

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Report

Consolidated Financial Statements

Years Ended December 31, 2007 and 2006

METROPOLITAN TRANSPORTATION AUTHORITY

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The MTA has received a revised Independent Auditor's Opinion Letter from its outside auditor, Deloitte & Touche LLP. The original Independent Auditor's Report, included in the MTA's Comprehensive Annual Financial Report (pages 1-2), was amended to clarify that the audit did not include the schedule of pension funding progress. The schedule of pension funding progress of the basic consolidated financial statements is required supplemental information by the Governmental Accounting Standard Board and is prepared for purposes of additional information only.

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying consolidated balance sheets of the Metropolitan Transportation Authority (the "MTA"), a component unit of the State of New York, as of December 31, 2007 and 2006, and the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows for the years then ended. These consolidated financial statements are the responsibility of the MTA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We did not audit the financial statements of the New York City Transit Authority ("MTA New York City Transit"), Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway"), and the Metropolitan Suburban Bus Authority ("MTA Long Island Bus"), which represent 56 percent and 54 percent, and 42 percent and 43 percent, of the assets and revenues of the MTA, respectively, as of and for the years ended December 31, 2007 and 2006. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for MTA New York City Transit, MTA Staten Island Railway and MTA Long Island Bus, is based solely on the reports of the other auditors.

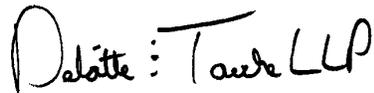
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the MTA's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits and the reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the respective consolidated balance sheets of the MTA, as of December 31, 2007 and 2006, and the respective changes in the consolidated statements of revenues, expenses and changes in net assets, and consolidated cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 5 to the consolidated financial statements, in 2007, the MTA adopted Governmental Accounting Standards Board Statement (GASB) No. 45, *Accounting and Financial Reporting by Employers for Post Employment benefits Other Than Pensions*.

The Management's Discussion and Analysis on pages 3 through 18 and the schedule of pension funding progress on page 80 are not a required part of the basic consolidated financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA's management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the MTA's consolidated basic financial statements. The schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidiary accrual reconciliation between financial plan and financial statements are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. This supplementary information is the responsibility of the MTA's management. The schedule of financial plan to financial statements reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and schedule of consolidated subsidiary accrual reconciliation between financial plan and financial statements have not been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, accordingly, we express no opinion on them.

Deloitte : Touche LLP

April 24, 2008

METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2007 AND 2006 (Amounts in Millions)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction This report consists of four parts: Management's Discussion and Analysis ("MD&A"), Consolidated Financial Statements, Notes to the Consolidated Financial Statements, and Supplementary Information.

Consolidated Financial Statements include:

Consolidated Balance Sheets which provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority (the "MTA") creditors (liabilities), with the difference between the two reported as net assets.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets which provide information about the MTA's changes in net assets for the period then ended and accounts for all of the period's revenues and expenses, measures the success of the MTA's operations during the period and can be used to determine how the MTA has funded its costs.

The Consolidated Statements of Cash Flows which provide information about the MTA's cash receipts, cash payments and net changes in cash resulting from operations, non-capital financing, capital and related financing and investing activities.

Notes to the Consolidated Financial Statements provide information that is essential to understanding the consolidated financial statements, such as the MTA's accounting methods and policies, details of cash and investments, employee benefits, long-term debt, lease transactions, future commitments and contingencies of the MTA, and information about other events or developing situations that could materially affect the MTA's financial position.

Required Supplementary Information provides information concerning the MTA's progress in funding its obligation to provide pension benefits to its employees.

Management's Discussion and Analysis provides a narrative overview and analysis of the financial activities of the MTA for the years ended December 31, 2007 and 2006. This management discussion and analysis is intended to serve as an introduction to the MTA's consolidated financial statements. It provides an assessment of how the MTA's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA's management that should not be considered a replacement for, and must be read in conjunction with, the consolidated financial statements.

2. FINANCIAL REPORTING ENTITY

The Metropolitan Transportation Authority was established under the New York Public Authorities Law and is a public benefit corporation and a component unit of the State of New York whose mission is to continue, develop, and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

MTA Related Groups

- Headquarters (“MTAHQ”) provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provides public bus service in Nassau and Queens counties.
- First Mutual Transportation Assurance Company (“FMTAC”) operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”) provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design, and construction of current and future major MTA system expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

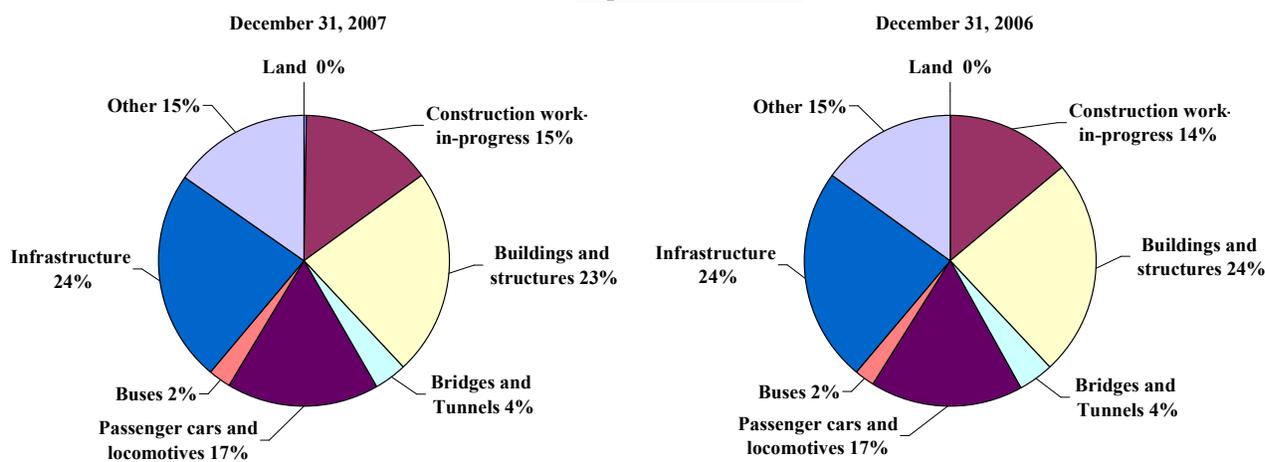
3. CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA’s financial position for the year ended December 31, 2007. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA’s consolidated financial statements. All dollar amounts are in millions.

Total Assets, Distinguished Between Capital Assets, Net and Other Assets

	December 2007	December 2006	December 2005
	(Amounts in Million)		
Capital assets, net (see Note 6)	\$ 40,611	\$ 38,307	\$ 35,900
Other assets	<u>11,158</u>	<u>11,778</u>	<u>10,726</u>
Total assets	<u>\$ 51,769</u>	<u>\$ 50,085</u>	<u>\$ 46,626</u>

Capital Assets, Net



December 31, 2007 versus 2006

- Net capital assets increased at December 31, 2007 by \$2,304. The largest increase, \$1,035, occurred in other capital assets (which includes work trains, service vehicles, passenger stations, and other equipment, excluding passenger cars and locomotives and buses); infrastructure, \$860; construction in progress, \$700; passenger cars and locomotives, \$658; and buildings and structures, \$362. These increases were partially offset by additional accumulated depreciation of \$1,637. Some of the more significant projects contributing to the increase included:
 - Rehabilitation of the East River tunnel, including safety improvements and ventilation projects.
 - Projects upgrading shops and yards and a new automated materials handling system in the Hillside Complex of MTA Long Island Rail Road.
 - Milestone costs for construction, testing, and quality assurance of new electric passenger cars.
 - MTA Long Island Rail Road signals and communication assets have continued to grow with a number of projects nearing completion, such as the fiber optic network and various microprocessor signal projects.

- Passenger station rehabilitations continue, including the Atlantic Terminal Phase II and Broadway station.
- MTA Long Island Rail Road security projects, including hardening of Penn Station, Jamaica, and the 63rd Street tunnel.
- MTA Long Island Rail Road placed into service an additional 34 new M-7 electric cars during the year and retired 8 M-1 electric cars.
- Improvements to MTA Long Island Rail Road’s infrastructure road-assets continued under the 2007 Track Program that provided the replacement of various track elements and branches.
- Design and installation of a pilot Communications Based Train Control system on Canarsie Line.
- MTA New York City Transit station rehabilitation at various locations on various lines, and the Fulton Street Transit Center.
- MTA New York City Transit placed the following in service during 2007, R160 subway cars (294) and passenger buses (150).
- Elevated line structural rehabilitation and subway tunnel rehabilitation.
- Design and construction of a new depot at the Grand Avenue facility.
- Installation of chemical, biological, and radiological early detection equipment in Grand Central Terminal.
- Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge and rehabilitation of the electrical and mechanical systems at the Triborough Bridge. Also, the rehabilitation of the lower level approaches and suspended deck at the Verrazano-Narrows Bridge and the lower deck replacement at the Henry Hudson bridge
- Other assets had a net decrease of \$620. The items contributing to this change include but are not limited to:
 - A net decrease in current and non-current investments and investments held under capital leases of \$1,232 due to use of funds for capital expenditures, debt service payments on bonds lease obligations, and operating expense.
 - A decrease of \$59 in State and regional mass transit taxes receivable for NYS Petroleum Business Tax Funds accrued receivable being uncollected, not yet received due to timing differences between the recording of revenue and the collection of such funds.
 - Cash decreased by a net \$25 primarily due to a decrease of \$40 by MTA Headquarters related to reductions in operating and capital cash funds available. Also affecting the cash position is New York City Transit’s decrease of \$3, FMTAC’s increase of \$14, Long Island Rail Road’s increase of \$4, MTA Bridges and Tunnels’ increase of \$4, and Metro-North Railroad’s reduction in cash of \$4.

- Amounts due from New York City increased by \$73. This amount is due primarily to MTA Bus's receivable.
- Station maintenance, operation, and use assessments increased by \$3. This is due to the amount accrued in 2007 for the various counties which was based on the prior year's bill.
- Other subsidies receivable decreased by \$27 due to a decrease of \$34 at MTA Bus for various advance payments and an increase at New York City Transit of \$7 for the urban tax subsidy receivable.
- Advances to defined benefit pension decreased \$259 as a result of \$325 transferred to non-current assets, \$32 being amortized in the current year, and \$2 miscellaneous adjustment. Offsetting these decreases is an \$100 prepayment to the defined benefit pension plan.
- Material and supplies increased by \$64. This increase is attributable primarily to increases at MTA New York City Transit of \$20, MTA Long Island Rail Road of \$19, and MTA Metro-North Railroad of \$20. The increase is to insure availability of parts and supplies for emergency needs.
- Prepaid expense and other current assets increased by \$144 due mainly to prepaid rent, NYSLERS and insurance premiums
- Other non-current assets increased by \$604. This was due primarily to un-requisitioned funds for NYCT capital expenditures and for defined benefits pension assets that will be amortized over a future period. The increase was offset by miscellaneous decreases by other agencies.

December 31, 2006 versus 2005

- Net capital assets increased at December 31, 2006 by \$2,407. The most significant portion of the increase occurred in infrastructure, \$1,316; followed by other (which includes work trains, service vehicles, and other equipment, excluding passenger cars and locomotives and buses), \$1,074; buildings and structures, \$1,055; and passenger cars and locomotives, \$483. These increases were partially offset by normal depreciation expenses, the decommissioning of 206 M-1 electric passenger cars, and a locomotive from MTA Long Island Rail Road service, a total of 72 M-1, M-2, and M-3 cars, 79 MU cars, and 1 dual-mode locomotive from Metro-North Railroad service and the recording of a loss on defective concrete ties. Some of the more significant projects contributing to the increase included:
 - Rehabilitation of the Dutch Kills Bridge and the East River tunnel, including safety improvements and ventilation projects.
 - Projects upgrading shops and yards, and a new automated materials handling system in the Hillside Complex of MTA Long Island Rail Road.
 - The 2006 MTA Long Island Rail Road Track Program and various other line structure projects in addition to purchase of new track equipment.
 - Passenger station rehabilitation including Atlantic Terminal.

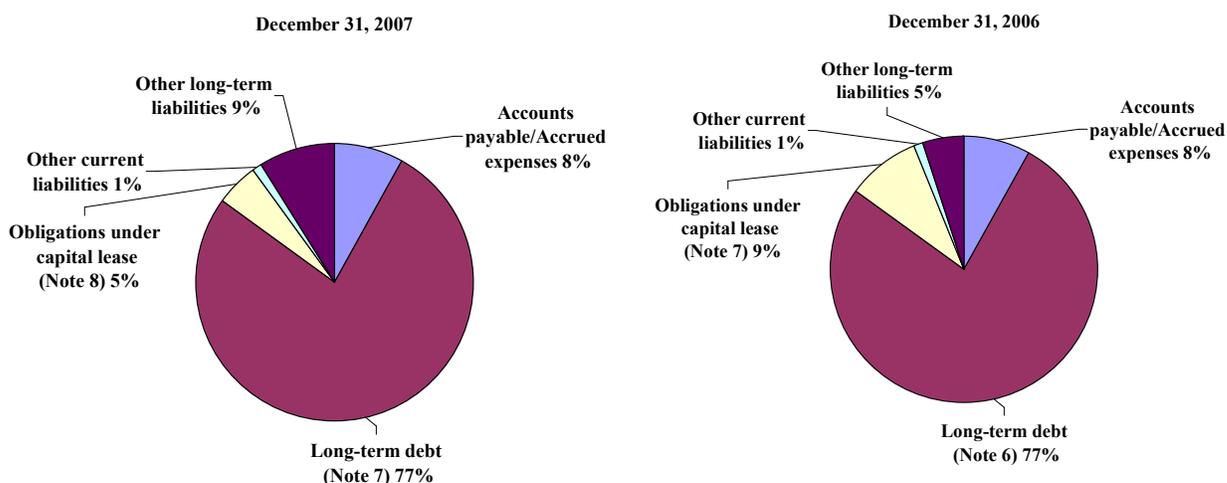
- Placing in service 244 M-7 electric cars at MTA Long Island Rail Road and 76 at MTA Metro-North Railroad and the overhaul of 15 M-2 cars at MTA Metro-North Railroad.
- Maintaining mainline track replacement program on MTA New York City Transit subway lines.
- MTA New York City Transit switch replacements, tunnel lighting rehabilitation, ventilation facilities at various locations, and rehabilitation of a fan plant at Stenton and Chrystie Streets.
- New Corona maintenance shop and car washer for subway cars and design and construction of new subway depot at Grand Avenue facility.
- Subway station reconstruction and rehabilitation at various locations.
- Purchase of new subway cars and buses.
- Additional milestone costs for construction, testing, and quality assurance oversight associated with the continued purchase of new M-7 electric cars.
- Rehabilitation of the tunnel walls and roadway of the Brooklyn-Battery Tunnel.
- Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge and rehabilitation of the electrical and mechanical systems at the Triborough Bridge.
- Other assets had a net increase of \$1,052. The items contributing to this change include but are not limited to:
 - A net increase in current and non-current investments and investments held under capital leases of \$388 due in part to the issuance of new bonds offset by use of funds for capital expenditures, debt service payments on bonds and lease obligations, and operating expense.
 - An increase of \$54 in State and regional mass transit taxes receivable due to recording the accrual of Metropolitan Mass Transit Operating assistance after the New York State budget was approved. The approved budget amount was increased by \$323 in 2006 over 2005. In addition, the 2005 appropriation had been received at December 31, 2005 while at December 31, 2006 there remained an outstanding receivable.
 - Other subsidies receivable increased by \$73 due to the increase in MTA New York City Transit urban tax subsidies.
 - In 2006 an advance contribution was made to the MTA Defined Benefit Plans' Master Trust in the amount of \$365 and \$60 to the MaBSTOA Pension Plan. No such advances were recorded in 2005.
 - Prepaid expenses and other current assets increased a net \$24. The increase includes prepaid rent, NYSLERS expense, insurance premiums, and farecard media related with ticket machines, WebTickets, and AirTrain tickets.

- Material and supplies increased by \$25 – primarily at MTA New York City Transit, MTA Long Island Rail Road and MTA Metro-North Railroad – to insure availability of parts and supplies for emergency needs.

Total Liabilities, Distinguishing Between Long-Term Liabilities and Other Liabilities

	December 2007	December 2006	December 2005
	(Amounts in Millions)		
Current liabilities	\$ 3,492	\$ 3,073	\$ 2,834
Long-term liabilities	<u>28,980</u>	<u>27,649</u>	<u>25,799</u>
Total liabilities	<u>\$ 32,472</u>	<u>\$ 30,722</u>	<u>\$ 28,633</u>

Total Liabilities



Significant Changes in Liabilities Include:

December 31, 2007 versus 2006

- Current liabilities increased by \$419. This net increase is due primarily to:
 - Accounts payable and accrued expenses having a net increase of \$365. This increase is primarily due to:
 - Account payable decreased by \$29 due primarily to acceleration of invoices submitted for payments.
 - \$49 reduction to salaries, wages, and payroll taxes due to payment of retroactive wages on labor contract settlements as well as all increase of headcount at MTA Bus and LIRR.
 - A \$44 increase on current portion of retirement and death benefits derived mainly from NYCT.

- \$343 increase on other current liabilities. This was due to the increase of the MTAHQ capital and operating accrual for work done on station, track and signal rehabilitation and improvement projects. Also contributing to this increase were increases at FMTAC and MTA Bus.
- The current portion of long-term debt increased \$53 related to the impact of debt service payments for State Service Contract Bonds, Certificate of Participation (“COPS”) Bonds, and MTA Bridges and Tunnels General Revenue Bonds.
- Non-current liabilities increased by \$1,331. This net increase is primarily related to:
 - Increase of \$1,290 for other post-employment benefits other than pension (OPEB). This increase is due to the first-time implementation of GASB 45. This statement requires systematic accrual-based measurement and recognition of OPEB costs.
 - Long-term debt increased by \$971 due primarily to the issuance by MTA of Transportation Revenue Bond, Series 2007A in July of 2007 in the amount of \$425.6, Series 2007B in December of 2007 in the amount of \$415, Dedicated Tax Fund Bonds in November of 2007 in the amount of \$430 and MTA Bridges and Tunnels General Revenue Bonds issue in June 2007 for \$223. These increases were offset by a cash defeasance that took place in December 2007 for Transportation Revenue Bonds, DTF Bonds, and MTA Bridges and Tunnels General and Subordinate bonds for a total amount of \$296.8. Other variances are due to amortization of premium and discount of prior issuances.
 - Obligations under capital lease decreased by \$989 due to principal payments in 2007 for various MTA leases

December 31, 2006 versus 2005

- Current liabilities increased by \$239. This net increase is due primarily to:
 - Accounts payable and accrued expense having an increase of \$179. Accounts payable increased by \$45 due primarily to timing differences in invoices submitted for payment. Accrued expenses increased by a net of \$134. This increase results primarily from increases in salaries, wages, and payroll taxes of \$106 due for the most part to TWU wage rate increases based on a contract settlements achieved through arbitration at MTA New York City Transit on December 15, 2006 and accruals for retroactive wage rate adjustments and applicable railroad retirement tax for those unions at MTA Metro-North Railroad which had not settled their contracts for the years 2003, 2004, and 2005, an increase of \$45 in vacation and sick pay benefits due to wage rate and headcount increases. This increase is partially offset by a reduction in current portion – retirement and death benefits of \$23, due in part to a favorable non-recurring NYCERS pension adjustment and a \$15 reduction in the current portion – estimated liability from injuries to persons (See Note 8).
 - Other current liabilities had a net increase of \$60. This was due to an increase of \$32 in the current portion of long-term debt and an increase of \$28 in deferred revenue. The deferred revenue increase is due primarily to an increase in the value of unused fare media.
- Non-current liabilities increased by \$1,850. This net increase is primarily related to:
 - The net increase of \$1,891 in long-term debt due primarily to the issuance of \$450 of

Transportation Revenue Bond Anticipation Notes Commercial Paper, \$760 MTA Dedicated Tax Fund Bonds (Series 2006A, \$350; and Series 2006B, \$410), \$1,193 of Transportation Revenue Bonds (Series 2006A, \$475; and Series 2006B, \$718), and \$200 of MTA Bridges and Tunnels General Revenue Bonds; and an increase of \$82 in miscellaneous other long-term liabilities. These increases are offset by reductions in contract retainage, \$36; obligations under capital lease, \$34; and reductions in retirement and death benefits, \$54.

Total Net Assets, Distinguishing Among Amounts Invested in Capital Assets, Net of Related Debt, Restricted Amounts, and Unrestricted Amounts

	December 2007	December 2006	December 2005
	(Amounts in Million)		
Invested in capital assets, net of related debt	\$ 15,903	\$ 14,777	\$ 14,044
Restricted for debt service and claims	1,088	1,095	1,069
Unrestricted	<u>2,306</u>	<u>3,491</u>	<u>2,880</u>
Total	<u>\$ 19,297</u>	<u>\$ 19,363</u>	<u>\$ 17,993</u>

December 31, 2007 versus 2006

At December 31, 2007, the total net assets decreased by \$66 from December 31, 2006. This decrease includes net non-operating revenues of \$3,735 and appropriations, grants, and other receipts externally restricted for capital projects of \$2,035 offset by operating losses of \$5,836.

The investment in capital assets, net of related debt increased by \$1,126. Though the Authority increased its fixed assets, it also issued new debt.

Funds restricted for debt service and claims decreased by \$7 due to bond cash defeasance, and unrestricted decreased by \$1,185.

December 31, 2006 versus 2005

At December 31, 2006, the total net assets increased by \$1,370 from December 31, 2005. This increase includes net non-operating revenues of \$3,953 and appropriations, grants, and other receipts externally restricted for capital projects of \$1,260, offset by operating losses of \$3,843.

Capital assets, net of related debt, increased by \$733 due to the fact that new capital expenditures net of depreciation and retirements were greater than the amount of new debt issued less debt retirement.

Funds restricted for debt service increased by \$26 due to the issuance of new bonds.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	December 2007	December 2006	December 2005
	(Amounts In Millions)		
Operating Revenues			
Passenger and tolls	\$ 5,246	\$ 5,081	\$ 4,811
Other	420	406	387
Total operating revenues	<u>5,666</u>	<u>5,487</u>	<u>5,198</u>
Nonoperating Revenues			
Grants, appropriations and taxes	4,504	4,119	3,466
Other	322	275	223
Total nonoperating revenues	<u>4,826</u>	<u>4,394</u>	<u>3,689</u>
Total Revenues	<u>10,492</u>	<u>9,881</u>	<u>8,887</u>
Operating Expenses			
Salaries and wages	4,339	4,123	3,819
Retirement and other employee benefits	1,690	1,623	1,618
Postemployment benefits other than pensions	1,575	-	-
Depreciation and amortization	1,689	1,606	1,474
Other expenses	2,209	1,978	1,841
Total operating expense	<u>11,502</u>	<u>9,330</u>	<u>8,752</u>
Nonoperating Expense			
Interest on long-term debt	1,054	1,039	984
Other nonoperating expense	37	40	45
Total nonoperating expense	<u>1,091</u>	<u>1,079</u>	<u>1,029</u>
Total Expenses	<u>12,593</u>	<u>10,409</u>	<u>9,781</u>
Appropriations, grants and other receipts externally restricted for capital projects	<u>2,035</u>	<u>1,898</u>	<u>1,291</u>
Change in net assets	(66)	1,370	397
Net assets, beginning of year	<u>19,363</u>	<u>17,993</u>	<u>17,596</u>
Net assets, end of year	<u>\$ 19,297</u>	<u>\$ 19,363</u>	<u>\$ 17,993</u>

Revenues and Expenses, by Major Source:

December 31, 2007 versus 2006

- Total operating revenues for the year ended December 31, 2007 were \$179 higher than for the year ended December 31, 2006.
 - Fare and toll revenue increased by \$165. Passenger revenue increased by \$155 due to ridership and toll revenues increased by \$10 due to increased traffic and reduced E-Z pass fees.
- Total operating expenses for the year ended December 31, 2007 were higher than the year ended December 31, 2006 by \$2,172.
 - Labor costs, including retirement and other employee benefits, were higher by approximately \$283. This is primarily due to payroll and overtime increases of \$216 for wage rate increases and headcount increases mostly for customer safety, maintenance programs, and the MTA Bus Company's acquisition and operation of additional bus routes. Retirement and other employee benefits increased \$67 primarily for NYCT pension expenses based on an actuarial valuation. Also, contributing to this increase are other fringe benefits costs for additional headcount.
 - Post-employment benefits other than pensions increased by \$1,575 due to the implementation of GASB 45 adopted in 2007.
 - Non-labor operating costs were higher by approximately \$314. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into service, \$83; traction and propulsion power and fuel expense increases of \$31 are due primarily to fuel price increases. Public liability claims expense increased \$71 primarily due to actuarial review of current claims data. Materials and supplies costs increased by \$70 due mainly to additional subway car body structure parts, bus electrical systems, heating/air conditioning equipment, and subway propulsion motors. Paratransit service contract costs increased \$49 primarily due to increased trip volume and a decrease in productivity based on a line assigned to new vendors.
- Total grants, appropriations, and taxes were higher by approximately \$385 for the year ended December 31, 2007 compared to the year ended December 31, 2006. The major components of the increase are tax-supported subsidies-NYS, \$237, and tax-supported subsidies-NYC and local, \$143.
 - The increase in tax-supported subsidies from New York State is due primarily to an increase of \$260 in Metropolitan Mass Transportation Operating Assistance, a decrease of \$12 from NYS for debt service payments, and a decrease of \$11 in Petroleum Business Tax.
 - The increase in tax-supported subsidies NYC and local is primarily due to an increase in the urban tax and other subsidies received by MTA New York City Transit of \$189 and MTA Bus of \$27; offset by a net decrease in the Mortgage Recording Taxes of \$73.

December 31, 2006 versus 2005

- Total operating revenues for the year ended December 31, 2006 were \$289 higher than in the year ended December 31, 2005.
 - Fare revenues and vehicle toll revenues were higher due to increased ridership and traffic and realization for the full year in 2006 of the fare adjustment implemented for 30-Day and 7-Day Unlimited Ride MetroCard, and the express bus fare increases that went into effect on February 27, 2005 generated additional revenues of \$134 at MTA New York City Transit; the commuter rail fares that went into effect on March 1, 2005 generated additional revenues of \$50; the full-year effect of MTA Bus operation generated \$96 additional revenues; and the increased bridge and tunnel crossing charge schedule that went into effect on March 13, 2005 along with the one dollar per month E-ZPass account maintenance fee that went into effect on July 1, 2005 (which fee was terminated effective June 1, 2006) resulted in an additional \$5 at MTA Bridges and Tunnels. Long Island Rail Road attributed an increase in its ridership to the higher gasoline prices and job gains in New York City.
 - Total operating expenses for the year ended December 31, 2006 were higher than the year ended December 31, 2005 by \$578.
 - Labor costs, including retirement and other employee benefits, were higher by approximately \$309. Wage rate increases, including accrued estimated rate increases in anticipation of wage contract settlements, additional sick and vacation reserve requirements, and the impact of MTA Bus operation of the additional bus routes due to transition in service after the first nine months of 2005 are the primary reasons for the \$304 labor cost increases; health and welfare cost increased by approximately \$64 due primarily to escalating premium rates for health and welfare plans. Pension expense decreased by \$46 due in large part to a NYCERS pension revaluation adjustment based on recently-enacted legislation affecting New York City Transit, partially offset by increases at other agencies. The other fringe benefits increase of \$15 is due in large part to the fringe benefit cost associated with MTA Bus operations including workers compensation insurance and other costs directly associated with wages at the other agencies.
 - Non-labor operating costs were higher by approximately \$269. Cost elements contributing to this increase were depreciation resulting in part from new capital assets being placed into beneficial service, \$132; traction and propulsion power and fuel expense increases of \$60 are due primarily to fuel price increases. Maintenance and other operating contracts increased by \$67 due to increases in operating and facility repair and maintenance requirements, facility heating fuel and power costs, bus tire and tube rental requirements, recycling costs, cost associated with Penn Station tunnel resurfacing, and costs resulting from the discovery of chlordane contamination. Materials and supplies costs increased by \$43 primarily at New York City Transit and MTA Bus for parts for fleet maintenance, including bus body structure parts, bus electrical systems, bus engines/cooling systems, bus suspensions and springs, subway propulsion motors, and subway trucks, wheels, and undercarriages. Professional service contracts decreased by \$50. Paratransit service contract costs increased \$26 primarily due to increased trip volume. Total grants, appropriations, and taxes were higher by approximately \$653 for the year ended December 31, 2006 compared to the year ended December 31, 2005. The major components of the increase are tax-supported subsidies-NYS, \$389, and tax-supported subsidies-NYC and local, \$288.

- The increase in tax-supported subsidies from New York State is due primarily to an increase of \$329 in Metropolitan Mass Transportation Operating Assistance and an increase of \$52 in Petroleum Business Tax.
- The increase in tax-supported subsidies NYC and local is primarily due to an increase in the urban tax and other subsidies received by MTA New York City Transit of \$147 and MTA Bus of \$126; and a net increase in the Mortgage Recording Taxes of \$15 partially offset by a reduction in the NYS special aid of \$24. In addition Mortgage Recording Tax 1 rate was increased from 25 cents per 100 dollars of mortgage recorded to 30 cents per 100 dollars of mortgage recorded effective June 1, 2005.

4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Economic Conditions - Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being. The MTA's business consists of urban subway and bus systems, suburban rail and bus systems, and bridge and tunnel facilities, all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Through December 2007, system-wide utilization—excluding MTA Bus Company—continued to increase significantly, with 2007 MTA ridership 2.8 percent higher (67.9 million more trips) compared to ridership through December 2006. In addition, MTA Bus Company experienced ridership growth of 10.6 percent through the fourth quarter of 2007, carrying 10.5 million more revenue passengers than in 2006. The transition from private to MTA Bus service was not completed until part-way through the first quarter of 2006. At the start of 2006, service had been transitioned from four of the former franchisees; in early January service was transitioned from Green Bus; at the end of January service was transitioned from Jamaica Bus; and towards the end of February service was transitioned from Triboro Coach. Some of the 2007 ridership increase for MTA Bus, therefore, reflects incomplete ridership numbers from the first quarter of 2006. MTA system-wide utilization, including MTA Bus, was 3.1 percent higher (79.0 million more trips). Vehicle crossing levels at MTA Bridges and Tunnels facilities were 0.8 percent higher (2.3 million more crossings).

Between the fourth quarter of 2006 and the fourth quarter of 2007, New York City added 56,000 new jobs. According to the Federal Reserve Bank's Coincident Economic Indicator (CEI), an index of broad economic activity, the regional economy continued to experience modest growth. From the fourth quarter of 2006 to the fourth quarter of 2007, the CEI for New York State grew by 1.2 percent, while New Jersey's increased by 0.9 percent. Economic growth in New York City, however, was more robust than in the larger two-state area: stimulated in part by the rebuilding of the downtown infrastructure and the MTA's multi-billion-dollar capital programs, the CEI for New York City increased 3.7 percent.

The city's economic growth was accompanied by an increase in consumer prices, but inflation was lower than the average for all U.S. cities: the consumer price index (CPI-U) in the New York metropolitan area increased by 3.6 percent in the fourth quarter of 2007 relative to the fourth quarter of 2006, while the national consumer price index increased 4.0 percent. Fourth-quarter energy prices were the main contributor to overall inflation, as rising prices built upon the large increases that had occurred in the first and second quarters: fourth-quarter energy prices in the New

York area were 17.7 percent higher than those prevailing in the fourth quarter of 2006, while consumer prices excluding energy were only 2.5 percent higher. The New York Harbor spot price for conventional gasoline averaged \$2.31 per gallon in the fourth quarter, a large increase of 45.3 percent compared to the average spot price in the fourth quarter of 2006. Like energy prices overall, much of this increase took place in the first and second quarters of 2007. Between January and May gasoline prices rose nearly 57 percent, fell throughout the summer, then resumed increasing in the fall at a slower pace.

While New York City continued to experience strong growth, the national economy slowed considerably in the fourth quarter, and growth of real Gross Domestic Product fell to only 0.6 percent annually. This compares to annual real GDP growth of 3.8 percent and 4.9 percent in the second and third quarters, respectively. Consequently, third and fourth quarter interventions by the Federal Reserve Bank, aimed at forestalling recession, contrast sharply with prior Federal Reserve Bank actions in the recent past. As the national economy emerged from the recession of 2001-2003, the Federal Reserve Board adjusted its monetary policies in an effort to keep inflation under control. From the end of June 2003 – when the Federal Funds Rate was at a 46-year low of 1.0 percent – through June 2006, the Federal Reserve Board raised the Federal Funds Rate by one-quarter point on each of 17 occasions, resulting in a rate of 5.25 percent. These increases had an impact on 30-year conforming fixed mortgage rates, which slowly rose during the first and second quarters of 2006.

Federal restraint between June 2006 and June 2007 reflected steady national income growth with acceptable rates of inflation, and contributed to falling mortgage rates in three consecutive quarters, from the beginning of the third quarter of 2006 through the end of the first quarter of 2007. However, 30-year mortgage rates began to increase thereafter, and did so throughout the second quarter.

Recent decisions by the Federal Reserve Board indicate that inflation, though now a concern, has become secondary to mounting insecurity in financial and housing markets. In the third quarter of 2007, the Federal Reserve Board elected to lower the Federal Funds Rate by a half point, from 5.25 to 4.75 percent, the first diminution since the end of June 2003. In the fourth quarter, the rate was lowered by a quarter point in October and again in December, resulting in a target rate of 4.25 percent. These moves were intended to foster moderate growth and to counter tightening credit conditions, especially in mortgage markets, where the housing downturn threatened to put a brake on economic expansion or, worse, to pull the economy into recession.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax and Urban Tax, two sources of MTA revenue. Although Urban Tax receipts outpaced 2006 receipts through the fourth quarter (up 32 percent), MRT receipts fell by 8 percent and there were strong signs that residential transactions in the MTA region had slowed. Both MRT-1 and MRT-2 receipts declined in the MTA region as a whole. Through December, revenues from MRT-1 dropped 4 percent and MRT-2 revenues fell by 15 percent. MRT-1 is paid on all mortgages, while MRT-2 is paid only on residential mortgages where the structure contains one to six individual dwelling units. The decline in both MRT-1 and MRT-2 provides the strongest indication in some time of a slowdown across the entire MTA region in real estate markets, and even a 4 percent increase in MRT-1 receipts in New York City was not enough to offset the downturn.

Results of Operations – Paid MTA Bridges and Tunnels’ traffic level for the year ended December 31, 2007 reached 304.4 million vehicles. Total volume was 0.8 percent greater in 2007 compared to 2006. Through October 2007, traffic was up by 1.4 percent primarily due to relatively favorable weather. The largest increases occurred in May and June, with volumes growing 2.9 percent each month due to considerably less rain in 2007 than in 2006. The traffic gains through October were partially offset by declines of 1.2 percent in November and 4.6 percent in December. Weather conditions were not as favorable in November and December of 2007 as compared to 2006. In addition, gas prices were higher in November and December of 2007, with regional prices exceeding \$3.00 per gallon.

MTA New York City Transit’s fare revenues for the year ended December 31, 2007 were higher than in 2006 by \$96 or 3.5 percent. Total ridership from fares was 2,306, the highest annual ridership since 1969, and an increase of 61 or 2.7 percent above 2006. Subway ridership was 1,563, an increase of 64 or 4.2 percent above 2006, and the highest subway ridership since 1951.

MTA Long Island Rail Road’s ridership for the year ended December 31, 2007 was at 86.1 million on passenger revenues of \$479.4. Revenues increased by approximately \$22 or 4.8 percent for the year ended December 31, 2007 over the year ended December 31, 2006. Long Island Rail Road served this record number of customers while at the same time hitting a modern-day high for yearly on-time performance in 2007 of 94.1 percent.

MTA Metro-North Railroad’s operating revenue increased by \$22.3 or approximately 4.9 percent for the year ended December 31, 2007 over the year ended December 31, 2006. Ridership on the Harlem, Hudson, and New Haven Lines increased in 2007 by approximately 4.0 percent. This includes increases in commuter ridership to Manhattan, increases in customers traveling between stations, and weekend travel.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance receipts each year, with the State advancing the first quarter of each succeeding calendar year’s receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During the first quarter of 2008, the State did not advance any payments of MMTOA assistance to the MTA from MTA’s 2008 appropriation. There has been no change in the timing of the State’s payment of, or MTA’s receipt of, Dedicated Mass Transportation Trust Fund (“MTTF”) receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund for the Dedicated Tax Fund Bonds.

Over the last few years, the mortgage recording taxes payable to the MTA generally exceeded expectations, due primarily to the high level of home buying and refinancing encouraged by historically low interest rates. In the last quarter of 2007, however, the national downturn in housing markets began to impact the frequency of local real estate transactions, and the collection of mortgage recording taxes fell. In spite of the Federal Reserve Bank’s determination to forestall a recession by successively lowering interest rates, the MTA expects mortgage recording taxes to continue to decline in 2008.

Capital Programs – At December 31, 2007, \$11,021 had been committed and \$3,674 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and \$19,957 had been committed and \$17,014 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

MTA's and MTA Bridges and Tunnels' capital programs are described in Note 1 to the consolidated financial statements.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During the first quarter of 2008, ratings of several municipal bond insurers were downgraded by the three rating agencies, thereby lowering the ratings of MTA and MTA Bridges and Tunnels bonds insured by such insurers. The bond insurer downgrades have affected municipal issuers nationwide, including all major New York State issuers, in terms of market volatility and increased interest costs on variable rate bonds. These downgrades have not affected the underlying MTA and MTA Bridges and Tunnels bond ratings.

Additionally many regularly scheduled auctions of variable rate bonds currently in the auction mode have been failing since there are not enough buy orders to cover sell orders. In the event of a "failed" auction, the periodic rate for such bonds is set at a stated percentage of one month LIBOR (London Interbank Offered Rate) index. In mid-April MTA and MTA Bridges and Tunnels were obligated to pay interest rates on such failed auction rate bonds ranging from 125 percent to 175 percent of one month LIBOR which was setting around 2.7 percent.

* * * * *

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(\$ in Millions)

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 130	\$ 155
Investments (Note 3)	1,703	2,604
Restricted investment held under capital lease obligations (Notes 3 and 8)	<u>8</u>	<u>-</u>
Receivables:		
Station maintenance, operation, and use assessments	104	101
State and regional mass transit taxes	47	106
Mortgage Recording Tax receivable	43	60
State and local operating assistance	8	8
Other subsidies	81	108
Connecticut Department of Transportation	20	7
New York City	101	28
Due from Hudson Yards Infrastructure Corporation	67	-
Capital project receivable from federal and state government	209	-
Other	222	353
Less allowance for doubtful accounts	<u>(23)</u>	<u>(25)</u>
Total receivables - net	879	746
Materials and supplies	381	317
Advance to defined benefit pension trust	166	425
Prepaid expenses and other current assets (Note 2)	<u>258</u>	<u>114</u>
Total current assets	<u>3,525</u>	<u>4,361</u>
NONCURRENT ASSETS:		
Capital assets - net (Note 6)	40,611	38,307
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,483	2,463
Investments (Note 3)	2,224	1,583
Receivable from New York State	2,197	2,246
Other noncurrent assets	<u>1,729</u>	<u>1,125</u>
Total noncurrent assets	<u>48,244</u>	<u>45,724</u>
TOTAL ASSETS	<u>\$ 51,769</u>	<u>\$ 50,085</u>

(continued)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2007 AND 2006 (\$ in Millions)

	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 447	\$ 476
Accrued expenses:		
Interest	201	200
Salaries, wages and payroll taxes	231	280
Vacation and sick pay benefits	684	652
Current portion - retirement and death benefits	228	184
Current portion - estimated liability from injuries to persons (Note 9)	199	176
Other	<u>751</u>	<u>408</u>
Total accrued expenses	2,294	1,900
Current portion - long-term debt (Note 7)	391	338
Current portion - obligations under capital lease (Note 8)	7	7
Deferred revenue	<u>353</u>	<u>352</u>
Total current liabilities	<u>3,492</u>	<u>3,073</u>
NONCURRENT LIABILITIES:		
Retirement and death benefits	42	6
Estimated liability arising from injuries to persons (Note 9)	1,033	984
Post employment benefits other than pensions (Note 5)	1,290	-
Long-term debt (Note 7)	24,515	23,544
Obligations under capital leases (Note 8)	1,619	2,608
Contract retainage payable	177	180
Other long-term liabilities	<u>304</u>	<u>327</u>
Total noncurrent liabilities	<u>28,980</u>	<u>27,649</u>
Total liabilities	<u>32,472</u>	<u>30,722</u>
NET ASSETS:		
Invested in capital assets, net of related debt	15,903	14,777
Restricted for debt service and claims	1,088	1,095
Unrestricted	<u>2,306</u>	<u>3,491</u>
Total net assets	<u>19,297</u>	<u>19,363</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 51,769</u>	<u>\$ 50,085</u>

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007 AND 2006 (\$ in Millions)

	2007	2006
OPERATING REVENUES:		
Fare revenue	\$ 3,995	\$ 3,840
Vehicle toll revenue	1,251	1,241
Rents, freight, and other revenue	<u>420</u>	<u>406</u>
Total operating revenues	<u>5,666</u>	<u>5,487</u>
OPERATING EXPENSES:		
Salaries and wages	4,339	4,123
Retirement and other employee benefits	1,690	1,623
Postemployment benefits other than pensions	1,575	-
Traction and propulsion power	294	278
Fuel for buses and trains	193	178
Insurance	66	49
Claims	164	93
Paratransit service contracts	233	184
Maintenance and other operating contracts	520	527
Professional service contracts	181	177
Materials and supplies	518	448
Depreciation	1,689	1,606
Other	<u>40</u>	<u>44</u>
Total operating expenses	<u>11,502</u>	<u>9,330</u>
OPERATING LOSS	<u>(5,836)</u>	<u>(3,843)</u>
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies-NYS	2,291	2,054
Tax-supported subsidies - NYC and local	1,814	1,671
Operating subsidies - NYS	211	206
Operating subsidies - NYC and local	<u>188</u>	<u>188</u>
Total grants, appropriations, and taxes	<u>\$ 4,504</u>	<u>\$ 4,119</u>

(Continued)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2007 AND 2006

(\$ in Millions)

	2007	2006
Operating subsidies recoverable from Connecticut Department of Transportation related to New Haven Line	\$ 64	\$ 53
Subsidies paid to Dutchess, Orange, and Rockland Counties	(17)	(20)
Suburban Highway Transportation Fund subsidy	(20)	(20)
Interest on long-term debt	(1,054)	(1,039)
Station maintenance, operation and use assessments	142	137
Other non-operating revenue	<u>116</u>	<u>85</u>
Net non operating revenues	<u>3,735</u>	<u>3,315</u>
LOSS BEFORE APPROPRIATIONS	(2,101)	(528)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>2,035</u>	<u>1,898</u>
CHANGE IN NET ASSETS	(66)	1,370
NET ASSETS, BEGINNING OF YEAR	<u>19,363</u>	<u>17,993</u>
NET ASSETS, END OF YEAR	<u>\$ 19,297</u>	<u>\$ 19,363</u>

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006

(\$ in Millions)

	2007	2006
CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Passenger receipts/tolls	\$ 5,472	\$ 5,302
Rents and other receipts	326	207
Payroll and related fringe benefits	(6,376)	(6,128)
Other operating expenses	<u>(2,406)</u>	<u>(1,879)</u>
Net cash used in operating activities	<u>(2,984)</u>	<u>(2,498)</u>
CASH FLOWS PROVIDED BY/(USED IN) NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	4,512	4,209
Operating subsidies from CDOT	60	52
Suburban transportation fund subsidy	(20)	(20)
Subsidies paid to Dutchess, Orange, and Rockland counties	<u>(20)</u>	<u>(23)</u>
Net cash provided by noncapital financing activities	<u>4,532</u>	<u>4,218</u>
CASH FLOWS PROVIDED BY/(USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,290	2,020
MTA Bridges and Tunnels bond proceeds	228	207
MTA bonds refunded	(211)	(281)
MTA Bridges and Tunnels bonds refunded	(91)	-
MTA anticipation notes proceeds	750	450
MTA anticipation notes redeemed	(439)	(11)
Capital lease payments	(158)	(22)
Grants and appropriations	2,017	2,191
CDOT capital contributions	1	4
Capital expenditures	(4,197)	(4,092)
Debt service payments	<u>(1,608)</u>	<u>(1,824)</u>
Net cash used in capital and related financing activities	<u>(2,418)</u>	<u>(1,358)</u>
CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES:		
Purchase of long-term securities	(5,015)	(3,551)
(Purchase)/sales of maturities of securities - long-term	4,938	3,249
Sale/(purchase) of short-term securities	682	(171)
Earnings on investments	<u>240</u>	<u>128</u>
Net cash provided by/ (used in) investing activities	<u>845</u>	<u>(345)</u>
NET (DECREASE)/INCREASE IN CASH	(25)	17
CASH, BEGINNING OF YEAR	<u>155</u>	<u>138</u>
CASH, END OF YEAR	<u>\$ 130</u>	<u>\$ 155</u>

See notes to consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2007 AND 2006 (\$ in Millions)

	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (5,836)	\$ (3,843)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,689	1,606
Net increase in payables, accrued expenses, and other liabilities	1,390	337
Net increase in receivables	(32)	(125)
Net increase in materials and supplies and prepaid expenses	<u>(195)</u>	<u>(473)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (2,984)</u>	<u>\$ (2,498)</u>

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006 (Amounts in Millions)

1. BASIS OF PRESENTATION

The Metropolitan Transportation Authority (“MTA”) was established in 1965, under Section 1263 of the New York Public Authorities Law, and is a public benefit corporation and a component unit of the State of New York (“NYS”) whose mission is to continue, develop and improve public transportation and to develop and implement a unified public transportation policy in the New York metropolitan area.

These consolidated financial statements are of the Metropolitan Transportation Authority, including its related groups (collectively, the “MTA”) as follows:

Metropolitan Transportation Authority and Related Groups -

- Metropolitan Transportation Authority Headquarters (“MTAHQ”) provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.
- The Long Island Rail Road Company (“MTA Long Island Rail Road”) provides passenger transportation between New York City (“NYC”) and Long Island.
- Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“MTA Staten Island Railway”) provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MTA Long Island Bus”) provides public bus service in NYC and Nassau County, New York.
- First Mutual Transportation Assurance Company (“FMTAC”) provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.
- MTA Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.
- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.
- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.

- New York City Transit Authority (“MTA New York City Transit”) and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“MTA Bridges and Tunnels”) operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA’s financial statements because of the MTA’s financial accountability for these entities and they are under the direction of the MTA Board. Under accounting principles generally accepted in the United States of America (“GAAP”), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organization as a whole. The components do not constitute a separate accounting entity (fund) since there is no legal requirement to account for the activities of the components as discrete accounting entities. Therefore, the MTA financial statements are presented on a consolidated basis with segment disclosure for each distinct operating activity.

Capital Program - The MTA has ongoing capital programs, which except for MTA Bridges and Tunnels, MTA Long Island Bus and MTA Bus are subject to the approval of the Metropolitan Transportation Authority Capital Program Review Board (“CPRB”), and are designed to improve public transportation in the New York Metropolitan area.

2005-2009 Capital Program – Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2005–2009 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the “2005–2009 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005–2009 MTA Bridges and Tunnels Capital Program”). The 2005–2009 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2005. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the “2005–2009 MTA Capital Programs”) were last amended by the MTA Board in March 2007. This latest 2005-2009 MTA Capital Program amendment was submitted to the CPRB for approval in April 2007, but was subsequently vetoed.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provide for \$22,586 in capital expenditures, of which \$11,220 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,546 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$5,830 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$495 relates to a multi-faceted security program; \$155 relates to MTA interagency initiatives including MTA Police Department plus an MTA-wide integrated computer systems initiative, \$138 relates to MTA Bus company initiatives; and \$1,202 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include \$9,441 in MTA and MTA Bridges and Tunnels Bonds, \$1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, \$7,842 in Federal Funds, and \$3,853 from other sources.

At December 31, 2007, \$11,021 had been committed and \$3,674 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

2000-2004 Capital Program – Capital programs covering the years 2000-2004 were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2000-2004 Commuter Capital Program”), (2) the transit system operated by the MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the “2000-2004 Transit Capital Program”), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the 2000-2004 MTA Bridges and Tunnels Capital Program”). The 2000-2004 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2000. The 2000-2004 amended Commuter Capital Program and the 2000-2004 amended Transit Capital Program (collectively, the “2000-2004 MTA Capital Programs”) were most recently amended by the MTA Board in December 2006. This latest 2000-2004 MTA Capital Program amendment was submitted to the CPRB for approval in April 2007, but was subsequently vetoed.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program through December 31, 2007 provide for \$21,147 in capital expenditures, of which \$10,295 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,959 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,689 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; \$450 relates to planning and design and customer service projects; \$249 relates to World Trade Center repair projects; \$1,003 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and \$502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program include \$7,919 in bonds, \$6,522 in Federal funds, \$4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and \$2,131 from other sources.

At December 31, 2007, \$19,957 had been committed and \$17,014 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

The federal government has a contingent equity interest in assets acquired by the MTA with federal funds, and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA’s operation.

2. SIGNIFICANT ACCOUNTING POLICIES

In accordance with GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, the MTA applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements and Interpretations issued on or before November 30, 1989 that do not conflict with GASB pronouncements. The MTA has elected not to apply FASB Standards issued after November 30, 1989.

Estimates - Financial statements prepared in accordance with GAAP require the use of estimates made by management for certain account balances and transactions. Actual results may differ from these estimates.

Principles of Consolidation - The consolidated financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Bus, MTA Capital Construction, MTA New York City Transit, and MTA Bridges and Tunnels. All significant related group transactions have been eliminated for consolidation purposes.

Basis of Accounting - The MTA follows enterprise fund and accrual basis of accounting, which is similar in presentation to private business enterprises.

Investments - The MTA’s investment policies comply with the New York State Comptroller’s guidelines for such operating and capital policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations. FMTAC’s investment policies comply with New York State Comptroller guidelines and New York State Department of Insurance guidelines.

Investments expected to be utilized within a year of December 31 have been classified as current assets in the financial statements.

All investments are recorded on the balance sheets at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at December 31, 2007 and December 31, 2006.

Materials and Supplies - Materials and supplies are valued principally at the lower of average cost or market value, net of obsolescence reserve.

Prepaid Expenses and Other Current Assets – Prepaid expenses and other current assets reflect advance payment of insurance premiums as well as farecard media related with ticket machines, WebTickets and AirTrain tickets.

Capital Assets - Properties and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives. Expenditures for maintenance and repairs are charged to operations as incurred.

Liability Insurance – FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2001, but before

November 1, 2006, the self-insured retention limits are: \$7 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road, and MTA Metro-North Railroad; \$2 million for MTA Long Island Bus; and \$1.4 million for MTA and MTA Bridges and Tunnels. Effective November 1, 2006, the self-insured retention limits for ELF were increased to the following amounts: \$8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Staten Island Railway, MTA Long Island Rail Road and MTA Metro-North Railroad; \$2.3 million for MTA Long Island Bus; and \$1.6 million for MTA and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned self-insured retention with a limit of \$50 million per occurrence with a \$50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2007, the balance of the assets in this program was \$76.7 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA and its subsidiaries and affiliates additional coverage limits of \$350 million, for a total limit of \$400 million (\$350 excess of \$50). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of \$50 million.

On March 1, 2007, the “non-revenue fleet” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA and its member agencies with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides \$7 million per occurrence limit with a \$0.5 million per occurrence deductible. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible. FMTAC issued a comprehensive automobile excess liability policy that provides \$1 million per occurrence excess of \$7 million.

On March 1, 2007, the “Access-A-Ride” automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit’s Access-A-Ride program, including the contracted operators. This policy provides a \$3 million per occurrence limit with a \$1 million per occurrence deductible.

On December 15, 2007, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies \$8 million per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance – Effective October 31, 2007, FMTAC renewed the all-agency property insurance program. For the period October 31, 2007 through May 1, 2009, FMTAC directly insures property damage claims of the related entities in excess of a \$25 million per occurrence self-insured retention (“SIR”), subject to an annual \$75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The total program limit has been maintained at \$1.25 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London, European, and Bermuda marketplaces for this coverage. Given the absence of major catastrophes in 2006 and 2007, available capacity has emerged, along with pricing reductions. As a result, FMTAC was able to obtain additional reinsurance capacity over last year and

has fully reinsured the all-risk component for the full \$1.25 billion, subject to certain program sublimits.

The property insurance, which was subject to a renewal on October 31, 2007, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages.

With respect to acts of terrorism, FMTAC is reinsured by the United States Government for 85 percent of “certified” losses, as covered by the Terrorism Risk Insurance Act of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. Until 2007, the Act only provided coverage for acts sponsored by foreign organizations. The remaining 15 percent of MTA losses would be covered under an additional policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed a \$100 million (“trigger”).

To supplement the reinsurance to FMTAC through TRIA 2007, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. (part of AIG). That policy provides coverage for (1) 15 percent of any “certified” act of terrorism - up to a maximum recovery of \$183.75 million for any one occurrence, or (2) 100 percent of any “certified” terrorism loss which does not reach the \$100 million trigger – up to a maximum recovery of \$100 million for any occurrence. This coverage expires on April 30, 2009. Recovery under this policy is subject to a retention of \$25 million per occurrence and \$75 million in the annual aggregate – in the event of multiple losses during the policy year. Should the MTA’s retention in any one year exceed \$75 million, future losses in that policy year are subject to a retention of just \$7.5 million

Operating Revenues

Passenger Revenue and Tolls - Revenues from the sale of tickets, tokens, electronic toll collection system, and farecards are recognized as income as they are used. Deferred revenue is recorded for the estimated amount of unused tickets, tokens, and farecards.

Nonoperating Revenues

- *Operating Assistance* - The MTA receives, subject to annual appropriation, NYS operating assistance funds that are generally recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the MTA’s service area.
- *Mortgage Recording Taxes (“MRT”)* - Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the MTA’s service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective June 1, 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax (MRT-2) of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA’s service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.
 - MRT-1 proceeds are initially used to pay MTAHQ’s operating expenses. Remaining funds, if any, are allocated 55 percent to certain Transit Operations and 45 percent to the Commuter

Railroads. The Commuter Railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of December 31, 2007 and 2006 the amount payable to the NYS Suburban Highway Transportation Fund was \$20 for each of the years. Of the MTA New York City Transit portion, the MTA distributed \$0 and \$111.7 as of December 31, 2007 and December 31, 2006, respectively.

- The first \$5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland Fund (\$1.5 each for Dutchess and Orange Counties and \$2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the June 1, 2005 increase in MRT-1 from 25 cents per \$100 of recorded mortgage to 30 cents. Excess amounts transferable to the counties as of December 31, 2007 and December 31, 2006, were \$11.7 and \$15.1, respectively. Through December 31, 2007, the MTA has distributed \$26.2 from the MRT-2 funds to MTA Bus and advanced to MTA Bridges and Tunnels \$90.8 for the defeasance of MTA Bridges and Tunnels Senior and Subordinate bonds. In the same period in 2006 MTA distributed \$40.8 from the MRT-2 fund to the Commuter Railroads and \$95.1 to MTA New York City Transit for their current operations. During 2006, \$2.1 of MRT-2 funds was transferred to fund the MaBSTOA Pension Plan and \$267.1 was transferred to fund the MTA Defined Benefit Pension Plan.
- In addition, MTA New York City Transit Authority receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.
- *Dedicated Taxes* - Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and non-registration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to pay operating and capital costs. The MMTOA receipts are comprised of .375 of one percent regional sales tax (which was increased effective June 1, 2005 from .25 of one percent), a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then-current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the

MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (see Note 7), 85 percent to certain Transit Operations (not including MTA Bus) and 15 percent to the Commuter Railroads. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

- *Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”)* - The portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of non-movable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically renewed for an additional five years beginning January 1, 2005. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year are subject to audit by CDOT. Years subsequent to 2000 remain subject to final audit.
- *Reimbursement of Expenses* - The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending March 31, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.
- Pursuant to an agreement NYS and NYC each pays to MTA \$45 annually to cover a portion of the cost of the free-fare student program. The estimated cost of this program is approximately \$173 for the 2007-2008 school year. It is believed that NYC will continue to provide for the City’s \$45 contribution for the 2007-2008 school year, of which \$15 was received in December 2007. The MTA NYC Transit approved 2008 Adopted Budget assumes that the remaining \$30 from NYC will be received in 2007. It also assumes that the full \$45 for the 2006–2007 school year will be received in 2008. The Transit Operation’s 2009–2011 Financial Plan assumes the continuation of the joint funding of the free-fare program for students.
- Policing of the transit system is carried out by the NYC Police Department at NYC’s expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The MTA received approximately \$4.2 in the twelve months ended December 31, 2007, and \$3.7 in the twelve months ended December 31, 2006 from NYC for the reimbursement of transit police costs. In addition, \$0.9 was received in January 2008 for calendar 2007
- Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit

service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0 percent of gross Urban Tax Subsidies, or an amount that is 20.0 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and reimbursements aggregated approximately \$111.8 in the twelve months ended December 31, 2007, and \$90.8 in the twelve months ended December 31, 2006. Total paratransit expenses, including paratransit service contracts, were \$282.3 and \$226.8 in 2007 and 2006, respectively.

Grants and Appropriations - Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions. These amounts are reported separately after Total Nonoperating Revenues in the Statements of Revenues, Expenses, and Changes in Net Assets.

Recent Accounting Pronouncements - The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions and has disclosed the required information as per this statement in Note 5. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Statement was effective for financial statement periods beginning after December 15, 2006.

The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 46, Net Assets Restricted by Enabling Legislation - an amendment of GASB Statement No. 34. The MTA has concluded that GASB Statement No. 46 had no impact on its financial position, results from operations, and cash flows based upon the MTA's current reporting of its net assets. The Statement clarifies the definition of a "legally enforceable" enabling legislation restriction on a government's net assets. The statement is effective for fiscal periods beginning after June 15, 2005.

The MTA has completed the process of evaluating the impact that will result from implementing GASB Statement No. 47, Accounting for Termination Benefits. The MTA has concluded that the impact of adopting GASB Statement No. 47 did not have a material impact on its financial position, results of operations, and cash flows. The Statement establishes the accounting standards for voluntary termination benefits (for example, early-retirement incentives) and involuntary benefits (for example, severance benefits). The Statement was effective for fiscal periods beginning after June 15, 2005.

The MTA has completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of assets and Future Revenues. The MTA has concluded that GASB Statement No. 48 had no impact on its financial position, results from operations, and cash flows. The Statement establishes criteria that governments will use to ascertain whether proceeds received should be reported as revenues or as a liability. The Statement is effective for fiscal periods beginning after December 15, 2006.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation

Obligations The MTA is therefore unable to disclose the impact GASB Statement No. 49 will have on its financial position, results of operations, and cash flows when such statement is adopted. This Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations. The Statement is effective for fiscal periods beginning after December 15, 2007.

The MTA has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The MTA is therefore unable to disclose the impact GASB Statement No. 51 will have on its financial position, results of operations, and cash flows when such statement is adopted. This statement amends GASB Statement 34, paragraphs 19-21, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, paragraphs 9e, 16, and 18 and relates to the recognition and recording of intangible assets as capital assets in the statement of net assets. The requirements of this Statement are for financial statements for periods beginning after June 15, 2009.

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at December 31, 2007 and 2006:

	<u>December</u> <u>2007</u>		<u>December</u> <u>2006</u>	
	(Amounts in Million)			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 69	\$ 69	\$ 72	\$ 66
Uninsured and not collateralized	<u>61</u>	<u>79</u>	<u>83</u>	<u>14</u>
	<u>\$ 130</u>	<u>\$ 148</u>	<u>\$ 155</u>	<u>\$ 80</u>

All collateralized deposits are held by the MTA or its agent in the MTA's name.

The MTA, on behalf of the Transit operations, MTA Bridges and Tunnels, MTA Long Island Bus, and MTA Bus operations, invests funds which are not immediately required for the MTA's operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

The MTA's uninsured and uncollateralized deposits are primarily held by commercial banks in the metropolitan New York area and are subject to the credit risks of those institutions.

Investments, at fair value, consist of the following at December 31, 2007 and 2006:

	December 2007	December 2006
(Amounts in Millions)		
Repurchase agreements	\$ 585	\$ 680
U.S. Treasuries due 2007 - 2020	1,967	1,639
Investments restricted for capital lease obligations		
US Treasury Notes	8	8
Treasury Strips	112	121
Other Agencies	<u>1,371</u>	<u>2,334</u>
Sub-total	1,491	2,463
Other Agencies due 2007 - 2011	1,276	651
Commercial Paper due 2008	<u>99</u>	<u>1,217</u>
Total	<u>\$1,491</u> <u>\$5,418</u>	<u>\$2,463</u> <u>\$6,650</u>

Fair values include accrued interest to the extent that interest is included in the carrying amounts. Accrued interest on investments other than Treasury bills and coupons is included in other receivables on the balance sheet. The MTA's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment.

In connection with certain lease transactions described in Note 8, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions that have a credit rating of AAA by Standard and Poor's, which generate sufficient proceeds to make payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments are either insured or registered and held by the MTA or its agent in the MTA's name. Investments had weighted average yields of 4.1 percent and 5.0 percent for the years ended December 31, 2007 and 2006, respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2007 and December 31, 2006:

	December 2007	December 2006
(Amounts in Millions)		
Construction or acquisition of capital assets	\$ 1,975	\$ 1,858
Funds received from related groups for investment	830	1,071
Debt service	230	489
Payment of claims	296	269
Restricted for capital leases	1,491	2,463
Other	<u>306</u>	<u>432</u>
Total	<u>\$5,128</u>	<u>\$6,582</u>

Credit Risk

At December 31, 2007, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization:

Quality Rating Moody's	Total	Percent of Portfolio
A-1+	\$ 181	3.94%
A-1	63	1.36%
AAA*	1,122	24.43%
AA	23	0.50%
A	64	1.39%
BBB	30	0.65%
Not Rated	505	11.01%
Government	<u>2,604</u>	<u>56.72%</u>
Total	<u>\$ 4,592</u>	<u>100.00%</u>

* Includes government agencies

Interest Rate Risk

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

<u>Securities</u>	<u>Fair Value</u>	<u>Duration</u>
U.S. Treasuries	\$ 2,293	0.13
U.S. Agencies	1,070	0.25
Tax Benefits Lease Investments	311	15.91
Repurchase Agreement	620	0.00
Certificate of Deposits	11	0.16
Commercial Paper	99	0.07
Asset-Backed Securities (1)	27	1.15
Collateralized Mortgage-Backed Securities (1)	22	5.47
Corporates (1)	<u>121</u>	5.03
Total Fair Value	<u>4,574</u>	
Modified Duration		1.37
Equities (1)	<u>18</u>	
Total	<u>\$ 4,592</u>	

(1) These securities are only included in the FMTAC portfolio.

MTA is a public benefit corporation established under the New York Public Authorities Law. MTA's Treasury Division is responsible for the investment management of the funds of the Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations:

- obligations of the State or the United States Government;
- obligations the principal and interest of which are guaranteed by the State or the United States government;
- obligations issued or guaranteed by certain Federal agencies;
- repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies;
- certain certificates of deposit of banks or trust companies in the State;
- certain banker's acceptances with a maturity of 90 days or less;
- certain commercial paper;
- certain municipal obligations; and
- certain mutual funds up to \$10 million in the aggregate.

Investment obligations and collateral are held by one of MTA's custodians or trustees.

FMTAC is created as a MTA subsidiary and is licensed as a captive direct insurer and reinsurer by the New York State Department of Insurance. As such FMTAC is responsible for the investment management of its funds. The investment activity is governed by State statutes and the FMTAC Board-adopted investment guidelines.

The minimum surplus to policyholders and reserve instruments are invested in the following investments:

- obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States;
- direct obligations of New York or of any county, district or municipality thereof.
- any state, territory, possession or any other governmental unit of the United States;
- certain bonds of agencies or instrumentalities of any state, territory, possession or any other governmental unit of the United States;
- the obligations of a solvent American institution which are rated investment grade or higher (or the equivalent thereto) by a securities rating agency;
- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

FMTAC may also invest non-reserve instruments in a broader range of investments including the following general types of obligations:

- certain equities;
- certain mutual funds.

FMTAC is prohibited from making the following investments:

- Investment in an insolvent entity;
- Any investment as a general partner.
- Any investment found to be against public policy.

FMTAC investment guidelines do include other investments, but FMTAC has limited itself to the above permissible investments at this time.

4. EMPLOYEE BENEFITS

Substantially all of the MTA's related groups and pension plans have separately issued financial statements that are publicly available and contain descriptions and supplemental information regarding employee benefit plans. These statements may be obtained by calling the administrative office of the respective related group.

Pension Plans - The MTA sponsors and participates in a number of pension plans for its employees. These plans are not component units of the MTA and are not included in the combined financial statements.

Defined Benefit Pension Plans

- *Single-Employer Pension Plans* - The Long Island Rail Road Company Plan for Additional Pensions ("Additional Plan") is a contributory, defined-benefit pension plan that covers employees who began service with MTA Long Island Rail Road prior to January 1, 1988. This plan is in addition to the Long Island Rail Road Company Pension Plan which merged into the MTA Defined Benefit Pension Plan in 2006 (discussed below). Benefit provisions are established by MTA Long Island Rail Road and are based on length of qualifying service and final average compensation.
- The MaBSTOA Pension Plan is a defined-benefit plan covering substantially all of its employees. In accord with applicable collective bargaining agreements, the plan's benefits, in general, are the same as those which a similarly situated NYC Transit Authority employee would receive from the New York City Employees' Retirement System. This plan assigns authority to amend the plan and determine employer contributions to the MaBSTOA Board.
- For the plan years ended December 31, 2007 and 2006, MTA New York City Transit made contributions to the MaBSTOA Plan of \$179.2 and \$159.6, respectively, equal to or in excess of the required contributions for each year. The MTA Board recently approved amendments authorizing the MaBSTOA Plan to invest in alternative investments. Such investments will be subject to specific investment guidelines and monitored by the Plan's independent investment adviser. On September 28 and October 25, 2006, MTA made contributions to the MaBSTOA Plan of \$100.0 and \$.3 to reduce unfunded pension liabilities. In December 2006, MTA New York City Transit made an advance payment of \$12.5.
- MTA Staten Island Railway has a contributory defined benefit plan that was a single-employer public employee retirement system covering certain employees. Authority to amend the plan and to determine contributions rests with the MTA Board. In 2005, that plan was merged with the MTA Defined Benefit Pension Plan and administered by the MTA.
- *Multi-Employer Pension Plan* - The MTA Defined-Benefit Pension Plan ("MTA Plan"), a defined benefit pension plan for certain MTA Long Island Rail Road non-represented employees hired after December 31, 1987, and MTA Metro-North Railroad non-represented employees, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, certain MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, employees of MTA Staten Island Railway and certain employees of the MTA Bus Company ("MTA Bus") is a cost-sharing multiple-employer retirement plan. MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement,

disability, and death benefits for covered MTA Metro-North Railroad and MTA Long Island Rail Road employees, covered MTA Bus employees, and participants of the MTA 20-Year Police Retirement Program, MTA Long Island Bus Employees' Pension Plan, and the Staten Island Railway Pension Program. Participants of the MTA Police Program contribute to that program at various rates. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level.

- Beginning in 2005, certain employees of MTA Bus became participants of defined benefit programs within the MTA Plan. Those programs, most of which are contributory, are based on the pension plans which covered these employees when they were employed by bus companies which previously provided the service now provided by MTA Bus.
- The MTA Board in 2006 approved plan and trust amendments to provide for and implement the merger of the Long Island Rail Road Company Pension Plan into the MTA Plan. The Board also approved amendments pursuant to which the LIRR Plan for Additional Pensions, which includes the same members as the LIRR Company Pension Plan, will participate in the MTA Plan's Master Trust. The Board of Managers of Pensions of the MTA Plan also administers the LIRR Plan for Additional Pensions. Such investments will be subject to specific investment guidelines and monitored by the Plan's independent investment adviser. On September 28, 2006, MTA made a contribution to the MTA Master Trust of \$363.7 to reduce unfunded pension liabilities of the MTA Plan and the LIRR Plan for Additional Pensions. This amount has been allocated \$229.7 to the MTA Plan and \$134.0 to the LIRR Plan for Additional Pensions. On October 25, 2006, an additional \$1.4 was contributed to the Trust. In 2007 an additional contribution of \$100 were transferred into the Plan. Of that \$49 will be allocated to the LIRR additional Plan and \$51 to the MTA Defined Benefit Pension Plan. The amount allocated to these Plans will be used to cover the Actuarial Required Contribution for 2008.
- The Metro-North Commuter Railroad Company Cash Balance Plan ("Cash Balance Plan") is a single employer plan. The Cash Balance Plan covers noncollectively bargained employees, formerly employed by Conrail, who joined the MTA Metro-North Railroad as management employees prior to July 1, 1983, and were still employed as of December 31, 1988. Those currently employed are now covered by the MTA Defined Benefit Pension Plan.
- The MTA Metro-North Railroad funded the full amount of the pension benefit obligation ("PBO") of \$2,977 to a separate trust fund in 1989. As participants retire, distributions from the Plan have been made by the trustee. The market value of net assets available for benefits in the trust fund at December 31, 2007 and 2006 was \$1,336 and \$1,361, respectively, which is less than the current PBO of \$1,398 and \$1,457, respectively. The MTA Metro-North Railroad has accrued this unfunded liability.
- The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
Date of valuation	1/1/2007	1/1/2007	1/1/2007
Required contribution rates:			
Plan members	variable	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2007	\$ 100.9	\$ 179.2	\$ 81.7
Three-year trend information:			
Annual Required Contribution			
2007	\$ 100.9	\$ 179.2	\$ 81.7
2006	124.5	159.6	72.6
2005	109.1	153.4	58.2
Percentage of ARC contributed:			
2007	100%	100%	100%
2006	100%	163%	100%
2005	100%	100%	100%
Annual Pension Cost (APC):			
2007	\$ 100.4	\$ 180.7	\$ 86.6
2006	124.6	157.6	72.6
2005	109.2	151.4	58.2
Net Pension Obligation (NPO) (assets) at end of year:			
2007	40.4	(46.0)	-
2006	(4.6)	(47.5)	-
2005	(4.6)	54.9	-
Percentage of APC contributed:			
2007	100%	99%	100%
2006	100%	165%	100%
2005	100%	101%	100%
Components of APC			
Annual required contribution (ARC)	\$ 100.9	\$ 179.2	\$ 81.7
Interest on NPO	3.3	(3.8)	(32.8)
Adjustment of ARC	<u>(3.8)</u>	<u>5.3</u>	<u>37.7</u>
APC	100.4	180.7	86.6
Contributions made	<u>100.9</u>	<u>179.2</u>	<u>81.7</u>
Change in NPO (assets)	(0.5)	1.5	5.0
NPO (assets) beginning of year	<u>40.9</u>	<u>(47.5)</u>	<u>-</u>
NPO (assets) end of year	<u>\$ 40.4</u>	<u>\$ (46.0)</u>	<u>\$ 5.0</u>

	Single-Employer Plans		
	LIRR	MaBSTOA	MTA Plan
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	8.00%
Projected salary increases	3.5%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 27 years	level dollar / 30 years	level dollar / 23 years
Period closed or open	closed	closed	closed

Cost-Sharing Multiple-Employer Plans

New York City Employees' Retirement System ("NYCERS")

Plan Description – MTA New York City Transit and MTA Bridges and Tunnels contribute to the New York City Employees' Retirement System, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS combines features of a defined-benefit pension plan with those of a defined-contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing NYS statutes and NYC laws and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, New York 11201.

Funding Policy - NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Employees who entered qualifying service after July 1976, contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspended the 3 percent contribution for employees who have 10 years or more of credited service. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2007 and 2006 were \$333.2 and \$220.5, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2007 and 2006 were \$18.5 and \$12.9, respectively, which were equal to or in excess of the actuary's recommendation, plus interest.

New York State and Local Employees' Retirement System ("NYSLERS")

Plan Description and Funding Policy - MTAHQ and MTA Long Island Bus employees who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits including retirement, death and disability benefits, and cost of living adjustments. Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after that date contribute 3 percent of salary. In 2000, the State Legislature passed legislation that members who have 10 or more years of credited service are no longer required to make the 3 percent contribution. MTAHQ, the Capital Company, and MTA Long Island Bus recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately \$10.9 and \$11.2, for the years ended December 31, 2007 and 2006, respectively, and was equal to the annual required contributions for each year. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Defined Contribution Plans

Single-Employer

The Long Island Rail Road Company Money Purchase Plan ("Money Purchase Plan") is a defined contribution plan that covers certain represented employees who began service with MTA Long Island Rail Road after December 31, 1987. Beginning January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in a New Program in the MTA Plan ("New Program") and have similar benefits as those applicable to non-represented employees of MTA Long Island Rail Road in the MTA Plan. The MTA Board has voted to terminate this Plan.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees ("Agreement Plan"), established January 1, 1988, covers represented employees in accordance with applicable collective bargaining agreements. Under this plan, MTA Metro-North Railroad will contribute an amount equal to 4 percent of each eligible employee's gross compensation to the plan on that employee's behalf. For employees who have 19 or more years of service MTA Metro-North Railroad contributes 7 percent. In addition, employees may voluntarily contribute up to the amount of MTA Metro-North Railroad's contribution to the plan, on an after-tax basis. The plan is administered by MTA Metro-North Railroad and the Plan's Board of Managers of Pension. Effective January 1, 2004, certain employees who were participants of the Agreement Plan became participants in the New Program in the MTA Plan and have similar benefits as those applicable to non-represented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted-out of the New Program. The "opt-out" employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan.

	December 31, 2007 (\$ in Millions)		December 31, 2006 (\$ in Millions)	
	MNCR Agreement Plan	LIRR Money Purchase Plan	MNCR Agreement Plan	LIRR Money Purchase Plan
Employer contributions	\$ 5.1	\$ -	\$ 10.8	\$ -
Employee contributions	\$ 0.3	\$ -	\$ 0.6	\$ 0.3

Deferred Compensation Plans - As permitted by Internal Revenue Code Section 457, the MTA has established a trust or custodial account to hold plan assets for the exclusive use of the participants and their beneficiaries. Plan assets and liabilities are not reflected on the MTA's combined balance sheets.

Certain MTA employees are also eligible to participate in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to most represented and non-represented employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, this plan is not reflected in the accompanying combined balance sheets.

Cash Balance Plan - Metro-North Railroad Cash Balance Plan ("Cash Balance Plan") covers noncollectively bargained employees, formerly employed by Conrail, who joined the MTA Metro-North as management employees prior to July 1, 1983, and were still employed as of December 31, 1988. Metro-North Railroad funded the full amount of the pension benefit obligation ("PBO") of \$2,977 to a separate trust fund in 1989. As participants retire, distributions from the Plan have been made by the trustee. The market value of net assets available for benefits in the trust fund at December 31, 2007 was \$1,336, which is less than the current PBO of \$1,398. The MTA Metro-North Railroad has accrued this unfunded liability.

5. OTHER POST-EMPLOYMENT BENEFITS

The MTA has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

Plan Description:

The Benefits provided by the MTA and its Agencies include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions.

Annual OPEB Cost and Net OPEB Obligation:

The MTA's annual OPEB cost (expense) represents the accrued cost for post-employment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the balance sheet. The annual OPEB cost is equal to the annual required contribution (ARC) less adjustments if a net OPEB obligation exists. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the MTA has chosen to use Frozen Initial Liability ("FIL") cost method with the initial liability amortized over a 22 year period.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under FIL, an initial past service liability is determined based on the Entry Age Normal ("EAN") Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

Actuarial Methods and Assumptions:

The Frozen Initial Liability ("FIL") Cost Method was used for determining the Normal Cost. The Entry Age Normal ("EAN") Cost Method was used to determine the Frozen Accrued Liability and will be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. This method determines the Frozen Accrued liability for each individual based on a level percent of pay for service accrued through the initial valuation date. The difference between the Actuarial Present Value of Benefits and the Frozen Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

Valuation Date:

January 1, 2006 (January 1, 2007 for MTA Bus Company)

Discount Rate:

4.2%

Per Capita Claim Costs:

For members of NYSHIP and certain SIRTOA and Transit members who retired prior to NYSHIP availability, unadjusted premiums were used.

For (1) some of the self-insured benefits provided to Pre-NYSHIP Transit members, (2) TWU Local 100, ATU 1056, and ATU 726 represented employees, and (3) MTA Bus Company employees, per capita claim costs adjusted by age were used. A sample of these claim costs are shown below:

<u>Age</u>	TWU Local 100 <u>GHI Medical</u>	TWU Local 100 <u>Pharmacy</u>	Pre-NYSHIP Group 1 <u>Hospital</u>	Pre-NYSHIP Retirees <u>Pharmacy</u>	Pre-NYSHIP Group 2 <u>Hospital</u>
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Male Employees

30-34	132.40	41.43	79.28	46.79	69.79
35-39	157.83	59.00	98.72	66.64	86.91
40-44	199.16	75.24	131.16	84.97	115.47
45-49	256.98	100.57	178.35	113.59	157.01
50-54	320.34	121.05	234.54	136.72	206.48
55-59	364.78	126.36	277.66	142.71	244.44
60-64	473.09	149.15	372.58	168.45	328.00

<u>Age</u>	TWU Local 100 <u>GHI Medical</u>	TWU Local 100 <u>Pharmacy</u>	Pre-NYSHIP Group 1 <u>Hospital</u>	Pre-NYSHIP Retirees <u>Pharmacy</u>	Pre-NYSHIP Group 2 <u>Hospital</u>
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Female Employees

30-34	259.97	69.63	173.83	78.64	153.03
35-39	257.28	82.61	167.05	93.30	147.07
40-44	261.23	101.58	162.14	114.73	142.74
45-49	294.56	127.90	181.72	144.45	159.97
50-54	330.81	150.66	210.21	170.16	185.06
55-59	352.73	164.37	233.16	185.64	205.27
60-64	432.35	181.08	304.58	204.52	268.14

Medicare Part B Premiums:

The Medicare Part B premium reimbursement was included in the 2006 premium for those members covered by NYSHIP. Recently NYSHIP issued revised premiums for 2007 removing this reimbursement. Assuming the adjustment to the 2006 premium rate would be similar to that announced for 2007, the impact of using the revised premium rates (including the percentage increase in the premium rates from 2006 to 2007) on the Annual Required Contribution (ARC) for the MTA was estimated. For other members, where applicable, the reimbursement was determined using the 2006 premium level and increasing this amount by the Health Care Cost Trend rates.

Health Care Cost Trend Rates:

<u>Fiscal Year</u>	<u>Trend</u>	<u>Fiscal Year</u>	<u>Trend</u>
2007	11.0%	2014	7.5%
2008	10.5	2015	7.0
2009	10.0	2016	6.5
2010	9.5	2017	6.0
2011	9.0	2018	5.5
2012	8.5	2019+	5.0
2013	8.0		

In addition, 2006 premiums and claim costs were trended 11 percent to 2007.

Participation:

For members that participate in NYSHIP, 100 percent of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees in NYC Transit:

	<u>TWU 100</u>	<u>ATU 1056</u>	<u>ATU 726</u>
<u>Future Retiree Plan Election Percentage</u>			
GHI	65%	65%	35%
HIP	35	35	49
Aetna	0	0	16
<u>Medicare HIP/Aetna HMO Elections</u>			
VIP 1	80%	100%	75%
VIP 2	20	0	0
Aetna	0	0	25

Dependent Coverage:

Current retirees are valued using coverage reported by the MTA. Based on an analysis of members who retired within the last 5 years, we have assumed that, for future retirees, 85 percent of male members and 55 percent of female members elect family coverage with a spouse.

Demographic Assumptions:

Mortality: Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

Preretirement: RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for management members of Headquarters.

Postretirement Healthy Lives: RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133 percent of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of Headquarters.

Postretirement Disabled Lives: 75 percent of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

Turnover and retirement rates:

All demographic assumptions were based on assumptions utilized in the 2006 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized by group.

Group	Pension Plan
MaBSTOA	MaBSTOA
New York City Transit Authority	NYCERS - TA
MTA Bridges and Tunnels	NYCERS – MTA Bridges and Tunnels
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan
Metro-North Mgrs and ACRE	MTA DB Plan
Metro-North Other Unions	DC Plan – used same as ACRE
MTA Police	MTA DB Plan
Headquarters Mgrs and IBT	NYSLERS
Long Island Bus Pre-1983	MTA DB Plan
Long Island Bus Post-1982	NYSLERS
Staten Island Railway	MTA DB Plan
Yonkers, Eastchester, College Point	MTA DB Plan
Baisley Park, LaGuardia	TWU - NYC Private Bus Lines Pension Plan
JFK	Green Bus Lines Pension Plan
Spring Creek	Command – Local 1181 Pension Plan

Vestee Coverage:

For members that participate in NYSHIP, certain vessees (members who have terminated employment with 10 or more years of retirement service credit, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Agency upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vessees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vessees, which were only provided by Headquarters.

Age at <u>Termination</u>	Percent <u>Electing</u>
<40	0%
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of MTA's estimated net OPEB cost for the year ended December 31, 2007, the amount paid, and changes in MTA's net OPEB for the Year ended December 31, 2007:

	Amount <u>(In Millions)</u>
Annual required contribution	\$ 1,575.5
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost/expense	<u>\$ 1,575.5</u>
Payments made	<u>285.5</u>
Increase in net OPEB obligation	1,290.0
Net OPEB obligation - beginning of year	<u>-</u>
Net OPEB obligation - end of year	<u>\$ 1,290.0</u>

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the year ended December 31, 2007 is as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u> (In Millions)	<u>Annual OPEB Cost to be Paid</u>	<u>Net OPEB Obligation</u> (In Millions)
12/31/2007	\$ 1,575.5	18.1%	\$ 1,290.0

6. CAPITAL ASSETS

Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years, having a cost of more than \$.025.

Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2007 and December 31, 2006:

	Balance December 31, 2005			Balance December 31, 2006 (\$ in Millions)			Balance December 31, 2007		
	Balance	Additions	Deletions	Balance	Additions	Deletions	Balance	Additions	Deletions
Capital assets, not being depreciated									
Land	\$ 136	\$ 1	\$ -	\$ 137	\$ 9	\$ -	\$ 146		
Construction work-in-progress	5,641	2,083	2,469	5,255	1,655	955	5,955		
Total capital assets, not being depreciated	5,777	2,084	2,469	5,392	1,664	955	6,101		
Capital assets, being depreciated									
Buildings and structures	11,812	1,096	41	12,867	424	62	13,229		
Bridges and tunnels	1,647	65	-	1,712	102	-	1,814		
Equipment									
Passenger cars and locomotives	9,151	666	183	9,634	661	3	10,292		
Buses	2,056	182	-	2,238	215	-	2,453		
Infrastructure	11,448	1,395	79	12,764	890	30	13,624		
Other	7,767	1,095	21	8,841	1,044	9	9,876		
Total capital assets, being depreciated	43,881	4,499	324	48,056	3,336	104	51,288		
Less accumulated depreciation									
Buildings and structures	3,167	364	1	3,530	376	17	3,889		
Bridges and tunnels	353	15	-	368	16	-	384		
Equipment									
Passenger cars and locomotives	2,841	341	181	3,001	336	3	3,334		
Buses	1,246	122	-	1,368	145	-	1,513		
Infrastructure	3,235	398	18	3,615	430	16	4,029		
Other	2,916	363	20	3,259	386	16	3,629		
Total accumulated depreciation	13,758	1,603	220	15,141	1,689	52	16,778		
Total capital assets, being depreciated, net	30,123	2,896	104	32,915	1,647	52	34,510		
Capital assets, net	\$ 35,900	\$ 4,980	\$ 2,573	\$ 38,307	\$ 3,311	\$ 1,007	\$ 40,611		

Interest capitalized in conjunction with the construction of capital assets at December 31, 2007 and December 31, 2006 was \$62.8 and \$75.9, respectively.

Capital assets acquired prior to April 1982 for MTA New York City Transit were funded primarily by NYC with capital grants made available to MTA New York City Transit. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the MTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by MTA New York City Transit. In certain instances, title to MTA Bridges and Tunnels' real property may revert to NYC in the event the MTA determines such property is unnecessary for its corporate purpose. The MTA New York City Transit placed 294 new R160 subway cars and 150 new buses in service during 2007. In 2007 at the MTA Long Island Rail Road \$7 was recognized for losses on disposal of capital asset due to impairment of concrete ties. During 2007, MTA Long Island Rail Road placed 34 new M-7 Electric Cars into service and retired 8 M-1 Electric Cars.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At December 31, 2007 and December 31, 2006 these securities totaled \$82.4 and \$71.6, respectively, and had a market value of \$89.7 and \$75.9, respectively, and are not included in these financial statements.

7. LONG -TERM DEBT

	Original Issuance	December 31, 2006	Issued	Retired	Refunded	December 31, 2007
MTA:						
Transportation Revenue Bonds 2.25% - 5.752% due through 2036	\$ 11,671	\$ 9,940	\$ 841	\$ 191	\$ 156	\$ 10,434
Transportation Revenue Bond Anticipation Notes Commercial Paper	750	440	750	440	-	750
State Service Contract Bonds 3.00% - 5.50% due through 2031	2,395	2,289	-	46	-	2,243
Dedicated Tax Fund Bonds 3.00% - 6.25% due through 2037	6,080	3,972	430	79	51	4,272
Certificates of Participation 4.40% - 5.625% due through 2030	807	431	-	9	-	422
	<u>\$ 21,703</u>	17,072	2,021	765	207	18,121
Less net unamortized bond discount and premium		(315)	23	35	1	(328)
		<u>\$ 16,757</u>	<u>\$ 2,044</u>	<u>\$ 800</u>	<u>\$ 208</u>	<u>\$ 17,793</u>
TBTA:						
General Revenue Bonds 4.00% - 5.77% due through 2033	\$ 5,846	\$ 4,701	\$ 223	\$ 87	\$ 80	\$ 4,757
Subordinate Revenue Bonds 4.00% - 5.77% due through 2032	2,858	2,324	402	445	9	2,272
	<u>\$ 8,704</u>	7,025	625	532	89	7,029
Less net unamortized bond discount and premium		100	-	16	-	84
		<u>\$ 7,125</u>	<u>\$ 625</u>	<u>\$ 548</u>	<u>\$ 89</u>	<u>\$ 7,113</u>
Total		\$ 23,882	<u>\$ 2,669</u>	<u>\$ 1,348</u>	<u>\$ 297</u>	\$ 24,906
Current portion		(338)				(391)
Long-term portion		<u>\$ 23,544</u>				<u>\$ 24,515</u>

MTA Transportation Revenue Bonds – Prior to 2006, MTA issued eighteen series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligation adopted on March 26, 2002 in the aggregate principal amount of \$9,637. The Transportation Revenue Bonds are MTA’s special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

During 2006, the MTA issued the following Transportation Revenue Bonds: Series 2006A in the amount of \$475 to finance transit and commuter projects; and Series 2006B in the amount of \$717.7 to pay in full the principal portion of MTA's outstanding commercial paper notes and to refund certain MTA bonds that were previously issued to fund transit and commuter projects.

During 2007, the MTA issued the following Transportation Revenue Bonds: Series 2007A in the amount of \$425.6 and Series 2007B in the amount of \$415 to finance transit and commuter projects.

MTA Bond Anticipation Notes (commercial paper program) – From time to time, MTA issues Transportation Revenue Bond Anticipation Notes in accordance with the terms and provisions of the General Resolution described in the preceding paragraph in the form of commercial paper to fund its transit and commuter capital needs. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. Payment of principal and interest on the notes are additionally secured by a letter of credit issued by a bank. The MTA Act requires MTA to periodically (at least each five years) refund its commercial paper notes with bonds.

In February 2007, MTA issued Transportation Revenue Bond Anticipation Notes, Series CP1 Credit Enhanced in the amount of \$750.

MTA State Service Contract Bonds – Prior to 2006, MTA issued two series of State Service Contract Bonds secured under its State Service Contract Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$2,395. The State Service Contract Bonds are MTA's special obligations payable solely from certain payments from the State of New York under a service contract.

MTA Dedicated Tax Fund Bonds – Prior to 2006, MTA issued eight series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of \$3,741. The Dedicated Tax Fund Bonds are MTA's special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in footnote 2 under "Nonoperating Revenues") be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

During 2006, the MTA issued the following series of Dedicated Tax Fund Bonds to finance certain transit and commuter projects: Series 2006A in the amount of \$350 and Series 2006B in the amount of \$410.

During 2007, the MTA issued Dedicated Tax Fund Bonds, Series 2007A, in the amount of \$430 to finance certain transit and commuter projects.

MTA Certificates of Participation – Prior to 2006, MTA, MTA New York City Transit and MTA Bridges and Tunnels executed and delivered two series of Certificates of Participation in the aggregate principal amount of \$479 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The Certificates of Participation which represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement.

MTA Bridges and Tunnels General Revenue Bonds – Prior to 2006, MTA Bridges and Tunnels issued ten series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$5,397. The General Revenue Bonds are MTA Bridges and Tunnels’ general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

During 2006, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects: Series 2006A in the amount of \$200.

During 2007, MTA Bridges and Tunnels issued the following series of General Revenue Bonds to finance bridge and tunnel projects: Series 2007A in the amount of \$223.4.

MTA Bridges and Tunnels Subordinate Revenue Bonds – Prior to 2006, MTA Bridges and Tunnels issued nine series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of \$2,412. The Subordinate Revenue Bonds are MTA Bridges and Tunnels’ special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.

Debt Limitation - The NYS Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is \$28,877 compared with issuances totaling approximately \$16,116 at December 31, 2007. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the 2000-2004 MTA Capital Program and the 2005-2009 MTA Capital program.

Bond Refundings - During 2002, as part of the Debt Restructuring, the MTA and MTA Bridges and Tunnels retired most of their outstanding debt with either funds available or by issuing new bonds. From time to time, the MTA and MTA Bridges and Tunnels issue additional refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase U.S. Treasury obligations that were placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

In accordance with GASB Statement No. 23, *Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities*, gains or losses resulting from debt refundings have been deferred and will be amortized over the lesser of the remaining life of the old debt or the life of the new debt.

At the end of September 2007, the MTA defeased a total of \$296.8 Bonds being \$155.7 from Transportation Revenue Bonds, \$51.4 from Dedicated Tax Bonds, and \$89.7 from MTA Bridges and Tunnels General and Subordinate Bonds. All the bonds defeased had a maturity date of November 15, 2009. The Bonds were retired with a total transfer of cash from MTA unencumbered funds to the Trustee account in the amount of \$303.6.

At December 31, 2007, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

(\$ In Millions)

MTA Transit and Commuter Facilities:	
Transit Facilities Revenue Bonds	\$ 1,285
Commuter Facilities Revenue Bonds	1,419
Commuter Facilities Subordinate Revenue Bonds	16
Transit and Commuter Facilities Service Contract Bonds	835
Dedicated Tax Fund Bonds	1,330
Excess Loss Trust Fund	13
MTA New York City Transit:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	113
MTA Bridges and Tunnels:	
General Purpose Revenue Bonds	2,135
Special Obligation Subordinate Bonds	219
Mortgage Recording Tax Bonds	<u>207</u>
Total	<u>\$ 7,572</u>

Debt Service Payments - Principal and interest debt service payments (excluding refunded bonds) at December 31, 2007, are as follows:

	MTA		MTA BRIDGES AND TUNNELS				Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
				(Amounts in Millions)				
2008	\$ 358	\$ 807	\$ 101	\$ 217	\$ 44	\$ 111	\$ 503	\$ 1,135
2009	168	793	26	213	38	107	232	1,113
2010	391	784	110	211	50	105	551	1,100
2011	408	766	116	206	52	103	576	1,075
2012	427	747	113	200	55	100	595	1,047
2013-2017	2,470	3,402	688	895	290	453	3,448	4,750
2018-2022	3,127	2,743	879	699	449	356	4,455	3,798
2023-2027	3,982	1,947	1,059	466	482	240	5,523	2,653
2028-2032	4,728	927	1,524	198	784	98	7,036	1,223
2033-2037	<u>1,312</u>	<u>131</u>	<u>141</u>	<u>15</u>	<u>28</u>	<u>2</u>	<u>1,481</u>	<u>148</u>
	<u>\$ 17,371</u>	<u>\$ 13,047</u>	<u>\$ 4,757</u>	<u>\$ 3,320</u>	<u>\$ 2,272</u>	<u>\$ 1,675</u>	<u>\$ 24,400</u>	<u>\$ 18,042</u>

The above interest amounts include both fixed- and variable-rate calculations. The interest rate assumptions for variable rate bonds are as follows:

- *Transportation Revenue Refunding Bonds, Series 2002B* – 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* – 4.00% per annum on Subseries 2002D-1 and 4.45% per annum on subseries 2002D-2 taking into account the interest rate swap
- *Transportation Revenue Refunding Bonds, Series 2002G* – 4.00% per annum
- *Transportation Revenue Bonds, Series 2004A* – 4.00% per annum
- *Transportation Revenue Bonds, Series 2005D* – 3.561% per annum taking into account the interest rate swaps

- *Transportation Revenue Bonds, Series 2005E* – 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005G* – 4.00% per annum
- *Dedicated Tax Fund Bonds, Series 2002B* – 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter
- *Dedicated Tax Fund Bonds, Series 2004B* – 4.00% per annum
- *Dedicated Tax Fund Bonds, Series 2004D* – 4.00% per annum
- *Dedicated Tax Fund Refunding Bonds, Series 2005A* – 3.3156% per annum taking into account the interest rate swap
- *Dedicated Tax Fund Bonds, Series 2007A* – 4.00% per annum
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000A B* – 6.08% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD* – 6.07% per annum taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* – 5.777% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002C* – 5.634% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002D* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002G* – 3.218% taking into account the interest rate swap
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* – 4.00% per annum
- *MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2004A* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* – 4.00% per annum
- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* – 3.513% per annum based on the Basis Risk Interest Rate Swap through January 1, 2012 and 3.076% per annum based on the Initial Interest Rate Swaps thereafter.
- *Certificates of Participation, Series 2004A* – 3.542% per annum taking into account the interest rate swaps

Tax Rebate Liability - Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. MTA made an arbitrage payment of \$1.9 in 2007. No payment was incurred in 2006.

MTA and MTA Bridges and Tunnels have entered into several Standby Bond Purchase Agreements (SBPA) and Letter of Credit Agreements (LOC) as listed on the table below:

Resolution	Series	Swap	Provider (Insurer)	Type of Facility	Exp. Date
Transportation Revenue	2002D-2	Y	Dexia (FSA)	SBPA	5/27/2008
Transportation Revenue	2002G-1	N	Bank of Nova Scotia (Ambac)	SBPA	11/20/2008
MTA Bridges and Tunnels General Revenue	2003B	N	Dexia	SBPA	12/8/2008
MTA Bridges and Tunnels General Revenue	2001B	P	State Street (Ambac)	SBPA	1/10/2009
Transportation Revenue	2005G	N	BNP Paribas	LoC	12/8/2010
Dedicated Tax Fund	2005A	Y	Citibank (XL Capital)	SBPA	3/9/2012
MTA Bridges and Tunnels General Revenue	2005A	N	Dexia	SBPA	5/9/2012
Transportation Revenue	2002D-1	N	West LB (FSA)	SBPA	5/9/2012
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Dexia	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-4	Y	Landesbank Baden-Wuerttemberg (NY)	SBPA	7/6/2012
Transportation Revenue	2005E	Y	Fortis	LoC	10/9/2012
MTA Bridges and Tunnels General Revenue	2002F	N	ABN AMRO	SBPA	11/8/2012
Dedicated Tax Fund	2002B	Y	Dexia (FSA)	SBPA	5/7/2014
MTA Bridges and Tunnels Subordinate	2000AB	Y	JPMorgan (FSA)	SBPA	10/7/2014
MTA Bridges and Tunnels Subordinate	2000CD	Y	Lloyds TSB Bank (NY) (FSA)	SBPA	10/7/2014
Dedicated Tax Fund	2004D	N	Wachovia Bank (Ambac)	SBPA	12/11/2014
Transportation Revenue	2004A-1	N	Depfa Bank (CIFG)	SBPA	6/10/2015
Transportation Revenue	2004A-2	N	Depfa Bank (CIFG)	SBPA	6/10/2015
Transportation Revenue	2004A-3	N	Depfa Bank (XL Capital)	SBPA	6/10/2015
Transportation Revenue	2004A-4	N	Depfa Bank (XL Capital)	SBPA	6/10/2015
MTA Bridges and Tunnels General	2005B-1	Y	Depfa Bank	SBPA	7/7/2015

Revenue					
MTA Bridges and Tunnels General Revenue	2001C	P	Bayerische LB (Ambac)	SBPA	11/30/2015
MTA Bridges and Tunnels General Revenue	2002C	P	West LB (Ambac)	SBPA	12/31/2015

Swap Agreements Relating to Synthetic Fixed-Rate Debt

Board-adopted Guidelines. The Related Entities adopted guidelines governing the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, credit ratings of the counterparties, collateralization requirements and reporting requirements.

Objectives of the Swaps. In order to protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate, MTA, MTA Bridges and Tunnels, and MTA New York City Transit have entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, MTA Bridges and Tunnels, and MTA New York City Transit would have paid to issue fixed-rate debt.

Fair Value. Relevant market interest rates on the valuation date of the swaps reflected in the following charts (December 31, 2007) in some cases were higher than, and in some cases were lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, some of the swaps had negative fair values and some had positive fair values. A negative fair value means that MTA, MTA Bridges and Tunnels, and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels, and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels, and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. In the event both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. MTA, MTA Bridges and Tunnels, and MTA New York City Transit are not aware of any event that would lead to a termination event with respect to any of their existing swaps. See "*Termination Risk*" below.

Terms and Fair Values. The terms, fair values, and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

MTA TRANSPORTATION REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/07 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/07 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002D-2	200.000	01/01/07	4.45	69% of one-month LIBOR ⁽¹⁾	\$ (29.794)	11/01/32	Bear Stearns Capital Markets Inc.
Series 2005D and Series 2005E	500.000	11/02/05	3.561	67% of one-month LIBOR	(20.587)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Series 2012 ⁽²⁾	359.450	11/15/12	3.563	67% of one-month LIBOR	4.764	11/01/32	Bear Stearns Capital Markets Inc.
Series 2012 ⁽²⁾	153.700	11/15/12	3.563	67% of one-month LIBOR	3.063	11/01/32	Lehman Brothers Special Financing Inc.
Total	\$1,213.15				\$ (42.553)		

(1) London Interbank Offered Rate.

(2) Under the Series 2012 swaps, counterparties Bear Stearns Capital Markets Inc. and Lehman Brothers Special Financing Inc. have an option to cancel these swaps on June 15, 2012 prior to the effective date listed above. In the event each swap is canceled, each counterparty is required to make monthly cancellation payments to the MTA commencing on December 1, 2012 and ending on November 1, 2032.

MTA DEDICATED TAX FUND BONDS

<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/07 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/07 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2002B	\$440.000	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, BMA	\$ (23.268)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2005A	345.060	03/24/05	3.3156	67% of one-month LIBOR	(3.643)	11/01/31	Citigroup Financial Products Inc.
Total	\$785.060				\$ (26.911)		

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/07 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/07 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2001B and 2001C ⁽³⁾	\$205.200	01/01/02	5.777%	Actual bond rate	\$ (29.312)	01/01/19	Citigroup Financial Products Inc.
Series 2002C ⁽⁴⁾	77.200	01/01/00	5.634	Actual bond rate	(7.794)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	797.200	07/07/05	3.076	67% of one-month LIBOR	18.631	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	797.200	07/07/05	67% of one-month LIBOR plus 43.7 basis points ⁽⁵⁾	BMA minus 10 basis points	(9.677)	01/01/12	UBS AG
Total	\$1,876.800				\$ (28.152)		

⁽³⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$19,204,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$8,400,000.

⁽⁵⁾ For the purpose of mitigating the basis risk during the escrow period with respect to the \$797.2 million notional amount swaps entered into in connection with the Series 2005B Bonds, MTA Bridges and Tunnels will pay 67% of one-month LIBOR plus 43.7 basis points to the UBS AG and receive a variable rate equal to the BMA Index minus 10 basis points.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/07 (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/07 (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Series 2000AB ⁽⁶⁾	\$201.100	01/01/01	6.08 %	Actual bond rate	\$ (31.557)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000CD ⁽⁶⁾	201.100	01/01/01	6.07	Actual bond rate	(31.447)	01/01/19	Citigroup Financial Products Inc.
Series 2002G-1	90.500	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(4.293)	01/01/18	JPMorgan Chase Bank
Series 2002G-2	90.525	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(4.444)	01/01/18	JPMorgan Chase Bank
Total	\$583.225				\$ (71.741)		

⁽⁶⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of \$22,740,000.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357,925,000 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092 percent, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67 percent of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of \$355,525,000 outstanding as of December 31, 2007, MTA New York City Transit is responsible for \$244,250,000 aggregate notional amount of the swaps, MTA for \$74,650,000 aggregate notional amount, and MTA Bridges and Tunnels for \$36,625,000 aggregate notional amount. As of December 31, 2007, the aggregate fair value of the swaps was -\$12.028 million.

Counterparty Ratings

The ratings of the counterparties as of December 31, 2007 are as follows:

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	AA	Aa2	AA
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A	A1	A+
BNP Paribas North America, Inc.	AA	Aa1	AA
Citibank, N.A.	AA+	Aa1	AA
Citigroup Financial Products Inc.	AA	Aa3	AA
JPMorgan Chase Bank	AA-	Aa2	AA-
Lehman Brothers Special Financing Inc.	A+	A1	A+
Morgan Stanley Capital Services Inc.	AA-	Aa3	AA-
UBS AG	AA	Aaa	AA

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amount and the outstanding principal amount as of December 31, 2007 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$296.400	\$205.200
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	\$103.305	\$77.200

Except as discussed below under the heading “*Rollover Risk*,” the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the principal amount of the associated bonds.

Risks Associated with the Swap Agreements

From MTA's, MTA Bridges and Tunnels', and MTA New York City Transit's perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "Collateralization" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "Termination Risk" below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels, or MTA New York City Transit on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels, or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels, or MTA New York City Transit.
- **Termination Risk** – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels, or MTA New York City Transit will be required to make a termination payment to the counterparty and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.
- **Rollover Risk** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels, or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of December 31, 2007, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in thousands)</u>	<u>% of Total Notional Amount</u>
UBS AG	\$1,652,025	34.32%
Bear Stearns Capital Markets Inc.	760,550	15.80
Citigroup Financial Products Inc.	751,360	15.61
Morgan Stanley Capital Services Inc.	440,000	9.14
JPMorgan Chase Bank	380,325	7.90
Lehman Brothers Special Financing Inc.	253,700	5.27
BNP Paribas North America, Inc.	199,300	4.14
Citibank, N.A.	199,300	4.14
AIG Financial Products Corp.	100,000	2.08
Ambac Financial Services, L.P.	<u>77,200</u>	<u>1.60</u>
Total	\$4,813,760	100.00%

The ISDA Master Agreements entered into with the following counterparties provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement:

- Bear Stearns Capital Markets Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000CD,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C
- Ambac Financial Services, L.P.
- Bear Stearns Capital Markets Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012, and
- Lehman Brothers Special Financing Inc. with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2005E and Series 2012.

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the non-defaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the non-defaulting party.

Collateralization. Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of MTA, MTA Bridges and Tunnels, or MTA New York City Transit, as the case may be, or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA, MTA Bridges and Tunnels, or MTA New York City Transit, as the case may be, and the counterparty for each swap agreement. In most cases, the Counterparty does not have a Fitch rating on its long-term unsecured debt, so that criterion would not be applicable in determining if the Counterparty is required to post collateral.

MTA Transportation Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2002D-2	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
Series 2005D and Series 2005E	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – below BBB+, <u>Moody's</u> – below Baa1, or <u>S&P</u> – below BBB+	\$0
Series 2012	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	<u>\$10,000,000</u>
	Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	<u>\$0</u>

MTA Dedicated Tax Fund Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2002B	<u>Fitch</u> – BBB+, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – BBB and below or unrated, or <u>S&P</u> – BBB and below or unrated	\$0
Series 2005A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	<u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	<u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0

2 Broadway Certificates of Participation		
<u>Associated Agencies</u>	<u>If the highest rating of the MTA Transportation Revenue Bonds falls to</u>	<u>Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of</u>
MTA	<u>Fitch</u> – BBB+,	\$25,000,000
MTA Bridges and Tunnels	<u>Moody's</u> – Baa1, or	
MTA New York City Transit	<u>S&P</u> – BBB+	
	<u>Fitch</u> – BBB and below or unrated,	\$0
	<u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or	
	<u>S&P</u> – BBB and below or unrated	
	<u>If the highest rating of the Counterparty's long-term unsecured debt falls to</u>	<u>Then the Counterparty must post collateral if its estimated termination payments are in excess of</u>
	<u>Moody's</u> – Baa1 or lower, or	\$0
	<u>S&P</u> – BBB+ or lower	

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2005B interest rate swap and Series 2005B basis risk swap	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$30,000,000
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&P</u> – BBB	\$15,000,000
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&P</u> – BBB- and below	\$0

MTA Bridges and Tunnels Subordinate Revenue Bonds		
<u>Associated Bond Issue</u>	<u>If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments are in excess of</u>
Series 2000AB	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2000CD	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002G-1 and 2002G-2	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – Below BBB+, <u>Moody's</u> – Below Baa1, or <u>S&P</u> – Below BBB+	\$0

Notwithstanding the foregoing, in the event any downgraded party is responsible for an event of default or potential event of default as defined in the ISDA Master Agreement, the downgraded party must immediately collateralize its obligations irrespective of the threshold amounts.

Under each MTA and MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

The payments relating to debt service on the 2 Broadway swaps are parity obligations with respect to the sublease payments under the 2 Broadway Certificates of Participation, payable solely from available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds. All other payments, including the termination payments, are payable from substantially the same pool of available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA, MTA Bridges and Tunnels and MTA New York City Transit have entered into separate ISDA Master Agreements with each counterparty that governs the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

The following table sets forth, for each swap, the additional termination events for the following associated bond issues. In certain swaps, where the counterparty has a guarantor of its obligations, the ratings criteria apply to the guarantor and not to the counterparty.

MTA Transportation Revenue and Dedicated Tax Fund Bonds	
<u>Associated Bond Issue</u>	<u>Additional Termination Event(s)</u>
<u>Transportation Revenue Bonds</u>	
Series 2002D-2, Series 2005D and Series 2005E	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
Series 2012	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
<u>Dedicated Tax Fund Bonds</u>	
Series 2002B	The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds falls below "BBB-" or are withdrawn.
Series 2005A Bonds	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or, in either case the ratings are withdrawn.

2 Broadway		
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>Additional Termination Event(s)</u>
2 Broadway Certificates of Participation, Series 2004A	UBS AG	Negative financial events relating to the swap insurer, Ambac Assurance Corporation.

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds	
<u>Associated Bond Issue</u>	<u>Additional Termination Events</u>
<u>Senior Lien Revenue Bonds</u>	
Series 2001B and 2001C and Series 2002C	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap, and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.</p>
Series 2005B interest rate swap and basis risk swap	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or, in either case the ratings are withdrawn.
<u>Subordinate Revenue Bonds</u>	
Series 2000AB and 2000CD	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap, and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.</p>
Series 2002G-1 and Series 2002G-2	<p>1. The ratings by S&P and Moody's of the Counterparty or the MTA Bridges and Tunnels Subordinate Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.</p> <p>2. MTA Bridges and Tunnels may terminate the swap at no cost on or after December 29, 2010 in the case of the Series 2002G-1 swap, and on or after January 5, 2011 in the case of the Series 2002G-2 swap.</p>

Rollover Risk. MTA and MTA Bridges and Tunnels are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, MTA or MTA Bridges and Tunnels may not realize the synthetic fixed rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G ⁽¹⁾	11/01/32	01/01/18

- (1) The swap relating to the Subseries 2002G-1 Bonds in the notional amount of \$90,500,000 may be terminated at the option of MTA Bridges and Tunnels on or after December 29, 2010, and the swap relating to the Subseries 2002G-2 Bonds in the notional amount of \$90,525,000 may be terminated at the option of MTA Bridges and Tunnels on or after January 5, 2011.

Swap payments and Associated Debt. The following tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA's and MTA's outstanding variable-rate debt and net swap payments are estimated to be as follows:

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0 percent per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

MTA (in millions)				
<u>Variable-Rate Bonds</u>				
<u>Fiscal Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2008	\$ 1.5	\$ 59.4	\$ (3.4)	\$ 57.5
2009	1.6	59.3	(3.4)	57.6
2010	1.7	59.3	(3.4)	57.6
2011	1.7	59.2	(3.4)	57.6
2012	1.8	59.1	(3.3)	57.6
2013-2017	208.8	282.8	(17.6)	474.0
2018-2022	435.1	218.8	(15.5)	638.4
2023-2027	255.4	145.2	(9.5)	391.0
2028-2032	473.2	82.2	(2.6)	552.8
2033-2036	104.3	7.8	-	112.1

MTA Bridges and Tunnels (in millions)				
<u>Variable-Rate Bonds</u>				
<u>Fiscal Year Ended December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2008	\$ 34.1	\$ 69.8	\$ 3.5	107.4
2009	36.4	68.4	3.0	107.7
2010	38.2	66.9	2.1	107.2
2011	41.1	65.2	1.2	107.5
2012	43.4	63.5	0.2	107.2
2013-2017	298.1	283.3	(21.1)	560.2
2018-2022	194.2	231.3	(35.2)	390.3
2023-2027	219.2	191.4	(32.4)	378.1
2028-2032	869.0	84.4	(15.8)	937.6
2033-2036	6.5	-	-	6.5

8. LEASE TRANSACTIONS

Hillside Facility - On March 31, 1997, the MTA entered into a lease/leaseback transaction with a third party whereby the MTA leased MTA Long Island Rail Road's Hillside maintenance facility. The term of the lease is 22 years, but the third party has the right to renew for a further 21.5 year term. The facility was subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Long Island Rail Road.

Under the terms of the lease/leaseback agreement, the MTA initially received \$314, which was utilized as follows. The MTA paid \$266 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used \$21 to purchase Treasury securities, which it deposited under pledge to the third party. This deposit, together with the aforementioned obligation of the third party's lender, resulted in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the purchase option is exercised. A further \$0.6 was used to pay for legal and other costs of the transaction, and \$3 was used to pay the first rental payment under the sublease. A further \$23 is the MTA's net benefit from the transaction, representing consideration for the tax benefits. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made. At December 31, 2007, the MTA has recorded a long-term capital obligation and capital asset of \$274 arising from the transaction.

Subway and Rail Cars - On December 12, 1997, the MTA entered into lease/leaseback transactions whereby the MTA leased certain of MTA Metro-North Railroad's rail cars to a third party and MTA New York City Transit leased certain subway maintenance cars to the same third party. The lease periods for MTA Metro-North Railroad's rail cars expire between 2009 and 2014, depending on the asset, and the lease period for MTA New York City Transit's subway maintenance cars expires in 2013. The third party has the right to renew the lease for an additional period of 12 years for MTA Metro-North Railroad cars, depending on the asset, and a further 12 years for MTA New York City Transit's subway maintenance cars. The cars were subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Metro-North Railroad and MTA New York City Transit, respectively.

Under the terms of the lease/leaseback agreement, the MTA initially received \$76.6, which was utilized as follows: The MTA paid \$59.8 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used \$12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by the third-party lender's parent. This payment, together with the aforementioned obligation of the third-party's lender, is sufficient to settle all obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase options are exercised. At December 31, 2007, the MTA has recorded a long-term capital obligation and capital asset of \$44 arising from the transaction. The net proceeds are deferred and amortized to operations over the period of the lease.

On September 25, 2002 and December 17, 2002 the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to third parties, and MTA leased those cars back from such third parties. The MTA subleased the cars to MTA New York City Transit. The four leases expire in 2032, 2034, 2033, and 2033, respectively. At the lease expiration, the MTA has the option of either exercising a fixed price purchase option for the cars or returning the cars to the third party owner.

Under the terms of the sale/leaseback agreements, the MTA initially received \$1,514.9, which was utilized as follows: The MTA paid \$1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for MTA to make these payments to the third parties. The MTA also purchased Freddie Mac, FNMA, and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of one of the four leases, MTAHQ also purchased Freddie Mac debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under that lease and the purchase price due upon exercise by the MTA of the purchase option if exercised. In the case of the other three leases, the MTA entered into Equity Payment Agreements with Premier International Funding Co. (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the MTA the amounts necessary to make the remainder of the basic lease rent payments under the leases and to pay the purchase price due upon exercise by the MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$96.2, was the MTA's net benefit from these four transactions. These amounts are deferred and amortized to operations over the period of the lease.

During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby the MTA Bridges and Tunnels sold certain subway cars, which were contributed by the MTA New York City Transit, for net proceeds of \$84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The deferred credit of \$34.2 was netted against the carrying value of the leased assets, and the assets were recontributed to the MTA New York City Transit. MTA Bridges and Tunnels transferred \$5.5 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which \$71.3 was placed in an irrevocable deposit account and \$7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all obligations under the lease as they become due. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately \$106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89.

Sale/Leaseback Transactions - On December 19, 2002, the MTA entered into four sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit qualified technological equipment (QTE) relating to the MTA New York City Transit automated fare collection system to the MTA. The MTA sold that equipment to third parties and the MTA leased that equipment back from such third parties. The MTA subleased the equipment to MTA New York City Transit. The four leases expire in 2022, 2020, 2022, and 2020, respectively. At the lease expiration the MTA has the option of either exercising a fixed-price purchase option for the equipment or returning the equipment to the third-party owner.

Under the terms of the sale/leaseback agreements the MTA initially received \$507.4, which was utilized as follows: The MTA paid \$316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for the MTA to make these payments to the third parties. The MTA also purchased FNMA and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of three of the four leases the MTA also purchased U.S. Treasury debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under those leases and the purchase price

due upon exercise by the MTA of the purchase options if exercised. In the case of the other lease the MTA entered into an Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which is guaranteed by XL Financial Assurance Ltd.) whereby that entity has the obligation to provide to the MTA the amounts necessary to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, \$57.6, was the MTA's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to MTA New York City Transit and the MTA, the MTA is obligated to pay to the City 24.11 percent of the net benefit received from these four QTE transactions. At December 31, 2007, MTA had paid the City of New York \$13.7.

On February 7, 2008, MTA learned that XL Insurance (Bermuda) Ltd. was downgraded to a level that under the applicable transaction documents requires MTA to replace the Equity Payment Undertaking Agreement with other permitted collateral. MTA intends to either pledge U.S. Treasury debt obligations, having a cost of approximately \$75, which will be sufficient to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised, or to enter into a termination agreement with all of the parties to the transaction to terminate the transaction at a cost to MTA approximately equal to the cost to MTA of purchasing the U.S. Treasury debt obligations that would otherwise be required to be pledged as a replacement for the Equity Payment Undertaking Agreement. In either event, the Equity Payment Undertaking Agreement will be released from the lien of the pledge.

On June 3, 2003, the MTA entered into a sale/leaseback transaction whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to the MTA, the MTA sold those cars to a third party, and the MTA leased those cars back from such third party. The MTA subleased the cars to MTA New York City Transit. The lease expires in 2033. At the lease expiration, the MTA has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreement, the MTA initially received \$168.1 million, which was utilized as follows: The MTA paid \$126.3 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTAHQ to make these payments to third parties. The MTA also purchased FNMA and U.S. Treasury securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lender to the third party and to pay the remainder of the rent under that lease and the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, \$7.4, was the MTA's benefit from the transaction.

On September 25, 2003 and September 29, 2003, MTA entered into two sale/leaseback transactions whereby MTA New York City Transit transferred ownership of certain MTA New York City Transit subway cars to MTA, MTA sold those cars to third parties, and MTA leased those cars back from such third parties. MTA subleased the cars to MTA New York City Transit. Both leases expire in 2033. At the lease expiration, MTAHQ has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreements, MTA initially received \$294, which was utilized as follows: In the case of one of the leases MTA paid \$97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the

debt service on the related loan, thereby eliminating the need for MTA to make these payments to the third party. In the case of the other lease MTA purchased U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loan from the other lender to the third party. In the case of both of the leases MTA also purchased REFCO debt securities that mature in 2030 under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.) whereby AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$24, was MTA's net benefit from these two transactions. These amounts are deferred and amortized to operations over the period of the respective leases.

Other Lease Transactions - On July 29, 1998, the MTAHQ, MTA New York City Transit, and MTA Bridges & Tunnels entered into a lease and related agreements whereby each agency, as sublessees, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the MTA made rent payments of \$21. In connection with the renovation of the building and for tenant improvements, the MTA issued \$121 and \$328 in 2000 and 1999, respectively, of long-term obligations (see Note 7). The office building is principally occupied by MTA New York City Transit and MTA Bridges & Tunnels.

On April 8, 1994, the MTA amended its lease for the Harlem/Hudson line properties, including Grand Central Terminal. This amendment initially extends the lease term, previously expiring in 2031, an additional 110 years and, pursuant to several other provisions, an additional 133 years. In addition, the amendment grants the MTA an option to purchase the leased property after the 25th anniversary of the amended lease. The amended lease comprises both operating (for the lease of land) and capital (for the lease of buildings and track structure) elements.

In August 1988, the MTA entered into a 99-year lease agreement with Amtrak for Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms. The \$45 paid to Amtrak by the MTA under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, MTA Long Island Rail Road entered into an agreement with Amtrak to share equally the cost of the design and construction of certain facilities at Pennsylvania Station. Under this agreement, the MTA may be required to contribute up to \$60 for its share of the cost. As of December 31, 2000 the project was closed and \$50 was included in property and equipment.

Total rent expense under operating leases approximated \$25.8 for the year ended December 31, 2007 and \$28.5 for the year ended December 31, 2006.

At December 31, 2007, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating (\$ in Millions)	Capital
2008	\$ 46	\$ 1,099
2009	46	100
2010	44	305
2011	43	174
2012	43	70
2013 - 2017	201	539
2018 - 2022	199	433
2023 - 2027	210	574
2028 - 2032	216	175
2033 - 2037	242	1,627
Thereafter	<u>926</u>	<u>551</u>
	<u>\$2,216</u>	5,647
Amount representing interest		<u>(4,021)</u>
Present value of capital lease obligations		<u>\$ 1,626</u>

9. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2007 and 2006 is presented below:

	December 31, 2007	December 31, 2006
	(\$ in Millions)	
Balance, beginning of year	\$ 1,160	\$ 1,174
Activity during the year:		
Current year claims and changes in estimates	260	146
Claims paid	<u>(188)</u>	<u>(160)</u>
Balance, end of year	1,232	1,160
Less current portion	<u>(199)</u>	<u>(176)</u>
Long-term liability	<u>\$ 1,033</u>	<u>\$ 984</u>

10. COMMITMENTS AND CONTINGENCIES

The MTA actively monitors its properties for the presence of pollutants and/or hazardous wastes and evaluates its exposure with respect to such matters. When the expense, if any, to clean up pollutants and/or hazardous wastes is estimable it is accrued by the MTA.

Management has reviewed with counsel all actions and proceedings pending against or involving the MTA, including personal injury claims. Although the ultimate outcome of such actions and proceedings cannot be predicted with certainty at this time, management believes that losses, if any, in excess of amounts accrued resulting from those actions will not be material to the financial position, results of operations, or cash flows of the MTA.

11. OPERATING ACTIVITY INFORMATION

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
December 31, 2007						
Operating revenue	\$ 254	\$ 1,024	\$ 3,159	\$ 1,263	\$ (34)	\$ 5,666
Depreciation and amortization	68	490	1,061	70	-	1,689
Subsidies and grants	1,939	-	1,330	-	(1,170)	2,099
Tax revenue	1,459	-	1,247	-	(301)	2,405
Interagency subsidy	406	-	156	(401)	(161)	-
Operating (deficit) surplus	(833)	(1,475)	(4,291)	763	-	(5,836)
Net (deficit) surplus	828	(1,411)	452	80	(15)	(66)
Capital expenditures	4,042	285	898	297	(1,325)	4,197
December 31, 2007						
Total assets	11,435	9,884	28,747	4,062	(2,359)	51,769
Net working capital	1,274	(31)	261	(363)	(1,108)	33
Long-term debt - (including current portion)	17,793	-	-	7,156	(43)	24,906
Net assets	(10,835)	8,820	25,119	(3,792)	(15)	19,297
December 31, 2007						
Net cash (used in)/provided by operating activities	(690)	(931)	(2,297)	893	41	(2,984)
Net cash provided by/(used in) noncapital financing activities	4,121	939	2,718	(414)	(2,832)	4,532
Net cash provided by/(used in) capital and related financing activities	(3,992)	(22)	(638)	(557)	2,791	(2,418)
Net cash provided by/(used in) Investing activities	536	13	214	82	-	845
Cash at beginning of year	78	26	38	13	-	155
Cash at end of period	53	25	35	17	-	130

NOTE: Only MTA and MTA Bridges and Tunnels agencies are issuing debt.

(Continued)

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
December 31, 2006						
Operating revenue	\$ 232	\$ 990	\$ 3,041	\$ 1,259	\$ (35)	\$ 5,487
Depreciation and amortization	52	484	1,012	58	-	1,606
Subsidies and grants	376	-	314	-	(156)	534
Tax revenue	2,646	-	2,111	-	(1,172)	3,585
Interagency subsidy	435	-	167	(435)	(167)	-
Operating (deficit) surplus	(585)	(1,276)	(2,830)	848	-	(3,843)
Net (deficit) surplus	648	(1,223)	1,781	164	-	1,370
Capital expenditures	3,931	272	857	185	(1,153)	4,092
December 31, 2006						
Total assets	11,735	9,610	27,288	3,833	(2,381)	50,085
Net working capital	2,578	(95)	290	(178)	(1,307)	1,288
Long-term debt - (including current portion)	16,757	-	-	7,169	(44)	23,882
Net assets	(10,123)	8,691	24,667	(3,872)	-	19,363
December 31, 2006						
Net cash (used in)/provided by operating activities	(944)	(749)	(1,767)	931	31	(2,498)
Net cash provided by/(used in) noncapital financing activities	3,816	783	2,399	(440)	(2,340)	4,218
Net cash (used in)/provided by capital and related financing activities	(2,509)	(33)	(476)	(429)	2,089	(1,358)
Net cash provided by/(used in) Investing activities	(319)	(4)	(181)	(61)	220	(345)
Cash at beginning of year	34	29	63	12	-	138
Cash at end of period	78	26	38	13	-	155

NOTE: Only MTA and MTA Bridges and Tunnels agencies are issuing debt.

(Concluded)

12. SETTLEMENT OF CLAIMS

The case of Cruz v. MTA Long Island Rail Road settled on January 20, 2006 for the total sum of \$12.1 with FMTAC being responsible for the amount in excess of the MTA Long Island Rail Road's retention of \$6.0 at the time of the event. FMTAC paid its portion of such settlement from the ELF.

13. SUBSEQUENT EVENTS

Fare increases

On December 19, 2007 the MTA Board voted to increase the Authorities Fares and Tolls to generate an estimated 3.85% increase in revenues.

- **Subway, Bus and Paratransit Fares** – Cash, single ride tickets and Regular Pay-Per-Ride MetroCard fares remained unchanged. Effective March 2, 2008, the price of the 7-Day Unlimited Ride MetroCard will increase to \$25 from \$24 and the 30-Day Unlimited Ride MetroCard increase to \$81 from \$76. The fare for the new 14-Day Unlimited Ride MetroCard is \$47. The MetroCard bonus percentage will be reduced from 20% to 15%. On January 30, 2008, the MTA Board authorized that the MetroCard minimum purchase amount for the bonus to apply will be reduced to \$7 from \$10.
- **Commuter Rail**– For travel within New York State, effective March 1, 2008, one-way, ten-trip, weekly and monthly ticket prices will increase to yield an average change in ticket prices of 3.85%.
- **Bridges and Tunnels** – Effective March 16, increase cash tolls for cars on major facilities and the Henry Hudson Bridge by \$.50 (\$1.00 for cash one-way on the Verrazano-Narrows Bridge) and on minor facilities by \$.25. E-ZPass tolls for cars will increase up to 3.8% except on the Henry Hudson Bridge, where the increase will be 8.6% (\$0.15). Cash tolls for trucks will increase 10.3-14.7% depending on the number of axles. Trucks using E-ZPass will receive a 25% discount from the cash toll, in increase from the current discount of 20%.

Bond issuances

- On February 21, 2008, MTA issued \$512.470 Series 2008A and \$487.530 Series 2008B Transportation Revenue Bonds to refinance prior debt issued by MTA.
- On March 27, 2008, Triborough Bridge and Tunnel Authority issued General Revenue Bonds, Series 2008A for \$822.8 and General Revenue Bonds, Series 2008B for \$252.2. The Series 2008 Bonds were issued to finance bridges and tunnel projects, and may also be used to finance projects and/or to refinance indebtedness issued by MTA Bridges and Tunnels.

On March 28, 2008, MTA announced the future redemption of the following series of bonds totaling over \$1.4 billion:

MTA TRANSPORTATION REVENUE BONDS

Transportation Revenue Variable Rate Refunding Bonds, Subseries 2002G-2

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259R)	Redemption Date
2002G-2	\$200,000,000	Weekly	LU6	May 1, 2008

Transportation Revenue Variable Rate Bonds, Series 2004A

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259R)	Redemption Date
2004A-1	\$165,260,000	Weekly	TD6	May 1, 2008
2004A-2	70,825,000	Weekly	TE4	May 1, 2008
2004A-3	165,260,000	Weekly	TF1	May 1, 2008
2004A-4	70,825,000	Weekly	TG9	May 1, 2008

MTA DEDICATED TAX FUND BONDS

Dedicated Tax Fund Variable Rate Bonds, Series 2004D

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259N)	Redemption Date
2004D-1*	\$ 23,000,000	Weekly	QM8	May 1, 2008
2004D-2	112,000,000	Weekly	QN6	May 1, 2008

* Partial refunding

Dedicated Tax Fund Variable Rate Bonds, Series 2007A*

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (59259N)	Redemption Date
2007A-1	\$86,000,000	7-Day Auction	VE0	March 25, 2008
2007A-2	\$86,000,000	7-Day Auction	VF7	March 26, 2008
2007A-3	\$86,000,000	7-Day Auction	VG5	March 27, 2008
2007A-4	\$86,000,000	7-Day Auction	VH3	March 28, 2008
2007A-5	\$86,000,000	7-Day Auction	VJ9	March 24, 2008

* Redemption of these bonds was previously announced on February 22, 2008

MTA BRIDGES AND TUNNELS SUBORDINATE BONDS

MTA Bridges and Tunnels Subordinate Revenue Variable Rate Bonds, Series 2004A

Subseries	Principal Amount Refunded	Interest Rate Mode	CUSIP Number (89602N)	Redemption Date
2004A-1	\$100,000,000	7-Day Auction	GK4	April 30, 2008
2004A-2	\$75,000,000	7-Day Auction	GL2	May 1, 2008

In the future MTA may redeem additional MTA and/or MTA Bridges and Tunnels Bonds in order to manage its interest cost risk.

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METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF PENSION FUNDING PROGRESS (UNAUDITED) (Dollars - In Millions)

	January 1, 2007	January 1, 2006	January 1, 2005
LIRR			
a. Actuarial value of plan assets	\$ 509.1	\$ 625.0	\$ 659.6
b. Actuarial accrued liability (AAL)	1,543.5	1,898.6	1,786.7
c. Total unfunded AAL (UAAL) [b-a]	1,034.4	1,273.6	1,127.1
d. Funded ratio [a/b]	33.0 %	32.9 %	36.9 %
e. Covered payroll	\$ 94.0	\$ 117.3	\$ 137.1
f. UAAL as a percentage of covered payroll [c/e]	1100.4 %	1085.8 %	822.1 %
MaBSTOA			
a. Actuarial value of plan assets	\$ 1,057.9	\$ 841.0	\$ 762.1
b. Actuarial accrued liability (AAL)	1,938.3	1,725.2	1,680.5
c. Total unfunded AAL (UAAL) [b-a]	880.5	884.2	918.4
d. Funded ratio [a/b]	54.6 %	48.7 %	45.3 %
e. Covered payroll	\$ 519.7	\$ 498.0	\$ 479.5
f. UAAL as a percentage of covered payroll [c/e]	169.4 %	177.5 %	191.5 %
MTA			
a. Actuarial value of plan assets	\$ 1,361.6	\$ 613.6	\$ 463.6
b. Actuarial accrued liability (AAL)	1,477.6	793.3	625.5
c. Total unfunded AAL (UAAL) [b-a]	116.0	179.7	161.9
d. Funded ratio [a/b]	92.2 %	77.4 %	74.1 %
e. Covered payroll	N/A*	N/A*	\$ 480.8
f. UAAL as a percentage of covered payroll [c/e]	N/A*	N/A*	33.7 %

*Not applicable since the benefits for former employees of New York Bus, Queens Surface and Liberty Lines are not related to Pay.

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METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION YEAR ENDED DECEMBER 31, 2007 (Dollars in Millions)

	UNAUDITED
FINANCIAL PLAN ACTUAL - OPERATING LOSS	<u>\$ (5,813.2)</u>
Reconciling items:	
FMTAC revenues are recorded as operating on the Financial Plan and recorded as non-operating on the Financial Statements.	(8.0)
Various agencies recorded adjustments to the Financial Statements and not to the Financial Plan.	11.7
The Financial Plan excluded Capital Construction and East Side Access.	(3.3)
The Financial Plan includes TBTA capital transfer to agencies	<u>(22.5)</u>
FINANCIAL STATEMENT - OPERATING LOSS	<u>\$ (5,835.3)</u>

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION

CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

(Dollars in Millions)

<u>Category</u>	<u>Financial Plan Actual (Unaudited)</u>	<u>Financial Statement GAAP Actual</u>	<u>Variance</u>
REVENUE			
Farebox Revenue	\$ 3,995.4	\$ 3,995.4	\$ -
Vehicle Toll Revenue	1,250.5	1,250.5	-
Other Operating Revenue	480.0	420.4	(59.6)
Total Revenue	5,725.9	5,666.3	(59.6)
EXPENSES			
Labor:			
Payroll	3,861.5	3,894.8	(33.3)
Overtime	481.8	443.6	38.2
Health and Welfare	888.3	592.4	295.9
Pensions	851.2	852.4	(1.2)
Other Fringe Benefits	444.3	481.0	(36.7)
Postemployment Benefits	1,291.1	1,575.5	(284.4)
Reimbursable Overhead	(274.4)	(236.2)	(38.2)
Total Labor Expenses	7,543.8	7,603.5	(59.7)
Non-Labor:			
Traction and Propulsion Power	294.4	294.4	-
Fuel for Buses and Trains	192.7	192.7	-
Insurance	64.9	66.6	(1.7)
Claims	163.9	163.9	-
Paratransit Service Contracts	233.2	233.2	-
Maintenance and Other	533.3	519.6	13.7
Professional Service Contract	173.7	180.6	(6.9)
Materials & Supplies	516.1	518.4	(2.3)
Other Business Expenses	152.0	40.0	112.0
Total Non-Labor Expenses	2,324.2	2,209.4	114.8
Other Expenses Adjustments:			
TBTA Transfer	22.5	-	22.5
GASB General Reserve	1.7	-	1.7
Interagency Subsidy	(41.8)	-	(41.8)
Other	-	-	-
Total Other Expense Adjustments	(17.6)	-	(17.6)
Total Expenses Before Depreciation	9,850.4	9,812.9	37.5
Depreciation	1,688.7	1,688.7	-
Total Expenses (Excluding TBTA Depreciation)	11,539.1	11,501.6	37.5
Net Operating Deficit Excluding Subsidies and Debt Service	\$ (5,813.2)	\$ (5,835.3)	\$ (22.1)

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION

CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2007

(Dollars in Millions)

<u>Accrued Subsidies</u>	<u>Financial Plan</u> <u>Actual</u> (Unaudited)	<u>Financial Statement</u> <u>GAAP Actual</u>	<u>Variance</u>
Mass Transportation Operating Assistance	\$ 1,570.8	\$ 1,570.8	\$ -
Petroleum Business Tax	601.5	601.5	-
Mortgage Recording Tax 1 and 2	686.9	686.9	-
MRT transfer	(36.7)	(36.7)	-
Urban Tax	893.7	893.7	-
Operating subsidies from NYC	242.3	223.6	(18.7) {1}
State and Local Operating Assistance	378.8	378.8	-
Additional Mass Transportation Assistance Program	20.0	20.0	-
Nassau County Subsidy to Long Island Bus	10.8	10.8	-
Station Maintenance	141.6	141.6	-
Connecticut Department of Transportation (CDOT)	63.9	63.9	-
NYS Grant for Debt Service	-	117.7	117.7 {2}
Investment Income	2.3	40.6	38.3 {3}
Total Accrued Subsidies	4,575.9	4,713.2	137.3
Net Operating Surplus/(Deficit)			
Excluding Accrued Subsidies and Debt Service	(5,813.2)	(5,835.3)	(22.1)
Total Net Operating Surplus/(Deficit)	<u>\$ (1,237.3)</u>	<u>\$ (1,122.1)</u>	<u>\$ 115.2</u>
Interest on Long-Term Debt		<u>\$ 1,054.0</u>	
Debt Service	<u>\$ 1,414.6</u>		

{1} The Financial Plan records on a cash basis while the Financial Statement records on an accrual basis.

{2} In the Financial statement funds received from NYS to cover debt service payments for Service Contract Bonds are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.

{3} The Financial Plan excludes certain pool and capital income.