:					
Benefits paid to participants	113	88	115	25	(27)
Other	7	-	-	7	-
Total deductions	120	88	115	32	(27)
Net decrease	(107)	(32)	(127)	(75)	95
Net position-restricted for pension benefits:					
Beginning of year	719	751	878	(32)	(127)
End of year	$ 612	$ 719	$ 751	$ (107)	$ (32)

The Plan is a closed plan and has 7 active members as of January 1, 2016. Investments are primarily in bonds and asset backed securities to minimize exposure to market fluctuations.

This net position is held in trust for the payment of future benefits to members and beneficiaries.

Changes to the Plan's net position are affected by the investment activity in the portfolio as well as the benefit payments made to participants.

Decreases in investment income in 2015 was due to losses on investment activity particularly in corporate bond and U.S. Treasury holdings of $9 thousand versus gains in these same securities of $15 thousand in 2014 and losses of $23 thousand in 2013. Increases in the benefits paid to plan participants in 2015 was due to 6 retirees taking lump sum distributions of $42 thousand versus 3 retirees taking lump sum distributions of $14 thousand in 2014 and 9 retirees taking lump sum distributions of $39 thousand for 2013.

INVESTMENTS

The table below summarizes the Plan's investment allocations and investment returns.

Investment Summary
(Dollars in thousands)

Type of Investment	Fair Value	Allocation	Current Year Return
December 31, 2015			
U.S. government & agency securities	$ 346	57.1 %	2.6 %
Corporate bonds & asset backed securities	225	37.0 %	4.2 %
U.S. Treasury Bills	22	3.6 %	0.0 %
Short-term investments	2	0.4 %	0.1 %
Other bonds & fixed income securities	11	1.9 %	4.9 %
Total	$ 606	100.0 %	3.1 %
December 31, 2014			
U.S. government & agency securities	$ 286	41.1 %	2.4 %
Corporate bonds & asset backed securities	297	42.7 %	4.1 %
U.S. Treasury Bills	95	13.7 %	0.0 %
Short-term investments	10	1.4 %	0.1 %
Other bonds & fixed income securities	7	1.1 %	5.1 %
Total	$ 695	100.0 %	2.8 %
December 31, 2013			
U.S. government & agency securities	$ 329	44.2 %	3.3 %
Corporate bonds & asset backed securities	291	39.1 %	4.2 %
U.S. Treasury Bills	110	14.8 %	0.0 %
Short-term investments	7	1.0 %	0.1 %
Other bonds & fixed income securities	8	0.9 %	5.6 %
Total	$ 745	100.0 %	3.1 %

Contact Information

This financial report is designed to provide a general overview of the Metro-North Commuter Railroad Company Cash Balance Plan's finances. Questions concerning any data provided in this report or requests for additional information should be directed to the Controller, Metro-North Commuter Railroad, 420 Lexington Ave, Suite 250, New York, NY 10170.

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

STATEMENTS OF FIDUCIARY NET POSITION
AS OF DECEMBER 31, 2015 AND 2014

	2015	2014
ASSETS:		
Cash	$ 2,872	$ -
Investments, at fair value:		
U.S. government & agency securities	346,033	285,775
Corporate bonds & asset backed securities	224,509	296,665
U.S. Treasury Bills	22,000	95,000
Other bonds & fixed income securities	11,264	7,514
Short-term investments	2,341	10,010
Total investments	606,147	694,964
Accrued interest	3,412	3,683
Receivable from investment securities sold	9,981	-
Receivable from MNCR	-	20,728
Total assets	622,412	719,375
LIABILITIES:		
Payable for investment securities purchased	(9,962)	(272)
Total liabilities	(9,962)	(272)
NET POSITION - restricted for pension benefits	$ 612,450	$ 719,103

See notes to financial statements.

METRO-NORTH COMMUTER RAILROAD COMPANY
CASH BALANCE PLAN

STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2015 AND 2014

	2015	2014
ADDITIONS:		
Investment income/(loss):		
Interest	$ 17,285	$ 19,360
Net depreciation/appreciation in fair value of investments	(11,251)	21,686
Total investment income/(loss)	6,034	41,046
Contributions:		
Employer	-	14,124
Other	6,741	263
Total additions	12,775	55,433
DEDUCTIONS:		
Benefits paid to participants	(112,655)	(87,735)
Other	(6,773)	(29)
Total deductions	(119,428)	(87,764)
NET DECREASE	(106,653)	(32,331)
NET POSITION - restricted for pension benefits		
Beginning of year	719,103	751,434
End of year	$ 612,450	$ 719,103

See notes to financial statements.

1. PLAN DESCRIPTION

The following description of the Metro-North Commuter Railroad Company Cash Balance Plan provides only general information. Participants should refer to the Plan document for a more complete description of the Plan's provisions.

General

The Plan is a single employer, defined benefit pension plan administered by MNCR. The Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MNCR as management employees between January 1 and June 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the "Management Plan") and the Plan was closed to new participants. The assets of the Management Plan have been merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995. The Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(a) of the Internal Revenue Code. Accordingly, the Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act ("ERISA") of 1974.

Plan Administration

The MTA Board of Trustees shall appoint a Board of Managers of Pensions consisting of five individuals who may, but need not, be officers or employees of the company. The members of the Board of Managers shall hold office at discretion of the MTA Board, each to serve until his successor is appointed. The Board of Managers shall be the agent for the service of legal process with respect to the Plan. No bond or other security is required in any jurisdiction of the Board of Managers or any member thereof except as required by law.

The Board of Managers shall control and manage the operation and administration of the Plan. It shall have all the powers that within its judgment may be necessary or appropriate for that purpose, including, but not by way of limitation, power to adopt any rules consistent with the provisions of the Plan deemed necessary to effectuate the Plan, to conduct the affairs of the Board of Managers, to administer the Plan, to interpret the Plan, to determine the eligibility, status and rights of all persons under the Plan and, in general, to decide any dispute.

Benefits Provided

Pension Benefits - Participants of the Plan obtain a nonforfeitable right to their accrued benefit upon the earlier of (a) the completion of five years of service with the MTA Metro-North Railroad or (b) the attainment of age sixty-two. Vested participants are entitled to receive pension benefits commencing at age sixty-five. Vested participants may elect to receive early retirement benefits upon the attainment of age fifty-five through age sixty-four.

Participants may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or they may elect to receive their benefits as a life annuity payable monthly from retirement. Participants may also elect to receive their pension benefits in the form of a joint and survivor annuity.

Prior to a participant's annuity commencement date, each Participant's account balance shall be increased each month by a factor, which when compounded monthly for 12 months, would produce the benefit escalator for the applicable plan year.

The benefit escalator is defined as the Pension Benefit Guaranty Corporation immediate annuity rate in effect for December of the year preceding the year for which the determination is being made.

Death Benefits — Benefits are paid to vested participants' beneficiaries in the event of a participants' death. The amount of benefits payable is the participant's account balance at the date of his or her death.

Membership

Membership of the Plan consisted of the following at January 1, 2016, the date of the latest actuarial valuation:

Active Plan Members	7
Retirees and beneficiaries receiving benefits	27
Vested formerly active members not yet receiving benefits	14
Total	48

Contributions

Funding for the Plan is provided by MNCR which is a public benefit corporation that receives funding for its operations and capital needs from the Metropolitan Transportation Authority ("MTA") and the Connecticut Department of Transportation ("CDOT"). Certain funding by MTA is made to MNCR on a discretionary basis. The continuance of funding for the Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

MNCR's funding policy with respect to the Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately $2.977 million to the trust fund in 1989. As participants retire, distributions from the Plan have been made by the Trustee. MNCR anticipated that no further contributions would be made to the Plan. However, due to changes in actuarial assumptions and market performance, additional unfunded pension liabilities were paid to the Plan in several subsequent years. Per the January 1, 2014 actuarial valuation, the unfunded pension liability was $18 thousand which included administrative fees reimbursable to the Plan from MNCR. The full amount was paid to the Plan in 2015. Per the January 1, 2015 valuation, the actuarial value of assets exceeded the actuarial total pension liability and as a result no payment was required for 2015. Per the January 1, 2016 valuation, the unfunded total pension liability was $22 thousand and will be paid to the Plan in 2016.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting.

Use of Estimates

The preparation of the Plan's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates include the determination of the fair market value of investments, the actuarial determined contribution and the total pension liability.

Investment Valuation and Income Recognition

Fair value for the publicly traded government bonds and notes, corporate bonds and mortgage/asset backed securities represents the quoted market prices of a national securities exchange. Gains and losses on investments that were sold during the year are included in net appreciation or depreciation in fair value of investments. Interest income on the government and corporate bonds is recorded when earned. The Plan's investments are held in trust by Wells Fargo Bank (the "Trustee"), in the name of the Plan.

Benefits

Benefits are recognized when paid.

Administrative Expenses

The administrative expenses of the Plan are paid by MNCR. Administrative expenses were $16,718 and $16,216 for the years ended December 31, 2015 and 2014, respectively.

Federal Income Tax Status

The Internal Revenue Service ("IRS") has determined and informed the MNCR by a letter dated January 10, 1997, that the Plan and related trust were designed in accordance with the applicable regulations of the IRC. The Plan has been amended since receiving the determination letter. The MNCR believes that the Plan is currently designed and operated in compliance with the applicable requirements of the IRC and the Plan and related trust continue to be tax-exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

New Accounting Standards

The Plan adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No.72 requires the Funds to use valuation techniques which are appropriate under the circumstances and are a market approach, a cost approach or income approach. GASB 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. GASB 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. There was no material impact on the Plan's financial statements as a result of the implementation of GASB 72.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans* and Statement No. 68 for pension plans and pensions that are within their respective scopes. The requirements of GASB Statement No. 73, extend the approach to accounting and financial reporting established in Statement No. 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement No. 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement No. 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and non-employer contributing entities. This Statement also clarifies the application of certain provisions of Statement Nos. 67 and 68 with regard to the following issues: 1) Information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported. 2) Accounting and financial reporting for separately financed specific liabilities of individual employers and non-employer contributing entities for defined benefit pensions. 3) Timing of employer recognition of revenue for the support of non-employer contributing entities not in a special funding situation. The requirements of this Statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2016, and the requirements of this Statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this Statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 76, The *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this statement is to identify the GAAP hierarchy and supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. It will improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, thus providing the opportunity for broader public input on implementation guidance; (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; and (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in non-authoritative literature. As a result, governments will apply financial reporting guidance with less variation, which will improve the usefulness of financial statement information for making decisions and assessing accountability and enhance the comparability of financial statement information among governments. The provisions in GASB Statement No. 76 are effective for fiscal years beginning after June 15, 2015.

The Plan has completed the process of evaluating the impact of GASB Statement No. 79, Certain *External Investment Pools and Pool Participants.* The objective of this statement is to establish criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes as well as related Note disclosures. It will improve financial reporting by enhancing comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The Plan has determined that GASB Statement No. 79 had no impact on its fiduciary net position.

The Plan has not completed the process of evaluating the impact of GASB Statement No. 82, *Pension Issues*. The objective of GASB Statement No. 82 is to improve consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy plan member contribution requirements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

Subsequent Events

As of January 23, 2017, there were no materially significant subsequent events.

3. INVESTMENTS

A professional investment management firm manages the Plan. The Plan utilizes various investment securities including U.S. government securities and corporate debt instruments. The investment guideline is included within the investment management agreement agreed to by the MTA Board of Trustees. The guideline grants the investment manager full discretion to buy, sell, invest and reinvest the Plan's assets in domestic fixed income investments. The investment objective is to achieve consistent, positive real returns and to maximize long-term total return within prudent levels of risk through a combination of income and capital appreciation. Investment securities, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the financial statements.

The investment management firm is required to maintain a diversified portfolio. All investment managers are expected to perform their fiduciary duties as prudent people would and to conform to all state and federal statutes governing the investment of retirement funds. Securities managers must be registered advisors under the Investment Advisors Act of 1940. The investment managers must comply with the risk management guidelines per the Investment Management Agreement.

Investment managers may not purchase inverse floating rate bonds, structured notes, commodities, securities on margin, sell short, lend securities, invest in private placements, commingled funds (except Short-Term Investment Funds), real estate investments, and oil, gas & mineral exploration investments without the written consent of the Plan. The Plan's fixed-income assets shall be invested in domestic marketable, fixed-income securities.

Fixed-income managers are expected to adhere to the following guidelines as a means of limiting credit risk:

- Commercial Paper, Eurodollar Commercial Paper and Variable Rate Notes rated P-1 by Moody's, A1 by Standard and Poor's, or F1 by Fitch.

- Certificates of Deposit and Bankers Acceptances of institutions whose long-term debt is rated Baa or better by Moody's Investor's Service or equivalent by Standard & Poor's.

- United States Treasury Bonds, Notes and Bills.

- Debt instruments of the U.S. Government or its Agencies and Instrumentalities.

- Marketable corporate debt, Yankee bonds, Eurodollar bonds, non-agency mortgage- backed securities, asset backed securities and taxable municipal securities rated the equivalent of Baa or better by Moody's Investors Services, Standard & Poor's, or Fitch Investor's Services, for an overall portfolio average of A or better. In the case of split ratings, the higher rating applies.

- Collateralized Mortgage Obligations ("CMO's") backed by pools of agency or non-agency mortgages including those that are re-constructed in their original proportions from the same pool (such as IO's/PO's, and floaters/inverse floaters). Companion tranches and support tranches are limited to 3% of the book value of the portfolio.

- 144A Privates (non-registered debt issued by corporations), non-convertible preferred stock and fully hedged non-dollar bonds rated A or better by Moody's Investors Services, Standard & Poor's, or Fitch Investor's Services are limited to 20% of the book value of the portfolio.

- Securities downgraded subsequent to purchase resulting in violation of quality guidelines may be held at the manager's discretion.

- Managers may not hold more than 5% at book value and 10% at market value of the portfolios in any one issuer's securities other than direct or moral obligations of the U.S. Government.

- Unrated securities other than those issued by the U.S. Government or its Agencies and Instrumentalities may not be purchased without the prior consent of the Plan.

GASB 72 Disclosure

In fiscal year 2015, the Plan adopted GASB Statement No. 72 ("GASB 72"), *Fair Value Measurement and Application*. GASB 72 was issued to address accounting and financial reporting issues related to fair value measurements. The Plan categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Plan has the following recurring fair value measurements as of December 31, 2015 and December 31, 2014:

GASB 72 Disclosure
(in thousands)

	2015			
	Level 1	Level 2	Level 3	Total
INVESTMENTS - fair value level				
Debt securities:				
U.S government agency	$ 191	$ 155	$ -	$ 346
Corporate bonds	-	204	-	204
U.S treasury securities	22	-	-	22
Commerical mortgage-backed securities	-	21	-	21
Other bonds	-	11	-	11
Total debt securities	213	391	-	604
Total investments by fair value level	213	391	-	604
INVESTMENTS- measured at the net asset value (NAV)				
Short-term other				2
Total investments measured at the NAV				2
Total investments by fair value level	$ 213	$ 391	$ -	$ 606

	2014			
	Level 1	Level 2	Level 3	Total
INVESTMENTS - fair value level				
Debt securities:				
U.S government agency	$ 195	$ 91	$ -	$ 286
Corporate bonds	-	278	-	278
U.S treasury securities	95	-	-	95
Commerical mortgage-backed securities	-	19	-	19
Other bonds	-	7	-	7
Total debt securities	290	395	-	685
Total investments by fair value level	290	395	-	685
INVESTMENTS- measured at the net asset value (NAV)				
Short-term other				10
Total investments measured at the NAV				10
Total investments by fair value level	$ 290	$ 395	$ -	$ 695

Equity and Fixed Income Securities

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Debt and equity securities classified in Level 3 are securities whose stated market price is unobservable by the market place; many of these securities are priced by the issuers or industry groups for these securities. Fair value is defined as the quoted market value on the last trading day of the period. These prices are obtained from various pricing sources by our custodian bank.

Money-Weighted Rate of Return

For the years ended December 31, 2015 and December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, for the Plan was 0.93% and 5.96%, respectively.

The money-weighted rate of return considers the changing amounts actually invested during a period and weights the amount of pension plan investments by the proportion of time they are available to earn a return during that period. External cash flows are determined on a monthly basis and are assumed to occur at the beginning of each month. External cash inflows are netted with external cash outflows, resulting in a net external cash flow in each month. The money-weighted rate of return is calculated net of investment expenses.

Net (depreciation)/appreciation in Fair Value of Investments as Determined by Quoted Market Prices

The Plan's investments (including gains and losses on investments sold during the year) (depreciated)/appreciated in value as follows:

	Year Ended December 31,	
	2015	**2014**
U.S. government & agency securities	$ (2,209)	$ 15,602
Corporate bonds & asset backed securities	(8,792)	5,358
Other bonds & fixed income securities	(250)	727
	$ (11,251)	$ 21,686

Credit Risk

The quality ratings of investments in fixed income securities as described by nationally recognized statistical rating organizations at December 31, 2015 and December 31, 2014, respectively, are as follows:

December 31, 2015 **Quality Rating**	**Fair** **Value**	**Percentage of** **Portfolio**
AAA	$ 9,431	1.56%
AA+	4,994	0.82
AA	5,042	0.83
A+	4,965	0.82
A	18,169	3.00
AA-	6,284	1.04
A-	50,078	8.26
BBB+	64,587	10.66
BBB	40,651	6.71
BBB-	16,034	2.65
NR	17,879	2.95
Total credit risk debt securities	238,114	
U.S. government & agency securities*	368,033	60.72
Total investment portfolio	$ 606,147	100.00%

December 31, 2014 **Quality Rating**	**Fair** **Value**	**Percentage of** **Portfolio**
AAA	$ 23,468	3.38%
AA+	10,078	1.45
AA	10,083	1.45
A+	10,405	1.50
A	32,549	4.68
AA-	6,489	0.93
A-	83,595	12.03
BBB+	45,535	6.55
BBB	45,398	6.53
BBB-	26,425	3.80
NR	20,164	2.90
Total credit risk debt securities	314,189	
U.S. government & agency securities*	380,775	54.79
Total investment portfolio	$ 694,964	100.00%

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and do not have purchase limitations.

Custodial Credit Risk

The Plan does not have a general policy addressing custodial risk, but it is the practice of the Plan that all investments are registered or held by the Plan or its agent in the Plan's name. Deposits are to be registered or collateralized with securities held at fiscal agents in the Plan's name.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice-versa. Duration is an indicator of bond price's sensitivity to 100 basis point change in interest rates.

December 31, 2015 **Investment Type**	**Fair** **Value**	**Percentage of** **Portfolio**	**Duration** **(Years)**
U.S. government & agency securities	$ 346,033	57.09%	5.96
Corporate bonds & asset backed securities	224,509	37.04	5.54
U.S. treasury bills	22,000	3.63	0.02
Other Bonds & fixed income securities	11,264	1.86	7.26
Short-term investments	2,341	0.39	0.00
Total investment	$ 606,147	100.00%	
Portfolio average duration			5.59

December 31, 2014 **Investment Type**	**Fair** **Value**	**Percentage of** **Portfolio**	**Duration** **(Years)**
U.S. government & agency securities	$ 285,775	41.12%	5.17
Corporate bonds & asset backed securities	296,665	42.69	5.89
U.S. treasury bills	95,000	13.67	0.03
Other Bonds & fixed income securities	7,514	1.08	9.06
Short-term investments	10,010	1.44	0.00
Total investment	$ 694,964	100.00%	
Portfolio average duration			4.74

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan assets are invested in domestic fixed-income securities denominated in U.S. dollars and accounted for at fair market value. The Plan has no exposure to foreign currency fluctuation.

4. NET PENSION LIABILITY

The components of the net pension liability of the Employer at December 31, 2015 and 2014, for the Plan, were as follows:

	2015	2014
Total pension liability	$ 634,297	$ 710,000
Plans fiduciary net position	612,450	698,375
Employer's net pension liability	$ 21,847	$ 11,625
Plans fiduciary net position as a percentage of	96.56%	98.36%

The total pension liability was determined by an actuarial valuation as of the measurement date, calculated based on the discount rate and actuarial assumptions below.

Discount Rate

The plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

	2015	2014
Discount rate	4.00%	4.5%
Long-term expected rate of return net of investment expense	4.00%	4.5%
Municipal Bond Rate	N/A	N/A

Other Key Actuarial Methods and Assumptions for the years ended December 31, 2015 and December 31, 2014 were as follows:

The actuarial assumptions that determined the total pension liability as of December 31, 2015 and 2014 were based on the results of an actuarial experience study for the period January 1, 2006 - December 31, 2011.

	2015	2014
Valuation date:	January 1, 2016	January 1, 2014
Measurement date:	December 31, 2015	December 31, 2014
Actuarial cost method:	Entry Age Normal	Entry Age Normal
Actuarial assumptions:		
Asset valuation method:	Market Value of Plan Asset	Market Value of Plan Asset
Projected salary increases:	N/A	N/A
COLAs:	N/A	N/A
Interest:	4.0% per annum, compounded annually	4.5% per annum, compounded annually
Benefit escalator:	3.0% per annum, compounded annually	3.0% per annum, compounded annually
Provision for Expenses:	None assumed from Plan assets	None assumed from Plan assets

Termination: Rates vary by age. Illustrative rates shown below are for years 2015 and 2014:

Age	Rate	Age	Rate
20	11.46%	45	0.67%
25	6.29	50	0.63
30	3.43	55	0.59
35	1.73	60	0.55
40	0.90	64	0.00

Retirement: Rates vary by age. Illustrative rates shown below are for years 2015 and 2014:

Age	Rate
55	12.0%
56	8.0
57-58	6.0
59-60	7.0
61	15.0
62	35.0
63-64	20.0
65+	100.0

Mortality: Pre-termination: RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments, projected on a generational basis using Scale AA.

Post-termination: 95% of the rates from the RP-2000 Healthy Annuitant Mortality Table for Males with blue collar adjustments and 116% of the rates from the RP-2000 Healthy Annuitant Mortality Table for Females, both projected on a generational basis using Scale AA.

Form of Payment for Cash Balance Account: For active participants, lump sum at decrement. For terminated vested participants, lump sum on the valuation date. This is based on the majority of participants electing a lump sum upon retirement.

Benefits not valued: The Additional Benefit was not valued as the potential liability for this benefit is de minimus.

Changes in Actuarial Assumptions Since Prior Valuation: The interest rate assumption was lowered from 4.5% to 4.0 %.

Long-Term Expected Rate of Return

The best-estimate range for the long-term expected rate of return is determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions are per Milliman's investment consulting practice as of December 31, 2015 and 2013.

Asset Class	Index	Target Allocation	2015	2013
Core Fixed Income	Barclays Aggregate	100.00%	1.68%	2.19%

Sensitivity Analysis

The following presents the net pension liability of the Metro-North Commuter Railroad Company Cash Balance Plan as of December 31 2015 and 2014 respectively.

Net pension liability as of December 31, 2015 calculated using the discount rate of 4.00%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.00%) or percentage point higher (5.00%) than the current rate.

December 31 2015	1% Decrease 3.00%	Current Discount Rate 4.00%	1% Increase 5.00%
Net Pension Liability	$60,689	$21,847	$(12,361)

Net pension liability as of December 31 2014, calculated using the discount rate of 4.50%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (3.50%) or percentage point higher (5.50%) than the current rate.

December 31 2014	1% Decrease 3.50%	Current Discount Rate 4.50%	1% Increase 5.50%
Net Pension Liability	$48,625	$11,625	$(20,375)

METRO-NORTH COMMUTER RAILROAD COMPANY **Schedule I**
CASH BALANCE PLAN

Required Supplementary Information (Unaudited)
Schedule of Changes in the Employer's Net Pension Liability and Related Ratios ($ in Thousands)

	2015	2014
Total Pension Liability:		
Service Cost	$ -	$ -
Interest	29	32
Changes of benefit terms	-	-
Difference between expected and actual experience	-	-
Changes of economic/demographic (gains) or losses	(10)	-
Changes of assumptions	18	-
Benefit payments	(113)	(88)
Net change in total pension liability	(76)	(56)
Total pension liability - beginning	710	766
Total pension liability - ending (a)	$ 634	$ 710
Fiduciary Net Position:		
Employer contributions	$ 18	$ -
Member contributions	-	-
Net investment income	6	41
Benefit payments	(113)	(88)
Administrative expenses	3	(3)
Net change in plan fiduciary net position	(86)	(50)
Fiduciary net position - beginning	698	748
Fiduciary net position - ending (b)	612	698
Net pension liability - ending (a)-(b)	$ 22	$ 12
Fiduciary net position as a percentage of the total pension liability	96.56%	98.36%
Covered payroll	$ 995	$ 2,080
Net pension liability as a percentage of covered payroll	2.20%	0.56%

In accordance with GASB No. 67, paragraph 50, information was not readily available for periods prior to 2014.

Required Supplementary Information (Unaudited)
Schedule of Employer Contributions

Fiscal Year Ending December 31	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contribution as a % of covered Payroll
2006	$ 13,010	$ 13,010	$ -	$ 7,925,225	0.16%
2007	9,666	9,666	-	6,842,884	0.14%
2008	13,683	13,683	-	6,798,416	0.20%
2009	330	330	-	5,936,288	0.01%
2010	1,837	11,875	(10,038)	4,496,148	0.26%
2011	-	-	-	-	N/A
2012	-	-	-	-	N/A
2013	-	-	-	-	N/A
2014	4,977	14,124	(9,147)	2,080,077	0.68%
2015	-	-	-	-	N/A

Notes to Required Supplementary Information (Unaudited)
Schedule of Employer Contributions

Actuarial Methods and Assumptions

The following actuarial methods and assumptions were used in the January 1, 2016 valuation.

Valuation Timing	Actuarially determined contributions calculated as of December 31 for the fiscal year.
Actuarial Cost Method	Entry Age Normal
Amortization Method	One-year amortization of the unfunded liability, if any.
Asset Valuation Method	Actuarial value equals market value.
Inflation	2.30%
Salary Increases	N/A
Investment Rate of Return	4.00%, net of investment expenses
Mortality	Based on experience of all MTA members reflecting mortality improvement on a generational basis using scale AA

Required Supplementary Information (Unaudited)
Schedule of Investment Returns

The following table displays annual money-weighted rate of return, net of investment expense.

Fiscal Year Ending December 31	Net Money-Weighted Rate of Return
2006	N/A
2007	N/A
2008	N/A
2009	N/A
2010	N/A
2011	N/A
2012	N/A
2013	N/A
2014	5.96%
2015	0.93%