Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Auditors' Report

Consolidated Financial Statements
Years Ended December 31, 2004 and 2003

METROPOLITAN TRANSPORTATION AUTHORITY

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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, 2004 and 2003, 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 ("NYCTA"), Staten Island Rapid Transit Operating Authority ("SIRTOA"), and the Metropolitan Suburban Bus Authority ("MSBA"), which represent 55 percent and 54 percent and 45 percent and 45, as of and for the years ended December 31, 2004 and 2003 respectively, the assets and revenues of the MTA. 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 NYCTA, SIRTOA and MSBA, is based solely on the report 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 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 consolidated financial position of the MTA, as of December 31, 2004 and 2003, and the 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.

The Management's Discussion and Analysis on pages 3 through 15 is not a required part of the consolidated financial statements but is 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 audit was conducted for the purpose of forming an opinion on the MTA's consolidated basic financial statements. The schedule of pension funding progress, schedule of financial plan to financial statement reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and the schedule of subsidy 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 pension funding progress has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic consolidated financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole. The schedule of financial plan to financial statement reconciliation, schedule of consolidated reconciliation between financial plan and financial statements, and the schedule of subsidy 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

March 31, 2005

1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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 "Authority") 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 Authority'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 Authority's operations during the period and can be used to determine how the Authority has funded its costs.

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

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

Required Supplementary Information provides information concerning the Authority'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 Authority for the years ended December 31, 2004 and 2003. This management discussion and analysis is intended to serve as an introduction to the Authority's financial statements. It provides an assessment of how the Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions, or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements.

2. FINANCIAL REPORTING ENTITY

The Metropolitan Transportation Authority was established under New York State 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 agencies listed below.

- The Long Island Rail Road Company ("LIRR") - provides passenger transportation between New York City and Long Island.

- Metro-North Commuter Railroad Company ("MNCR") - 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 ("SIRTOA") - provides passenger rail transportation on Staten Island.

- Metropolitan Suburban Bus Authority ("MSBA") - 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.

- MTA Excess Loss Trust Fund ("ELF") - provides coverage against losses from catastrophic events and provides budget stability in the event annual aggregate losses impact negatively upon the operating budgets of its participants. ELF was terminated in the fourth quarter of 2003 and the assets were transferred to First Mutual Transportation Assurance Company ("FMTAC") (as defined below). FMTAC will be responsible for ELF's past liabilities and issue a new policy covering similar claims.

- New York City Transit Authority ("NYCTA") and 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 ("TBTA") - operates seven toll bridges, two tunnels, and the Battery Parking Garage.

- MTA Capital Construction Company ("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.

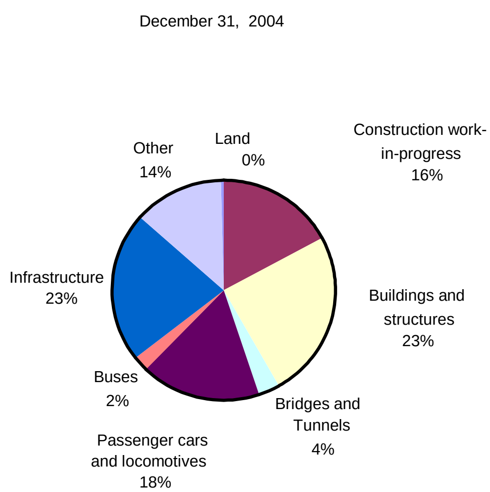
3. CONDENSED FINANCIAL INFORMATION

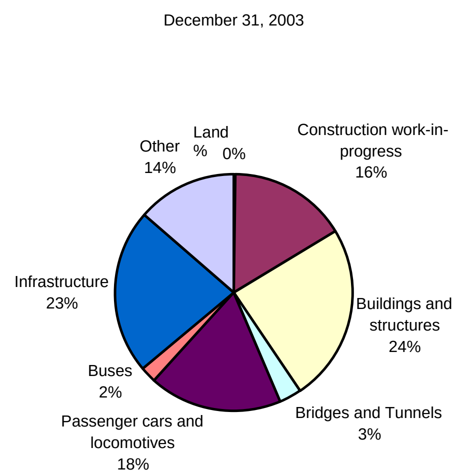
The following sections discuss the significant changes in the Authority's financial position for the years ended December 31, 2004 and 2003. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A,the information contained within the summaries of the financial statements and the various exhibits presented were derived from the Authorities financial statements. All dollar amounts are in millions.

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

	December 2004	December 2003	December 2002
Capital assets, net (see note 5)	$ 33,654	$ 31,556	$ 29,079
Other assets	10,183	10,474	10,689
Total assets	$ 43,837	$ 42,030	$ 39,768

Capital Assets, Net





December 31, 2004 versus 2003

- Net capital assets increased in 2004 by $2,098. The most significant portion of the increase occurred in infrastructure, $892, followed by other, $622, and passenger cars and locomotives, $566. These increases were partially offset by normal depreciation expenses. Some of the more significant projects included:

  – Rehabilitation of track on the Main Line, Port Washington, and West Hempstead Branches and Atlantic Avenue Tunnel and installation of the third rail on the mainline of the LIRR.

  – Updating of the Valley Stream and Queens interlocking with a microprocessor-logic.

  – Rehabilitation of the Atlantic Terminal and construction of a new transit entry area.

- Placing new M-7 electric cars into service on both the commuter rail systems and the incurring of additional costs for construction, testing, and quality assurance oversight.

- Continuation of the Jamaica Station rehabilitation and the construction of an inter-modal transportation center which links LIRR, JFK, AirTrain, and NYCTA subway and bus lines.

- Acquisition of 188 new articulated CNG and hybrid buses for the NYCTA.

- Various shop, yard, and depot rehabilitations, upgrade, and replacements

- Several passenger station rehabilitations on the NYCTA subway lines.

- Rehabilitation of the tunnel walls and roadway of the Brooklyn-Battery Tunnel.

- Rehabilitation of the Battery-Parking Garage.

- Replacement of the deck at the Triborough and Bronx-Whitestone Bridges, including span replacement on the Bronx-Whitestone Bridge.

- Replacement of structural steel and the repairing of the drainage system at the Throgs Neck Bridge.

• Other assets had a net decrease of $291. The major items contributing to this change include:

  - An increase of $320 in investments due primarily to an increase in MRT special assistance funds, various non-bond proceeds, and available Dedicated Tax Fund funds.

  - A net decrease in receivables of $212. This decrease is due primarily to receipt of the $200 World Trade Center insurance settlement.

  - A decrease in prepaid and other current and noncurrent assets of $399 also contributed to the decrease. A related group of the MTA changed its method of accounting for certain assets and liabilities related to its employee benefit plan in 2004.

December 31, 2003 versus 2002

• Capital assets increased in 2003 by $2,477. The significant additions included rehabilitation of stations and structures for the subways and railroad cars of $469, placing in service of new railroad electric passenger cars and subway cars of $851, track and structure rebuild of $899 and other capital assets of $257. Major projects related to these expenditures included:

  - Installation of new Ticket Vending Machines by LIRR and MNCR.

  - Rehabilitation of Jamaica station and construction of inter-modal transportation center linking LIRR, JFK Air Train, and NYCTA subway and bus lines.

  - Installation of new electrical distribution systems to the stand-by power substations in Penn Station.

  - Reconstruction of the Atlantic Avenue stations, including disabled accessibility; Roosevelt station; Queens Plaza; and Times Square.

- Work was done on Canarsie and Flushing lines as part of signal modernization.

- Finalization of construction and reconstruction of the 1 and 9 lines destroyed in the terrorist attack of September 11, 2001.

- Acquisition of 385 new subway cars.

- Acquisition of 319 new articulated and CNG buses.

• The additions were partially offset by the disposal of 296 “Redbird” subway cars. The disposal of the “Redbird” subway cars was completed in 2003 by “reefing” the cars off the coast of some states to enhance sea life.

• Other Assets decreased by $215 from 2002 to 2003. The major components of this decrease were:

  - A decrease of $843 in investments primarily related to the acquisition of capital assets, an increase in operating losses and payment of debt service.

  - A decrease of $667 in current receivables and other non current assets is derived primarily from the settlement of the World Trade Center (“WTC”) disaster, partially offset by the collection of accounts receivable from the City of New York.

  - An increase in prepaid expenses is primarily due to the prepayment of pension costs and insurance premiums.

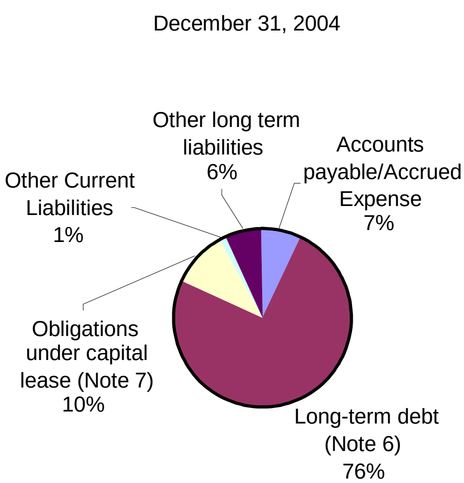
  - An increase of $445 in restricted investments related to new capital lease obligations. During 2003, the Authority engaged in three sale/leaseback transactions with MetLife, Bank of New York, and Bank of America.

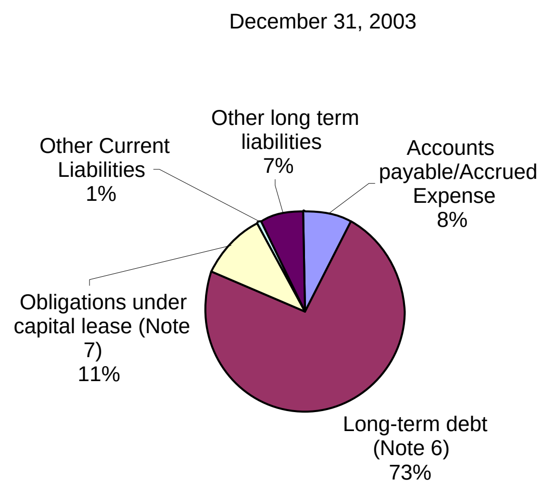
  - An increase of $391 in the NYS Recoverable primarily related to the usage of proceeds available from the State Service Contract Bonds issued in 2002. This recoverable will be reduced in future years through NYS reimbursement of principal on the bonds.

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

	December 2004	December 2003	December 2002
Other liabilities	$ 2,487	$ 2,384	$ 2,101
Long-term liabilities	23,754	22,133	20,805
Total liabilities	$ 26,241	$ 24,517	$ 22,906

Total Liabilities





Significant Changes in Liabilities Include:

December 31, 2004 versus 2003

- Total liabilities increased by $1,724.

- Other liabilities increased by $103. This net increase is due primarily to:

  – An increase in the current portion of retirement and death benefits of $58 and the current portion of long-term debt of $98 which is partially offset by reductions in accounts payable of $176 and other miscellaneous increases of $123.

- Long-term liabilities increased by $1,621. This net increase is primarily related to:

  – The increase of $1,896 for Long Term Debt – MTA is authorized to issue bonds to finance transit and commuter capital projects. TBTA is authorized to issue bonds to finance its own bridge and tunnel capital projects or transit and commuter capital projects. During 2004, MTA and TBTA issued the following bonds to finance transit and commuter capital projects:

    - $250.0 MTA Dedicated Tax Fund Bonds, Series 2004A
    - $500.0 MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004B

- $120.0 MTA Dedicated Tax Fund Bonds, Series 2004C
- $280.0 MTA Dedicated Tax Fund Variable Rate Bonds, Series 2004D
- $500.0 MTA Transportation Revenue Variable Rate Bonds, 2004A
- $250.0 TBTA Subordinate Revenue Variable Rate Bonds, Series 2004A

In addition, during 2004, MTA, TBTA, and NYCTA participated in the execution and delivery of $357.925 Variable Rate Certificates of Participation, Series 2004A to refund, and achieve debt service savings in connection with, outstanding certificates of participation that financed the renovation of the 2 Broadway office building. (See Note 6).

– A decrease of $90 in the long-term portion of obligations under capital lease.

– A decrease in miscellaneous other liabilities, estimated liabilities arising from injuries, and contract retainage payable of $185 including the effect of a related group of the MTA's changed method of accounting for certain assets and liabilities related to its employee benefit plan in 2004.

<u>December 31, 2003 versus 2002</u>

Total liabilities increased by $1,611

- The Other liabilities increased primarily due to:

  – An increase in current portion of bond principal payable.

  – An increase of $275 in accrued expenses, partially due to an increase in vacation and sick pay, retirement and death benefits payable, bank and overdraft payable due to timing of payroll, and other expenses not yet funded.

- The Long-term liabilities increased primarily due to:

  – Increase in long-term debt in the amount of $1,444 resulting from the issuance of the Authority's Transportation Revenue Bonds, Series 2003A and Series 2003B in the amount of $475 and $752 respectively, for the purpose of providing funds for capital projects as well as redeeming the Bond Anticipation Notes in the amount of $750. New Bond Anticipation Notes in the amount of $420 were issued. TBTA also issued Subordinate Revenue Bonds, Series 2003A and TBTA General Revenue Variable Rate Bonds, Series 2003B in the amounts of $500 and $250 respectively to finance transportation projects, and certain improvements on bridges and tunnels.

  – Increase in obligations under capital lease of $437, resulting mainly from the new sale-lease transactions with Met-Life, Bank of America, and Bank of New York.

  – Increase in estimated liabilities arising from injuries to persons increased by $93, due to increases in amounts claimed and settled.

  – Other long-term liabilities decreased by $645, primarily due to the settlement of the World Trade Center insurance claims.

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

	December 2004	December 2003	December 2002
Invested in capital assets, net of related debt	$ 13,678	$ 13,671	$ 13,891
Restricted for debt service	828	2,130	768
Unrestricted	3,090	1,712	2,203
Total	$ 17,596	$ 17,513	$ 16,862

<u>December 31, 2004 versus 2003</u>

At December 31, 2004, the total net assets increased by $83 from December 31, 2003. This increase includes non-operating revenue of $2,498, and appropriations, grants and other receipts externally restricted for capital projects of $761, offset by operating losses of $3,176

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Capital assets net of related debt increased by $7.

Funds restricted for debt service decreased by $1,302 mainly due to the payment of debt service on January 1, 2004 for TBTA bonds and the payments made on May 15 and November 15, 2004 for the Transportation Revenues Bonds and Dedicated Tax bonds.

<u>December 31, 2003 versus 2002</u>

At December 31, 2003, the total net assets increased by $651 over December 31, 2002. This increase includes non-operating revenue of $2,267, and appropriations, grants and other receipts externally restricted for capital projects of $1,423, offset by operating losses of $3,039,.

Capital assets net of related debt decreased by $220 due mainly to the new capital asset acquisitions. Bond proceeds available for capital expenditures were not entirely used and at December 31; a total of $455 of unexpended proceeds was still outstanding.

Funds restricted for debt service increased by $1,362. This increase is derived from the 2002 bond restructuring and the impact of new issuances that took place in 2003.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	December 31, 2004	December 31, 2003	December 31, 2002
Operating Revenues			
Passenger and tolls	$ 4,521	$ 4,228	$ 3,912
Other	316	316	141
Total operating revenues	4,837	4,544	4,053
Nonoperating revenues:			
Grants, appropriations, and taxes	2,847	2,394	2,097
Other	513	723	166
Total nonoperating revenues	3,360	3,117	2,263
Total Revenues	8,197	7,661	6,316
Operating Expenses			
Salaries and wages	3,645	3,548	3,435
Retirement and other employee benefits	1,403	1,185	1,171
Depreciation and amortization	1,344	1,235	1,135
Other expenses	1,621	1,614	1,251
Total operating expense	8,013	7,582	6,992
Nonoperating expense			
Interest on long-term debt	819	780	558
Other nonoperating expense	43	70	72
Total nonoperating expense	862	850	630
Total expenses	8,875	8,432	7,622
Appropriations, grants, and other receipts externally restricted for capital projects	761	1,422	1,666
Change in net assets	83	651	360
Net assets, beginning of year	17,513	16,862	16,502
Net assets, end of year	$ 17,596	$ 17,513	$ 16,862

Revenues and Expenses, by Major Source:

<u>December 31, 2004 versus 2003</u>

- Total operating revenues for the twelve months ended December 31, 2004 were $293 higher than in the twelve months ended December 31, 2003.

  – Fare revenues and vehicle toll revenues were higher than the prior year due primarily to the full-year impact of the fare and toll increases that became effective in May 2003. Also impacting revenues is ridership and vehicle bridge and tunnel crossings, which showed a modest increase as the New York City economy continues to improve.

- Total operating expenses for the twelve months ended December 31, 2004 were higher than December 31, 2003 by $431.

  – Labor costs, including retirement and other employee benefits, were higher by approximately $315 for the twelve months ended December 31, 2004 when compared to the twelve months ended December 31, 2003. The labor cost increase is due primarily to a 3 percent salary increase approved in 2004 and to higher pension, health and welfare cost..

  – Non-labor costs were higher by approximately $116 for the twelve months ended December 31, 2004 when compared to the twelve months ended December 31, 2003. Cost elements contributing to this increase were depreciation resulting from new capital assets being placed into service, maintenance and other operating contracts and fuel and power expense. These higher costs were partially offset by lower costs in materials and supplies, claims, and professional service contracts.

- Total grants, appropriations, and taxes were higher by approximately $453 for the twelve months ended December 31, 2004 compared to the twelve months ended December 31, 2003. This is predominantly the result of the NYS budget being approved in August 2004 with increases in NYS and Local operating subsidies and an increase in tax supported subsidies.

<u>December 31, 2003 versus 2002</u>

- Revenues from fares and tolls for the twelve months ended December 31, 2003 were $316 higher than in the twelve months ended December 31, 2002. This is primarily due to the commuter rail fare increase that went into effect on May 1, 2003, and the bridge and tunnel toll increase that went into effect on May 18, 2003.

  – TBTA bridge and tunnel tolls accounted for over 95 percent of their operating revenue. The 2003 increase of $129 in Operating revenue at TBTA was related primarily to the toll increase that was implemented in May 2003, as there was a decline in year-to-year traffic. The traffic decline was due in part to the unfavorable weather conditions at both the beginning and end of the year.

  – Commuter Railroads operating revenue increased $85.3 in 2003 over 2002. Passenger revenues accounted for approximately 92 percent or $80 of the increase in operating revenue. The passenger revenue increase is due primarily to fare increases that took place in May 2003 in New York and July 2003 in Connecticut. Ridership of the Commuter Railroads declined in 2003 from 2002 due to the economic slowdown, which continued to linger in the region, the fare increase, and the unusually harsh weather, with the August blackout also being a contributing factor.

  – NYCTA operating revenue from fares increased by approximately $245 in 2003 over 2002 while ridership decreased. As is the case with other components of the Authority's transportation system, the increase is due primarily to the fare increase, as the region's economy was having an adverse effect on ridership

  – SIRTOA and MSBA had fare revenue increases of $4 and $35 respectively in 2003 over 2002. These fare increases, too, are attributable in large part, to the May 2003 fare increases while the weak regional economy and the August 2003 blackout had a negative impact on revenue.

- Salaries and wages increased by $113 for the twelve months ended December 31, 2003 over 2002. The increase is primarily attributed to contract settlements, unscheduled overtime expenses, the impact of August 2003 blackout, and general salary increases.

- Retirement and other employee benefits increased by $14. Pension contributions accounted for the majority of the increase. This is attributed to an increase in the salary base, pension contributions required because of the poor investment portfolio performance, and an increase in the rates charged by the NYS and NYC pension funds, and an increase in workers compensation liability.

- Depreciation expenses increased by $100 resulting from new capital assets being placed into service.

- The financial statements reflect $398 of revenues related to the settlement of all claims with the insurers for losses incurred due to the events of September 11, 2001.

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 Authority'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 Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

The adverse ridership trends, together with additional security costs (both capital and operating) and a worsening of the operating balance position, moved the Authority to increase fares and tolls in May 2003. Ridership levels, which experienced losses in the immediate aftermath of the May 2003 fare increase, have slowly recovered, and improving economic conditions have also had a beneficial impact. During 2004, MTA ridership was 2.3 percent higher (53.8 million trips) than 2003 and vehicle crossings at MTA Bridge and Tunnels facilities were 1.8 percent higher for 2004 when compared with the 2003 level.

Job losses bottomed out at the start of 2004, and preliminary results show a modest increase of 10,000 jobs during 2004, a 0.3 percent increase

The recoveries of the national and regional economies have resulted in a more inflationary climate. The consumer price index in the New York metropolitan area increased 3.5 percent in 2004, after a 3.1 percent increase in 2003. The rising cost of energy had a tremendous impact on the consumer price index: the energy component of the index increased 10.1 percent in 2004 and the consumer price index excluding energy increased 3.1 percent. The New York Harbor spot price for conventional gasoline averaged $1.18 per gallon in 2004, an increase of 33.5 percent over the 2003 average spot price.

As the national economy has emerged from recession, the Federal Reserve Board has adjusted its monetary policies in an effort to keep inflation under control. During 2004, the Federal Reserve Board raised the Federal funds Rate – considered to be the most sensitive indicator of the direction of interest rates – by one-quarter point on five occasions, beginning at the end of June 2004. These were the first increases since May 2000; from May 2000 through June 2004, the Federal Funds Rate declined from 6.5 percent to 1.0 percent. By the end of 2004, the Rate had increased to 2.5 percent.

Results of Operations – During the year ended December 31, 2004, paid TBTA traffic reached 302.9 million vehicles, 5.4 million higher than 2003 volume. This can largely be attributed to relative favorable winter weather along with modest growth in regional employment. The E-ZPass electronic collection system continued to facilitate the management of record high traffic volumes in 2004. E-ZPass traffic reached 212.3 million vehicles in 2004, a 2.3 percent increase over the 2003 level of 207.6 million vehicles. On an average weekday in 2004, 73 percent of all tbta traffic used E-ZPass.

During 2004, NYCTA's total ridership from fares was 2.17 billion trips, an increase of 56 million trips over 2003 (a 2.6% increase). The extra leap year day in 2004 and the absence in 2004 of a blackout as occurred in August 2003 are factors that contributed to this increase. In addition, restoration of full service on the Manhattan Bridge and an upturn in the City's economy marked by increased employment and tourism also positively impacted ridership.

LIRR ridership declined by approximately 2.0 percent in 2004 from 2003. Ridership dropped from 80.9 million in 2003 with passenger revenues of $393.3 to 79.3 million in 2004 with increased revenues of $410.8. The increase in revenues is attributable to the fare increase that became effective May 1, 2003 which was partially offset by the decline in ridership. In 2004, 142 additional M-7 electric cars were placed in service. The M-7 fleet is currently more than doubling its Mean Distance Between Failure goal of 100,000 which is expected to translate into improved on time performance.

Overall MNCR ridership in 2004 was 70.8 million. However, there were increases on both the Harlem and New Haven Lines, partially offset by a decrease of less than one percent on the Hudson Line. In 2003 adjusted ridership was 70.5 million.

The following factors made for adverse customer usage during 2003: sluggish local economy; adverse weather conditions (above-average snowfalls during winter and record breaking rainfalls particularly in the spring); the May 2003 fare and toll increases. During 2003, total ridership on the MTA network of mass transit, including subway, bus, and commuter rails, was 2.31 billion, down from 2.37 billion in 2002. Average weekday ridership was 7.53 million, down from 7.71 million. NYCTA ridership totaled 2.12 billion in 2003, down from its 30-year record high of 2.18 billion in 2002. Subways carried 1.38 billion passengers and buses carried 735 million, both down slightly from 2002. LIRR ridership declined by 3.6 percent to 80.9 million and MNCR ridership decreased slightly from 73.1 million in 2002 to an adjusted 70.5 million in 2003. TBTA bridges and tunnels were used by 297 million vehicles, down approximately 1.0 percent.

Currently, the Authority receives the equivalent of four quarters of MMTOA Receipts each year, with the first quarter of each succeeding calendar year's receipts similarly advanced. This results in little or no MMTOA 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. 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.

Over the last few years, the mortgage recording taxes payable to the Authority have generally exceeded expectations due primarily to the high level of home buying and refinancings caused by historically low interest rates. The Authority does not expect that its collection of mortgage recording taxes will continue at the current levels.

Capital Programs- Capital programs covering the years 2000–2004 have been approved by the MTA Board for (1) the commuter railroad operations of the Authority conducted by LIRR and MNCR (as amended to December 31, 2004, the "2000–2004 Commuter Capital Program"), (2) the transit system operated by the NYCTA and its subsidiary, MaBSTOA, and the rail system operated by SIRTOA (as amended to December 31, 2004, the "2000–2004 Transit Capital Program"), and (3) the toll bridges and tunnels operated by TBTA (as amended to December 31, 2004, the "2000–2004 TBTA Capital Program"). The 2000–2004 TBTA Capital Program was effective upon adoption by the TBTA Board. The 2000–2004 Commuter Capital Program and the 2000–2004 Transit Capital program (collectively, the "2000–2004 MTA Capital Programs") have been approved by the Metropolitan Transportation Authority Capital Program Review Board (the "CPRB").

The CPRB approved 2000–2004 MTA Capital Programs and the TBTA 2000–2004 Capital Program through December 31, 2004 provide for $20,619 in capital expenditures, of which $10,110 relates to ongoing repairs of, and replacements to, the Transit System operated by NYCTA and MaBSTOA and the rail system operated by SIRTOA, $3,854 relates to ongoing repairs of, and replacements to, the commuter system operated by LIRR and MNCR, $4,365 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction,

$509 relates to planning and design and customer service projects, $249 relates to World Trade Center repair projects, $1,031 relates to the ongoing repairs of, and replacements to, TBTA bridge and tunnel facilities, and $455 relates to MTA Bus.

The combined funding sources for the approved 2000–2004 MTA Capital Programs and the TBTA 2000–2004 Capital Program include $7,919 in bonds, $6,342 in Federal funds, $4,544 from the proceeds of the MTA/TBTA debt restructuring in 2002 and $1,814 from other sources.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

On December 16, 2004, the Authority's Board approved certain fare and toll increases for the MTA commuter rail, transit, and bus systems and for bridge and tunnel crossings.

- Effective March 1, 2005 commuter rail fares on travel in New York State were increased on average by 7.1 percent for LIRR and 6.2 percent for MNCR.

- Effective February 27, 2005, the cost of a 30-day Unlimited Ride MetroCard increased from $70.00 to $76.00; the cost of a 7-day Unlimited Ride Metro-Card increased from $21.00 to $24.00; and express bus fares increased from $4.00 to $5.00 per ride. The $2.00 base fare and the 1-Day Fun Pass fare of $7.00 did not change.

- Effective March 13, 2005, an increased crossing charge schedule went into effect, and on July 1, 2005, a new monthly E-ZPass fee will go into effect.

MTA Bus Company ("MTA Bus" was created as a public benefit corporation subsidiary of MTA in December 2004 specifically to operate certain City bus routes. At its meeting in December 2004, the MTA Board approved a letter agreement with the City with respect to MTA Bus' establishment and operation of certain bus routes (the "City Bus Routes") in areas then served by private bus operators in The Bronx, Queens and Brooklyn pursuant to franchises granted by the City. The letter agreement with the City provides, among other things, that the City will pay to MTA Bus the difference between the actual cost of operations of the City Bus Routes (other than certain capital costs) and all revenues and subsidies received by MTA Bus and allocable to the operation of the City Bus Routes. The letter agreement permits the parties after a period of 18 months to negotiate an agreement to establish a formula-based approach for the payment of the City subsidy. MTA Bus began operating a portion of the City Bus Routes in early 2005 and expects to operate the remainder by the end of the summer of 2005.

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METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(Dollars in Millions)

	2004	2003
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	$ 124	$ 134
Investments (Note 3)	1,495	1,567
Receivables:		
Station maintenance, operation, and use assessments	94	91
State and regional mass transit taxes	46	51
Mortgage Recording Tax	51	43
State and local operating assistance	8	9
Other Subsidies	29	88
Connecticut Department of Transportation	19	21
WTC insurance settlement (Note 11)	-	200
Due from New York City	27	66
Other	256	172
Less allowance for doubtful accounts	(34)	(33)
Total receivables - net	496	708
Materials and supplies	274	263
Prepaid expenses and other current assets (Notes 2 and 4)	157	202
Total current assets	2,546	2,874
NONCURRENT ASSETS:		
Capital assets - net (Note 5)	33,654	31,556
Restricted investments held for lease obligations (Notes 3 and 7)	2,479	2,555
Investments (Note 3)	1,797	1,405
Receivable from New York State	2,342	2,375
Other noncurrent assets	1,019	1,265
Total noncurrent assets	41,291	39,156
TOTAL ASSETS	$ 43,837	$ 42,030

(Continued)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003
(Dollars in Millions)

	2004	2003
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 274	$ 450
Accrued expenses:		
Interest	197	204
Salaries, wages, and payroll taxes	155	138
Vacation and sick pay benefits	581	558
Current portion - retirement and death benefits	102	44
Current portion - estimated liability from injuries to persons (Note 8)	182	160
Other	379	300
Total accrued expenses	1,596	1,404
Current portion - long-term debt (Note 6)	312	214
Current portion - obligations under capital lease (Note 7)	7	7
Deferred revenue	298	309
Total current liabilities	2,487	2,384
NONCURRENT LIABILITIES:		
Retirement and death benefits (Note 4)	59	59
Estimated liability arising from injuries to persons (Note 8)	945	889
Long-term debt (Note 6)	19,609	17,713
Obligations under capital lease (Note 7)	2,634	2,724
Contract retainage payable	206	193
Other long-term liabilities	301	555
Total noncurrent liabilities	23,754	22,133
Total liabilities	26,241	24,517
NET ASSETS:		
Invested in capital assets, net of related debt	13,678	13,671
Restricted for debt service	828	2,130
Unrestricted	3,090	1,712
Total net assets	17,596	17,513
TOTAL LIABILITIES AND NET ASSETS	$ 43,837	$ 42,030

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(Dollars in Millions)

	2004	2003
OPERATING REVENUES:		
Fare revenue	$ 3,424	$ 3,206
Vehicle toll revenue	1,097	1,022
Rents, freight and other revenue	316	316
Total operating revenues	4,837	4,544
OPERATING EXPENSES:		
Salaries and wages	3,645	3,548
Retirement and other employee benefits	1,403	1,185
Traction and propulsion power	203	185
Fuel for buses and trains	95	73
Insurance	66	56
Claims	133	187
Paratransit service contracts	135	124
Maintenance and other operating contracts	408	387
Professional service contracts	180	202
Materials and supplies	370	390
Depreciation	1,344	1,235
Other	31	10
Total operating expenses	8,013	7,582
OPERATING LOSS	(3,176)	(3,038)
NONOPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax supported subsidies - NYS	1,442	1,357
Tax supported subsidies - NYC and local	1,011	619
Operating subsidies - NYS	206	211
Operating subsidies - NYC and local	188	207
Total grants, appropriations, and taxes	2,847	2,394

(Continued)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(Dollars in Millions)

	2004	2003
Operating subsidies recoverable from Conneticut Department of Transportation related to New Haven Line	$ 52	$ 56
Subsidies paid to Dutchess, Orange, and Rockland counties	(22)	(20)
Suburban Highway Transportation Fund subsidy	(20)	(19)
Interest on long-term debt	(819)	(780)
Station maintenance, operation, and use assessments	129	125
Loss on disposal of subway cars	(1)	(31)
Revenue from WTC insurance settlement	-	398
Unrealized gain/(loss) on investment	15	(18)
Other nonoperating revenue	317	162
Net nonoperating revenues and expense	2,498	2,267
LOSS BEFORE APPROPRIATIONS	(678)	(771)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	761	1,422
CHANGE IN NET ASSETS	83	651
NET ASSETS, BEGINNING OF YEAR	17,513	16,862
NET ASSETS, END OF YEAR	$ 17,596	$ 17,513

(Concluded)

See notes to consolidated financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2004 AND 2003
(Dollars in Millions)

	2004	2003
CASH FLOWS PROVIDED BY/(USED IN) OPERATING ACTIVITIES:		
Passenger receipts/tolls	$ 4,663	$ 4,378
Rents and other receipts	208	217
Payroll and related fringe benefits	(4,902)	(4,758)
Other operating expenses	(1,569)	(1,585)
Net cash used in operating activities	(1,600)	(1,748)
CASH FLOWS PROVIDED BY/(USED IN) NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	2,773	2,341
Operating subsidies from CDOT	54	56
Suburban transportation fund subsidy	(39)	-
Subsidies paid to Dutchess, Orange, and Rockland counties	(20)	(14)
WTC insurance claims	200	-
Net cash provided by noncapital financing activities	2,968	2,383
CASH FLOWS PROVIDED BY/(USED IN) CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	2,045	1,277
MTA bonds refunded	(345)	-
MTA anticipation notes proceeds	300	420
MTA anticipation note repayments	-	(750)
TBTA bond proceeds	250	761
Proceeds from capital lease transactions	-	157
Capital lease payments	(53)	(8)
Grants and appropriations	1,409	1,461
CDOT capital contributions	4	2
Capital expenditures	(3,470)	(3,835)
Debt service payments	(1,318)	(928)
Net cash used in capital and related financing activities	(1,178)	(1,443)
CASH FLOWS PROVIDED BY/(USED IN) INVESTING ACTIVITIES:		
Purchase of securities - long-term	(2,254)	(3,766)
Sales of maturities of securities - long-term	2,640	3,440
Purchase/(sales) of short-term securities	(647)	1,118
Earnings on investments	61	47
Net cash (used in)/provided by investing activities	(200)	839
NET (DECREASE)/INCREASE IN CASH	(10)	31
CASH, BEGINNING OF YEAR	134	103
CASH, END OF PERIOD	$ 124	$ 134

See notes to consolidated financial statements. (Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2004 AND 2003
(Dollars in Millions)

	2004	2003
RECONCILIATION OF OPERATING DEFICIT FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (3,176)	$ (3,038)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,344	1,235
Net decrease in payables, accrued expenses and other liabilities	(380)	(105)
Net decrease in receivables	239	208
Net decrease/(increase) in materials and supplies and prepaid expenses	373	(48)
NET CASH USED IN OPERATING ACTIVITIES	$ (1,600)	$ (1,748)

(Concluded)

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION

The Metropolitan Transportation Authority ("MTA") was established in 1965, under Section 1263 of the New York State 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 subsidiary units (collectively, the "Authority") 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 subsidiary and related groups listed below.

- The Long Island Rail Road Company ("LIRR") provides passenger transportation between New York City ("NYC") and Long Island.

- Metro-North Commuter Railroad Company ("MNCR"), doing business as MNR, 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 ("SIRTOA"), doing business as SIR, provides passenger transportation on Staten Island.

- Metropolitan Suburban Bus Authority ("MSBA"), doing business as LI Bus, provides public bus service in NYC and Nassau County.

- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for property losses, which are reinsured, and assumes reinsurance coverage for station liability and force account liability.

- MTA Excess Loss Trust Fund ("ELF") provides coverage against losses from catastrophic events and provides budget stability in the event annual aggregate losses impact negatively upon the operating budgets of its participants. ELF was terminated effective October 31, 2003, when its assets were transferred to FMTAC, and FMTAC assumed responsibility for ELF's past liabilities and issued a new policy covering similar claims.

- MTA Capital Construction Company ("MTA Capital Construction"), doing business as 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.

- MTAHQ, LIRR, MNCR, SIRTOA, MSBA, ELF, FMTAC and MTA Capital Construction collectively are referred to herein as MTA. LIRR and MNCR are referred to collectively as the Commuter Railroads.

- New York City Transit Authority ("NYCTA"), doing business as NYCT, and 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 ("TBTA"), doing business as Bridges and Tunnels, operates seven toll bridges, two tunnels and the Battery Parking Garage, all within the five boroughs of New York City.

The NYCTA and TBTA are operationally and legally independent of the Authority. 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 Authority's financial statements because of the Authority'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 Authority 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 components of the Authority 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 Authority has ongoing capital programs, which except for TBTA are subject to the approval of the NYS Metropolitan Transportation Authority Capital Program Review Board ("CPRB"), and which are designed to improve public transportation in the New York Metropolitan area.

1995-1999 *Capital Program* - In November 1995, the Authority's Board approved a proposed 1995-1999 Capital Program exclusive of TBTA totaling $11,929, which was increased in July 1997 to $12,169, when it was first approved by the CPRB. In September 1996, the Governor signed legislation to increase the current bonding authority for capital projects and approved additional changes to the provisions governing capital programs. In February 1999, the Authority's Board approved certain changes to the 1995-1999 Capital Program, raising the amount to $12,553. The March 1999 amendments have been approved by the CPRB. Since March 1999, the 1995-1999 program is tracked along with the 1992-1994 program and is updated whenever there is an amendment to the current program. The approved 1992-1999 Capital Program, including TBTA, equals $18,104.

In November 1995, the Authority's Board approved a proposed 1995-1999 Capital Program for TBTA totaling $665, which was increased in December 1997 to $669. In February 1999, this amount was increased to $670. The plan does not require the approval of the CPRB. The 1992–1999 MTA Board approved program for TBTA totals $1,147.

At December 31, 2004, $17,951 had been committed and $17,502 has been expended for the 1992 - 1999 Capital Program for the Authority, including TBTA.

2000-2004 Capital Program - The 2000-2004 Capital Program, exclusive of TBTA, initially totaling $16,462, was approved by the Authority's Board in September 1999. This plan was submitted to the CPRB for approval in October 1999 but was returned for revision in December 1999. In April 2000, the Authority's Board approved subsequent revisions to the proposed 2000 - 2004 Capital Program, with total capital expenditures of $17,062. In May 2000, CPRB approved the $17,062 Capital Program. In February 2002 the CPRB approved the bonding resolution for restructuring debt that funds the 2000-2004 Capital Program. In February 2002, the Authority's Board increased the 2000-2004 Capital Program to $17,224. The CPRB approved the increase in April 2002. In May 2002, the MTA Board increased the 2000-2004 Capital Program to $17,301. In December 2002, the Authority's Board approved changes within and an increase to the Transit, Commuter Railroads and TBTA 2000-2004 programs totaling $591.2 for infrastructure and facilities security program. In February 2003, the MTA Board approved an amended 2000-2004 Capital Program of $17,901, exclusive of TBTA. In May 2003 the $17,901 amended Capital Program was submitted to the CPRB and subsequently returned due to security funding concerns. The plan was resubmitted to the CPRB in June 2003 and approved on July 5, 2003. In December 2003 the MTA Board approved an amended 2000-2004 program of $19,104. This increase included $1,325 for new Capital Company projects mostly funded by the federal government. In January 2004 the MTA Board approved another $231 for the accelerated purchase of M-7 cars for Metro-North. This amended program was approved by the CPRB in April 2004. In December 2004, the MTA Board approved an additional $255 to the program and incorporated the capital budget for the MTA Bus Company. The current MTA Board approved 2000–2004 Capital Program through December 31, 2004 equals $20,364. This amended program was approved by the CPRB in March 2005.

In September 1999, the MTA Board approved a proposed 2000-2004 Capital Program for the TBTA that provides for approximately $1,000 in capital expenditures. This plan does not require approval of the CPRB. In March 2000, the MTA Board increased the 2000-2004 Capital Program for TBTA to $1,025. In May 2002 the MTA Board increased the TBTA program again to $1,029. In December 2004, the MTA Board amended the TBTA Capital Program to $1,031.

At December 31, 2004, $15,794 had been committed and $9,753 had been expended for the 2000-2004 Capital Program for the Authority, including TBTA.

The federal government has a contingent equity interest in assets acquired by the Authority 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.

2. SIGNIFICANT ACCOUNTING POLICIES

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Fund Accounting*, the Authority 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 Authority has elected not to apply FASB Standards issued after November 30, 1989.

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, LIRR, MNCR, SIRTOA, MSBA, FMTAC, ELF, MTA Capital Construction, NYCTA, and TBTA. All significant related group transactions have been eliminated for consolidation purposes.

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

Reclassification **-** Certain reclassifications have been made to the prior year's financial statements to conform to the current year presentation.

Investments **-** The Authority's investment policies comply with the New York State Comptroller's guidelines for such 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.

Investments maturing and 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, 2004 and December 31, 2003.

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.

Self-Insurance and Risk Retention – On October 31, 2003, FMTAC, an insurance captive subsidiary of MTA, in return for the transfer of the existing assets, assumed an existing program that insured certain claims in excess of the self-insured retention limits of the agencies ("ELF") on both a retrospective and prospective basis. The self-insured retention limits are: $7 for NYCTA, MaBSTOA, MTA Bus, SIRTOA, LIRR and MNCR; $2 for MSBA; and $1.4 for MTAHQ and TBTA. 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. 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 will issue insurance policies indemnifying the MTA, its subsidiaries, and affiliates above their specifically assigned self-insured retention with a limit of $50 per occurrence with $50 annual aggregate. FMTAC will charge appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2004, the balance of the assets in this program was $82.7. The operations of ELF for the period ended December 12, 2003 are consolidated in the Statements of Revenues, Expenses, and Changes in Net Assets.

Effective October 31, 2004, an All-Agency Excess Liability Insurance Policy was renewed. This coverage affords the MTA and its subsidiaries and affiliates an additional limit of $250, for a total limit of $300 ($250 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.

Property and Casualty Insurance – Effective October 31, 2004, FMTAC insures property damages or loss exposures in excess of $25 per occurrence, $75 annual aggregate, up to a limit of $1.25 billion (up from $1 billion effective October 31, 2003) for claims brought by the Authority and its subsidiaries and affiliates. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London, and European marketplace for this coverage. With respect to acts of international terrorism covered by the Terrorism Risk Insurance Act of 2002 ("TRIA"), FMTAC is reinsured by the United States for 90 percent of losses, subject to an annual cap on all losses payable under TRIA of $100 billion. With respect to acts of terrorism not covered by TRIA, the Authority obtained an additional commercial reinsurance policy that provides coverage against all acts of terrorism in an amount of up to $125 (up from $100 effective October 31, 2003) per occurrence (subject to the $25 per occurrence self-insurance retention). In the event the occurrence is covered by TRIA, the coverage afforded by the additional policy provides for the payment of FMTAC's 10 percent retention not covered by TRIA, subject to a maximum recovery of $97.5.

FMTAC directly insures the primary $7 in losses for Station Liability and Force Account Liability for MNCR and LIRR.

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 Authority 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 Authority's service area.

- *Mortgage Recording Taxes ("MRT")* - Under NYS law, the Authority receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the Authority's service area, at the rate of one-quarter of one percent of the debt secured by certain real estate mortgages. The Authority also receives an additional Mortgage Recording Tax (MRT-2) of one-quarter 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 Authority'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. As of December 31, 2004 and December 31, 2003 the amount allocated to the NYS Suburban Highway Transportation Fund was $20.0 and $18.9, respectively. Of the NYCTA portion, the Authority distributed $52.9 and $17.8 as of December 31, 2004 and December 31, 2003 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 Authority 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 to the Authority increased over such payments in 1989 and (ii) the base amount received by each county as described above. Excess amounts transferable to the counties as of December 31, 2004 and December 31, 2003, were $17.3 and $15.2, respectively. Through December 31, 2004 the Authority has distributed $0 from the MRT-2 funds to the Commuter Railroads and $90.4 to NYCTA for their current operations. In 2003 the Authority distributed from the MRT-2 funds $31.5 to the Commuter Railroads and $178.6 to NYCTA for their current operations.

- In addition, NYCTA receives operating assistance directly from NYC through a mortgage recording tax at the rate of five-eighths 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 Authority 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. MTTF receipts are applied first to meet certain debt service requirements or obligations and in the second instance are used to pay operating and capital costs. The MMTOA receipts comprise a quarter of one percent regional sales tax, 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 6), 85 percent to certain Transit Operations 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 MNCR'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 MNCR'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 Authority. The Service Agreement provides for automatic five-year renewals. For a third consecutive time, the Service Agreement has been renewed for an additional five years beginning January 1, 2000. 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 Authority 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.

- NYC no longer fully reimburses the Authority for costs of the free fare program for students. However, pursuant to an agreement with NYS and NYC, the Authority continued the student program beginning with the 1995 - 1996 school year with NYS and NYC each agreeing to pay $45. The estimated cost of this program is approximately $151 for the 2004-2005 school year. NYC continued to provide for the City's $45 contribution for the 2003 - 2004 school year, of which $15 was received in December 2003. The remaining $30 from NYC was received in June 2004. The State's full $45 for the 2003–2004 school year was received from the NYS in June 2004. For the 2004-2005 school year, $15 was received from NYC in December 2004. The remaining $30 from NYC will be received in 2005. The State's full $45 for the 2005–2006 school year will be received from NYS in June 2005. The Transit Operation's 2005–2008 financial Plan assumes the continuation of the joint funding of the free fare program for students.

- Prior to April 1995, NYC was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the NYC Police Department, NYC no longer reimburses the Authority for the costs of policing the transit system on an ongoing basis since policing of the transit system is being carried out by the NYC Police Department at NYC's expense. The Authority, 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 Authority received approximately $3.2 in the twelve months ended December 31, 2004, and $4.2 in the twelve months ended December 31, 2003 from NYC for the reimbursement of transit police costs. In addition, $0.9 was received in February 2005 for calendar 2004.

- 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 Authority, effective July 1, 1993, assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. NYC reimburses the Authority 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 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and reimbursements aggregated approximately $53.2 in the twelve months ended December 31, 2004, and $36.5 in the twelve months ended December 31, 2003.

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*.

Recent Accounting Pronouncements **-** The Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosure* during the year ended December 31, 2003. The implementation of the standard resulted in new disclosure related to investment and credit risk.

The Authority has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. There was no impact on the Authority's financial position and results of operations for the years ended December 31, 2004 and December 31, 2003. The statement was effective for financial statements for periods beginning after June 15, 2004 and December 15, 2004, respectively.

The Authority has not completed the process of implementing GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The Authority is therefore unable to prepare the statement of plan net assets, the statement of changes in net assets, notes to the financial statements, and the required supplementary information as prescribed by GASB Statement No. 43. The statement is effective in three phases based on total annual revenues. The first phase ($100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2005, the second phase (total annual revenues of $10 million or more but less the $100 million) is effective for periods beginning after December 15, 2006, and the third phase (annual revenues of less than $10 million) is effective for periods beginning after December 15, 2007.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*. The Authority is therefore unable to disclose the impact that adopting this statement will have on its statistical section when such statement is adopted. GASB Statement No. 44 is effective for statistical sections prepared for periods beginning after June 15, 2005.

The Authority has not 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*. The Authority is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. GASB Statement No. 45 is effective in three phases based on total annual revenues. The first phase ($100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2006, the second phase (total annual revenues of $10 million or more but less the $100 million) is effective for periods beginning after December 15, 2007, and the third phase (annual revenues of less than $10 million) is effective for periods beginning after December 15, 2008.

The Authority has not completed the process of implementing GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34. The Authority is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted. The statement is effective for fiscal periods beginning after June 15, 2005

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at December 31, 2004 and 2003:

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	$ 53	$ 45	$ 67	$ 63
Uninsured and not collateralized	71	30	67	22
	$ 124	$ 75	$ 134	$ 85

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

The Authority, on behalf of the Transit Operations, Bridge and Tunnel Operations and Long Island Bus Operations, invests funds which are not immediately required for the Authority's operations in securities permitted by the 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 Authority'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, 2004 and 2003:

	2004	2003
Repurchase agreements	$ 583	$ 983
U.S. Treasuries due 2003 - 2020	899	1,040
Government National Mortgage Association due 2004 - 2021		-
Investments restricted for capital lease obligations	2,479	2,555
Other Agencies due 2005 - 2011	1,810	995
Total	$ 5,771	$ 5,573

Fair values include accrued interest to the extent that it 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 Authority's investment policy states that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. The Authority's investment policy restricts the Authority's investments to federal government and agency securities.

In connection with certain lease transactions described in Note 7, the Authority 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 Poors, which generate sufficient proceeds to make payments under the terms of the leases. If the obligors do not perform, the Authority may have an obligation to make the related rent payments.

All investments are either insured or registered and held by the Authority or its agent in the Authority's name. Investments had weighted average yields of 2.5 percent and 1.5 percent for the years ended December 31, 2004 and 2003 respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at December 31, 2004 and 2003:

	2004	2003
Construction or acquisition of capital assets	$ 1,534	$ 1,667
Funds received from affiliated agencies for investment	601	317
Debt service	463	444
Payment of claims	280	290
Restricted for capital leases	2,479	2,555
Other	295	130
Total	$ 5,652	$ 5,403

4. EMPLOYEE BENEFITS

Substantially all of the Authority'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 Authority sponsors and participates in a number of pension plans for its employees. These plans are not component units of the Authority and are not included in the combined financial statements.

Defined Benefit Pension Plans

- *Single-Employer Pension Plans* - The Long Island Rail Road Company Pension Plan and the Long Island Rail Road Company Plan for Additional Pensions ("Additional Plan") are contributory, defined-benefit pension plans that cover employees who began service with LIRR prior to January 1, 1988. Benefit provisions are established by LIRR and are based on length of qualifying service and final average compensation.

- The TWU-MSBA Employees' Pension Plan ("MSBA Plan") is a contributory, defined-benefit plan covering substantially all its employees who began service prior to January 23, 1983. Persons employed after that date are covered by NYS Employees' Retirement System ("NYSERS"). In 1999, the "MSBA Plan," which was administered under terms of the TWU-MSBA Employees' Pension Trust, was merged with the MTA Defined-Benefit Plan and administered by the MTA.

- The MaBSTOA Pension Plan is a defined-benefit plan covering substantially all of its employees. This plan assigns authority to amend the plan and determine contributions to the MaBSTOA Board.

- During 2004 and 2003, NYCTA made additional contributions to the MaBSTOA Plan of $70.0 and $114.4, respectively, resulting in the recognition of a pension asset in the combined balance sheets.

- SIRTOA has a contributory defined benefit plan that is a single-employer public employee retirement system covering certain employees. Authority to amend the plan and to determine contributions rests with the MTA Board.

- *Multi-Employer Pension Plan* - The MTA Defined-Benefit Pension Plan ("MTA Plan"), a defined benefit pension plan for certain LIRR non-represented and MNCR non-represented employees hired after December 31, 1987, certain MSBA employees hired prior to January 23, 1983, MTA Police, and certain LIRR represented employees hired after December 31, 1997 and certain MNCR represented employees, is a cost-sharing multiple-employer retirement plan. LIRR, MNCR and MTA contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for covered MNCR and LIRR employees, MTA 20-year Police Retirement Plan and MSBA Employees' Pension Plan. MTA Police contribute to the MTA Plan 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. A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

- LIRR, MNCR, MTA, and MSBA recognized 2004 and 2003 pension expense based upon an assessment, which on average was 12.13 percent and 18.27 percent respectively, of annual compensation. The MTA Plan may be amended by action of the MTA Board.

Annual pension costs and related information about each plan follows:

	Single-Employer Plans			
	LIRR	SIRTOA	MaBSTOA	MTA Plan
Date of valuation	1/1/2004	1/1/2004	1/1/2004	1/1/2004
Required contribution rates:				
Plan members	variable	3.00% (1st 10 yrs.)	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2004	$ 102.8	$ 1.5	$ 142.0	$ 54.7
Three-year trend information:				
Annual Pension Cost (APC):				
2004	$ 102.9	$ 1.5	$ 140.1	$ 54.7
2003	63.8	1.6	135.2	28.2
2002	41.6	1.4	121.7	21.3
Net Pension Obligation (NPO) (assets) at end of year:				
2004	(4.7)	None	57.0	-
2003	(4.8)	None	58.9	-
2002	(4.7)	None	60.8	(3.1)
Percentage of APC contributed:				
2004	100%	100%	101%	100%
2003	100%	100%	101%	89%
2002	106%	100%	102%	112%
Components of APC				
Annual required contribution (ARC)	$ 102.8	$ 1.5	$ 142.0	$ 54.7
Interest on NPO	(0.3)	-	4.7	-
Adjustment of ARC	(0.4)	-	6.6	-
APC	102.9	1.5	140.1	54.7
Contributions made (Projected)	102.8	1.5	142.0	54.7
Change in NPO (assets)	0.1	-	(1.9)	-
NPO (assets) beginning of year	(4.8)	-	58.9	-
NPO (assets) end of year	$ (4.7)	$ -	$ 57.0	$ -

	Single-Employer Plans			
	LIRR	SIRTOA	MaBSTOA	MTA Plan
Date of valuation	1/1/2004	1/1/2004	1/1/2004	1/1/2004
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	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	5-year smoothing
Investment return	8.00%	8.00%	8.00%	8.00%
Projected salary increases	3.5%	4.0% - 11.0%	3.5% - 18.0%	3.5% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%	2.50%
Amortization method and period	level dollar / 29 years	level dollar / 24 years	level dollar / 16 years	level dollar / 29 years
Period closed or open	closed	closed	closed	closed

Cost-Sharing Multiple-Employer Plans

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

Plan Description - NYCTA and TBTA contribute to the New York City Employees' Retirement System (NYCERS), 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 and for employees who entered qualifying service after July 1976, who contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspends the 3 percent contribution for employees who have 10 years or more of credited service. The NYCTA and TBTA are required to contribute at an actuarially determined rate. The contribution requirements of plan members and NYCTA and TBTA are established and amended by law. NYCTA's required contributions for NYCERS fiscal years ending June 30, 2005, 2004 and 2003 were $176.0 and $68.8, and $24.4 respectively. TBTA's contributions to NYCERS for the years ended December 31, 2004 and 2003 were $5.0, and $1.0, 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 MSBA employees who were hired after January 23, 1983, are members of NYSLERS. NYSLERS is a cost sharing multiple- employer plan and offers a broad spectrum of benefits including retirement and disability benefits. Generally, employees contribute 3 percent of salary. In 2000, the State legislature passed legislation that suspends the 3 percent contribution of members who have 10 or more years of credited service. MTAHQ and MSBA recognize pension expense based upon annual assessments made by NYSLERS. NYSLERS pension expense was approximately $11.2, $4.9 and $1.5, for the years ended December 31, 2004, 2003 and 2002, 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 LIRR after December 31, 1987. Employees participating in the plan contribute three percent of their compensation and LIRR contributes four percent of their compensation. The Plan is administered by the LIRR Board of Managers of Pension. The MTA Board is responsible for establishing or amending the Plan's provisions and contribution requirements.

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, MNCR 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 MNCR contributes 7 percent. In addition, employees may voluntarily match MNCR's contribution to the plan, on an after-tax basis. The plan is administered by an employee of Metro-North Commuter Railroad and the Metro-North Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan's provisions and contribution requirements.

	December 31, 2004		December 31, 2003	
	LIRR Money Purchase Plan	MNCR Agreement Plan	LIRR Money Purchase Plan	MNCR Agreement Plan
Employer contributions	$ -	$ 11.7	$ 10.9	$ 16.2
Employee contributions	1.1	0.7	6.7	1.2

Deferred Compensation Plans - As permitted by Internal Revenue Code Section 457, the Authority 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 Authority's combined balance sheets.

Certain Authority employees are 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.

LIRR previously reported the market value of assets in the Additional Pension Plan that are held in Grantor Trust account with JP Morgan Chase & Company as an asset and corresponding liability since all rights of the employee or beneficiary are unsecured contracted rights against the LIRR. In accordance with an amendment to the Additional Plan's Trust Agreement, the assets of the trust are no longer subject to claims of general creditors and accordingly as of January 1, 2004, such assets and liabilities are no longer reflected in the consolidated financial statements.

Other Post-Employment Benefits - In addition to providing pension benefits, the Authority provides healthcare, life insurance, and survivor benefits for certain retired employees and their families. These benefits are recorded on a pay-as-you-go basis. The cost of the benefits is shared in varying proportions by the employer and employee. The number of retirees and costs of providing the benefits by the Authority follows:

	December 31, 2004		**December 31, 2003**	
	Number of Participants (Actual)	Cost of Benefits	Number of Participants (Actual)	Cost of Benefits
Authority Total	38,658	$ 211.4	38,945	$ 202.6

5. CAPITAL ASSETS

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

Capital assets are generally 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, 2004 and December 31, 2003 and 2002:

	December 31, 2002	Additions	Deletions	December 31, 2003	Additions	Deletions	December 31, 2004
Capital assets, not being depreciated							
Land	$ 124	$ -	$ -	$ 124	$ 1	$ -	$ 125
Construction work-in-progress	5,376	1,315	1,671	5,020	2,000	1,549	5,471
Total capital assets, not being depreciated	5,500	1,315	1,671	5,144	2,001	1,549	5,596
Capital assets, being depreciated							
Buildings and structures	9,267	815	34	10,048	469	7	10,510
Bridges and tunnels	1,183	167	-	1,350	254	-	1,604
Equipment							
Passenger cars and locomotives	6,926	1,127	100	7,953	656	90	8,519
Buses	1,572	166	-	1,738	121	7	1,852
Infrastructure	8,560	1,196	13	9,743	900	8	10,635
Other	6,017	755	68	6,704	626	4	7,326
Total capital assets, being depreciated	33,525	4,226	215	37,536	3,026	116	40,446
Less accumulated depreciation							
Buildings and structures	2,221	312	1	2,532	300	-	2,832
Bridges and tunnels	315	11	-	326	13	-	339
Equipment							
Passenger cars and locomotives	2,237	248	72	2,413	271	62	2,622
Buses	932	97	-	1,029	107	7	1,129
Infrastructure	2,216	291	7	2,500	350	6	2,844
Other	2,025	301	2	2,324	302	4	2,622
Total accumulated depreciation	9,946	1,260	82	11,124	1,343	79	12,388
Total capital assets, being depreciated, net	23,579	2,966	133	26,412	1,683	37	28,058
Capital assets, net	$ 29,079	$ 4,281	$ 1,804	$ 31,556	$ 3,684	$ 1,586	$ 33,654

Interest capitalized in conjunction with the construction of capital assets at December 31, 2004 and 2003 is $68 and $27, respectively.

Capital assets acquired prior to April 1982 for NYCTA were funded primarily by NYC with capital grants made available to NYCTA. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the Authority. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by NYCTA. In certain instances, title to TBTA's real property may revert to NYC in the event the Authority determines such property is unnecessary for its corporate purpose. The Authority scrapped 40 buses during the year ended December 31, 2004 and 296 subway cars in the year ended December 31, 2003. Loss on disposal of capital assets of $.8 and $30.7 were recorded for the years ended December 31, 2004 and December 31, 2003, respectively.

For certain construction projects, the Authority holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At December 31, 2004 and December 31, 2003 these securities totaled $60.9 and $56.5, respectively, and had a market value of $60.7 and $58.8 respectively, and are not included in these financial statements.

6. LONG -TERM DEBT

	December 31, 2003	Issued	Retired	Refunded	December 31, 2004
MTA:					
Transportation Revenue Bonds 2.25% - 5.752% due through 2035	$ 6,179	$ 500	$ 110	$ -	$ 6,569
Transportation Revenue Bond Anticipation Notes Commercial Paper	420	300	-	-	720
State Service Contract Bonds 3.00% - 5.50% due through 2031	2,395	-	21	-	2,374
Dedicated Tax Fund Bonds 3.00% - 6.25% due through 2031	2,193	1,150	38	-	3,305
Certificates of Participation 4.40% - 5.625% due through 2029	422	357	9	317	453
	11,609	2,307	178	317	13,421
Less net unamortized bond discount and premium	(480)	37	(13)	27	(457)
	$ 11,129	$ 2,344	$ 165	$ 344	$ 12,964
TBTA:					
General Revenue Bonds 4.00% - 5.77% due though 2033	$ 4,470	$ -	$ 39	$ -	$ 4,431
Subordinate Revenue Bonds 4.00% - 5.77% due though 2032	2,187	250	33	-	2,404
	6,657	250	72	-	6,835
Less net unamortized bond discount and premium	141	-	19	-	122
	$ 6,798	$ 250	$ 91	$ -	$ 6,957
Combined total	$ 17,927	$ 2,594	$ 256	$ 344	$ 19,921
Current portion	(214)				(312)
Long-term portion	$ 17,713				$ 19,609

***MTA Transportation Revenue Refunding Bonds* -** As part of the Authority debt restructuring, the Authority issued in May 2002 Transportation Revenue Refunding Bonds, Series 2002A, 2002B, 2002C, and 2002D for a total amount of $3,724. In September 2002, the Authority issued Transportation Revenue Refunding Bonds Series 2002E in the amount of $397. These bonds were issued to refund Transit and Commuter Facilities Revenue Bonds as well as New York City Transit Authority Revenue Bonds. In November 2002, the Authority issued Transportation Revenue Refunding Bonds, Series 2002F and Series 2002G in the amount of $446 and $400, respectively. The purpose of these bonds was to provide for the payment of a portion of certain TBTA bond anticipation notes that were issued to finance transit and commuter projects. Transportation Revenue Refunding Bonds are MTA's special obligations, payable solely from certain transit and commuter systems revenues and certain state and local operating subsidies.

MTA Transportation Revenue Bonds – In June 2004 the Authority issued Transportation Revenue Bonds, Series 2004A, in the amount of $500. In May 2003 the Authority issued Transportation Revenue Bonds, Series 2003A in the amount of $475. The purpose of these Series 2004A and Series 2003A bonds is to finance transit and commuter projects. In August 2003, MTA issued $752 Transportation Revenue Bonds Series 2003B as long-term financing for the outstanding commercial paper program. The Transportation Revenue Bonds are MTA's special obligations, payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

***MTA Bond Anticipation Notes* -** In 2002, MTA Transit and Commuter Facilities Special Obligation Bond Anticipation Notes were reissued under the new MTA Transportation Bond Resolution. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. At December 31, 2002, the average rate on the outstanding notes was 1.3 percent. Payment of principal and interest on the notes were additionally secured by a letter of credit issued by a bank. In August 2003, MTA issued $752 of Transportation Revenue Bonds, Series 2003B to pay at the respective maturity date all of MTA's Bond Anticipation Notes. The MTA Act requires MTA to periodically refund its commercial paper notes with bonds. As of December 31, 2003 the Bond Anticipation Notes reissued in 2002 in the amount of $750 were all paid. In October 2003, MTA issued new Bond Anticipation Notes in the amount of $420, in accordance with the terms and provisions of the General Resolution authorizing Transportation Revenue Obligations adopted on March 26, 2002. Payment of principal and interest is also secured by an irrevocable Letter of Credit issued by ABN AMRO bank. As of August 26, 2004, the stated amount of the letter of credit was increased to $738, thereby authorizing an additional $300 of Notes to be issued for a total of $720 authorized.

***MTA State Service Contract Bonds* -** In June 2002, the Authority issued State Service Contract Refunding Bonds, Series 2002A, in the amount of $1,716 to refund outstanding service contract bonds issued by MTA. Also in June 2002, the Authority issued State Service Contract Bonds, Series 2002B, in the amount of $679 to finance certain transit and commuter projects. The Series 2002A and 2002B 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* -** These bonds are payable solely from and secured by monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, as well as certain special taxes, including a regional sales tax, a temporary regional franchise tax surcharge, a portion of a tax on certain companies, and a portion of the business privilege tax imposed by the State on petroleum businesses, be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

In 2002, the Authority as part of its debt restructuring defeased all series from 1996A to 2000A by issuing Dedicated Tax Bond Series 2002A in the amount of $1,247 and Dedicated Tax Bond Series 2002B in the amount of $440.

On March 10, 2004 the Authority issued Dedicated Tax Fund Bonds Series 2004A, in the amount of $250 and Series 2004B, in the amount of $500 to finance certain transit and commuter projects operated by MTA's affiliates and subsidiaries. The 2004B bonds are issued as auction rate securities.

In December 2004, the Authority issued Dedicated Tax Fund Bonds Series 2004C, in the amount of $120 and Series 2004D, (Subseries 2004D-1, $168 and Subseries 2004D-2, $112), in the amount of $280 to finance certain transit and commuter projects operated by MTA's affiliates and subsidiaries. Series 2004D Bonds are Variable Rate Bonds.

MTA Certificates of Participation **-** In June 1999, the Authority issued fixed rate Serial and Term Certificates, Series 1999A, in the amount of $328, which represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by NYCTA, MTA, and TBTA, pursuant to a Leasehold Improvement Sublease Agreement dated June 1, 1999. These certificates were issued to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied by NYCTA and TBTA.

In June 2000, additional Certificates of Participation, Series 2000A, in the amount of $121 were executed and delivered to finance additional improvements at Two Broadway (See Note 7).

In September, 2004, the Authority executed and delivered Variable Rate Certificates of Participation, Series 2004A, (Subseries 2004A-1 through 2004-5), in the amount of $357. The Series 2004A Certificates were executed and delivered to refund certain outstanding certificates of participation.

TBTA General Revenue Bonds **-** In March 2002 TBTA issued General Purpose Revenue Bonds, Series 2002A, in the amount of $268. These bonds were issued to finance certain improvements to bridges and tunnels. In October 2002, TBTA issued General Revenue Refunding Bonds, Series 2002B, in the amount of $2,157, and General Revenue Variable Rate Refunding Bonds, Series 2002C, in the amount of $103. These bonds were issued to refund TBTA bonds issued under the old resolutions. In October 2002 TBTA substituted the TBTA General Revenue Bond Resolution (the Senior Resolution) for TBTA General Purpose Revenue Bond Resolution adopted in 1980 as the resolution securing $24 General Purpose Revenue Bonds, Series EFC1996A; $1,126 General Purpose Revenue Bonds, Series 2001A; $296 General Purpose Revenue Bonds, Series 2001B and 2001C; and $268 General Purpose Revenue Bonds, Series 2002A. In November 2002, TBTA issued $246 General Revenue Refunding Bonds, Series F. These bonds were issued to refund TBTA bonds issued under the old resolutions. These series are general obligations of TBTA, payable generally from the net revenues collected on the bridges and tunnels operated by TBTA. In 2003 TBTA issued $250 General Revenue Variable Rate Bonds, Series 2003B, to finance certain improvements on bridges and tunnels.

TBTA Subordinate Revenue Bonds **-** In August 2004 TBTA issued $250 Subordinate Revenue Variable Rate Bonds, Series 2004A. These bonds were issued to finance transit and commuter projects for the Authority, and are special obligations of TBTA, payable from the net revenues collected on the bridges and tunnels operated by TBTA. In October 2002, TBTA issued $262 Subordinate Revenue Variable Rate Refunding Bonds, Series 2002D. In November 2002 TBTA issued $756 Subordinate Revenue Refunding Bonds, Series 2002E, and $181 Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G. These bonds were issued to refund TBTA bonds issued under the old resolutions. In October 2002 TBTA substituted the Subordinate Revenue Resolution for the TBTA 1991 Special Obligation Bond Resolution as the resolution securing $508 Special Obligation Variable Rate Refunding Bonds (1991 Resolution) Series 2002A-D. These series are special obligations of TBTA, payable generally from the net revenues collected on the bridges and tunnels operated by TBTA after the payment of operating expenses and debt services as required by TBTA's Senior Resolution. In March 2003 TBTA issued $500 Subordinate Revenue Bonds, Series 2003A, and in August 2004 TBTA issued $250 Subordinate Revenue Variable Rate Bonds, Series 2004A, (Subseries 2004A-1 through 2004A-3). These bonds were issued to finance transit and commuter projects and are special obligations of TBTA, payable generally from the net revenues collected on the bridges and tunnels operated by TBTA after the payment of operating expenses and senior debt services as required by TBTA's Senior Resolution.

Debt Limitation **-** The NYS Legislature has imposed limitations on the aggregate amount of debt that the Authority and TBTA can issue to fund the approved transit and commuter capital programs. For the 1992 through 2004 Capital Programs, the imposed limitation, subject to certain exclusions, is $ 16,500 compared with issuances totaling approximately $10,631 at December 31, 2004.

Bond Refundings **-** During 2002 and as part of the Debt Restructuring the Authority retired most of the outstanding debt of the Authority with either funds available or by issuing new bonds, the proceeds of which were used to purchase US. 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.

The debt refundings resulted in an economic loss of approximately $57 and an increase in future debt service cash flow of $4,283. The economic loss is defined as the present value of the increase in future debt service cash flows.

During 2003 the Authority completed escrow restructurings of the TBTA Subordinate Revenue Bonds Series 2002E, TBTA General Revenue Bonds Series 2002B, TBTA Subordinate Revenue Bonds Series 2002G, MTA Dedicated Tax Fund Bonds Series 2002A, MTA Transportation Revenue Bonds Series 2002E, and MTA Transportation Revenue Series 2002A. These restructurings resulted in a gross benefit of approximately $56.

At December 31, 2004, the following amounts of Authority bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

MTA Transit and Commuter Facilities:	
Transit Facilities Revenue Bonds	$ 1,819
Commuter Facilities Revenue Bonds	1,679
Commuter Facilities Subordinate Revenue Bonds	79
Transit and Commuter Facilities Service Contract Bonds	1,005
Dedicated Tax Fund Bonds	1,426
Excess Loss Trust Fund	30
NYCTA:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	137
TBTA:	
Beneficial Interest Certificates	9
General Purpose Revenue Bonds	2,474
Special Obligation Subordinate Bonds	228
Mortgage Recording Tax Bonds	268
Total	$ 9,154

Debt Service Payments **-** Principal and interest debt service payments (excluding refunded bonds) at December 31, 2004, are as follows:

	MTA		TBTA				Aggregate	
			Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	$ 235	$ 590	$ 77	$ 217	$ 39	$ 117	$ 351	$ 924
2006	245	585	81	213	40	115	366	913
2007	249	576	78	210	43	113	370	899
2008	259	556	88	206	44	111	391	873
2009	273	554	92	202	48	108	413	864
2010-2014	1,565	2,566	515	931	275	500	2,355	3,997
2015-2019	1,992	2,135	684	773	407	418	3,083	3,326
2020-2024	2,529	1,603	806	584	472	314	3,807	2,501
2025-2029	3,196	952	1,051	351	596	189	4,843	1,492
2030-2034	2,159	192	959	73	440	43	3,558	308
2035-2039	-	-	-	-	-	-	-	-
	$ 12,702	$ 10,309	$ 4,431	$ 3,760	$ 2,404	$ 2,028	$ 19,537	$ 16,097

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

- *Dedicated Tax Fund, Series 2004D* – 4.00% per annum
- *Certificates of Participation, Series 2004A* – 3.542% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2004A* – 4.0% per annum
- *Dedicated Tax Fund, Series 2004B* – 4.00% per annum
- *Dedicated Tax Fund, Series 2002B* – 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter

- *Transportation Revenue Refunding Bonds, Series 2002B* – 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002C* – 4.50% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* – 4.00% per annum *and including net payments made by MTA under the swap agreements*
- *Transportation Revenue Refunding Bonds, Series 2002G* – 4.00% per annum
- *TBTA Subordinate Revenue Bonds, Series 2004A* – 4.00% per annum
- *TBTA Subordinate Refunding Bonds, Series 2000A and 2000B* – 4.00% per annum *and including net payments made by TBTA under the swap agreements*
- *TBTA General Revenue Refunding Bonds, Series 2002C* – 4.00% per annum *and including net payments made by TBTA under the swap agreements*
- *TBTA General Revenue Refunding Bonds, Series 2002D* – 4.00% per annum
- *TBTA General Revenue Refunding Bonds, Series 2002F* – 4.00% per annum
- *TBTA General Revenue Refunding Bonds, Series 2002G* – 4.00% per annum

Tax Rebate Liability **-** Under the Internal Revenue Code of 1986, the Authority accrues a liability for an amount of rebatable 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. At December 31, 2004 the Authority recorded a rebate liability amounting to $2.9

Swap Agreements

*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.

*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, TBTA, and the Transit Authority entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA, TBTA, and the Transit Authority would have paid to issue fixed-rate debt.

Activity Since January 1, 2005.

- Effective March 24, 2005, the Authority entered into a $350 million notional amount fix payer swap with Citigroup Financial Products Inc. in connection with the issuance on that day of $350 million aggregate principal amount of Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A. The Authority is paying the counterparty the fixed rate of 3.3156% and the counterparty is paying the Authority 67% of one month LIBOR.

*Fair Value***.** Relevant market interest rates on the valuation date of the swaps reflected in the following charts (December 31, 2004) were lower than market interest rates on the effective date of the swaps. Consequently, as of the valuation date the swaps had negative fair values.

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. The Authority, TBTA and the Transit Authority 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 TBTA, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are as follows:

MTA							
Associated Bond Issue	Notional Amounts as of 12/31/04 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/04 (in millions)	Swap Termination Date	Counterparty
Dedicated Tax Fund Variable Rate Bonds, Series 2002B	$440.0	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, BMA(1)	$(20.4)	09/01/13	Morgan Stanley Capital Services Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	200.0	05/30/02	3.385	BMA	(2.5)	01/01/06	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	200.0	05/30/02	3.627	BMA	(4.5)	01/01/07	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	200.0	01/01/07	4.45	69% of one-month LIBOR(2)	(19.9)	11/01/32	Bear Stearns Capital Markets Inc.
Proposed Issuance of Transportation Revenue Bonds	500.0	09/01/05	3.584	67% of one-month LIBOR	(8.6)	11/01/35	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.
Proposed Issuance of Transportation Revenue Bonds	500.0	07/01/05	3.5016	67% of one-month LIBOR	(4.9)	11/01/35	60% – Lehman Brothers Special Financing Inc. 40% – AIG Financial Products Corp.
Total	$2,040.0				$(60.8)		

(1) The Bond Market Association Municipal Swap Index™.

(2) London Interbank Offered Rate.

TBTA							
Associated Bond Issue	Notional Amounts as of 12/31/04 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/04 (in millions)	Swap Termination Date	Counterparty
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B(3)	$234.3	01/01/01	6.08 %	Actual bond rate	$(45.9)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D(3)	234.3	01/01/01	6.07	Actual bond rate	(44.4)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C(4)	278.0	01/01/02	5.777	Actual bond rate	(43.0)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2002C(5)	85.8	01/01/00	5.634	Actual bond rate	(13.0)	01/01/13	Ambac Financial Services, L.P.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.8)	01/01/18	JPMorgan Chase Bank
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.7)	01/01/18	JPMorgan Chase Bank
Total	$1,013.4				$(149.8)		

(3) In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying a premium of $22.7.
(4) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of $19.2.
(5) In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of $8.4.

In addition to the foregoing, the Authority entered into separate ISDA Master Agreements with UBS AG relating to the $357.925 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%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. The Transit Authority is responsible for $245.9 notional amount of the swaps, MTA for $75.15 aggregate notional amount, and TBTA for $36.875 aggregate notional amount. As of December 31, 2004, the aggregate fair value of the swaps was $(9.946 million).

Counterparty Ratings

The current ratings of the counterparties, or their credit support providers, on existing swaps with the Authority are as follows:

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
AIG Financial Products Corp.	AAA	Aaa	AAA
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A	A1	A+
Citigroup Financial Products Inc.	AA-	Aa1	AA+
JPMorgan Chase Bank	AA-	Aa2	A+
Lehman Brothers Special Financing Inc.	A	A1	A+
Merrill Lynch Capital Services Inc.	A+	Aa3	AA-
Morgan Stanley Capital Services Inc.	A+	Aa3	AA-
UBS AG	AA+	Aa2	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 amounts and the outstanding principal amounts as of December 31, 2004 for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions)	Notional Amount (in millions)
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	$296.4	$278.0
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	103.3	85.8

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 the Authority's perspective, the following risks are generally associated with swap agreements:

- Credit Risk – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or the Authority/TBTA/Transit Authority, 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 the Authority, TBTA, or the Transit Authority 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 the Authority, TBTA, or the Transit Authority 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 the Authority, TBTA, or the Transit Authority.

- Termination Risk – The swap agreement will be terminated and the Authority, TBTA, or the Transit Authority will be required to make a large termination payment to the counterparty.

- 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 the Authority, TBTA, or the Transit Authority may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with the Authority and/or TBTA, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include both Bear Stearns swaps relating to the Transportation Revenue Bonds, Series 2002D-2 (one of which swaps terminates on January 1, 2007, which is the date that the other swap becomes effective). The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in millions)	% of Total Notional Amount
Bear Stearns Capital Markets Inc.	$ 834.3	24.5%
UBS AG	657.9	19.3
Citigroup Financial Products Inc.	512.3	15.0
Morgan Stanley Capital Services Inc.	440.0	12.9
Lehman Brothers Special Financing Inc.	400.0	11.7
AIG Financial Products Corp.	300.0	8.8
JPMorgan Chase Bank	181.0	5.3
Ambac Financial Services, L.P.	85.8	2.5
Total	$3,411.3	

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 TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B,
- Citigroup Financial Products Inc. with respect to the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D,
- Citigroup Financial Products Inc. with respect to the TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C, and
- Ambac Financial Services, L.P. (though there is only one transaction outstanding under that Master Agreement).

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting 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 nondefaulting party.

Collateralization. Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of the Authority, TBTA, or the Transit Authority, 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 table sets forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for The Authority, TBTA, or the Transit Authority, 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 criteria would not be applicable in determining if the Counterparty is required to post collateral.

MTA			
Associated Bond Issue	Counterparty	If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	Fitch – BBB+, or S&P – BBB+	$10.0
		Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	$0
MTA Transportation Revenue Variable Rate Refunding Bonds – Series 2002D-1 and Series 2002D-2	Bear Stearns Capital Markets Inc.	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10.0
		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	$0
MTA July 1, 2005 Hedge – Transportation Revenue Bonds	60% – Lehman Brothers Special Financing Inc. 40% – AIG Financial Products Corp.	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10.0
		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	$0

Associated Bond Issue	Counterparty	If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
MTA September 1, 2005 Hedge – Transportation Revenue Bonds	60% – UBS AG 20% – Lehman Brothers Special Financing Inc. 20% – AIG Financial Products Corp.	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10.0
		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	$0

2 BROADWAY CERTIFICATES OF PARTICIPATION, SERIES 2004A			
Associated Agencies	Counterparty	If the highest rating of the MTA Transportation Revenue Bonds falls to	Then MTA, TBTA, and the Transit Authority must post collateral if its estimated termination payments are in excess of
MTA TBTA Transit Authority	UBS AG	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$25.0
		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	$0
		If the highest rating of the Counterparty's long-term unsecured debt falls to	Then the Counterparty must post collateral if its estimated termination payments are in excess of
		Moody's – Baa1 or lower, or S&P – BBB+ or lower	$0

TBTA			
Associated Bond Issue	Counterparty	If the highest rating of the related TBTA bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments are in excess of
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of $1.0.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1.0.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1.0.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of $1.0.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds – Series 2002G-1 and Series 2002G-2	JPMorgan Chase Bank	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+	$10.0
		Fitch – Below BBB+, Moody's – Below Baa1, or S&P – 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 TBTA 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 TBTA have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or TBTA 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. The Authority, TBTA, or the Transit Authority 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 applies to the guarantor and not to the counterparty.

MTA		
Associated Bond Issue	Counterparty	Additional Termination Event(s)
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds falls below "BBB-" or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1 and Series 2002D-2 (both swaps)	Bear Stearns Capital Markets Inc.	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.
MTA July 1, 2005 Hedge – Transportation Revenue Bonds	Lehman Brothers/ AIG Financial	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.
MTA September 1, 2005 Hedge – Transportation Revenue Bonds	UBS AG/Lehman Brothers/AIG Financial	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.

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

TBTA		
Associated Bond Issue	Counterparty	Additional Termination Events
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	1. TBTA can elect to terminate the swap on 10 business days' notice if the Series 2000A and 2000B bonds are converted to a fixed rate, the fixed rate on the converted bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, or TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	1. TBTA can elect to terminate the swap on 10 business days' notice if the Series 2000C and 2000D bonds are converted to a fixed rate, the fixed rate on the converted bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, or TBTA redeems a portion of the Series 2000C or 2000D Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	1. TBTA can elect to terminate the swap on 10 business days' notice if the Series 2001B and 2001C bonds are converted to a fixed rate, the fixed rate on the converted bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, or TBTA redeems a portion of the Series 2001B or 2001C Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	1. TBTA can elect to terminate the swap on 10 business days' notice if the Series 2002C bonds are converted to a fixed rate, the fixed rate on the converted bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, or TBTA redeems a portion of the Series 2002C Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the swap insurer, Ambac Assurance Corporation.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	1. 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. 2. TBTA may terminate the swap at no cost on or after December 29, 2010.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	JPMorgan Chase Bank	1. 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. 2. TBTA may terminate the swap at no cost on or after January 5, 2011.

Rollover Risk. MTA and TBTA 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 TBTA may not realize the synthetic fixed rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001 B and 2001C	01/01/32	01/01/19
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	11/01/29	01/01/06
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
TBTA 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 $90.5 may be terminated at the option of TBTA on or after December 29, 2010, and the swap relating to the Subseries 2002G-2 Bonds in the notional amount of $90.5 may be terminated at the option of TBTA on or after January 5, 2011.

It should also be noted that, in connection with the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A, 2000B, 2000C, and 2000D, currently, all of the principal of the bonds is scheduled to be amortized through sinking fund redemption payments by the time of the swap's termination; however, TBTA has retained the right to readjust the sinking fund payments to decrease the amounts of the sinking fund payments currently scheduled and to extend the amortization period of the Series 2000A – D Bonds to January 1, 2031. A readjustment of the sinking fund payments would not change the scheduled decreases in notional amounts of the associated swap. As a result, the principal amount of the bonds outstanding would exceed the notional amount of the associated swap. However, if TBTA decided to readjust the sinking fund schedules, TBTA would be exposed to rollover risk at the swap termination date. TBTA could readjust such sinking fund redemption schedules only upon delivery of an opinion of nationally recognized bond counsel meeting the conditions of the bond resolutions. TBTA has no current intention of exercising these rights**.**

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% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

MTA (in millions)				
	Variable-Rate Bonds			
Fiscal Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2005	$ -	$33.6	$(1.7)	$31.9
2006	-	33.6	(0.5)	33.1
2007	-	33.6	1.2	34.8
2008	-	33.6	1.2	34.8
2009	-	33.6	1.2	34.8
2010-2014	40.9	167.7	5.5	214.1
2015-2019	233.2	140.4	4.5	378.1
2020-2024	256.8	87.1	4.5	348.4
2025-2029	131.9	50.9	4.5	187.3
2030-2034	177.2	16.3	1.8	195.4

TBTA (in millions)				
	Variable-Rate Bonds			
Fiscal Year Ending December 31	Principal	Interest	Net Swap Payments	Total
2005	$20.8	$41.3	$14.4	$76.5
2006	22.1	40.3	13.5	75.9
2007	23.5	39.1	12.6	75.2
2008	31.3	38.6	11.5	81.3
2009	33.6	36.7	11.1	81.3
2010-2014	213.9	160.3	38.2	412.5
2015-2019	282.8	107.2	7.7	397.6
2020-2024	134.0	71.8	-	205.8
2025-2029	169.5	39.9	-	209.4
2030-2034	118.0	6.5	-	124.4

7. LEASE TRANSACTIONS

Hillside Facility **-** On March 31, 1997, the Authority entered into a lease/leaseback transaction with a third party whereby the Authority leased LIRR'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 Authority as a capital lease, and sub-subleased by the Authority to LIRR.

Under the terms of the lease/leaseback agreement, the Authority initially received $314, which was utilized as follows. The Authority 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 Authority to make these payments to the third party. The Authority 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 $.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 Authority's net benefit from the transaction, representing consideration for the tax benefits. TBTA has entered into a guarantee with the third party that the sublease payments will be made. At December 31, 2004, the Authority has recorded a long-term capital obligation and capital asset of $282 arising from the transaction.

Subway and Rail Cars **-** On December 12, 1997, the Authority entered into lease/leaseback transactions whereby the Authority leased certain of MNCR's rail cars to a third party and NYCTA leased certain subway maintenance cars to the same third party. The lease periods for MNCR's rail cars expire between 2009 and 2014, depending on the asset, and the lease period for NYCTA'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 MNCR cars, depending on the asset, and a further 12 years for NYCTA's subway maintenance cars. The cars were subsequently subleased back to the Authority as a capital lease, and sub-subleased by the Authority to MNCR and NYCTA, respectively.

Under the terms of the lease/leaseback agreement, the Authority initially received $76.6, which was utilized as follows. The Authority 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 Authority to make these payments to the third party. The Authority 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, 2004, the Authority has recorded a long-term capital obligation and capital asset of $50 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 Authority entered into four sale/leaseback transactions whereby NYCTA transferred ownership of certain NYCTA subway cars to the Authority, the Authority sold those cars to third parties, and MTA leased those cars back from such third parties. The Authority subleased the cars to NYCTA. The four leases expire in 2032, 2034, 2033, and 2033, respectively. At the lease expiration, the Authority 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 Authority initially received $1,514.9, which was utilized as follows: The Authority 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 MTAHQ to make these payments to the third parties. The Authority 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 Authority of the purchase option if exercised. In the case of the other three leases, the Authority 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 Authority 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 Authority of the purchase options if exercised. The amount remaining after payment of transaction expenses, $96.2, was the Authority's net benefit from these four transactions. These amounts are deferred and amortized to operations over the period of the lease.

During 1995, TBTA entered into a sale/leaseback transaction with a third party whereby the TBTA sold certain subway cars, which were contributed by the NYCTA, for net proceeds of $84.2. These cars were subsequently leased back by the TBTA 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 NYCTA. TBTA transferred $5.5 to the Authority, 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 TBTA 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.

QTE Lease Transactions - On December 19, 2002, the Authority entered into four sale/leaseback transactions whereby NYCTA transferred ownership of certain NYCTA qualified technological equipment (QTE) relating to the NYCTA automated fare collection system to the Authority. The Authority sold that equipment to third parties and the Authority leased that equipment back from such third parties. The Authority subleased the equipment to NYCTA. The four leases expire in 2022, 2020, 2022, and 2020, respectively. At the lease expiration the Authority 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 Authority initially received $507.4, which was utilized as follows: The Authority 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 Authority to make these payments to the third parties. The Authority 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 Authority 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 Authority of the purchase options if exercised. In the case of the other lease the Authority 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 Authority the amounts necessary to make the remainder of the basic lease rent payments under that lease and to pay the purchase price due upon exercise by the Authority of the purchase option if exercised. The amount remaining after payment of transaction expenses, $57.6, was the Authority'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 NYCTA and the Authority, the Authority is obligated to pay to the City 24.11% of the net benefit received from these four QTE transactions.

On June 3, 2003, the Authority entered into a sale/leaseback transaction whereby NYCTA transferred ownership of certain NYCTA subway cars to the Authority, the Authority sold those cars to a third party, and the Authority leased those cars back from such third party. The Authority subleased the cars to NYCTA. The lease expires in 2033. At the lease expiration, the Authority 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 Authority initially received $168.1 million, which was utilized as follows: The Authority 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 Authority 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 Authority of the purchase option if exercised. The amount remaining after payment of transaction expenses, $7.4, was the Authority's benefit from the transaction.

On September 25, 2003 and September 29, 2003, MTA entered into two sale/leaseback transactions whereby NYCTA transferred ownership of certain NYCTA 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 NYCTA. 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, NYCTA, and TBTA 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 Authority made rent payments of $21. In connection with the renovation of the building and for tenant improvements, the Authority issued $121 and $328 in 2000 and 1999, respectively, of long-term obligations (see Note 6). The office building is principally occupied by NYCTA and TBTA.

On April 8, 1994, the Authority 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 Authority 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 Authority 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 Authority under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, LIRR 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 Authority 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 $50 through December 31, 2004 and $42 through December 31, 2003.

At December 31, 2004, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating	Capital
2005	$ 25	$ 138
2006	24	187
2007	23	1,149
2008	22	100
2009	20	308
2010 - 2014	83	567
2015 - 2019	65	401
2020 - 2024	60	688
2025 - 2029	54	233
2030 - 2034	45	1,613
Thereafter	464	635
	$ 885	6,019
Amount representing interest		(3,378)
Present value of capital lease obligations		$ 2,641

8. 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 periods ended December 31, 2004 and December 31, 2003 is presented below:

	December 31, 2004	December 31, 2003
Balance, beginning of year	$ 1,049	$ 949
Activity during the year:		
Current year claims and changes in estimates	216	253
Claims paid	(138)	(153)
Balance, end of period	1,127	1,049
Less current portion	(182)	(160)
Long-term liability	$ 945	$ 889

9. COMMITMENTS AND CONTINGENCIES

The Authority 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 Authority.

Management has reviewed with counsel all actions and proceedings pending against or involving the Authority, 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 Authority.

10. SEGMENT INFORMATION (Presented by Operating Activity)

	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Total
DECEMBER 31, 2004						
Operating revenue	$ 89	$ 869	$ 2,787	$ 1,130	$ (38)	$ 4,837
Depreciation and amortization	28	379	892	45	-	1,344
Subsidies and grants	374	-	317	-	(159)	532
Tax revenue	1,791	-	1,329	-	(805)	2,315
Interagency subsidy	397	-	151	(397)	(151)	-
Operating (deficit) surplus	(313)	(1,145)	(2,496)	765	13	(3,176)
Net (deficit) surplus	(1,516)	456	1,286	(143)	-	83
Capital expenditures	3,484	219	723	463	(1,419)	3,470
DECEMBER 31, 2004						
Total assets	9,611	8,531	24,115	3,341	(1,761)	43,837
Net working capital	523	(83)	(23)	(166)	(192)	59
Long-term debt	12,964	-	-	7,003	(46)	19,921
Net assets	(7,703)	7,713	21,773	(4,187)	-	17,596
DECEMBER 31, 2003						
Operating revenue	$ 86	$ 825	$ 2,602	$ 1,068	$ (37)	4,544
Depreciation and amortization	26	339	829	41	-	1,235
Subsidies and grants	390	-	317	-	(158)	549
Tax revenue	1,456	-	1,146	-	(757)	1,845
Interagency subsidy	432	-	240	(1,266)	594	-
Operating (deficit) surplus	(356)	(996)	(2,385)	699	-	(3,038)
Net (deficit) surplus	929	(939)	1,450	(789)	-	651
Capital expenditures	3,663	237	746	1,094	(1,905)	3,835
DECEMBER 31, 2003						
Total assets	9,230	8,408	22,661	3,304	(1,573)	42,030
Net working capital	838	(76)	26	(105)	(193)	490
Long-term debt	11,129	-	-	6,841	(43)	17,927
Net assets	(6,187)	7,257	20,488	(4,045)	-	17,513

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

11. SETTLEMENT OF CLAIMS

The September 11, 2001 terrorist attack on the World Trade Center in New York resulted in the following significant items: (1) significant physical and structural damage to NYCTA's N, R, 1, and 9 lines and related facilities and stations; (2) temporary closure of some of TBTA's bridges and tunnels, and certain restrictions imposed on the number of vehicle occupants when the facilities were reopened; (3) safety and security expenditures in and around the World Trade Center; and (4) temporary closure of MNCR's Grand Central Terminal and LIRR's Pennsylvania Station.

In April 2004, the Authority settled its claims with its property insurance carriers for damage caused as a result of the September 11, 2001 terrorist attack. The global settlement in the amount of $398 represents the settlement of claims for losses related to physical damage of property, loss of revenues, increased operating expenses, and other expenses related to the clean up of its facilities caused by the attack.

On November 4, 2003, MTA entered into agreement to end the litigation between the Authority and the owners of the 2 Broadway facilities. The settlement provides a $45 rent credit to the Authority over a 30-year period commencing January 1, 2004.

12. SUBSEQUENT EVENTS

In February 2005 the Authority issued Transportation Revenue Bonds, Series 2005A, in the principal amount of $650 to finance transit and commuter projects.

In March 2005 the Authority issued Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A, in the principal amount of $350. These bonds are being issued to refund certain outstanding Dedicated Tax Fund Bonds.

TBTA is currently the owner of the John D. Caemmerer West Side Yard (the "West Side Yard") located between 30th and 33rd Streets and 10th and 12th Avenues in Manhattan. The West Side Yard is currently used as a commuter rail car and locomotive storage yard with support facilities. On February 22, 2005, the Authority solicited interest for the sale or lease of the air space and related real property interests above the western portion of the West Side Yard for development. It is expected that the Authority will solicit interest for the sale or lease of the air space and related real property interests above the eastern portion of the West Side Yard in the future. In the event the Authority selects a developer for all or any portion of the site, it is expected that TBTA will transfer title to the West Side Yard to the Authority for nominal value. It is the Authority's expectation that substantially all of the net proceeds of any development sale or lease will be applied to the transit and commuter capital programs.

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METROPOLITAN TRANSPORTATION AUTHORITY

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

		January 1, 2004	January 1, 2003	January 1, 2002
	LIRR			
a.	Actuarial value of plan assets	$ 689.7	$ 701.9	$ 820.8
b.	Actuarial accrued liability (AAL)	1,745.6	1,567.2	1,451.4
c.	Total unfunded AAL (UAAL) [b-a]	1,055.9	865.3	630.6
d.	Funded ratio [a/b]	39.5 %	44.8 %	56.6 %
e.	Covered payroll	$ 151.2	$ 174.9	$ 180.3
f.	UAAL as a percentage of covered payroll [c/e]	698.3 %	494.7 %	349.8 %
	SIRTOA			
a.	Actuarial value of plan assets	$ 36.8	$ 34.4	$ 33.8
b.	Actuarial accrued liability (AAL)	44.8	42.4	42.0
c.	Total unfunded AAL (UAAL) [b-a]	7.9	8.1	8.2
d.	Funded ratio [a/b]	82.3 %	81.0 %	80.5 %
e.	Covered payroll	$ 15.5	$ 15.7	$ 15.3
f.	UAAL as a percentage of covered payroll [c/e]	51.0 %	51.6 %	53.6 %
	MaBSTOA			
a.	Actuarial value of plan assets	$ 713.2	$ 629.8	$ 656.4
b.	Actuarial accrued liability (AAL)	1,663.3	1,564.6	1,614.9
c.	Total unfunded AAL (UAAL) [b-a]	950.1	934.8	958.5
d.	Funded ratio [a/b]	42.9 %	40.3 %	40.6 %
e.	Covered payroll	$ 460.9	$ 450.6	$ 432.7
f.	UAAL as a percentage of covered payroll [c/e]	206.1 %	207.5 %	221.5 %
	MTA			
a.	Actuarial value of plan assets	$ 391.6	$ 243.2	$ 255.5
b.	Actuarial accrued liability (AAL)	554.0	268.0	284.3
c.	Total unfunded AAL (UAAL) [b-a]	162.4	24.8	28.8
d.	Funded ratio [a/b]	70.7 %	90.7 %	89.9 %
e.	Covered payroll	$ 451.1	$ 154.0	$ 144.7
f.	UAAL as a percentage of covered payroll [c/e]	36.0 %	16.1 %	19.9 %

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METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
YEAR ENDED DECEMBER 31, 2004
(Dollars in Millions)

FINANCIAL PLAN ACTUAL - OPERATING LOSS	**$ (3,110.4)**
Reconciling items:	
TBTA Depreciation Expense - The Financial Plan subtracts the TBTA's depreciation in order to reflect the transfer of surplus revenues.	(45.6)
Timing Differences - The Capital Construction Company's expenses are reflected in the Financial Statements until adjusting entries are made for the capital reimbursements from the respective agencies.	(1.6)
FMTAC nonoperating revenues were recorded in the Financial Plan as operating revenues.	(6.9)
Within the Financial Plan, NYCTA interest income is included as operating revenue.	(4.3)
Within the Financial Statements, the Paratransit revenues were recorded in nonoperating.	(22.5)
The Financial Plan includes TBTA capital transfer to agencies.	21.8
Grants are classified in the Financial Plan as operating revenues, whereas on the Financial Statements they are classified as nonoperating.	(6.1)
FINANCIAL STATEMENT - OPERATING LOSS	**$ (3,175.6)**

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION
CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004
(Dollars in Millions)

Category	Financial Plan Actual	Financial Statement GAAP Actual	Variance (Financial Statement Actual - Financial Plan Actual)
REVENUE			
Farebox Revenue	$ 3,424.6	$ 3,424.6	$ -
Vehicle Toll Revenue	1,097.0	1,097.0	-
Other Operating Revenue	359.3	315.7	(43.6)
Total Revenue	**4,880.9**	**4,837.3**	**(43.6)**
EXPENSES			
Labor:			
Payroll	3,302.6	3,296.2	6.4
Overtime	349.9	348.8	1.1
Health and Welfare	710.8	712.4	(1.6)
Pensions	480.2	480.7	(0.5)
Other Fringe Benefits	405.4	406.4	(1.0)
Reimbursable Overhead	(233.3)	(196.5)	(36.8)
Rounding	-	-	-
Total Labor Expenses	**5,015.6**	**5,048.0**	**(32.4)**
Non-Labor:			
Traction and Propulsion Power	202.6	202.6	-
Fuel for Buses and Trains	94.6	94.6	-
Insurance	66.3	65.9	0.4
Claims	89.5	132.7	(43.2)
Paratransit Service Contracts	135.1	135.0	0.1
Maintenance and Other Operating Contracts	411.3	408.1	3.2
Professional Service Contract	180.3	180.3	-
Materials & Supplies	362.9	370.4	(7.5)
Other Business Expenses	136.3	31.5	104.8
Rounding	-	-	-
Total Non-Labor Expenses	**1,678.9**	**1,621.1**	**57.8**
Other Expenses Adjustments:			
TBTA Transfer	21.9	-	21.9
General Reserve	-	-	-
Interagency Subsidy	(43.4)	-	(43.4)
Other	20.2	-	20.2
Total Other Expense Adjustments	**(1.3)**	**-**	**(1.3)**
Total Expenses Before Depreciation	**6,693.2**	**6,669.1**	**24.1**
Depreciation	1,343.8	1,343.8	-
TBTA Depreciation Expense	(45.6)	-	(45.6)
Rounding	(0.1)	-	(0.1)
Total Expenses (Excluding TBTA Depreciation)	**7,991.3**	**8,012.9**	**(21.6)**
Net Operating Surplus/(Deficit) Excluding Subsidies and Debt Service	**$ (3,110.4)**	**$ (3,175.6)**	**$ (65.2)**

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION
CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2004
(Dollars in Millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance (Financial Statement Actual - Financial Plan Actual)	
Mass Transportation Operating Assistance	$ 767.4	$ 751.1	$ 16.3	**{1}**
Petroleum Business Tax	558.2	559.5	(1.3)	**{1}**
Mortgage Recording Tax 1	353.4	353.4	-	
Mortgage Recording Tax 2	291.4	291.4	-	
Mortgage Recording Tax Transfer	(59.2)	(42.2)	(17.0)	**{2}**
Urban Tax	337.6	360.1	(22.5)	
State and Local Operating Assistance	378.8	378.8	-	**{1}**
Additional Mass Transportation Assistance Program	-	15.0	(15.0)	**{1}**
Nassau County Subsidy to Long Island Bus	7.3	7.3	-	
Station Maintenance	128.5	128.5	-	
Connecticut Department of Transportation (CDOT)	51.6	51.6	-	
NYS Grant for D.S.	-	131.2	(131.2)	**{3}**
Investment Income	6.8	5.6	1.2	**{2}**
Adjustment for Rounding	(0.1)	-	(0.1)	
Total Accrued Subsidies	2,821.7	2,991.3	(169.6)	
Net Operating Surplus/(Deficit) Excluding Accrued Subsidies and Debt Service	(3,110.4)	(3,175.6)	65.2	
Total Net Operating Surplus/(Deficit)	**$ (288.7)**	**$ (184.3)**	**$ (104.4)**	
Interest on Long-Term Debt		**$ 818.4**		
Debt Service	**$ 848.1**			

{1} The classifications net to $0.

{2} The Financial Plan includes the items on a cash basis while the Financial Statements records them on an accrual basis.

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