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COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Financial Statements and Supplementary Information

December 31, 2013 and 2012

(With Independent Auditors' Report Thereon)

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

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Independent Auditors' Report

The Board of Directors
Commuter Rail Division of the
Regional Transportation Authority and the
Northeast Illinois Regional Commuter Railroad Corporation
(Both d/b/a Metra):

Report on the Financial Statements

We have audited the accompanying financial statements of the Commuter Rail Division of the Regional Transportation Authority and the Northeast Commuter Railroad Corporation, both d/b/a Metra (Metra), as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the 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 U.S. generally accepted accounting principles; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commuter Rail Division of the Regional Transportation Authority and the Northeast Commuter Railroad Corporation, both d/b/a Metra, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the management's discussion and analysis and schedule of funding progress on pages 3 through 19 and page 46, respectively, 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.

Other Information

Our audits were conducted for the purpose of forming an opinion on Metra's basic financial statements. The schedule of revenues and expenses – budget to actual (budgetary basis), the budgetary basis schedule of operations, and notes to supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of revenues and expenses – budget to actual (budgetary basis), the budgetary basis schedule of operations, and notes to supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 15, 2014 on our consideration of Metra's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Metra's internal control over financial reporting and compliance.

KPMG LLP

Chicago, Illinois
May 15, 2014

Management's Discussion and Analysis

Management's discussion and analysis of the Commuter Rail Division of the Regional Transportation Authority and the Northeast Illinois Regional Commuter Railroad Corporation (A Public Corporation) (Both d/b/a Metra) (Metra) offers an analysis of Metra's financial performance during the years ended December 31, 2013 and 2012. Management's discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts. Please read it in conjunction with Metra's financial statements, which begin on page 20.

Basic Financial Statements

The *Statements of Net Position* present current and noncurrent assets and liabilities on a full accrual basis. Assets are recognized when acquired and liabilities are recognized when goods and services are provided to Metra.

The *Statements of Revenues, Expenses and Changes in Net Position* present Metra's revenues, expenses and the net impact these activities had on its fiscal well-being, identified as "Change in net position." Recognition of revenues and expenses is often distinct from the related cash transactions, because under the accrual method, revenues are recognized when earned and expenses are recognized when incurred.

The *Statements of Cash Flows* present information relating to operating activities, noncapital and related financing activities, capital and related financing activities, and investing activities. The net change in cash and cash equivalents provides a view of Metra's ability to meet financial obligations as they mature.

Notes to the financial statements are an integral component of the report, because important background information that may not be reflected on the face of the statements is disclosed. Details on Metra's accounting policies, cash holdings, capital assets, and other important areas may be found in the notes.

Financial Summary

2013 Financial Summary

- *Net position* increased $111.8 million to $3.0 billion at December 31, 2013. Net position represents total assets minus total liabilities.
- *Capital assets – net* increased $92.6 million during 2013 reflecting new capital acquisitions less depreciation incurred in 2013.
- *Passenger revenue* increased $8.3 million or 2.8% in 2013.
- *Other operating revenue* decreased by $0.8 million 1.4% to $54.6 million in 2013.
- *Nonoperating revenues increased* $45.1 million 7.4% to $654.9 million in 2013.
- *Total operating expenses* before depreciation increased $27.9 million 4.1% to $704.4 million during 2013.

Financial Analysis

Following are condensed comparative financial statements, which highlight key financial data. Certain significant year-to-year variances are discussed following each respective statement.

2013 vs 2012 Analysis

Statements of Net Position

Total net position represents the difference between total assets and total liabilities. As shown in Table 1a, Metra's total net position at December 31, 2013 increased to $3.0 billion, a 3.9% increase from December 31, 2012. This is primarily due to increases in net capital assets and current assets. Current assets increased 20.4% to $305.3 million primarily due to increase in cash and cash equivalents, other receivables, financial assistance receivables and partially offset by a decrease in material and supplies and grant project receivables, net. Current liabilities increased by 14.2% to $166.5 million primarily due to increase in accounts payable, wages and benefits payable, deferred revenue and financial assistance payable – other carriers and was partially offset by decrease in current portion of the claims liability. Long-term liabilities increased by 7.9% to $129.5 million primarily due to increase in long-term accrued claims, a provision for asbestos removal from out of service Highliner cars, and a provision for postretiree health benefits, partially offset by decreases in the amounts payable for leasehold transaction.

Table 1a

Condensed Statements of Net Position

(Amounts in millions)

		December 31		Change increase (decrease)	
Assets		**2013**	**2012**	**Dollars**	**Percent**
Current assets	$	305.3	253.5	51.8	20.4%
Capital assets – net		2,893.4	2,800.8	92.6	3.3
Restricted assets		105.7	108.1	(2.4)	(2.2)
Total assets	$	3,304.4	3,162.4	142.0	4.5%
Liabilities					
Current liabilities	$	166.5	145.8	20.7	14.2%
Long-term liabilities		129.1	119.6	9.5	7.9
Total liabilities	$	295.6	265.4	30.2	11.4%
Net Position					
Net investment in capital assets	$	2,893.4	2,800.8	92.6	3.3%
Unrestricted net assets		115.4	96.2	19.2	20.0
Total net position	$	3,008.8	2,897.0	111.8	3.9%

(Continued)

Key changes include:

- *Current assets* increased by $51.8 million or 20.4% to $305.3 million primarily due to increases in cash and cash equivalents, other receivables and financial assistance receivable, which were partially offset by a decrease in grant project receivable and material and supplies.
- *Capital assets* – net increased by $92.6 million or 3.3% to $2.9 billion primarily due to the increases in Capital projects in progress related to the progress payments made for the acquisition of 160 new highliner cars for the Metra Electric District.
- *Restricted assets* decreased by $2.4 million. (See note 7 to the financial statements for details on the leasehold transaction).
- *Current liabilities* increased by $20.7 million or 14.2% to $166.5 million primarily due to increases in accounts payable, wages and benefits payable, financial assistance payable – other carriers and deferred revenues, which were partially offset by the decrease in the current portion of the accrued claims liability.
- *Long-term liabilities* increased by $9.5 million or 7.9% to $129.1 million primarily due to the increase in long-term portion of accrued claims and provision for postretiree health benefits that were partially offset by decreases in the long-term portion amounts payable for the leasehold transaction. (See note 7 to the financial statements for details on the leasehold transaction).

Statement of Revenues, Expenses, and Changes in Net Position

	Year ended December 31		Change increase (decrease)	
	2013	**2012**	**Dollars**	**Percent**
Operating revenues:				
Passenger revenue	$ 309.4	301.1	8.3	2.8%
Other revenue	54.6	55.4	(0.8)	(1.4)
Total operating revenues	364.0	356.5	7.5	2.1
Operating expenses:				
Transportation	224.0	211.4	12.6	6.0
Fuel and motive power	83.7	83.5	0.2	0.2
Maintenance of way	127.5	124.1	3.4	2.7
Maintenance of equipment	150.5	147.8	2.7	1.8
Administration	62.7	50.0	12.7	25.4
Claims, insurance and risk management	18.1	22.2	(4.1)	(18.5)
Regional services	23.9	23.3	0.6	2.6
Downtown stations	14.0	14.2	(0.2)	(1.4)
Total operating expenses before depreciation	704.4	676.5	27.9	4.1
Operating income (loss) before depreciation	(340.4)	(320.0)	20.4	(6.4)
Depreciation expense	202.8	211.4	(8.6)	(4.1)
Operating income (loss) after depreciation expense	(543.2)	(531.4)	11.8	(2.2)
Nonoperating revenues:				
Financial assistance	654.9	609.8	45.1	7.4
Total nonoperating revenues	654.9	609.8	45.1	7.4
Change in net position	$ 111.7	78.4	33.3	42.5%

Total operating revenues increased by $7.5 million or 2.1% from 2012. Principal changes are discussed below:

Passenger revenue increased $8.3 million or 2.8% in 2013. This increase was due to an overall ridership increase of 1.2%. Below is a table comparing ridership by line for 2013 and 2012:

Ridership By Line

(In thousands of Riders)

Rail line	2013*	2012*	Increase (decrease)	Percent
Burlington Northern/Santa Fe	16,554	16,360	194	1.2%
Metra Electric	9,556	9,673	(117)	(1.2)
Heritage Corridor	704	683	21	3.1
Milwaukee-North	7,041	6,893	148	2.1
Milwaukee-West	6,831	6,860	(29)	(0.4)
North Central Service	1,685	1,690	(5)	(0.3)
Rock Island	8,589	8,491	98	1.2
SouthWest Service	2,606	2,531	75	3.0
Union Pacific-North	9,270	9,056	214	2.4
Union Pacific-Northwest	11,180	11,025	155	1.4
Union Pacific-West	8,252	8,008	244	3.0
Total ridership	82,268	81,270	998	1.2

* Includes free senior rides; does not include NICTD.

Other revenue decreased by $0.8 million or 1.4%. Decreases in rental income, miscellaneous income and half fare subsidy were partially offset by increases in capital grant credits, advertising and investment income.

Nonoperating revenues increased by $45.1 million or 7.4% to $654.9 million in 2013 primarily because of Metra's external funding sources for capital grants increased $24.7 million to $290.8 million and Metra's statutory share of Regional Transportation Authority (RTA) Sales Tax and Public Transportation Funds proceeds increased by 6.0% to $364.2 million.

Total operating expenses before depreciation increased by $27.9 million or 4.1% from 2012. In general, labor and fringe benefits increased due to contract employees' wage increases were partially offset by a 18.5% decrease in claims, insurance and risk management expenses. Diesel fuel expense increased 2.5%, from $76.2 million to $78.1 million, due to a 3.0% increase in usage. The average cost per gallon of diesel fuel in 2013 was $3.07 versus $3.08 in 2012. Motive power expense decreased 23.3%, from $7.3 million to $5.6 million in 2013 primarily due to a 16.3% decrease in the price per kilowatt hour along with decrease in usage.

Capital Assets

As of December 31, 2013, Metra had invested approximately $6.6 billion in capital assets including land, stations, maintenance facilities, rolling stock, track, structures, and signal and communication equipment as well

(Continued)

as other support equipment. Net of accumulated depreciation, Metra's net capital assets at December 31, 2013 totaled approximately $2.9 billion (See Table 3a below). This amount represents a net increase (including additions and disposals, net of depreciation) of $92.6 million or 3.3% over the December 31, 2012 balance.

Table 3a

Capital Assets by Funding Source

Current Year to Prior Year Analysis

(Amounts in millions of dollars)

Funding source		**December 31 2013**	**December 31 2012**	**Change increase (decrease) Dollars**	**Change increase (decrease) Percent**
Federal Transit Administration	$	3,179.9	3,073.9	106.0	3.4%
Illinois Department of Transportation		590.3	542.7	47.6	8.8
Regional Transportation Authority		1,874.3	1,754.9	119.4	6.8
Northern Indiana Commuter Transportation District		6.4	6.4	—	—
Metra		970.4	948.0	22.4	2.4
Total capital assets		6,621.3	6,325.9	295.4	4.7
Accumulated depreciation		(3,727.9)	(3,525.1)	(202.8)	5.8
Total capital assets, net	$	2,893.4	2,800.8	92.6	3.3

Major capital asset expenditures during 2013 included the following:

- Metra's *Rolling Stock* program seeks to ensure that an adequate number of locomotives and commuter railcars are available to meet the current and future service needs of the system. This program includes rehabilitation of, and improvements to existing vehicles. Metra made progress payments totaling $111.6 million in 2013 toward the purchase of 160 new highliner cars for the Metra Electric District and obtained delivery of 56 highliner cars in 2013. The progress payments were $111.6 million for purchase of new rolling stock in 2012. Metra expended $19.7 million and $36.5 million for 2013 and 2012, respectively, to upgrade and maintain its existing fleet through rehabilitations and replacement of major subassemblies.
- The *Track and Structure* program provides for the continued rehabilitation and upgrading of Metra's commuter railroad rights-of-way. In addition to maintaining operational safety, the rehabilitation of track and structures results in reduced train running times, fewer interruptions in service, greater passenger comfort, and efficient use of plant and equipment. Metra has developed a cyclical program of track rehabilitation, which includes all commuter rail lines within the region. Project priorities are decided based on train volumes, speed restrictions, age and condition of the roadbed, and track speeds essential to maintaining on-time performance. Structure projects serve objectives that are similar to those of the track

program. Since 1990, when Metra's comprehensive plan for bridge rehabilitation and replacement began, the structure program has focused on the commuter rail bridges identified as high priorities for action. The 2013 Capital Program continued the implementation of this plan by expending $102.1 million in funding for the rehabilitation, replacement and upgrade of bridges, track and structures.

- *Signaling, Electrical and Communications* systems and equipment improvements are designed to maximize commuter operating efficiencies, maintain reliability of rail service and provide a safe system of dispatching and centrally control train movements. Signaling systems and switches control usage of track. Much of this equipment is concentrated at "interlockings," which are control systems where two railroads cross each other or where many trains change tracks. The smooth, dependable operation of these interlockings is critical for maintaining on-time performance. Metra also continues its program to improve communication systems allowing for the provision of timely information to its customers. Signaling, electrical and communications expenditures in 2013 and 2012 were $43.3 million and $36.0 million, respectively.
- *Metra's Support Facilities and Equipment* includes maintenance yards, layover and storage facilities, and support vehicles and equipment that are essential to maintaining reliable and efficient commuter services. Support facilities and equipment expenditures in 2013 and 2012 were $3.7 million and $4.0 million, respectively.
- *Commuter Stations* are portals to the Metra system and very often to the communities in which they are placed. Stations must be functional and compliant with the American Disabilities Act, as well as inviting. Commuter stations expenditures in 2013 and 2012 were $13.3 million and $11.2 million, respectively.
- The *Commuter Parking* program is designed to expand parking capacity to relieve overcrowding at existing facilities and to accommodate future ridership growth. Both station and parking improvements are performed in a manner to ensure conformance with the requirements of the Americans with Disabilities Act. Commuter parking expenditures in 2013 and 2012 were $1.7 million and $3.0 million, respectively.

2012 vs 2011 Analysis

Statements of Net Position

Total net position represents the difference between total assets and total liabilities. As shown in Table 1b, Metra's total net position at December 31, 2012 increased to $2.9 billion, a 2.8% increase from December 31, 2011. This is primarily due to increases in net capital assets and current assets. Current assets increased 12.8% to $253.5 million primarily due to increase in cash and cash equivalents, grant projects receivables, financial assistance receivables and partially offset by a decrease in other receivables, net. Current liabilities increased by 4.8% to $145.8 million primarily due to increase in accounts payable and deferred revenue, and was partially offset by decrease in wages and benefits payable, financial assistance payable – other carriers and current portion of the claims liability. Long-term liabilities increased by 1.1% to $119.6 million primarily due to increase in long-term accrued claims and provision for postretiree health benefits was partially offset by decreases in the amounts payable for leasehold transaction.

Table 1b

Condensed Statements of Net Position

(Amounts in millions)

		December 31		Change increase (decrease)	
Assets		**2012**	**2011**	**Dollars**	**Percent**
Current assets	$	253.5	224.7	28.8	12.8%
Capital assets – net		2,800.8	2,740.9	59.9	2.2
Restricted assets		108.1	110.4	(2.3)	(2.1)
Total assets	$	3,162.4	3,076.0	86.4	2.8
Liabilities					
Current liabilities	$	145.8	139.1	6.7	4.8
Long-term liabilities		119.6	118.3	1.3	1.1
Total liabilities	$	265.4	257.4	8.0	3.1
Net Position					
Invested in capital assets	$	2,800.8	2,740.9	59.9	2.2
Unrestricted net assets		96.2	77.7	18.5	23.8
Total net position	$	2,897.0	2,818.6	78.4	2.8%

(Continued)

Key changes include:

- *Current assets* increased by $28.8 million or 12.8% to $253.5 million primarily due to increases in cash and cash equivalents, grant project receivables and financial assistance receivable which were partially offset by a decrease in other receivable, net.
- *Capital assets – net* increased by $59.9 million or 2.2% to $2.8 billion primarily due to the increases in Capital projects in progress related to the progress payments made for the acquisition of 160 new highliner cars for the Metra Electric District.
- *Restricted assets* decreased by $2.3 million. (See note 7 to the financial statements for details on the leasehold transaction).
- *Current liabilities* increased by $6.7 million or 4.8% to $145.8 million primarily due to increases in deferred revenues and accounts payable which were partially offset by decreases in wages and benefits payable, financial assistance payable – other carriers, and the current portion of the accrued claims liability.
- *Long-term liabilities* increased by $1.3 million or 1.1% to $119.6 million primarily due to the increase in long-term portion of accrued claims and provision for post retiree health benefits that were partially offset by decreases in the long-term portion amounts payable for the leasehold transaction. (See note 7 to the financial statements for details on the leasehold transaction).

Statement of Revenues, Expenses, and Changes in Net Position

Table 2a

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

(Amounts in millions)

	Year ended December 31		Change increase (decrease)	
	2012	**2011**	**Dollars**	**Percent**
Operating revenues:				
Passenger revenue	$ 301.1	245.5	55.6	22.6%
Other revenue	55.4	57.8	(2.4)	(4.2)
Total operating revenues	356.5	303.3	53.2	17.5
Operating expenses:				
Transportation	211.4	206.7	4.7	2.3
Fuel and motive power	83.5	82.2	1.3	1.6
Maintenance of way	124.1	123.9	0.2	0.2
Maintenance of equipment	147.8	137.1	10.7	7.8
Administration	50.0	46.2	3.8	8.2
Claims, insurance and risk management	22.2	14.1	8.1	57.4
Regional services	23.3	19.9	3.4	17.1
Downtown stations	14.2	14.3	(0.1)	(0.7)
Total operating expenses before depreciation	676.5	644.4	32.1	5.0
Operating income (loss) before depreciation	(320.0)	(341.1)	(21.1)	6.2
Depreciation expense	211.4	215.5	(4.1)	(1.9)
Operating income (loss) after depreciation expense	(531.4)	(556.6)	(25.2)	4.5
Nonoperating revenues:				
Financial assistance	609.8	717.9	(108.1)	(15.1)
Total nonoperating revenues	609.8	717.9	(108.1)	(15.1)
Change in net position	$ 78.4	161.3	(82.9)	(51.4)%

Total operating revenues increased by $53.2 million or 17.5% from 2011. Principal changes are discussed below:

Passenger revenue increased by $55.6 million or 22.6% in 2012. This increase was due to a fare increase of 25.1%, implemented in February 2012, offset in part by an overall ridership decrease of 1.7%. Below is a table comparing ridership by line for 2012 and 2011:

Ridership By Line

(In thousands of Riders)

Rail line	2012*	2011*	Increase (decrease)	Percent
Burlington Northern/Santa Fe	16,360	16,571	(211)	(1.3)%
Metra Electric	9,673	10,029	(356)	(3.5)
Heritage Corridor	683	706	(23)	(3.3)
Milwaukee-North	6,893	7,014	(121)	(1.7)
Milwaukee-West	6,860	7,052	(192)	(2.7)
North Central Service	1,690	1,686	4	0.2
Rock Island	8,491	8,599	(108)	(1.3)
SouthWest Service	2,531	2,558	(27)	(1.1)
Union Pacific-North	9,056	9,442	(386)	(4.1)
Union Pacific-Northwest	11,025	11,052	(27)	(0.2)
Union Pacific-West	8,008	7,948	60	0.8
Total ridership	81,270	82,657	(1,387)	(1.7)

* Includes free senior rides; does not include NICTD.

Other revenue decreased by $2.4 million or 4.2%. Decreases in capital grant credits, joint facility income from other railroad and rental income were partially offset by increases in miscellaneous and investment income.

Nonoperating revenues decreased by $108.1 million or 15.1% to $609.8 million in 2012 primarily because Metra's external funding sources for capital grants decreased $82.1 million to $248.7 million. The decline was partially offset by an increase in Metra's statutory share of Regional Transportation Authority (RTA) sales tax proceeds by 4.6% to $343.7 million.

Total operating expenses before depreciation increased by $32.1 million or 5.0% from 2011. In general, labor and fringe benefits increased due to contract employees' wage increases combined with a 57.4% increase in claims, insurance and risk management expenses. Diesel fuel expense increased 3.3%, from $73.8 million to $76.2 million, due to a 2.2% increase in the average cost per gallon of diesel fuel of $3.08 in 2012 versus $3.01 in 2011. Motive power expense decreased 13.4%, from $8.4 million to $7.3 million in 2012 primarily due to a 12.6% decrease in the price per kilowatt hour along with decrease in usage.

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Capital Assets

As of December 31, 2012, Metra had invested approximately $6.3 billion in capital assets including land, stations, maintenance facilities, rolling stock, track, structures, and signal and communication equipment as well as other support equipment. Net of accumulated depreciation, Metra's net capital assets at December 31, 2012 totaled approximately $2.8 billion (See Table 3b below). This amount represents a net increase (including additions and disposals, net of depreciation) of $59.9 million or 2.2% over the December 31, 2011 balance.

Table 3b

Capital Assets by Funding Source

Current Year to Prior Year Analysis

(Amounts in millions of dollars)

Funding source		December 31 2012	December 31 2011	Change increase (decrease) Dollars	Change increase (decrease) Percent
Federal Transit Administration	$	3,073.9	2,937.7	136.2	4.6%
Illinois Department of Transportation		542.7	543.5	(0.8)	(0.1)
Regional Transportation Authority		1,754.9	1,641.2	113.7	6.9
Northern Indiana Commuter Transportation District		6.4	6.4	—	—
Metra		948.0	925.8	22.2	2.4
Total capital assets		6,325.9	6,054.6	271.3	4.5
Accumulated depreciation		(3,525.1)	(3,313.7)	(211.4)	6.4
Total capital assets, net	$	2,800.8	2,740.9	59.9	2.2

Major capital asset expenditures during 2012 included the following:

- Metra's *Rolling Stock* program seeks to ensure that an adequate number of locomotives and commuter railcars are available to meet the current and future service needs of the system. This program includes rehabilitation of, and improvements to existing vehicles. Metra made progress payments totaling $111.6 million in 2012 toward the purchase of 160 new Highliner cars for the electric division and obtained delivery of 8 Highliner cars in 2012. The progress payments were $167.4 million for purchase of new rolling stock in 2011. Metra expended $36.5 million and $62.8 million for 2012 and 2011, respectively, to upgrade and maintain its existing fleet through rehabilitations and replacement of major subassemblies.
- The *Track and Structure* program provides for the continued rehabilitation and upgrading of Metra's commuter railroad rights-of-way. In addition to maintaining operational safety, the rehabilitation of track and structures results in reduced train running times, fewer interruptions in service, greater passenger

comfort, and efficient use of plant and equipment. Metra has developed a cyclical program of track rehabilitation, which includes all commuter rail lines within the region. Project priorities are decided based on train volumes, speed restrictions, age and condition of the roadbed, and track speeds essential to maintaining on-time performance. Structure projects serve objectives that are similar to those of the track program. Since 1990, when Metra's comprehensive plan for bridge rehabilitation and replacement began, the structure program has focused on the commuter rail bridges identified as high priorities for action. The 2012 Capital Program continued the implementation of this plan by providing $68.0 million in funding for the rehabilitation, replacement and upgrade of bridges, track and structures.

- *Signaling, Electrical and Communications* systems and equipment improvements are designed to maximize commuter operating efficiencies, maintain reliability of rail service and provide a safe system of dispatching and centrally control train movements. Signaling systems and switches control usage of track. Much of this equipment is concentrated at "interlockings," which are control systems where two railroads cross each other or where many trains change tracks. The smooth, dependable operation of these interlockings is critical for maintaining on-time performance. Metra also continues its program to improve communication systems allowing for the provision of timely information to our customers. This includes new passenger information systems at downtown terminals, as well as a satellite-based system that provides time-of-arrival and related information to customers at stations and on trains all over its system. Each rehabilitated passenger station includes the Voice of Metra audio announcement equipment and a Visual Information System with rolling-message signs for contacting passengers with service-related information on a timely basis. Signaling, electrical and communications expenditures in 2012 and 2011 were $36.0 million and $25.9 million, respectively.

- *Metra's Support Facilities and Equipment* includes maintenance yards, layover and storage facilities, and support vehicles and equipment that are essential to maintaining reliable and efficient commuter services. Support facilities and equipment expenditures in 2012 and 2011 were $4.0 million and $17.1 million, respectively.

- *Commuter Stations* are portals to the Metra system and very often to the communities in which they are placed. Stations must be functional and compliant with the American Disabilities Act, as well as inviting. Commuter stations expenditures in 2012 and 2011 were $11.2 million and $20.0 million, respectively.

- The *Commuter Parking* program is designed to expand parking capacity to relieve overcrowding at existing facilities and to accommodate future ridership growth. Both station and parking improvements are performed in a manner to ensure conformance with the requirements of the Americans with Disabilities Act. Commuter parking expenditures in 2012 and 2011 were $3.0 million and $3.5 million, respectively.

General Operational and Economic Trends

Capital Assets

Metra's capital program has a twofold approach: first, to continue our modernization programs in order to maintain a good state of repair; and second, to provide the major investments to meet long-term capacity needs and system growth. Since its creation in 1984, Metra has committed to a capital program primarily geared toward rebuilding, modernizing, and improving its existing capital assets. The purpose of the capital investment policy is to maintain safe, reliable, and quality services and facilities for its customers and workers, while simultaneously improving the efficiency and cost-effectiveness of its operations.

Metra has always given a high priority to preservation and modernization of the existing system. Consequently, every year Metra undertakes a multitude of modernization projects to preserve and improve Metra's capital assets. For our customers, these modernization projects exist to help Metra provide continued on-time and reliable public transportation services in an efficient and cost-effective manner.

Economic Trends

RTA Sales Tax and Public Transportation Funds – RTA Sales Tax and Public Transportation Funds (PTF) have been the primary sources of revenue for the RTA and the three Service Boards (Metra, CTA and Pace) for nearly three decades. The RTA Sales Tax is authorized by Illinois statute and imposed by the RTA in the six-county northeastern Illinois region. The RTA Sales Tax is collected by the Illinois Department of Revenue, paid to the Treasurer of the State of Illinois and held in trust for the RTA outside the State Treasury. Proceeds from the RTA Sales Tax are paid directly to the RTA on a monthly basis, without appropriation, by the State Treasury on the order of the State Comptroller.

The original RTA sales tax (Sales Tax I) is levied at 1.0% in Cook County and 0.25% in the collar counties of DuPage, Kane, Lake, McHenry, and Will. The RTA distributes 85% of Sales Tax I receipts to the Service Boards according to a statutory formula. The remaining 15% of Sales Tax I is retained by the RTA to fund regional and agency expenses before being allocated at the discretion of the RTA Board. Metra receives 55% of the Service Board statutory share of Sales Tax I collected in Suburban Cook County and 70% of the share collected in the collar counties.

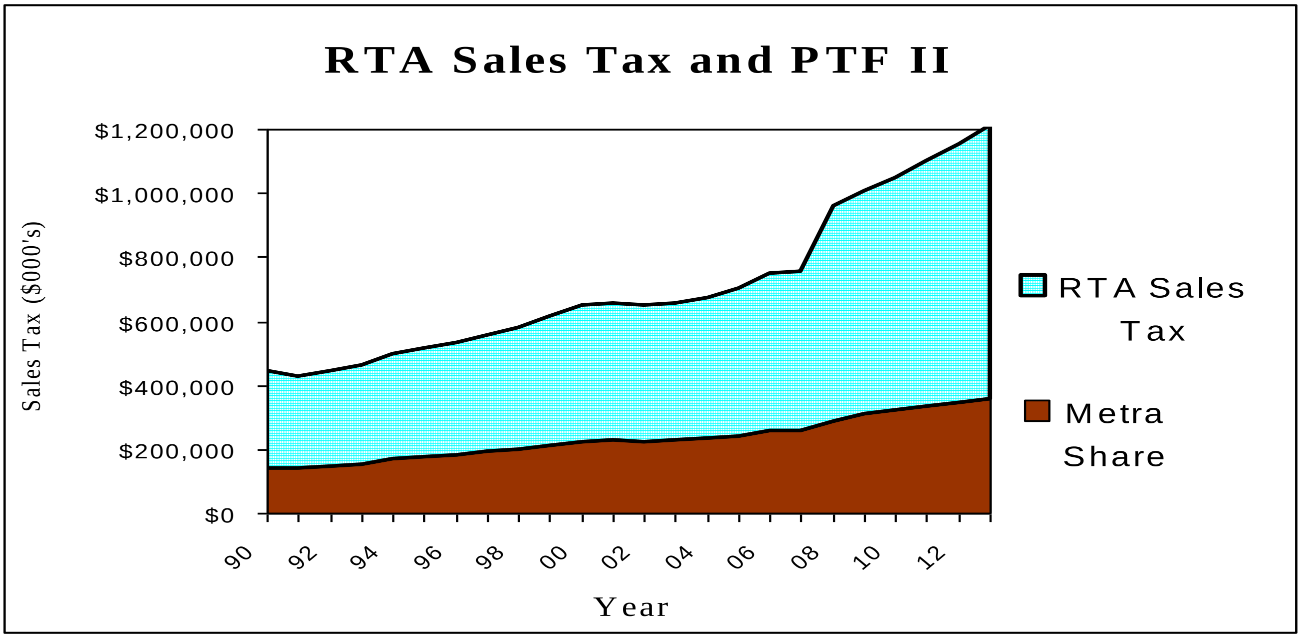
The Public Transportation Fund is State-provided funding initially comprised of a 25% match of Sales Tax I receipts (PTF I). RTA retains 100% of PTF I, which is combined with 15% of Sales Tax I to form the basis of discretionary funding. PTF revenues are payable to the RTA upon State appropriation. None of the PTF revenues are actually paid to the RTA until the RTA certifies to the Governor, the State Comptroller, and the Mayor of the City of Chicago that it has adopted a budget and two-year financial plan as called for by the RTA Act.

The RTA Act, as amended in 2008, increased the RTA sales tax by an additional 0.25% in all six counties of the RTA region (Sales Tax II), increased the Real Estate Transfer Tax (RETT) in the City of Chicago by 0.3%, and provided additional Public Transportation Funds equal to a 5% match of Sales Tax I receipts and a 30% match of Sales Tax II receipts and RETT receipts (PTF II). By statute, CTA receives all revenues from the RETT increase and five-sixths (25% points) of the 30% PTF on the RETT. Sales Tax II and remaining PTF II (i.e., 5% match on Sales Tax I, 30% match on Sales Tax II and 5% match on the RETT) are distributed to the three Service Boards and the RTA in 2013 as follows:

- $127.8 million to Pace ADA Paratransit Service
- $21.8 million to Pace Suburban Community Mobility Fund (SCMF)
- $10.9 million to the RTA Innovation, Coordination, and Enhancement (ICE) Fund

After these deductions, all remaining Sales Tax II and PTF II proceeds are distributed as follows: 48% CTA, 39% Metra and 13% Pace Suburban Service.

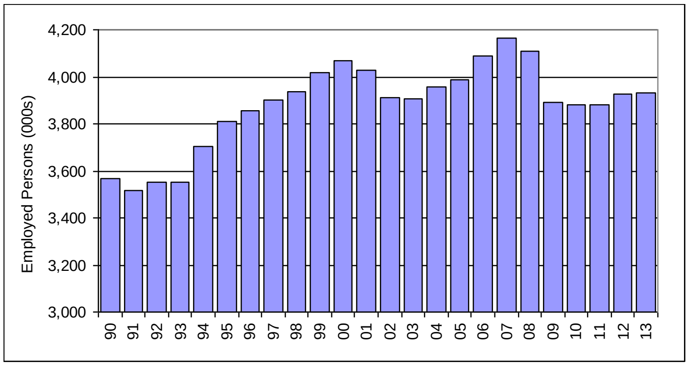
The graph below shows the annual Sales Tax I collected in the six-county region since 1990, together with the Sales Tax II and PTF II collected beginning in 2008. Year 2013 Sales Tax I and combined Sales Tax II/PTF II totaled $792.1 million and $419.7 million, respectively. Metra's statutory shares ($262.6 million and $95.6 million, respectively) together represent 29.6% of total RTA Sales Tax and PTF II revenue sources.



Labor Statistics – Historically, Metra ridership has had a direct relationship to employment levels. Since over 87% of trips taken on Metra are for work, it is no surprise that the health of the regional economy, especially in Downtown Chicago, can influence Metra ridership. Regional employment has generally grown since 1990, except for the economic downturn following the September 11 attacks and recent economic downturn. As shown in the figure below, average regional employment for 2013 was 0.1% higher compared to 2012. Although regional employment has increased in each of the past three years, employment remains below prerecession levels. In addition, employment levels since 2009 have remained near 3.9 million people employed, which is similar to the levels seen in 2003.

Average Annual Regional Employment

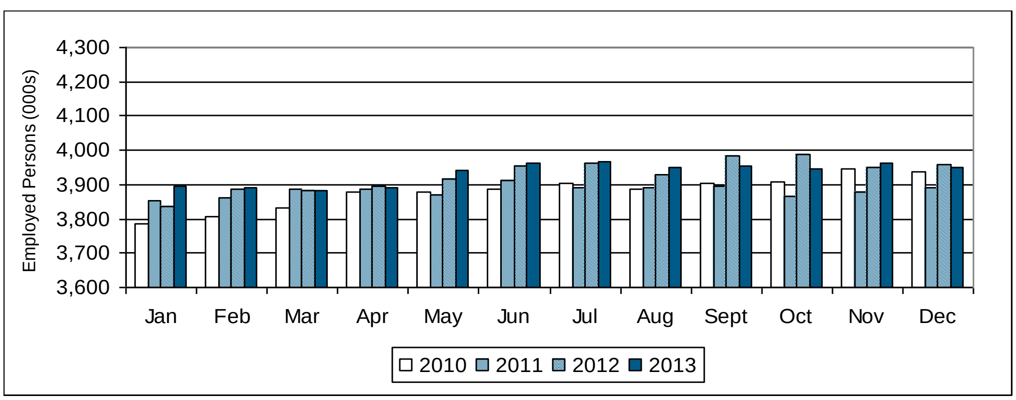
Source: Illinois Department of Employment Security (IDES)



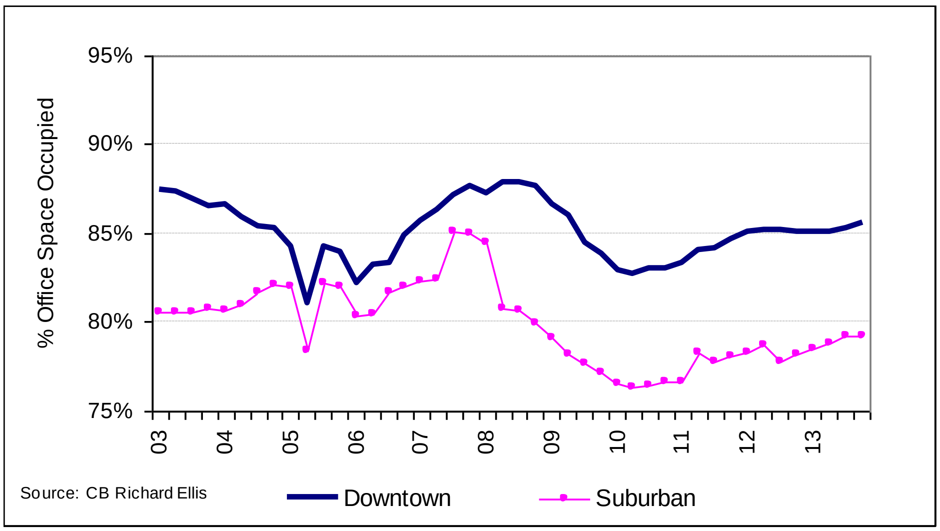
The figure below shows regional employment by month for 2010 through 2013. A period of year-over-year gains in regional employment of approximately 2% that began in mid-2012 continued through January 2013. Except for September and October, monthly regional employment for the rest of 2013 generally kept pace with monthly regional employment in 2012. In the first six months of the year, regional employment increased less than one-half of one percent when compared to the last six months of 2012. In the last six months of the year, regional employment fell by a negligible amount (less than two tenths of one percent) when compared to the same time period in 2012. Regional employment in 2013 peaked during the month of July at nearly 4 million workers, before declining -0.4% by December.

2010– 2013 Monthly Regional Employment

Source: Illinois Department of Employment Security (IDES)



Office Occupancy Rates – Downtown Chicago office occupancy rates remained constant at 85.1% in the first half of 2013, continuing the somewhat flat trend that began in early 2012. Downtown office occupancy rates began to climb in the Third Quarter of 2013, ending the year at 85.6%. Suburban office occupancy rates in 2013 continued a climb that began in the Fourth Quarter of 2012, starting the year at 78.5% and climbing to 79.2% in the Third Quarter, before ending the year unchanged in the Fourth Quarter. The figure below shows the trend of office occupancy rates for both downtown and the suburbs:



Metra will continue to monitor these and other economic indicators for potential long-term impact on Metra's customer base and therefore future operations. Any significant changes will be considered for inclusion into Metra's operational and capital planning.

Debt Administration

Metra has no bond related debt. The Mass Transit Funding and Reform bill passed by the Illinois legislature in January 2009 authorizes Metra to issue up to $1 billion in bonds for capital projects.

Contacting Metra's Financial Management

This financial report is designed to provide our customers, vendors and the general public with a general overview of Metra's finances and to show Metra's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Office of the Controller at 547 W. Jackson, Chicago, IL 60661 or www.metrarail.com.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Statements of Net Position

December 31, 2013 and 2012

Assets	**2013**	**2012**
Current assets:		
Cash, cash equivalents, and investments	$ 117,131,574	74,163,709
Accounts receivable:		
Grant projects	68,052,419	68,560,381
Financial assistance – RTA	89,766,865	79,012,961
Financial assistance – other carriers	2,123,045	3,023,298
Other, net	9,389,584	8,362,695
Total accounts receivable	169,331,913	158,959,335
Materials and supplies	17,896,764	19,059,241
Prepaid expense	899,968	1,271,304
Total current assets	305,260,219	253,453,589
Capital assets:		
Land	149,688,658	149,826,221
Rolling stock and equipment	2,086,801,737	1,862,317,387
Roadways and structures	4,075,448,713	3,915,825,034
Furniture, fixtures and office equipment	90,080,518	89,067,544
Less accumulated depreciation	(3,727,893,109)	(3,525,111,546)
Capital projects in progress	219,252,513	308,859,085
Total capital assets	2,893,379,030	2,800,783,725
Restricted assets:		
Assets restricted for payment of obligations under leasing transaction	105,725,735	108,129,158
Total noncurrent assets	2,999,104,765	2,908,912,883
Total assets	$ 3,304,364,984	3,162,366,472

(Continued)

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Statements of Net Position

December 31, 2013 and 2012

Liabilities and Net Position		**2013**	**2012**
Current liabilities:			
Accounts payable	$	90,695,029	87,775,765
Accrued wages and benefits payable		46,792,238	30,365,933
Financial assistance payable – other carriers		2,545,411	741,815
Accrued claims – current		7,174,685	8,103,050
Deferred revenues		10,112,768	9,634,995
Amounts payable for leasehold transaction		9,142,472	9,142,472
Total current liabilities		166,462,603	145,764,030
Long-term liabilities:			
Accrued claims		25,262,296	14,599,572
Accrued post retiree health benefits		7,292,527	6,000,000
Amounts payable for leasehold transaction		96,583,263	98,986,686
Total long-term liabilities		129,138,086	119,586,258
Total liabilities	$	295,600,689	265,350,288
Net position:			
Net investment in capital assets	$	2,893,379,030	2,800,783,725
Unrestricted net assets		115,385,265	96,232,459
Total net position	$	3,008,764,295	2,897,016,184

See accompanying notes to financial statements.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Statements of Revenues, Expenses, and Changes in Net Position

Years ended December 31, 2013 and 2012

	2013	2012
Operating revenues:		
Passenger revenue	$ 309,448,078	301,131,745
Other	54,543,469	55,416,083
Total operating revenues	363,991,547	356,547,828
Operating expenses:		
Transportation	223,979,924	211,379,757
Fuel and motive power	83,685,912	83,518,305
Maintenance of way	127,495,600	124,142,741
Maintenance of equipment	150,487,836	147,809,962
Administration	62,742,083	49,984,428
Claims, insurance and risk management	18,076,838	22,163,693
Regional services	23,934,697	23,260,832
Downtown stations	13,965,854	14,252,188
Total operating expenses before depreciation	704,368,744	676,511,906
Depreciation	202,781,563	211,443,537
Total operating expenses	907,150,307	887,955,443
Operating loss	(543,158,760)	(531,407,615)
Nonoperating revenues:		
Federal	121,870,751	140,495,597
Local	533,036,120	469,305,608
Total financial assistance	654,906,871	609,801,205
Interest income from restricted assets	6,739,049	6,880,052
Interest expense on leasehold transaction obligations	(6,739,049)	(6,880,052)
Total nonoperating revenues	654,906,871	609,801,205
Change in net position	111,748,111	78,393,590
Net position at beginning of year	2,897,016,184	2,818,622,594
Net position at end of year	$ 3,008,764,295	2,897,016,184

See accompanying notes to financial statements.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Cash flows from operating activities:		
Cash received from fares	$ 309,448,078	301,131,745
Cash received from other operating revenue items	50,303,888	55,285,399
Cash received from purchased service carriers	900,253	(2,653,133)
Cash paid to and on behalf of employees for services	(276,833,727)	(283,754,169)
Cash paid to purchased service carriers	(58,836,077)	(62,383,440)
Cash paid for claims	(12,094,957)	(16,178,425)
Cash paid to contractual service providers and suppliers	(322,894,119)	(305,851,023)
Net cash used in operating activities	(310,006,661)	(314,403,046)
Cash flows from noncapital and related financing activities:		
Cash received from RTA sales tax and other local noncapital assistance	353,441,473	342,539,101
Cash received from noncapital state assistance	2,173,013	3,571,430
Cash received from noncapital federal assistance	2,426,768	4,354,262
Net cash provided by noncapital and related financing activities	358,041,254	350,464,793
Cash flows from capital and related financing activities:		
Cash received from capital grants	273,313,406	248,743,158
Cash paid to acquire and construct capital assets	(278,540,594)	(277,800,427)
Net cash used in capital and related financing activities	(5,227,188)	(29,057,269)
Cash flows from investing activities:		
Cash paid for the purchase of investment securities	(41,457,060)	(8,788,521)
Cash received from investment income	160,460	203,735
Net cash used in investing activities	(41,296,600)	(8,584,786)
Net increase (decrease) in cash and cash equivalents	1,510,805	(1,580,308)
Cash and cash equivalents, beginning of year	43,553	1,623,861
Cash and cash equivalents, end of year	$ 1,554,358	43,553

(Continued)

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Statements of Cash Flows

Years ended December 31, 2013 and 2012

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (543,158,760)	(531,407,615)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	202,781,563	211,443,537
Provision for claims	13,138,316	17,042,454
Settlement of claims	(12,094,957)	(16,178,425)
State-reduced fare assistance	(2,173,013)	(3,571,430)
Interest received	(160,460)	(203,735)
(Increase) decrease in assets:		
Accounts receivable – other carriers	900,253	(2,653,133)
Accounts receivable – other, net	(2,383,881)	2,225,444
Materials and supplies	1,162,477	(403,009)
Prepaid expense	371,336	(27,327)
Increase (decrease) in liabilities:		
Accounts payable	11,610,264	10,168,224
Accrued wages and benefits payable	17,718,832	(461,942)
Financial assistance payable – other carriers	1,803,596	(1,795,126)
Deferred revenues	477,773	1,419,037
Total adjustments	233,152,099	217,004,569
Net cash used in operating activities	$ (310,006,661)	(314,403,046)
Noncash investing and financing activities:		
Interest income from assets restricted for payment of leasehold transactions obligations	$ 6,739,049	6,880,052
Interest expense on leasehold transactions obligations	(6,739,049)	(6,880,052)
Net noncash investing and financing activities	$ —	—

See accompanying notes to financial statements.

(1) Organization

The Commuter Rail Division (CRD) of the Regional Transportation Authority (RTA) and the Northeast Illinois Regional Railroad Corporation (NIRCRC) were established by Regional Transportation Authority Act (the Act) to operate commuter service in the six-county region of Northeast Illinois. The CRD and NIRCRC are governed by the Commuter Rail Board (CRB) and collectively do business using the trademark name of "Metra." The CRB is responsible for establishing policy for the day-to-day operations, capital investments, finances, fare levels, and service and facilities planning for Metra.

Metra operates and manages the Rock Island, Milwaukee Road, Metra Electric, Heritage Corridor, North Central Service, and SouthWest Service commuter lines. Metra also provides commuter rail service on other lines through agreements executed with the Union Pacific Railroad (UP), Burlington Northern Santa Fe Railroad (BNSF) and Northern Indiana Commuter Transportation District (NICTD).

The Act provides for funding of public transportation in the six-county region of Northeast Illinois. The Act requires that at least 50% of system-wide operating costs, excluding depreciation and certain other items, are financed through passenger fares and other revenues. The Regional Transportation Authority (RTA) coordinates bus and rail services provided by Metra, Chicago Transit Authority (CTA) and the Suburban Bus Division (Pace). The RTA distributes funding for public transportation in the six-county area and establishes funding marks and recovery ratios for each service board on a budgetary basis.

Reporting Entity – As defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- Appointment of a voting majority of the component unit's board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- Fiscal dependency on the primary government.

The RTA Board does not control the selection of any members of Metra Board. Members of the Metra Board cannot serve on the RTA Board. The Metra Board exercises control over Metra operations and is accountable for fiscal matters including ownership of assets, relations with federal and state transportation funding agencies that provide financial assistance, and the preparation of operating budgets. The board is also responsible for the purchase of services and approval of contracts relating to its operations.

Based on these factors and applying the aforementioned criteria used to determine financial accountability, management does not consider Metra to be a component unit of the RTA.

As described above, Metra has contracts with certain rail carriers. With the exception of deficit funding and "in-kind assistance" specifically defined in these agreements, Metra is not financially accountable for these carriers, and they are not considered to be a part of the Metra financial reporting entity.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements of Metra are maintained in accordance with U.S. generally accepted accounting principles (GAAP) applicable to governmental entities. The accounts of Metra are organized as an enterprise fund type and are used to account for Metra's activities similar to a private business enterprise on the accrual basis of accounting. Therefore, revenues are recognized when earned, and expenses are recorded at the time liabilities are incurred.

Nonexchange transactions, in which Metra receives value without directly giving equal value in return, include grants from federal, state, and local governments. On an accrual basis, revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when resources are required to be used or the fiscal year when use is first permitted, and expenditure requirements, in which the resources are provided to Metra on a reimbursement basis.

(b) Use of Estimates

The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant items subject to such estimates and assumptions include the useful life of fixed assets, allowances for doubtful accounts, reserves for employee benefit obligations, and other contingencies.

(c) Cash and Cash Equivalents

For purposes of the statements of cash flows, Metra considers all highly liquid investments with a maturity at the time of purchase of three months or less to be cash equivalents.

(d) Investments

Investments are reported at fair value based on quoted market prices.

The investments which Metra may purchase are limited by Illinois law to the following: (1) securities which are fully guaranteed by the U.S. government as to principal and interest; (2) certain U.S. government agency securities; (3) certificates of deposit or time deposits of banks and savings and loan associations which are insured by a Federal corporation; (4) short-term discount obligations of the Federal National Mortgage Association; (5) certain short-term obligations of corporations (commercial paper) rated in the highest classifications by at least two of the major rating services; (6) fully collateralized repurchase agreements; (7) the State Treasurer's Illinois Funds, and (8) money market mutual funds and certain other instruments.

The Illinois Funds is an external investment pool administered by the State Treasurer. The fair value of Metra's share in the fund is the same as the value in the pool shares. Although not subject to direct oversight, the Illinois Funds is administered in accordance with the provisions of the Illinois Public Investment Act, 30 ILCS 235.

(e) Materials and Supplies

Materials and supplies are recorded at average cost.

(f) Capital Assets

Capital assets are recorded at cost, less accumulated depreciation. The cost of maintenance and repairs is charged to operations as incurred. Metra currently capitalizes assets which have a useful life of more than one year, and (1) a unit or group cost of more than $5,000 and are not intentionally acquired for resale or (2) were purchased with grant money. Depreciation is calculated by class of assets using the straight-line method over the estimated useful lives of the respective assets, as follows:

	Years
Rolling stock, roadways and structures	10–35
Furniture, fixtures and office equipment	2–10

(g) Restricted Assets

On September 18, 1998, Metra entered into lease/leaseback agreements for railcars which provide certain cash and tax benefits to the third parties through equity investor trusts. Metra received certain funds as prepayment by the equity investor trust. These funds have been deposited in designated investment accounts sufficient to meet the payments required under the leases and are recorded as assets restricted for repayment of leasing commitments.

(h) Compensated Absences

All employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation leave that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned, but only to the extent it is probable that Metra will compensate the employee through cash payments conditioned on the employee's termination or retirement. Compensation for holidays and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate.

Metra accounts for compensated absences under GASB Statement No. 16, *Accounting for Compensated Absences*, whereby the applicable salary-related employer obligations are accrued in

(Continued)

addition to the compensated absences liability. The amount is recorded as a portion of accrued wages and benefits payable on the statement of net position.

(i) Self-Insurance

Metra provides for self-insurance programs for public liability, property damage, and Federal Employers' Liability Act (FELA) claims. In 1993, the RTA, as authorized under the Joint Self-Insurance Fund, obtained liability insurance as part of the self-insurance programs currently maintained by Metra. Claims are recorded in the year of occurrence (see note 6). Metra directly administers the public liability, property damage, and FELA programs.

(j) Net Position

Net position is displayed in two components as follows:

Net Investment in Capital Assets – This consists of capital assets, net of accumulated depreciation, less the outstanding balances of any bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Unrestricted – This consists of the remaining components of net position that do not meet the definition of "net investment in capital assets."

(k) Passenger Revenue

Passenger revenues are recorded as revenue at the time the services are performed. Tickets sold prior to the month of validity are recorded as deferred revenues.

(l) Classification of Revenues

Metra has classified its revenues as either operating or nonoperating. Operating revenues include activities which have the characteristics of exchange transactions, including passenger revenue and other miscellaneous operating revenue. Nonoperating revenue includes activities that have the characteristics of nonexchange transactions, such as federal, state, and local grants and contracts. Metra's nonoperating revenue includes federal grant reimbursements, capital grant additives, reimbursement for the use of certain Metra-owned operating property, reduced fare reimbursements, sales tax revenue and other operating assistance distributed through appropriations from the RTA, joint facility revenue, investment income, and miscellaneous nonfare generated income.

Metra's statutory share of RTA sales tax proceeds was $364,195,377 and $343,690,096 during the years ended December 31, 2013 and 2012, respectively. Revenues from the State of Illinois Reduced Fare Reimbursement Program was $2,173,013 and $3,571,430 during the years ended December 31, 2013 and 2012, respectively.

(m) Reclassifications

Certain financial statement amounts in the 2012 financial statements have been reclassified to conform with the presentation in the 2013 financial statements.

(n) New Accounting Pronouncements

Metra implemented the provisions of GASB Statement No. 65, *Items previously reported as Assets and Liabilities* during the year ended December 31, 2013. This Statement established accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities, and recognizes, as outflows of resources or inflow of resources, certain items that were previously reported as assets and liabilities. There was no impact to Metra's financial statements as a result of the implementation.

Metra implemented the provisions of GASB Statement No. 66, *Technical Corrections – 2012 GASB Statements* during the year ended December 31, 2013. This Statement amends certain provisions of GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. There was no impact to Metra's financial statements as a result of the implementation.

Metra implemented the provisions of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* during the year ended December 31, 2012. This Statement incorporated certain financial and reporting guidance from the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA) which did not conflict or contradict GASB statements into the GASB authoritative literature. There was no impact on Metra's financial statements as a result of the implementation.

Metra implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* during the year ended December 31, 2012. This Statement introduced and defined deferred outflows and deferred inflows as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. This Statement also amended the net asset reporting requirements in GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. Metra renamed its basic financial statements from the net asset measure to the net position measure, however there was no other impact as a result of the implementation.

(Continued)

(3) Cash, Cash Equivalents, and Investments

(a) Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments are reported in the statements of net position as of December 31, 2013 and 2012 as follows:

		2013	2012
Cash:			
Bank deposits, working cash, certificates of deposits and cash equivalents	$	1,554,358	43,553
Investments		115,577,216	74,120,156
Total	$	117,131,574	74,163,709

Metra initially deposits cash in accounts maintained in Federal Deposit Insurance Corporation (FDIC) insured banks located in Illinois and earns interest as provided under Federal Reserve Bank regulations. Funds may be invested in registered time deposits and other interest-bearing accounts in FDIC-insured institutions. Funds can also be invested in U.S. government obligations, commercial paper, collateralized repurchase agreements arranged through various banks and brokerage firms, and other investments as permitted by Metra's investment policy.

(b) Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, Metra's deposits may not be returned. Metra's investment policy requires deposits in excess of FDIC coverage be collateralized with securities or financial instruments permitted by the Public Funds Investment Act with maturities not exceeding five years. Metra's bank balances were $5,282,019 and $9,510,984 at December 31, 2013 and 2012, respectively, and were covered by FDIC insurance or by collateral held by a third party.

(c) Custodial Credit Risk – Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, Metra will not be able to recover the value of its investments or collateral securities that are in the possession of a third party. Metra's investment policy requires that safekeeping and collateralization shall be in compliance with the requirements of the Public Funds Investment Act.

(d) Interest Rate Risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Metra's investment policy seeks to ascertain safety of principal and to attain a market average or better rate of return, taking into account risk, constraints, cash flow, and legal restrictions on investments. Metra's policy is to routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments to assess the effectiveness of the portfolio in meeting the safety, liquidity, rate of return, diversification, and general performance objectives, and to adjust the portfolio accordingly. Metra did not have long-term investments in its portfolio at December 31, 2013 and 2012 and, therefore, had no material exposure to interest rate fluctuations.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for Metra's investments at December 31, 2013 and 2012:

		Investments as of December 31, 2013	
		Investment maturities	
Investment type		**Fair value**	**Less than one year**
U.S. Treasury Securities	$	36,491,280	36,491,280
U.S. Agencies		17,989,310	17,989,310
Illinois Funds (local government investment pool)		6,919,548	6,919,548
Money market		15,702,078	15,702,078
Commercial paper		38,475,000	38,475,000
Total	$	115,577,216	115,577,216

		Investments as of December 31, 2012	
		Investment maturities	
Investment type		**Fair value**	**Less than one year**
U.S. Treasury Securities	$	7,999,525	7,999,525
U.S. Agencies		10,955,448	10,955,448
Illinois Funds (local government investment pool)		18,163,998	18,163,998
Money Market		13,001,185	13,001,185
Commercial paper		24,000,000	24,000,000
Total	$	74,120,156	74,120,156

(e) Credit Risk

Credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. Metra's general investment policy is to apply the prudent-person rule, which states that investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived. Metra's investment policy limits investments in short-term obligations of corporations organized in the United States with assets exceeding $500 million if (i) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services and which mature not later than 180 days from the date of purchase; (ii) such purchases do not exceed 10% of the corporation's outstanding obligations; and (iii) no more than one-third of Metra's funds may be invested in short-term obligations of corporations.

Credit ratings for Metra's investments as described by Standard & Poor's at December 31, 2013 and 2012, respectively, (excluding investments in U.S. Treasuries which are not considered to have credit risk) are as follows:

Credit Ratings Investments Held as of December 31, 2013 (S&P)
(As a percentage of total fair value for investment securities)

Investment type	Fair value	Percent	S&P
U.S. Treasury Securities	$ 36,491,280	31.6%	AA+
U.S. Agencies	17,989,310	15.6	AA+
Illinois Funds	6,919,548	6.0	AAAm
Money market	15,702,078	13.6	AAAm
Commercial paper	38,475,000	33.2	A1P1
Total investments at fair value	$ 115,577,216	100.0%	

Credit Ratings for Investments Held as of December 31, 2012 (S&P)
(As a percentage of total fair value for investment securities)

Investment type	Fair value	Percent	S&P
U.S. Treasury Securities	$ 7,999,525	10.8%	n/a
U.S. Agencies	10,955,448	14.8	AAA
Illinois Funds	18,163,998	24.5	AAAm
Money market	13,001,185	17.5	AAAm
Commercial paper	24,000,000	32.4	A1P1
Total investments at fair value	$ 74,120,156	100.0%	

 (Continued)

(f) Concentration of Credit Risk

Concentration of credit risk occurs when investments in one issuer exceed 5% of the investment portfolio (lack of diversification). Metra does not have a policy regarding concentration of credit risk. Following are the investments by issuer that exceeded 5% or more of the total investments, and the percent of the fair value to total investments, as of December 31, 2013 and 2012:

	2013		2012	
Issuer	**Fair value**	**Percent**	**Fair value**	**Percent**
U.S. Agencies:				
Federal Home Loan Mortgage Corporation	$ 6,995,700	6.0	$ —	—
Federal Home Loan Bank	7,995,720	6.9	6,954,512	9.4
Commercial paper:				
Dealer Capital Access Trust LLC	$ 10,500,000	9.1	$ —	—
Institutional Secured Funding LLC	9,000,000	7.8	—	—
Ridgefield Funding	11,000,000	9.5	—	—
Atlantic Asset	—	—	5,998,528	8.1
Hannover Funding	—	—	4,997,696	6.7
Koch Resources	—	—	3,999,768	5.4

(4) Capital Assets

In October 2010, Metra entered into a seven-year contract totaling $577.7 million with a vendor to furnish 160 new electric multi-unit gallery type (Highliner) railcars and associated spare parts. The total project cost is $586.2 million. Funding for this contract is provided primarily by bonds issued by the State of Illinois and administered by the RTA under a grant contract agreement with Metra. The vendor furnished Metra with an irrevocable letter of credit (LOC) in an amount equal to funds advanced to the vendor to cover start-up costs until the new Highliner railcars are delivered. The available LOC amount was $279 million at December 31, 2013. The agreement has established milestones the vendor must meet as it designs and builds the railcars. Beginning with delivery of the 83rd new Highliner railcar, the amount of the LOC is reduced by a specific value with the delivery of each new Highliner railcar that is conditionally accepted by Metra. The vendor also furnished Metra with a labor and material payment (payment) bond and a performance bond, each in the amount of 50% of the total contract price. The payment and performance bonds are continuously in effect until the completion of all of the vendor's obligations.

The following schedules summarize the capital assets of Metra as of December 31, 2013 and 2012:

2013	Beginning balance	Additions	Reductions	Ending balance
Capital assets, not being depreciated:				
Land	$ 149,826,221	—	(137,563)	149,688,658
Capital projects in progress	308,859,085	113,469,697	(203,076,269)	219,252,513
Total capital assets, not being depreciated	458,685,306	113,469,697	(203,213,832)	368,941,171
Capital assets being depreciated:				
Rolling stock and equipment	1,862,317,387	224,484,350	—	2,086,801,737
Roadways and structures	3,915,825,034	159,623,679	—	4,075,448,713
Furniture, fixtures and office equipment	89,067,544	1,012,974	—	90,080,518
Total capital assets being depreciated	5,867,209,965	385,121,003	—	6,252,330,968
Less accumulated depreciation:				
Rolling stock and equipment	(1,061,152,831)	(71,580,562)	—	(1,132,733,393)
Roadways and structures	(2,387,345,353)	(126,817,441)	—	(2,514,162,794)
Furniture, fixtures and office equipment	(76,613,362)	(4,383,560)	—	(80,996,922)
Total accumulated depreciation	(3,525,111,546)	(202,781,563)	—	(3,727,893,109)
Total capital assets being depreciated, net	2,342,098,419	182,339,440	—	2,524,437,859
Total capital assets, net	$ 2,800,783,725	295,809,137	(203,213,832)	2,893,379,030

(Continued)

2012		Beginning balance	Additions	Reductions	Ending balance
Capital assets, not being depreciated:					
Land	$	149,529,619	296,602	—	149,826,221
Capital projects in progress		225,755,944	112,412,186	(29,309,045)	308,859,085
Total capital assets, not being depreciated		375,285,563	112,708,788	(29,309,045)	458,685,306
Capital assets being depreciated:					
Rolling stock and equipment		1,796,556,480	65,760,907	—	1,862,317,387
Roadways and structures		3,793,929,907	121,895,127	—	3,915,825,034
Furniture, fixtures and office equipment		88,799,210	268,334	—	89,067,544
Total capital assets being depreciated		5,679,285,597	187,924,368	—	5,867,209,965
Less accumulated depreciation:					
Rolling stock and equipment		(995,792,593)	(65,360,238)	—	(1,061,152,831)
Roadways and structures		(2,245,517,483)	(141,827,870)	—	(2,387,345,353)
Furniture, fixtures and office equipment		(72,357,933)	(4,255,429)	—	(76,613,362)
Total accumulated depreciation		(3,313,668,009)	(211,443,537)	—	(3,525,111,546)
Total capital assets being depreciated, net		2,365,617,588	(23,519,169)	—	2,342,098,419
Total capital assets, net	$	2,740,903,151	89,189,619	(29,309,045)	2,800,783,725

(5) Long-Term Liabilities

Long-term liabilities for the years ended December 31, 2013 and 2012 were as follows:

2013		Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued claims	$	22,702,622	21,829,316	(12,094,957)	32,436,981	7,174,685
Amounts payable for leasehold transaction		108,129,158	6,739,049	(9,142,472)	105,725,735	9,142,472
Total	$	130,831,780	28,568,365	(21,237,429)	138,162,716	16,317,157

2012	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Accrued claims	$ 21,838,593	17,042,454	(16,178,425)	22,702,622	8,103,050
Amounts payable for leasehold transaction	110,391,578	6,880,052	(9,142,472)	108,129,158	9,142,472
Total	$ 132,230,171	23,922,506	(25,320,897)	130,831,780	17,245,522

The 2013 accrued claims includes a provision of $8,691,000 for the costs of the disposal, including asbestos abatement, of 144 Highliner cars scheduled to be retired by August 2015.

(6) Self-Insurance Programs

Metra is exposed to various types of risk of loss including torts; theft of, damage to, or destruction of assets; errors or omissions; job-related illnesses or injuries to employees; natural disasters; and environmental occurrences.

Metra is self-insured for general liability, FELA, and automotive liability claims up to $7.5 million per claim occurrence. Metra purchases excess insurance for individual claims exceeding $7.5 million. The RTA also provides excess liability insurance to protect the self-insurance programs currently maintained by Metra.

Following is a summary of the excess insurance policies in place at Metra, which were in effect during the years ended December 31, 2013 and 2012:

Description	Deductible	Policy limits
General liability:		
Commercial policy	$ —	$7.5 mil to $15 mil (aggregate)
Commercial policy through the RTA	—	$15 mil to $100 mil (aggregate)
Commercial policies	—	$100 mil to $200 mil (aggregate)
Commercial policy – construction blanket coverage	—	$2 mil (occurrence) $6 mil (aggregate)
Commercial policy – construction-specific injury types	—	$5 mil (occurrence) $10 mil (aggregate)
Commercial policies – crime	50,000	$5 mil (aggregate)
Property damage – commercial policies	Various	$0 to $125 mil (aggregate)
Fiduciary – commercial policy	—	$10 mil (aggregate)
Directors and officers liability	150,000	$10 mil (aggregate)

Metra participates in a Joint Self-Insurance Fund (the Fund) with the RTA that permits Metra to receive monies necessary to pay injury and damage claims in excess of $2.5 million per occurrence up to a maximum of $47.5 million from the Fund. Metra is obligated to reimburse the Fund for any damages paid plus a floating interest rate that is a variable rate based upon the investment earnings of the Fund.

However, reimbursement payments, including interest, cannot exceed $3.5 million in any one year. Metra has never borrowed from the Fund to pay injury and damage claims.

A liability for the self-insurance is provided based upon the estimated ultimate cost of settling claims using a case-by-case review and historical experience. In accordance with the purchase of service agreements Metra's self-insurance program covers public liability, property damage, and FELA claims for the participating commuter rail carriers to the extent such claims are incurred as a result of providing commuter rail service and as such, the liability is also included in the accrued claims.

Claims have not exceeded insurance coverage in any of the last three years. Changes in the accrued claims liability is as follows:

Balance, December 31, 2011	$	21,838,593
2012 provision		17,042,454
2012 payments		(16,178,425)
Balance, December 31, 2012		22,702,622
2013 provision		13,138,316
2013 payments		(12,094,957)
Balance, December 31, 2013	$	23,745,981

(7) Lease Transaction

On September 18, 1998, Metra entered into transactions to lease 174 railcars to three equity investors (the headlease) and simultaneously subleased the railcars back (the sublease). Under these agreements, Metra maintains the right to use the railcars and is also responsible for their continued maintenance and insurance. Metra's sublease arrangements have been recorded as long-term obligations for accounting purposes.

At closing, the railcars had a fair market value of approximately $296.9 million and a book value of $262.9 million. As part of the headlease agreements, Metra received prepayments equivalent to the net present value of the headlease obligations totaling approximately $274 million.

Metra transferred approximately $177.4 million and $52.9 million of the prepayment proceeds to third parties in accordance with the terms of debt and equity payment undertaking agreements, respectively. These agreements constituted commitments by the debt and equity payment undertakers to pay Metra's sublease and buy-out options, under the terms of the subleases. The debt payment undertaker and equity payment undertaker are finance companies. In connection with the transaction, Metra recognized $43.7 million as leasehold revenue in 1998.

One of the lease agreements was terminated in 2008. On August 29, 2011, Metra entered into an agreement with another investor to terminate a second lease. As a result of the termination, payments were made to the equity investor by the equity payment undertaker (EPU) and debt payment undertaker (DPU) from the restricted assets that based upon the executed termination agreement, released Metra from any further liability. Accordingly, Metra removed approximately $63.4 million of assets restricted for payment of obligations under leasing transactions and approximately $63.4 million of amounts payable for leasehold transactions from its financial statements. No gain or loss was realized by Metra as a result of the termination agreement. In accordance with the provisions of the termination agreement, Metra was required to pay all legal expenses of all parties involved, which totaled approximately $164,000 during the year ended December 31, 2011.

In 2008, American International Group, Inc (AIG) incurred a ratings downgrade. AIG acted as the DPU, EPU, and Standby Letter of Credit Provider (SLOCP) for these transactions. Once AIG's ratings fell below levels specified per the terms of the agreements, AIG was required to provide additional collateral to securitize the transactions. Later in 2008, AIG's credit ratings were further downgraded which triggered an event of default.

The remaining investor has advised Metra that they are satisfied with AIG, and has been providing waivers for the additional collateral requirements on a quarterly basis. Metra does not anticipate any material adverse financial impact as a result of the termination of the remaining leases. In the event the investor terminates the transactions, Metra's maximum exposure is approximately $22.9 million at December 31, 2013.

The net present value of the future payments due under the remaining subleases has been recorded as a liability on the accompanying statements of net position. Since the debt and equity payment undertaking agreements have been structured to meet all future obligations under the subleases, the related asset balances have been recorded to equal the sublease liabilities on the accompanying statements of net position. The following table sets forth the aggregate amounts due under the sublease agreements:

Future minimum lease payments due:		
2014	$	9,142,472
2015		9,142,472
2016		9,142,472
2017		9,142,472
2018		9,142,472
2019–2021		102,780,865
Total future minimum lease payments		148,493,225
Less imputed interest		(42,767,490)
Present value of minimum lease payments	$	105,725,735

(8) Postemployment Healthcare Plan

Plan Description. Metra provides limited health benefits to retired management employees for Medicare supplemental insurance under a single employer plan established by Metra's Board. Metra also provides health benefits to retired contract police officers, under a union contract, between the ages of 60 and 65 that retired with 10 or more years of service.

Funding Policy. Funding is provided by Metra on a pay-as-you-go basis with no contribution from the retiree. Metra's contributions were $452,934 for each year 2013 and 2012.

Annual OPEB Cost and Net OPEB Obligation. Metra's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the Metra's annual OPEB cost for 2013 and 2012, the amount actually contributed to the plan, and changes in the Metra's net OPEB obligation:

Annual OPEB Cost and Net OPEB Obligation

		2013	2012
Annual required contribution	$	1,645,461	1,634,554
Interest on net OPEB obligation		300,000	235,129
Adjustment to annual required contribution		(200,000)	(119,323)
Annual OPEB cost		1,745,461	1,750,360
Contributions made		(452,934)	(452,934)
Increase in net OPEB obligation		1,292,527	1,297,426
Net OPEB obligation beginning of year		6,000,000	4,702,574
Net OPEB obligation end of year	$	7,292,527	6,000,000

Metra's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

Three-Year Trend Information

		Annual OPEB cost	Percentage of annual OPEB cost contributed		Net OPEB obligation
Year ended:					
December 31, 2011	$	1,575,805	28.7	$	4,702,574
December 31, 2012		1,750,360	25.9		6,000,000
December 31, 2013		1,745,461	25.9		7,292,527

Funded Status and Funding Progress. As of December 31, 2013, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was $21.6 million. The covered payroll (annual payroll of active employees covered by the plan) was $42.7 million, and the ratio of the unfunded accrued actuarial liability to the covered payroll was 50.7%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2013 actuarial valuation, the most recent actuarial valuation performed for the plan, the entry age actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is based on the expected long-term investment returns on the employer's own investments and an annual healthcare cost trend rate of 7.5% initially, reduced by decrements to an ultimate rate of 6.0% after 10 years. Both rates included a 3.0% inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2013 was 30 years.

Union employees are eligible to receive retiree health benefits through a defined contribution plan established under the Railway Labor Act called the Railroad Employees National Early Retirement Major

(Continued)

Medical Benefit Plan (the Plan) administered by United Healthcare. Eligible individuals are those who retire at age 60 with 30 or more years of service in the railroad industry. Metra is required to pay a rate premium per participating employee, which is calculated by the Plan on an annual basis. Metra contributed \$3,403,637 and \$4,209,258 for the years ended December 31, 2013 and 2012, respectively.

(9) Deferred Compensation Plans

Metra offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan, available to all Metra employees, permits deferral of a portion of compensation until future years. The deferred amount is not available to employees, other than participant loans, until termination, retirement, death, or unforeseeable emergency.

All assets of the deferred compensation plan are held in a separate trust in accordance with Section 1448 of the Small Business Jobs Protection Act of 1996. As a result, such amounts are not subject to the claims of Metra’s general creditors, and deferred compensation plan assets are not presented on Metra’s balance sheets as of December 31, 2013 and 2012. Employee contributions were \$1,534,790 and \$1,543,688 for the years ended December 31, 2013 and 2012, respectively.

Metra also offers its employees a defined contribution plan in accordance with Internal Revenue Code Section 401(k). The plan, available to qualified full-time Metra employees, permits the income tax deferral of a portion of compensation until future years. The amount deferred is generally not available to employees, other than through participant loans, until termination, retirement or death. A third-party trustee forwards the participants’ contributions to the investment companies selected by the individual participant. Employee contributions were \$5,493,825 and \$6,117,803 for the years ended December 31, 2013 and 2012, respectively. Employer contributions were \$699,025 and \$689,096 for the years ended December 31, 2013 and 2012, respectively.

Metra is required to contribute to various defined contribution plans in accordance with union agreements. Employer contributions to these plans were \$2,051,976 and \$1,797,939 for the years ended December 31, 2013 and 2012, respectively.

(Continued)

(10) Purchase of Service Carriers' Expenses

The following details the revenue and expense activity of Metra's PSA carriers, which are included in the financial statements of Metra. The in-kind expenses include expenses Metra has paid on behalf of the participating commuter rail carriers for assistance, such as fuel and insurance coverage. In 2012, Metra signed a new purchase of service agreement with NICTD. The new agreement stipulates a flat annual payment to NICTD representing the net cost of Illinois residents travelling from Hegewisch to Randolph Street. Under the previous agreement, Metra paid for 22% of net cost of all riders using the service.

	Year ended December 31, 2013			
	Union Pacific	BNSF	NICTD	Total
Operating revenues:				
Passenger revenue	$ 108,258,586	63,731,724	—	171,990,310
Other revenue	1,384,127	326,506	—	1,710,633
Total operating revenues	109,642,713	64,058,230	—	173,700,943
Operating expenses:				
Carrier expenses:				
Transportation	69,713,699	25,178,712	—	94,892,411
Maintenance of way	40,490,970	2,723,559	—	43,214,529
Maintenance of equipment	47,794,678	21,544,035	—	69,338,713
Administration	14,844,507	11,598,040	—	26,442,547
Total carrier expenses	172,843,854	61,044,346	—	233,888,200
Deficit (excess) funding	63,201,141	(3,013,884)	—	60,187,257
In-kind expenses:				
Diesel fuel	32,004,581	14,680,424	—	46,685,005
Claims, insurance, and risk management	3,603,499	2,211,776	—	5,815,275
Regional services	7,897,877	2,627,916	—	10,525,793
Downtown stations	1,255,622	5,516,135	—	6,771,757
Total in-kind expenses	44,761,579	25,036,251	—	69,797,830
Total operating expenses	217,605,433	86,080,597	—	303,686,030
Purchase of service carriers' operating loss	$ (107,962,720)	(22,022,367)	—	(129,985,087)

(Continued)

	Year ended December 31, 2012			
	Union Pacific	**BNSF**	**NICTD**	**Total**
Operating revenues:				
Passenger revenue	$ 103,273,281	61,488,203	2,737,423	167,498,907
Other revenue	1,332,749	516,276	456,279	2,305,304
Total operating revenues	104,606,030	62,004,479	3,193,702	169,804,211
Operating expenses:				
Carrier expenses:				
Transportation	69,319,919	23,731,344	3,063,534	96,114,797
Maintenance of way	38,098,020	4,302,670	964,251	43,364,941
Maintenance of equipment	48,419,409	23,016,212	1,676,584	73,112,205
Administration	14,363,486	5,385,810	1,284,878	21,034,174
Total carrier expenses	170,200,834	56,436,036	6,989,247	233,626,117
Deficit (excess) funding	65,594,804	(5,568,443)	3,795,545	63,821,906
In-kind expenses:				
Diesel fuel	31,646,911	13,545,406	—	45,192,317
Claims, insurance, and risk management	2,216,668	2,183,515	159,998	4,560,181
Regional services	7,405,373	2,558,161	376,513	10,340,047
Downtown stations	1,652,494	5,042,237	—	6,694,731
Total in-kind expenses	42,921,446	23,329,319	536,511	66,787,276
Total operating expenses	213,122,280	79,765,355	7,525,758	300,413,393
Purchase of service carriers’ operating loss	$ (108,516,250)	(17,760,876)	(4,332,056)	(130,609,182)

(11) Commitments

Leases – Metra has entered into several noncancelable operating leases, primarily for the use of passenger terminals, which expire on various dates through 2045. Future minimum rental payments under all noncancelable operating leases having initial or remaining terms in excess of one year as of December 31, 2013 were as follows:

2014	$	10,478,472
2015		10,480,302
2016		10,482,167
2017		10,484,056
2018		10,485,975
2019–2023		12,854,744
2024–2028		7,710,372
2029–2032		4,748,736
Thereafter		15,433,392
Total	$	93,158,216

Total rent expense aggregated $12,142,672 and $15,537,717 for the years ended December 31, 2013 and 2012, respectively.

Grants – At December 31, 2013, Metra had $366.6 million in unexpended obligations related to federal and state (including local) capital grant contracts.

(12) Employee Benefits

Metra participates in a cost-sharing multiple employer noncontributory defined benefit plan, which is sponsored and controlled by the RTA (the Plan). Employees of Metra who are not members of a collective bargaining unit are eligible for plan participation. The Plan provides retirement, disability and death benefits. Members are eligible for normal retirement at age 65 and for early retirement at age 55 after 10 years of service. Benefits are determined as a percentage of the participant's average annual compensation in the three completed plan years of highest compensation. The benefits are generally payable through an annuity or a single lump-sum distribution. The RTA issues a publicly available report that includes the financial statements and required supplementary information for the Plan. That report is available on the RTA's website. (www.rtachicago.com)

(Continued)

Under the provisions of the Plan, Metra contributes annually, if necessary, an amount based on actuarially determined amounts. Metra's annual required contribution and actual amounts contributed to the Plan for 2013 and the two preceding years were as follows:

		Annual required contribution	Actual amount contributed
Year ended:			
December 31, 2011	$	5,802,000	5,802,000
December 31, 2012		6,462,000	9,767,882
December 31, 2013		6,615,046	10,060,571

(13) Contingencies

Litigation – Metra is a defendant in a number of legal actions. These actions have been considered in estimating and funding Metra's retained risk liability program. The total of amounts claimed under these legal actions, including potential settlements, could exceed the amount of the accrued claims. In the opinion of Metra's management, the retained risk funding and Metra's limited excess indemnity insurance coverage from commercial carriers are adequate to cover the ultimate liability of these legal actions, in all material respects.

Grants – Metra receives moneys from federal, state and local government agencies under various grants. The costs, both direct and indirect, charged to these grants are subject to audits and disallowance by the granting agency. It is the opinion of management of Metra that any disallowances or adjustments would not have a material adverse effect on the financial position of Metra.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Unaudited Required Supplementary Information – Postemployment Health Benefits

Years ended December 31, 2013 and 2012

Funding progress

Actuarial valuation date		Actuarial value of assets (a)	Actuarial accrued liability (AAL) – entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a Percentage of covered payroll ((b-a)/c)
December 31, 2013	$	—	21,642,832	21,642,832	—	42,704,042	50.7
December 31, 2012		N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2011		—	22,791,870	22,791,870	—	39,579,762	57.6
December 31, 2010		—	19,121,346	19,121,346	—	41,225,685	46.4
December 31, 2009		—	21,456,391	21,456,391	—	41,876,852	51.2
December 31, 2008		—	11,644,164	11,644,164	—	23,400,000	49.8
December 31, 2007		N/A	N/A	N/A	N/A	N/A	N/A
December 31, 2006		—	10,643,559	10,643,559	—	23,400,000	45.5

Employer contributions

Year ended		Annual required contribution	Percent contributed
December 31, 2013	$	1,645,461	27.5
December 31, 2012		1,635,554	27.7
December 31, 2011		1,516,143	29.9
December 31, 2010		1,680,866	27.0
December 31, 2009		897,026	52.8
December 31, 2008		810,641	23.1
December 31, 2007		N/A	N/A
December 31, 2006		750,593	21.1

N/A – An actuarial valuation was not performed in 2007 and 2013.

See accompanying independent auditors' report.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION

(A Public Corporation), (Both d/b/a Metra)

Unaudited Supplementary Information – Schedule of Revenues and Expenses – Budget to Actual (Budgetary Basis)

Year ended December 31, 2013

	Final budget	Actual	Favorable (unfavorable)
Revenues:			
Passenger revenue:			
Passenger revenue*	$ 318,500,000	309,448,078	(9,051,922)
Reduced fare reimbursement	2,340,000	2,173,013	(166,987)
Total operating passenger revenues	320,840,000	311,621,091	(9,218,909)
Other revenue	50,300,000	52,370,456	2,070,456
Total revenues	371,140,000	363,991,547	(7,148,453)
Operating expenses:			
Transportation	224,463,392	223,979,924	483,468
Fuel and motive power	87,506,000	83,685,912	3,820,088
Maintenance of way	126,092,205	127,495,600	(1,403,395)
Maintenance of equipment	154,134,147	150,487,836	3,646,311
Administration	65,563,274	62,742,083	2,821,191
Regional services	24,292,528	23,934,697	357,831
Total administration and regional services	682,051,546	672,326,052	9,725,494
Claims, insurance, and risk management	19,116,585	18,076,838	1,039,747
Downtown stations	15,368,869	13,965,854	1,403,015
Total operating expenses	716,537,000	704,368,744	12,168,256
Loss before depreciation, financial assistance, and leasehold related interest income and expense	$ (345,397,000)	(340,377,197)	5,019,803
Note:			
Amounts excluded from the operating budget-basis expenses:			
Security expense	$ 17,686,978	17,768,304	(81,326)
Funded depreciation included in operating expenses	3,092,985	2,944,695	148,290
Lease of transportation facilities	17,721,430	16,683,617	1,037,813
Total deductions	$ 38,501,393	37,396,616	1,104,777
Amounts added to the operating budget-basis revenues:			
Senior fare allowance	$ 1,700,000	1,680,000	(20,000)
Farebox recovery ratio			

* Includes $5.5 million farebox revenue dedicated to capital.

See accompanying independent auditors' report and notes to supplementary information.

COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL COMMUTER RAILROAD CORPORATION
(A Public Corporation), (Both d/b/a Metra)

Unaudited Supplementary Information – Budgetary Basis Schedule of Operations

Year ended December 31, 2013

	NIRCRC	Union Pacific	BNSF	Total
Operating revenues:				
Passenger revenue*	$ 137,457,768	108,258,586	63,731,724	309,448,078
Other revenue	51,676,691	683,040	10,725	52,370,456
Reduced fare reimbursement	1,156,145	701,087	315,781	2,173,013
Total operating revenue	190,290,604	109,642,713	64,058,230	363,991,547
Operating expenses:				
Carrier level expenses:				
Transportation	129,087,513	69,713,699	25,178,712	223,979,924
Maintenance of way	84,281,071	40,490,970	2,723,559	127,495,600
Maintenance of equipment	81,149,123	47,794,678	21,544,035	150,487,836
Administration	36,299,536	14,844,507	11,598,040	62,742,083
Total carrier expenses	330,817,243	172,843,854	61,044,346	564,705,443
Centralized expenses:				
Diesel fuel	31,413,364	32,004,581	14,680,424	78,098,369
Motive electricity	5,587,543	—	—	5,587,543
Claims, insurance, and risk management	12,261,563	3,603,499	2,211,776	18,076,838
Regional services	13,408,904	7,897,877	2,627,916	23,934,697
Downtown stations	7,194,097	1,255,622	5,516,135	13,965,854
Total centralized expenses	69,865,471	44,761,579	25,036,251	139,663,301
Total operating expenses	400,682,714	217,605,433	86,080,597	704,368,744
Operating loss	$ (210,392,110)	(107,962,720)	(22,022,367)	(340,377,197)

Note:	
Amounts excluded from the operating budget-basis expenses:	
Security expense	$ 17,768,304
Funded depreciation included in expenses	2,944,695
Lease of transportation facilities	16,683,617
Total exclusions	$ 37,396,616
Amounts added to the operating budget-basis revenues:	
Senior free ride allowance	$ 1,680,000
Farebox recovery ratio ($363,991,547+$1,680,000)/($704,368,744-$37,396,616)	54.80%

* Includes $5.5 million dedicated to capital.

See accompanying independent auditors' report and notes to supplementary information.

(1) Budget and Budgetary Basis of Accounting

Metra is required under Section 4.01 of the Regional Transportation Authority (RTA) Act to submit for approval an annual budget to the RTA by November 15 prior to the commencement of each fiscal year. The budget is prepared on an accrual basis of accounting consistent with generally accepted accounting principles.

The RTA allocates funding based on the budgets of the service boards rather than the actual operating expenses in excess of operating revenue. All annual operating appropriations lapse at fiscal year-end. Favorable variances from budget remain available to Metra and can be used for capital projects with RTA approval. There is favorable budget variance of $5.0 million available to Metra for the year ended December 31, 2013. The RTA monitors Metra's performance against the budget on a quarterly basis.

(2) Farebox Recovery Ratio

Operating Budget-Basis Farebox Recovery Ratio – The operating budget-basis farebox recovery ratio represents the ratio of total operating revenues to total operating expenses before depreciation. However, funded depreciation (for both direct operations and commuter rail carriers participating through purchase of service agreements), security expenses, the proceeds and related interest income and expense from the lease transactions, and certain other expenses related to the leasing of transportation facilities are excluded from the calculation. In accordance with the RTA Act and its mandate to meet a system-wide farebox recovery ratio of 50% or more, the RTA establishes farebox recovery ratios for each of the Service Boards and the CTA. Metra's budgeted farebox recovery ratio was 55.0% in 2013. Metra's farebox recovery ratio on an operating budget-basis was 54.83% in 2013.

(3) Purchase Service Carrier Agreements

Metra has agreements with participating commuter rail carriers to assist in providing service to Metra's customers. The budgetary basis schedule of operations includes expenses, such as fuel and insurance coverage, that Metra has paid on behalf of the participating commuter rail carriers for such assistance.