

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

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

For the Fiscal Year Ended June 30, 2013



SB & COMPANY, LLC
EXPERIENCE • QUALITY • CLIENT SERVICE

June 30, 2013

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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 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, 2013, 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.



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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 financial position of the Plan as of June 30, 2013, 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 funding progress, and schedule of contributions required as listed in the table of contents, 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 6, 2013

SB & Company, LLC

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Management Discussion and Analysis As of June 30, 2013

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, 2013 and 2012. 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 \$17.7 million during the year from \$171.7 million as of June 30, 2012, to \$189.4 million as of June 30, 2013. The increase is due to more favorable market gains year over year. The Plan had a net investment gain of \$19.6 million for the year ended June 30, 2013, compared to a net investment gain of \$2.2 million for the year ended June 30, 2012.
- Employer contributions decreased from \$32.9 million for the year ended June 30, 2012 to \$29.5 million for the year ended June 30, 2013. Additionally, contributions receivable decreased \$6.7 million dollars from the prior year due to timing.

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 8-13 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, 2013. Required supplementary information can be found on pages 15-17 of this report.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Management Discussion and Analysis

As of June 30, 2013

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 2013 Compared to 2012

Cash and cash equivalents and investments, at fair value, comprised 99% and 95% of the total assets held in trust available for benefits as of June 30, 2013 and 2012, respectively.

The following schedule depicts the balances of the Plan's investments and the change from 2012 to 2013. The \$14.6 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, 2013.

	Dollar Amounts in Thousands			
	As of June 30,			
	2013	2012	Variance	% Change
Assets				
Cash and cash equivalents	\$ 10,578	\$ 7,949	\$ 2,629	33%
U.S. Government obligations	16,593	14,247	2,346	16%
Domestic corporate obligations	12,885	12,380	505	4%
International obligations	7,477	5,760	1,717	30%
Domestic stocks	38,577	35,251	3,326	9%
International stocks	36,576	35,954	622	2%
Mortgages and mortgage related securities	9,644	11,007	(1,363)	-12%
Real estate	-	22	(22)	-100%
Alternative investments	57,040	42,395	14,645	35%
Total cash, cash equivalents and investments	\$ 189,370	\$ 164,965	\$ 24,405	15%

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Management Discussion and Analysis

As of June 30, 2013

Fiscal Year 2013 Compared to 2012 (continued)

As depicted in the schedule below, employer contributions were less than expected. The decrease in the amount of \$3.3 million contributed to the actuarial net asset loss. Interest income increased significantly during the year ended June 30, 2013, due to market performance. Administrative expenses increased by 21% due to several factors, most notably the increase in management and advisory fees.

	Dollar Amounts in Thousands For the Years Ended June 30,			
	2013	2012	Variance	% Change
Additions				
Interest income	\$ 16,528	\$ 5,921	\$ 10,607	179%
Increase in fair market value	3,115	(3,702)	6,817	184%
Employer contributions	29,519	32,859	\$ (3,340)	-10%
Total Additions	49,162	35,078	14,084	40%
Deductions				
Benefit payments	30,305	28,638	1,667	6%
Administrative expenses	1,138	943	195	21%
Total Deductions	31,443	29,581	1,862	6%
Net Increase in Plan Net Position	\$ 17,719	\$ 5,497	\$ 12,222	222%

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, 2013 (Amounts in 000's)

ASSETS	
Cash and cash equivalents	<u>\$ 10,578</u>
Investments:	
U.S. Government obligations	16,593
Domestic corporate obligations	12,885
International obligations	7,477
Domestic stocks	38,577
International stocks	36,576
Mortgages and mortgage related securities	9,644
Alternative investments	<u>57,040</u>
Total investments	<u>178,792</u>
Receivables:	
Due from Maryland State Retirement System	<u>2,556</u>
Total Assets	<u><u>191,926</u></u>
LIABILITIES	
Benefits payable	<u>2,556</u>
Net Position Held in Trust for Pension Benefits	<u><u>\$ 189,370</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 Plan Benefits For the Year Ended June 30, 2013 (Amounts in 000's)

ADDITIONS

Investment income:

Interest income \$ 16,528

Net appreciation in fair value of investments 3,115

Total investment income 19,643

Employer contributions 29,519

Total Additions 49,162

DEDUCTIONS

Benefit payments 30,305

Administrative expenses 1,138

Total Deductions 31,443

Net increase 17,719

Net position held in trust for pension benefits, beginning of year 171,651

Net Position Held in Trust for Pension Benefits, End of Year \$ 189,370

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

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2013

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, 2013:

	<u>As of June 30, 2013</u>
Retirees and beneficiaries receiving payments	1,609
Terminated vested plan members	495
Active members	<u>2,750</u>
Total Membership	<u><u>4,854</u></u>

Vesting

Plan participants hired before April 19, 2013 become fully vested after five 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, 2013

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, 2013

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, 2013

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

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, and Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, effective for periods beginning after December 15, 2012. In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*, and Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, effective for periods beginning after June 15, 2013, and 2014, respectively. In January 2013, GASB issued Statement No. 69, *Government Combination and Disposals of Government Operations*, effective for periods beginning after December 15, 2013. In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Non-exchange Guarantees*, effective for periods beginning after June 15, 2013. The Plan will implement these statements as of their effective dates. While Plan management is still in the process of determining the effect of implementing these GASB statements, it is not expected that these statements will have a material effect on the financial position of the Plan.

3. FUNDING POLICY

The accumulated plan benefits are those future payments that are attributable under the Plan's provisions to the service that employees have already rendered. Accumulated plan benefits include benefits expected to be paid to (a) retired or terminated employees or their beneficiaries, (b) beneficiaries of employees who have died, and (c) present employees or their beneficiaries. Accumulated plan benefits for all employees are based on the employee's compensation and credited service to the date for which the benefit information is presented (the valuation date).

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2013

3. FUNDING POLICY (continued)

Benefits payable under all circumstances (retirement, death and termination of employment) are included to the extent they are deemed attributable to employee service rendered to the valuation date.

The actuarial present value of the accumulated plan benefits is determined by an independent actuary and is the amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements for death, withdrawal or retirement) between the valuation date and the expected date of payment.

Significant assumptions underlying the actuarial valuation as of July 1, 2013, were as follows:

Amortization method:	Level dollar
Remaining amortization period:	12.7 years, weighted average, closed
Method of funding:	Entry age normal, level dollar
Investment return:	7.70% compounded annually
Salary increases:	3.50-9.50% compounded annually
Mortality:	Non-Disabled Retirees - RP2000 Disabled Retirees - RP2000 Disabled Retiree Mortality
Inflation:	3.50%
Cost of living adjustments	None assumed

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.

The funding status and annual required contributions (ARC) are summarized below based on the actuarial valuation as of June 30, 2013 and 2012.

	(Amounts in 000's)	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Actuarial accrued liability for benefits	\$ 495,101	\$ 451,288
Less: Actuarial value of assets	210,737	200,260
Unfunded accrued liability	<u>\$ 284,364</u>	<u>\$ 251,028</u>

As of June 30, 2013, the Plan was 43% funded. The covered payroll of active members was \$137,596,326, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 206.7%.

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Financial Statements

June 30, 2013

3. FUNDING POLICY (continued)

For the year ended June 30, 2013, the ARC was approximately \$34.5 million. The actual employer contribution for fiscal year ended June 30, 2013, was \$29.8 million resulting in an 85% contribution rate.

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.

5. BENEFITS PAYABLE

Benefits payable consist of the amounts currently due to pensioners as of June 30, 2013.

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 Funding Progress
As of June 30, 2013**

Actuarial Valuation Date June 30,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as of % of Covered Payroll
2004	\$ 95,219,082	\$ 260,422,300	\$ 165,203,218	37%	\$ 126,168,574	130.9%
2005	101,810,492	261,536,237	159,725,745	39%	121,414,547	131.6%
2006	112,230,158	112,230,158	188,639,124	100%	128,805,869	146.5%
2007	124,495,594	322,596,796	198,101,202	39%	135,098,100	146.6%
2008	136,294,419	326,988,360	190,693,941	42%	144,775,228	131.7%
2009	143,320,000	337,667,000	194,348,000	42%	151,559,520	128.2%
2010	162,755,825	426,040,805	263,284,980	38%	145,028,614	181.5%
2011	187,917,728	433,637,216	245,719,488	43%	147,474,199	166.6%
2012	200,259,694	451,288,292	251,028,598	44%	152,276,494	164.9%
2013	210,736,651	495,100,701	284,364,050	43%	137,596,326	206.7%

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Schedule of Contributions Required and Made As of June 30, 2013

Fiscal Year Ended June 30,	Annual Required Contributions (ARC)	Annual Contributions Made	Percentage Contributed
2004	\$ 18,441,664	\$ 19,187,213	104%
2005	20,613,824	19,695,388	96%
2006	20,435,158	20,435,158	100%
2007	24,244,653	20,872,239	86%
2008	24,731,871	24,244,653	98%
2009	24,782,204	27,254,118	110%
2010	26,151,368	37,761,000	144%
2011	33,928,274	47,528,274	140%
2012	32,859,285	32,859,285	100%
2013	34,582,249	29,518,757	85%

MARYLAND TRANSIT ADMINISTRATION PENSION PLAN

Notes to the Required Supplementary Information June 30, 2013

1. DESCRIPTION OF SCHEDULE OF FUNDING PROGRESS

The Schedule of Funding Progress summarizes the actuarial value of the Plan's assets and actuarial accrued liability as of June 30, 2013, and each of the nine preceding fiscal years. The data presented in the schedule were obtained from the Plan's independent actuary's annual valuation report for each year presented.

The schedule is presented to provide a consistent basis for measuring the Plan's annual progress toward funding its actuarial accrued liability in accordance with its actuarial funding method. The primary measure of funding progress is the Plan's funded ratio (i.e., actuarial value of assets expressed as a percentage of the actuarial accrued liability). An increase in the funded ratio indicates improvement in the Plan's ability to pay all projected benefits as they become due. The Plan is fully funded if the funded ratio is greater than or equal to 100%. During the year ended June 30, 2013, the Plan's funded ratio decreased to 43% from 44%.

The Schedule of Funding Progress also discloses the relationship between the Plan's covered payroll (i.e., all elements included in compensation paid to active members on which contributions are based) and the unfunded actuarial accrued liability. This relationship, expressed as a ratio, is a measure of the significance of the unfunded actuarial accrued liability relative to the capacity to pay all contributions required to fund the liability. During the year ended June 30, 2013, the Plan's ratio of the unfunded actuarial accrued liability to its covered payroll went from 165% to 207%.