

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

**Financial Statements and Supplemental Schedules
Together with Report of Independent Public Accountants**

For the Fiscal Year Ended June 30, 2017



S B & COMPANY, LLC
KNOWLEDGE • QUALITY • CLIENT SERVICE

JUNE 30, 2017

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Plan Administrator and Deputy Administrator, Finance and Administration
Maryland Transit Administration Pension Plan
Baltimore, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of the Maryland Transit Administration Pension Plan (the Plan), a fiduciary fund of the Maryland Department of Transportation, as of and for the year ended June 30, 2017, 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

The Plan's 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Plan as of June 30, 2017, and the changes in plan net position for the year 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, schedule of changes in net pension liability and related ratios, schedule of employer contributions, and schedule of investment returns 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.

Hunt Valley, Maryland
December 1, 2017

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN
Management's Discussion and Analysis
As of June 30, 2017

This discussion and analysis of the Maryland Transit Administration's (MTA) Pension Plan's (the Plan) financial performance provides an overview of the Plan's financial activities for the years ended June 30, 2017 and 2016. Please read this discussion and analysis in conjunction with the Plan's financial statements, which follow this section.

Financial Highlights

- Plan net position increased by \$30.9 million during the year from \$242.1 million as of June 30, 2016, to \$273.0 million as of June 30, 2017. The increase is due primarily to net investment gains year over year. The Plan had net investment income of \$27.7 million for the year ended June 30, 2017, compared to a net investment gain of \$3.5 million for the year ended June 30, 2016, reflecting increases in the fair market value of Plan investments.
- Employer and employee contributions increased from \$41.0 million for the year ended June 30, 2016 to \$44.1 million for the year ended June 30, 2017, due to the addition of employee contributions.

Overview of the Financial Statements

This financial report consists of the statement of net position held in trust for pension benefits and the statement of changes in plan net position for plan benefits. These statements provide information about the financial position and activities of the Plan as a whole. These amounts are included in the statement of fiduciary net position in the Maryland Department of Transportation's financial statements.

Notes to the Financial Statements

The accompanying notes to the financial statements provide additional information that is essential for a comprehensive understanding of the Plan's financial condition and financial performance. The notes to the financial statements can be found on pages 9-20 of this report.

Other Information

In addition to the basic financial statements and the accompanying notes, this report also presents certain required supplementary information concerning the Plan's progress funding as well as contributions required and made to the Plan as of and for the year ended June 30, 2017. Required supplementary information can be found on pages 22-24 of this report.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN
Management's Discussion and Analysis
As of June 30, 2017

Analysis of Financial Position and Financial Performance

The Plan's overall funding objective is to accumulate sufficient assets over time to meet its long-term benefit obligations as they become due. Accordingly, collecting employer contributions as well as earning an adequate long-term rate of return on its investments are essential components of the Plan for accumulating the funds needed to finance future retirement benefits.

Fiscal Year 2017 Compared to 2016

Cash and cash equivalents and investments, at fair value, comprised 98% and 99% of the total assets held in trust available for benefits as of June 30, 2017 and 2016, respectively.

The following schedule depicts the balances of the Plan's investments and the change from 2016 to 2017. The \$9.6 million increase in the alternative investment pool was primarily due to a shift in the investment structure as well as increases in the alternative investment markets during the fiscal year ended June 30, 2017.

	Dollar Amounts in Thousands			
	As of June 30,			
	2017	2016	Variance	% Change
Assets				
Cash and cash equivalents	\$ 4,684	\$ 6,524	\$ (1,840)	-28%
U.S. Government obligations	41,020	35,964	5,056	14%
Domestic corporate obligations	21,857	17,234	4,623	27%
International obligations	673	247	426	172%
Domestic stocks	44,566	35,747	8,819	25%
International stocks	54,987	49,198	5,789	12%
Mortgages and mortgage related securities	8,432	8,475	(43)	-1%
Alternative investments	102,617	93,021	9,596	10%
Total cash, cash equivalents and investments	\$ 278,836	\$ 246,410	\$ 32,426	13%

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN
Management's Discussion and Analysis
As of June 30, 2017

Fiscal Year 2017 Compared to 2016 (continued)

As depicted in the schedule below, employer/employee contributions increased by \$3.1 million. Income from the change in fair market value increased significantly during the year ended June 30, 2017, due to market performance. Administrative expenses decreased by 3% due to several factors, most notably the decrease in management and advisory fees.

	For the Years Ended June 30,			%
	2017	2016	Variance	Change
Additions				
Interest income	\$ 16,375	\$ 12,768	\$ 3,607	28%
Change in fair market value	11,365	(9,255)	20,620	223%
Employer/employee contributions	44,091	40,997	3,094	8%
Total Additions	71,831	44,510	27,321	61%
Deductions				
Benefit payments	39,062	38,243	819	2%
Administrative expenses	1,914	1,967	(53)	-3%
Total Deductions	40,976	40,210	766	2%
Net Increase in Plan Net Position	\$ 30,855	\$ 4,300	\$ 26,555	618%

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN
Management's Discussion and Analysis
As of June 30, 2017

Requests for Information

The MTA Benefits Division and senior management are fiduciaries of the pension trust fund and, as such, are charged with the responsibility of ensuring that the Plan's assets are used exclusively for the benefit of Plan participants and their beneficiaries. This financial report is designed to provide an overview of the Plan's finances and to demonstrate accountability for the resources entrusted to the Plan for the benefit of all of the Plan's stockholders. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Maryland Transit Administration Pension Plan
Attention: Plan Administrator
6 St. Paul Street
Baltimore, Maryland 21202-1614

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Statement of Net Position Held in Trust for Pension Benefits As of June 30, 2017 (Amounts in 000's)

ASSETS	
Cash and cash equivalents	\$ 4,684
Investments:	
U.S. Government obligations	41,020
Domestic corporate obligations	21,857
International obligations	673
Domestic stocks	44,566
International stocks	54,987
Mortgages and mortgage related securities	8,432
Alternative investments	102,617
Total investments	<u>274,152</u>
Receivables:	
Accrued investment income	444
Investment sales proceeds	5,254
Total receivables	<u>5,698</u>
Total Assets	<u><u>284,534</u></u>
LIABILITIES	
Investment purchases payable	<u>11,534</u>
Net Position Held in Trust for Pension Benefits	<u><u>\$ 273,000</u></u>

The accompanying notes are an integral part of this financial statement.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Statement of Changes in Plan Net Position for Pension Benefits For the Year Ended June 30, 2017 (Amounts in 000's)

ADDITIONS

Investment income:

Interest income	\$ 16,375
Net appreciation in fair value of investments	<u>11,365</u>
Total investment income	27,740

Contributions:

Employer	40,997
Employee	<u>3,094</u>
Total contributions	<u>44,091</u>
Total Additions	<u>71,831</u>

DEDUCTIONS

Benefit payments	39,062
Administrative expenses	<u>1,914</u>
Total Deductions	<u>40,976</u>

Net increase	30,855
Net position held in trust for pension benefits, beginning of year	<u>242,145</u>
Net Position Held in Trust for Pension Benefits, End of Year	<u>\$ 273,000</u>

The accompanying notes are an integral part of this financial statement.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

1. DESCRIPTION OF THE PLAN

The following description of the Maryland Transit Administration Pension Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General

The Plan is a non-contributory defined benefit pension plan established by the Maryland Transit Administration (MTA or Plan Sponsor) of the Maryland Department of Transportation (MDOT), under the state personnel and pension article of the annotated code of Maryland. The Plan is a single employer public employee retirement plan covering all employees of the administration who are covered by one of two collective bargaining agreements and those management employees who transferred from positions covered by one of the collective bargaining agreements. Membership in the Plan consisted of the following as of June 30, 2017:

Retirees and beneficiaries receiving payments	1,844
Terminated vested plan members	509
Active members	2,654
Total Membership	5,007

Vesting

Plan participants hired before April 19, 2013, become fully vested after 5 years of credited service. The vesting period for employees hired after May 18, 2013, increased from 5 to 7 years.

Contributions

The Plan Sponsor makes a contribution to the Plan on an annual basis. The contribution is based upon an actuarially determined amount in accordance with the actuarial valuation.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

1. DESCRIPTION OF THE PLAN (continued)

Pension Benefits

The Plan provides for early, normal and late retirement benefits. Normal retirement is at age 65 with five years of credited service or age 52 with 30 years of credited service. Early retirement may occur at age 55 if the total of the participant's age and credited years of service are equal to at least 85. Effective September 8, 2002, credited service includes up to four years of active military service prior to employment by the MTA. A participant may retire after the established normal retirement date. Under late retirement, the monthly benefit is adjusted to reflect the additional years of service. The normal form of payment to the pensioners or their spouses is a life pension payment. The Plan also provides benefits for disability and to surviving spouses or other named beneficiaries on the death of participants receiving benefits.

Plan Termination

In the event of Plan termination, the Plan administrator will determine the share of Plan assets allocable to each participant based upon their actuarially determined liability to the total liabilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Plan's financial statements are prepared on the accrual basis of accounting. Accordingly, investment purchases and sales are recorded as of their respective trade-dates and all contributions and benefits are recorded in the period when they become due.

Investments and Valuation

The investments of the Plan are held and invested on behalf of the Plan by the Maryland State Retirement and Pension System (MSRPS). The investments are limited to those allowed for by the MSRPS. The State Personnel and Pension Article of the Annotated Code of Maryland authorizes the MSRPS to invest Plan assets in stocks, bonds, notes, certificates of indebtedness, mortgage notes, real estate, debentures or other obligations, subject to the terms, conditions, limitations and restrictions imposed by the Board of Trustees of the MSRPS.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and Valuation (continued)

As such, no more than 25% of the assets invested in common stocks may be invested in non-dividend paying common stocks. In addition, no investment in any one organization may constitute more than 5% of the total assets of the MSRPS (valued at cost). The MSRPS did not exceed either of these investment limits. The MSRPS investments are reported at fair value. For fixed income securities, fair value is based on quoted market prices provided by independent pricing services. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages and mortgage related securities are valued on the basis of future principal and interest payments and are discounted at prevailing interest rates for similar instruments. Fair value for real estate investments is based on estimated current values and independent appraisals. Fair value for alternative investments and mutual funds (other than those funds traded on a national or international exchange) is based on information provided by the applicable fund managers. The value of the Plan's interest in the trust is determined monthly by adjusting the beginning of month value of the Plan's interest in the Trust plus actual contributions and allocated investment income less actual distributions and allocated administrative expenses.

The MSRPS may invest in derivatives as permitted by guidelines established by the Board of Trustees. Compliance with these guidelines is monitored by MSRPS employees. Pursuant to such authority, MSRPS invests in foreign currency forward contracts, options, futures, swaps, collateralized mortgage obligations, mortgage related securities, interest-only and principal-only securities. No derivatives were purchased with borrowed funds.

Derivatives are generally used to hedge against foreign currency risk and changes in interest rates, improve yield and adjust the duration of MSRPS' fixed income portfolio. These securities are subject to changes in value due to changes in interest rates or currency valuations. Additionally, mortgage related securities are subject to prepayment risk when interest rates are falling. Credit risk for derivatives results from the same considerations as other counterparty risk assumed by MSRPS, which is the risk that the counterparty might be unable to meet its obligations.

Administrative and Investment Expenses

The Plan incurs administrative and investment expenses in proportion to its share of each investment pool for which it is involved. The Plan's investment expenses are funded from investment income. The administrative expenses are assessed by MSRPS. The MTA absorbs all internal administration costs related to the Plan.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosures of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Plan is established by and under the laws of the State of Maryland. As such, it is not subject to Internal Revenue Service or regulations outlined in the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA).

Recent Accounting Pronouncements

As of June 30, 2017, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 82, *Pension Issues - an Amendment of GASB Statements No. 67, No. 68, and No. 73*; GASB Statement No. 85, *Omnibus 2017* effective for the year ending June 30, 2018; and GASB Statement No. 84, *Fiduciary Activities* effective for the year ending June 30, 2020. The Plan has not completed the process of evaluating the impact that will result from adopting these GASB statements, but does not expect these GASB statements would have a material effect on the financial statements. The Plan will be adopting these GASB statements, as applicable, by their effective date.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

3. NET PENSION LIABILITY

Net Pension Liability of the Maryland Transit Administration

The components of the net pension liability of the Plan as of June 30, 2017, were as follows (Amounts in 000's):

Total Pension Liability	\$ 1,242,033
Plan Fiduciary Net Position	<u>273,000</u>
Net Pension Liability	<u>\$ 969,033</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	22.0%
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Significant assumptions underlying the actuarial valuation in determining the total pension liability as of June 30, 2017, were as follows:

Method of funding:	Level Percent of Pay Entry Age Normal
Interest Rates:	
Long-term return	8.20%
Municipal bond rate	3.58%
Bond index source	Bond Buyer GO 20-Year Bond Municipal Bond Index
Blended discount rate	4.32%
Salary increases:	Rates vary by participant service
Mortality:	Non-Disabled Retirees - RP-2014 Blue Collar tables with MP-2014 Disabled Retirees - RP-2014 Disabled Retiree table
Inflation:	Measured by the Consumer Price Index (CPI) at 3.20% per year
Cost of living adjustments	2.50% per year

Long-term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the Board of MSRPS after considering input from the System's investment consultants and actuaries. For each major asset class that is included in the target asset allocation as of June 20, 2017, these best estimates are summarized in the following table:

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

3. NET PENSION LIABILITY (continued)

Long-term Expected Rate of Return (continued)

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Public Equity	37%	6.6%
Fixed Income	10%	7.4%
Credit Opportunity	20%	1.3%
Real Return	9%	4.2%
Absolute Return	15%	4.7%
Private Equity	9%	3.7%
Total	<u>100%</u>	

The above was the Board of Trustees adopted asset allocation policy and best estimate of geometric real rates of return for each major asset class as of June 30, 2017.

For the year ended June 30, 2017, the annual money-weighted rate of return on pension plan investments, net of the pension plan investment expense, was 10.02%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 4.32%. The projection of cash flows used to determine the discount rate assumed that contributions from Plan Sponsor will be made at the current contribution rate, actuarially determined. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The foregoing actuarial assumptions are based on the presumption that the Plan will continue. If the Plan were to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated Plan benefits.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

3. NET PENSION LIABILITY (continued)

Sensitivity of the Net Pension Liability

Changes in the discount rate affect the measurement of the TPL. Lower discount rates produce a higher TPL and higher discount rates produce a lower TPL. Because the discount rate does not affect the measurement of assets, the percentage change in the NPL can be very significant for a relatively small change in the discount rate. The following presents the net pension liability, calculated using the discount rate of 4.32%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.32%) or 1-percentage-point higher (5.32%) than the current rate.

	Dollar Amounts in Thousands		
	1% Decrease 3.32%	Discount Rate 4.32%	1% Increase 5.32%
Net Pension Liability	\$ 1,164,303	\$ 969,033	\$ 810,011

4. CASH DEPOSITS AND INVESTMENTS

The cash deposits and investments of the Plan are commingled with MSRPS. MSRPS indicated that they do not have any funds or deposits that are not covered by depository insurance, which are either uncollateralized, collateralized with securities held by the pledging financial institution's trust department or agent, but not in MSRPS' name. Nor does the MSRPS have any investments that are not registered in their name and are either held by the counterparty or the counterparty's trust department or agent, but are not in MSRPS' name.

The investments included in the investment pools by MSRPS included commercial paper, U.S. government obligations, domestic corporate obligations, mortgage-related securities, domestic stocks, international obligations and international stocks. For a complete summary of the investments risk disclosure required by GASB Statement No. 40, refer to the MSRPS' separately issued financial statements.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

4. CASH DEPOSITS AND INVESTMENTS (continued)

Fair Value Measurement

Government Accounting Standards Board Statement number 72 (GASB 72), Fair Value Measurements and Application, clarifies the definition of fair value for financial reporting, establishes a framework for measuring fair value, and requires additional disclosures about the use of fair value measurements. GASB 72 established a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – observable market inputs that are unadjusted quoted prices for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 – inputs-other than quoted prices included within Level 1 – that are observable for the asset or liability, either directly or indirectly (For example, quoted prices for similar assets or liabilities in active markets).

Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The system categorized its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The plan has the following recurring fair value measurements as of June 30, 2017:

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified in Level 2 of the fair value hierarchy are valued using a combination of prevailing market prices and interest payments that are discounted at prevailing interest rates for similar instruments. Commercial and residential mortgage-backed securities classified in Level 3 are valued using discounted cash flow techniques. Collateralized debt obligations classified in Level 3 are valued using consensus pricing.

The valuation method for investments measured at net asset value (NAV) per share (or its equivalent) is presented on the following table.

Derivative instruments classified in Level 2 of the fair value hierarchy are valued using a market approach that considers benchmark interest rates and foreign exchange rates.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

4. CASH DEPOSITS AND INVESTMENTS (continued)

As of June 30, 2017, the Plan had the following recurring fair value measurements:

		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level (expressed in millions)				
Debt Securities				
U.S. Government obligations	\$ 41	\$ 41	\$ -	\$ -
Domestic corporate obligations	22	-	22	-
Emerging markets debt	1	-	-	1
Mortgages & mortgage related securities	8	-	-	8
Total debt securities	72	41	22	9
Equity Securities				
Domestic stocks (including REITs)	45	45	-	-
International stocks (including REITs)	55	55	-	-
Total equity securities	100	100	-	-
Total investment by fair value level	172	\$ 141	\$ 22	\$ 9
Investment measured at the net asset value (NAV)				
Private Funds (includes equity, real estate, credit, energy, infrastructure and timber)	\$ 48			
Real Estate-open ended	16			
Commodities	3			
Global macro	2			
Global Tactical	2			
Multi-strategy	1			
Hedge Funds				
Commodity hedge funds	2			
Equity long/short hedge funds	10			
Event-driven hedge funds	3			
Global macro	4			
Multi-strategy hedge funds	10			
Opportunistic	2			
Total investment measured at the NAV	102			
Total	\$ 274			

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

4. CASH DEPOSITS AND INVESTMENTS (continued)

Investments measured at net asset value (NAV)

	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Private Funds (includes equity, real estate, credit, energy, infrastructure and timber) (1)	\$ 48	\$ 40	-	-
Real Estate-open ended (2)	16		Quarterly	45 - 90 days
Commodities (3)	3		Monthly	5 - 30 days
Global macro (4)	2		Weekly	3 days
Global tactical (5)	2		Monthly	5 days
Multi-strategy (6)	1		Weekly	3 days
Hedge Funds				
Commodities (3)	2		Monthly	30 - 60 days
Equity long/short (7)	10		Monthly	30 - 45 days
Event-drive (8)	3		Annual	45 days
Global macro (4)	4		Monthly	5 days
Multi-asset (9)	0		N/A	Liquidating
Multi-strategy (6)	10		Quarterly	60 - 90 days
Opportunistic (10)	1		Annual	90 days
Total	<u>\$ 102</u>	<u>\$ 40</u>		

1. Private funds (includes equity, credit, energy, infrastructure, real estate and timber). This type includes 236 Global private funds which cannot be redeemed. Instead, distributions are received through the liquidation of the underlying assets of the fund. These funds are valued based individual audited financial statements and assumptions used by fund managers.
2. Real estate funds – open ended. This type includes 5 domestic open-ended real estate funds, which can be liquidated. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets.
3. Commodities. This asset type includes 6 investments of which 3 have a non-hedge fund structure with 2 of the funds being liquid within 30 days and 1 currently being liquidated. The 3 hedge funds have a 60 day liquidity structure; however 2 of the funds have a 2 year lock-up and the other has a one year lock-up. The investments include a wide range (oil products, natural gas, currencies, grains, livestock, agriculture, etc.) of commodities that are domestic and international; however, the primary focus is domestic.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

4. CASH DEPOSITS AND INVESTMENTS (continued)

The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets.

4. Global macro. This category includes 1 hedge fund and 1 non-hedge fund investment which invest in over 100 financial markets. The funds are diversified and take long, short and spread positions. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets. These assets have a liquidity structure which ranges from 3 to 5 days.
5. Global tactical. This category has 2 non-hedge funds which invest in developed global equity, fixed income and currency markets. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets. These assets have a liquidity structure which ranges from 2 to 5 days.
6. Multi-strategy. These hedge funds include 2 diversified fund of funds. Both funds in this category are currently being redeemed. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets.
7. Equity long/short. This type includes investments in 8 hedge funds that invest both long and short primarily in U.S. common stocks. Management of each hedge fund has the ability to shift investment from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets. These assets have a liquidity structure which ranges from 30 to 60 days; however, 2 funds have a two-year lock-up and 3 of the funds have a three-year lock-up.
8. Event-driven. This type includes 3 investments in credit hedge funds that invest in equities and bonds of companies at risk of or in the process of reorganizing to profit from economic, political, corporate and government-driven events. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets. One of these funds is currently in liquidation. The other two funds have a 45 to 60 day liquidity structure; one fund has a 1 year and the other fund a 2 year lock-up.
9. Multi-asset. This category includes 7 funds, of which 6 are hedge funds with a liquidity structure between 60 and 90 days, which includes 1 fund with a 2 year lock-up. The 1 non-hedge fund has a 3 business day liquidity structure. These funds invest in a wide range of strategies. The fair values of the funds within this type have been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2017

4. CASH DEPOSITS AND INVESTMENTS (continued)

10. Opportunistic. Currently there is 1 hedge fund in this category which invests in re-insurance for catastrophe risk (mostly hurricane and earthquake). This fund has a 1 year lock-up. The fair value of this fund has been determined using the NAV per share, which has been valued by the fund based on the characteristics of the underlying assets.

5. BENEFITS PAYABLE

Benefits payable consist of the amounts currently due to pensioners as of June 30, 2017.

6. RISKS AND UNCERTAINTIES

The Plan may invest in various types of investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is possible that changes in the values of investment securities may occur in the near term, and that such changes could materially affect the amounts reported in the statement of net assets held in trust available for plan benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates and employee demographics, all of which are subject to change. It is at least reasonably possible that changes in these assumptions in the near term could materially affect the amounts reported and disclosed in the accompanying financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Schedule of Changes in Net Position Liability and Related Ratios For the Year Ended June 30, 2017 (Amounts in 000's)

	2017	2016	2015	2014
Total Pension Liability				
Service cost (beginning of year)	\$ 36,334	\$ 48,499	\$ 24,718	\$ 19,438
Interest (includes interest on service cost)	57,881	31,181	39,237	43,472
Changes of benefit terms	2,133	82,510	-	-
Differences between expected and actual experience	(20,741)	(15,024)	(19,621)	4,025
Changes of assumptions	(153,874)	338,950	53,480	38,643
Benefit payments, including refunds of member contributions	(39,062)	(35,283)	(30,636)	(32,598)
Net Change in Total Pension Liability	(117,329)	450,833	67,178	72,980
Total pension liability, beginning	1,359,362	908,529	841,351	768,371
Total Pension Liability, Ending (a)	\$ 1,242,033	\$ 1,359,362	\$ 908,529	\$ 841,351
Plan Fiduciary Net Position				
Contributions - employer	\$ 40,997	\$ 40,997	\$ 38,361	\$ 39,749
Contributions - member	3,094	-	-	-
Net investment income	27,740	3,513	8,279	28,742
Benefit payments, including refunds of member contributions	(39,062)	(38,243)	(30,636)	(32,598)
Administrative expenses	(1,914)	(1,967)	(1,851)	(2,057)
Net Change in Plan Fiduciary Net Position	30,855	4,300	14,153	33,836
Plan fiduciary net position, beginning	242,145	237,845	223,692	189,856
Plan Fiduciary Net Position, Ending (b)	\$ 273,000	\$ 242,145	\$ 237,845	\$ 223,692
Net Pension Liability - Ending (a) - (b)	\$ 969,033	\$ 1,117,217	\$ 670,684	\$ 617,659
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	21.98%	18.01%	25.12%	25.11%
Covered-employee Payroll	\$ 137,154	\$ 137,427	\$ 135,545	\$ 137,596
Net Position Liability as a Percentage of Covered-Employee Payroll	706.53%	812.95%	494.81%	448.89%

Notes:

Changes of assumptions: FY16 reflects an increase to the effective discount rate from 3.50% to 4.32%. a decrease to the wage growth assumption from 3.50% to 3.20%, and changes to the salary scale, retirement rates, and termination rates.

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, pension plans should present information for those years for which the information is available.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

**Schedule of Employer Contributions
For the Year Ended June 30, 2017 (Amounts in 000's)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 62,217	\$ 44,736	\$ 40,807	\$ 39,749
Contributions in relation of the actuarially determined contribution	<u>40,997</u>	<u>40,997</u>	<u>35,400</u>	<u>39,749</u>
Contribution Deficiency (Excess)	<u>\$ 21,220</u>	<u>\$ 3,739</u>	<u>\$ 5,407</u>	<u>\$ -</u>
Covered-employee Payroll	\$ 137,154	\$ 137,427	\$ 135,545	\$ 137,596
Contributions as a Percentage of Covered-Employee Payroll	29.89%	29.83%	26.12%	28.89%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, pension plans should present information for those years for which the information is available.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Schedule of Investment Returns For the Year Ended June 30, 2017

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expenses	10.02%	1.46%	3.70%	14.38%

*This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is complied, pension plans should present information for those years for which the information is available.