

Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Accountants' Review Report

**Financial Statements for the
Nine Months Ended September 30, 2004**

METROPOLITAN TRANSPORTATION AUTHORITY

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

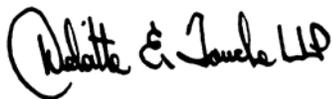
We have reviewed the accompanying balance sheet of Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of September 30, 2004, and the related statements of revenues, expenses, and changes in net assets and its cash flows for the quarter ended September 30, 2004. These interim financial statements are the responsibility of the Authority's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedules listed in the table of contents on pages 66 through 68 are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules are the responsibility of the Authority's management. Such schedules were not audited or reviewed by us and, accordingly, we do not express an opinion or any other form of assurance on them.

The financial statements for the year ended December 31, 2003 were audited by us, and based on our audit and the reports of other auditors, we expressed an unqualified opinion on them in our report dated April 8, 2004; we also applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the 2003 Management's Discussion and Analysis and other supplementary information required by the Governmental Accounting Standards Board and such report expressed no opinion on the information. We have not performed any auditing procedures since the date of such report.



December 1, 2004

METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS NINE MONTHS ENDED SEPTEMBER 30, 2004

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.

The Financial Statements Include:

The Consolidated Statements of Net Assets 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.

The Consolidated Statements of Revenues, Expenses and Changes in Fund Net Assets 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.

The 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, and 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 nine months ended September 30, 2004 and 2003, and the twelve months ended December 31, 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

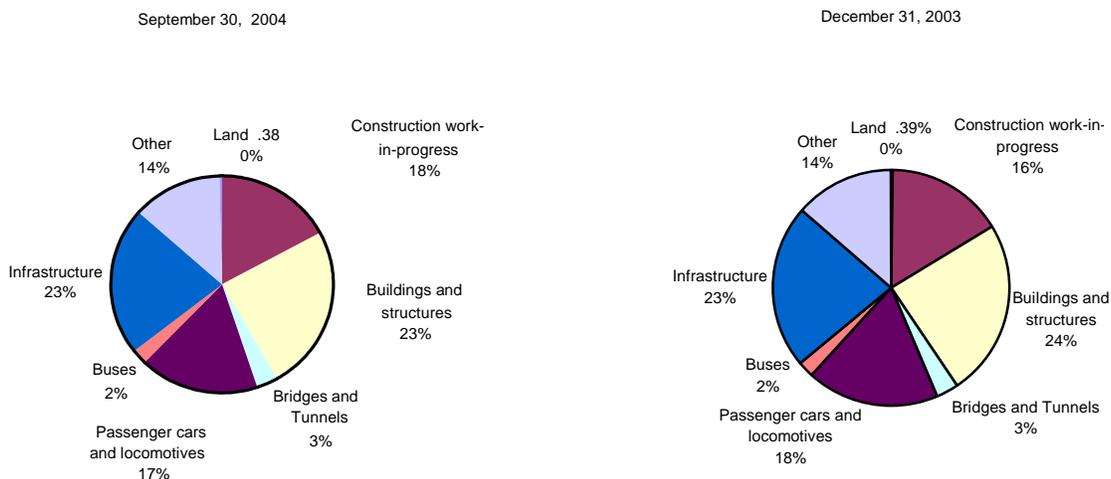
- Headquarters (“MTAHQ”) - provides general oversight, planning, and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the agencies listed below.
- The Long Island Rail Road Company (“LIRR”) - provides passenger transportation 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.
- 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.
- First Mutual Transportation Assurance Company (“FMTAC”) - operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority (“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 (“MTA Capital Construction”) – provides oversight for the planning, design and construction of current and future major MTA system expansion projects.

3. CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in the Authority's financial position for the nine months ended September 30, 2004. 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, summaries of the financial statements and the various exhibits presented are in conformity with the Authority's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All dollar amounts are in millions.

	September 2004 (Unaudited)	December 2003
Capital assets, net (see note 5)	\$ 33,037	\$ 31,555
Other assets	<u>10,930</u>	<u>10,474</u>
Total assets	<u>\$ 43,967</u>	<u>\$ 42,029</u>

Capital Assets



September 30, 2004 versus December 31, 2003

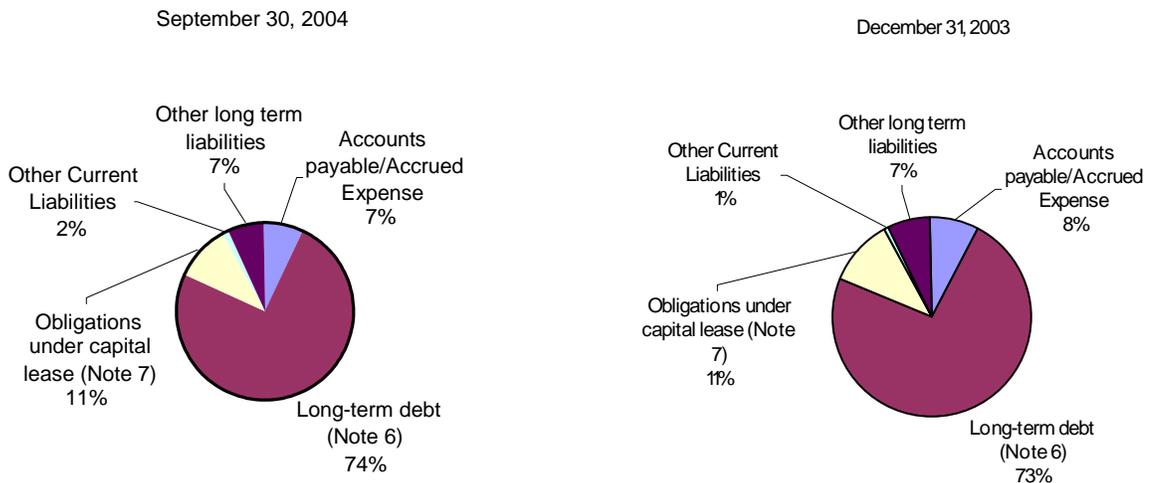
- Capital assets increased in 2004 by \$1,482. The most significant portion of the increase occurred in construction work-in-progress, \$911, followed by infrastructure, \$539, and passenger cars and locomotives, \$398. These increases were partially offset by normal depreciation expenses. Some of the more significant projects were:
 - Rehabilitation of track on the Port Washington Branch and Atlantic Avenue Tunnel and installation of the third rail on the mainline of the LIRR.
 - Rehabilitation of the Atlantic Terminal and construction of a new Transit Entry Area.

- Placing 100 M-7 electric cars into service 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.
- Infrastructure improvements including track and switches rehabilitation and replacement, lighting and signal equipment
- Shop, yards 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 increase of \$456. The major items contributing to this change include:
 - An increase of \$497 in current investments due to a number of investment transactions, the most significant of which include a transfer of funds from long-term investments to short-term investments in the amount of \$285.9, the short-term investment of subsidy receipts of \$273.8 and MRT1 receipts of 106.7, partially offset by the loan of non-resolution funds to NYCTA and the Commuter Railroads in the amount of \$279.8.
 - A net increase in receivables of \$196. This increase is due primarily to the outstanding receivables for State and regional mass transit taxes of \$370 and increase in miscellaneous other receivables of \$26 which is partially offset by the receipt of the \$200 WTC insurance settlement.
 - A net decrease in other current and non-current assets of \$237 is due primarily to reductions in prepaid expenses of \$109 and investments held for lease obligations and other long term investments of \$162, partially offset by an increase other miscellaneous current and non-current assets of \$34.

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

	September 2004 (Unaudited)	December 2003
Other liabilities	\$ 2,423	\$ 2,384
Long-term liabilities	<u>23,731</u>	<u>22,132</u>
Total liabilities	<u>\$ 26,154</u>	<u>\$ 24,516</u>

Total Liabilities



Significant Changes in Liabilities Include:

September 30, 2004 versus December 31, 2003

- Total liabilities increased by \$1,638.
- Other liabilities increased by \$39. This net increase is due primarily to:
 - An increase in the current portion of retirement and death benefits of \$156, which is partially offset by reductions in accounts payable of \$135 and other miscellaneous increases of \$18.
- Long-term liabilities increased by \$1,599. This net increase is primarily related to:
 - An increase in long-term debt due to the issuance of the DTF bonds in March 2004, Series 2004A and Series 2004B in the amounts of \$250 and \$500, respectively, and the issuance of the Transportation Revenues Bonds in June 2004 in the amount of \$500, the issuance of TBTA Subordinate Revenue Bonds in August in the amount of \$250

and the issuance of \$358 in Certificates of Participation, partially offset by the refunding and retired bonds and Certificates of Participation of \$330.

- A decrease in obligations under capital lease, long-term portion by \$16.
- An increase in miscellaneous other liabilities, estimated liabilities arising from injuries and retirement and death benefits of \$87.

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

	September 2004 (Unaudited)	December 2003
Invested in capital assets, net of related debt	\$ 13,520	\$ 13,671
Restricted for debt service	1,130	2,130
Unrestricted	<u>3,163</u>	<u>1,712</u>
Total	<u>\$ 17,813</u>	<u>\$ 17,513</u>

September 30, 2004 versus December 31, 2003

At September 30, 2004, the total net assets increased by \$300 from December 31, 2003. This increase is comprised of operating losses of \$2,270, offset by non-operating revenue of \$2,076 and appropriations, grants and other receipts externally restricted for capital projects of \$494.

Capital assets net of related debt decreased by \$151 due to an increase in new debt related proceeds.

Funds restricted for debt service decreased by \$1,000 mainly due to the payment of debt service on January 1, 2004 for TBTA bonds and the payments made on May 15, 2004 for the Transportation Revenues Bonds and Dedicated Tax bonds.

Condensed Statement of Revenues, Expenses and Changes in Net Assets

	September 30, 2004 (Unaudited)	September 30, 2003
Operating revenues	\$ 3,597	\$ 3,321
Operating expenses	<u>(5,867)</u>	<u>(5,531)</u>
Operating loss	<u>(2,270)</u>	<u>(2,210)</u>
Nonoperating revenues:		
Grants, appropriations, and taxes	2,340	1,655
Interest on long-term debt	(585)	(545)
Other	288	213
Subsidies	<u>33</u>	<u>40</u>
Total nonoperating revenues	2,076	1,363
Appropriations, grants and other receipts externally restricted for capital projects	<u>494</u>	<u>1,007</u>
Change in net assets	300	160
Net assets - beginning of year	<u>17,513</u>	<u>16,862</u>
Net assets - end of period	<u><u>\$ 17,813</u></u>	<u><u>\$ 17,022</u></u>

Revenues and Expenses, by Major Source:

September 30, 2004 versus September 30, 2003

- Total operating revenues for the nine months ended September 30, 2004 were \$276 higher than the revenue of the same period in 2003.
 - Fare revenues and vehicle toll revenues were higher than the prior year due primarily to the fare increase 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.
 - Rent, freight, and other revenue were slightly lower due to the timing of receipts from advertising and rent. High school, elderly and paratransit reimbursement at NYCTA were up due mostly to increased Paratransit urban tax subsidies
- Total operating expenses for the nine months ended September 30, 2004 were higher than September 30, 2003 by \$336.
 - Labor costs, including retirement and other employee benefits, were higher by approximately \$212 for the nine months ended September 30, 2004 when compared to the nine months ended September 30, 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. Also contributing to the higher cost were payouts for unused sick and vacation for LIRR

retirees. These increases were partially offset by a reduction of overtime expenses and worker's compensation expenses.

- Non-labor costs were higher by approximately \$124 for the nine months ended September 30, 2004 when compared to the nine months ended September 30, 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 and insurance expense.
- Total grants, appropriations and taxes were higher by approximately \$685 for the nine months ended September 30, 2004 when compared to the nine months ended September 30, 2003. The NYS budget was approved in August 2004 with increases in operating subsidies NYS and Local.

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.

New York City experienced the impacts the economic slowdown into 2003. As discussed more fully below, Authority-wide ridership posted a modest decrease in 2003. 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 the first eight months of 2004, MTA ridership was 2 percent higher (30.9 million trips) than ridership for the first eight months of 2003, and vehicle crossings at MTA Bridge and Tunnels facilities were 1.5 percent higher (3.0 million crossings) for the first eight months of 2004 when compared with the August 2003 year-to-date.

The Authority believes the City and regional economies have begun to follow the national economy and are now showing the first indications of a slow recovery. Job losses have bottomed out at the start of 2004, and preliminary results show an increase of 40,600 jobs in August 2004 compared with employment levels in August 2003, a 1.2 percent increase. The regional recovery is expected to continue gaining strength and show growth as 2004 comes to a close, with growth expected to average about 1.5 percent per for 2005 and 2006. The regional economy is expected to benefit from the rebuilding of the downtown infrastructure as well as from the economic stimulus provided through the Authority's multi-billion-dollar capital programs, which creates an annual average of 21,000 private sector jobs, \$1,100 in wages, \$100 in state and local tax revenues, and \$2,500 in economic activity.

Results of Operations – During the first nine months of 2004, paid TBTA traffic reached 226.5 million vehicles, 3.4 million higher than 2003 volume over the same period. This can largely be attributed to relative favorable winter weather and E-Z Pass electronic collection system.

During the first nine months of 2004, NYCTA average weekday total ridership increased by 1.1 percent from the same period in 2003. The extra leap year day in 2004 and the August 2003 blackout are factors that contributed to this increase. The comparison was also favorably impacted by more favorable winter weather in 2004 and the onset of the Iraq war in 2003.

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 7.42 million, down from 7.52 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 73.2 million in 2002 to 72.5 million. TBTA bridges and tunnels were used by 297 million vehicles, down approximately 1.0 percent.

The operating subsidies provided to the Authority in the form of dedicated taxes were relatively stable throughout the period. In order to assist the Authority in balancing its budget for calendar year 2002, the State advanced the payment of a fifth quarter of Metropolitan Mass Transportation Operating Assistance Fund (“MMTOA”) Receipts scheduled for the first quarter of calendar year 2003 into the fourth quarter of calendar year 2002 (approximately \$231.6 million). 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 January 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 January 31, 2004, the “2000 – 2004 Transit Capital Program”) and (3) the toll bridges and tunnels operated by TBTA (as amended to January 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 provide for \$20,364 in capital expenditures, of which \$10,081 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 the MTA Capital Construction Company, \$818 relates to planning and design and customer service projects, \$217 relates to World Trade Center repair projects, and \$1,029 relates to the ongoing repairs of, and replacements to, TBTA bridge and tunnel facilities.

The combined funding sources for the approved 2000 – 2004 MTA Capital Programs and the TBTA 2000 – 2004 Capital Program include \$7,919 in bonds, \$6,208 in Federal funds, \$4,505 from the proceeds of the MTA/TBTA debt restructuring in 2002 and \$1,732 from other sources.

The 2000 – 2004 MTA Board approved amended Capital Programs (amended in January 2004), provide for \$20,364 in capital expenditures, including \$19,335 for MTA Capital Programs, which include \$1,325 for new Capital Company projects mostly to be funded by the Federal Government and \$1,029 for TBTA Capital program. (Please see Note 1 for further discussion).

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Corporate Reorganization

The Authority has proposed a plan of corporate restructuring and introduced legislation to effectuate that plan. Under the plan, the Authority would create the following five distinct companies under MTA's governance:

- MTA Subways, would include NYCTA's subway operations and SIRTOA,
- MTA Bus, would include NYCTA's and MaBSTOA's bus operations and MSBA, and could in the future include one or more bus lines currently operated by private companies in the City and Westchester County,
- MTA Rail, would include LIRR and MNCR,
- MTA Bridges and Tunnels, will retain the corporate structure of TBTA, and
- MTA Capital Construction, a new company that would be in charge of overseeing the system expansion projects for all MTA companies.

This corporate restructuring along business lines is designed to streamline administrative functions and provide each entity with a single transportation focus.

Certain aspects of the corporate restructuring can proceed without legislation. For example, a new MTA subsidiary, MTA Capital Construction Company ("MTA Capital Construction"), was created in July 2003. MTA Capital Construction is responsible for the planning, design and construction of current and future major MTA system expansion projects, including East Side Access (bringing LIRR into Grand Central Terminal), extension of the 7 subway line from Times Square to the west side of Manhattan, the Lower Manhattan Fulton Street Transit Center, the new South Ferry station complex in lower Manhattan, system-wide capital security projects and Second Avenue Subway. Initial funding for MTA Capital Construction in the amount of \$2.5 was advanced from the MTAHQ operating budget and, is expected to be recovered from charge-backs to the capital programs.

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METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2004 AND DECEMBER 31, 2003 (Dollars in Millions)

	September 2004 (Unaudited)	December 2003
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 74	\$ 88
Investments (Note 3)	2,110	1,613
Receivables:		
Station maintenance, operation, and use assessments	65	91
State and regional mass transit taxes	421	51
MRT	54	43
State and local operating assistance	116	13
Other Subsidies	41	88
CDOT	13	21
Due from New York City	45	66
WTC insurance settlement (Note 11)		200
Other	183	167
Less allowance for doubtful accounts	(34)	(32)
Total receivables - net	904	708
Materials and supplies	282	263
Prepaid expenses and other current assets (Notes 2 and 4)	93	202
Total current assets	3,463	2,874
NONCURRENT ASSETS:		
Capital assets - net (Note 5)	33,037	31,555
Restricted investments held for lease obligations (Notes 3 and 7)	2,547	2,555
Investments (Note 3)	1,251	1,405
Receivable from New York State	2,349	2,375
Other noncurrent assets	1,320	1,265
Total noncurrent assets	40,504	39,155
TOTAL ASSETS	\$ 43,967	\$ 42,029

(Continued)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS SEPTEMBER 30, 2004 AND DECEMBER 31, 2003 (Dollars in Millions)

	September 2004 (Unaudited)	December 2003
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 316	\$ 451
Accrued expenses:		
Interest	257	204
Salaries, wages, and payroll taxes	161	138
Vacation and sick pay benefits	562	558
Current portion - retirement and death benefits	200	44
Current portion - estimated liability from injuries to persons (Note 8)	165	160
Other	243	310
	<u>1,588</u>	<u>1,414</u>
Total accrued expenses		
Current portion - long-term debt (Note 6)	195	214
Current portion - obligations under capital lease (Note 7)	-	7
Deferred revenue	324	298
	<u>2,423</u>	<u>2,384</u>
Total current liabilities		
NONCURRENT LIABILITIES:		
Retirement and death benefits (Note 4)	63	59
Estimated liability arising from injuries to persons (Note 8)	916	889
Long-term debt (Note 6)	19,241	17,713
Obligations under capital lease (Note 7)	2,708	2,724
Contract retainage payable	209	192
Other long-term liabilities	594	555
	<u>23,731</u>	<u>22,132</u>
Total noncurrent liabilities		
Total liabilities	<u>26,154</u>	<u>24,516</u>
NET ASSETS:		
Invested in capital assets, net of related debt	13,520	13,671
Restricted for debt service	1,130	2,130
Unrestricted	3,163	1,712
	<u>17,813</u>	<u>17,513</u>
Total net assets		
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 43,967</u>	<u>\$ 42,029</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(Dollars in Millions)

	September 2004	September 2003
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	\$ 2,546	\$ 2,330
Vehicle toll revenue	821	750
Rents, freight and other revenue	<u>230</u>	<u>241</u>
Total operating revenues	<u>3,597</u>	<u>3,321</u>
OPERATING EXPENSES:		
Salaries and wages	2,691	2,651
Retirement and other employee benefits	1,034	862
Traction and propulsion power	154	142
Fuel for buses and trains	66	55
Insurance	20	41
Claims	99	106
Paratransit service contracts	98	80
Maintenance and other operating contracts	291	273
Professional service contracts	122	133
Materials and supplies	274	302
Depreciation	996	914
Other	<u>22</u>	<u>(28)</u>
Total operating expenses	<u>5,867</u>	<u>5,531</u>
OPERATING LOSS	<u>(2,270)</u>	<u>(2,210)</u>
NONOPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax supported subsidies - NYS	1,159	802
Tax supported subsidies - NYC and local	729	467
Operating subsidies - NYS	255	187
Operating subsidies - NYC and local	<u>197</u>	<u>199</u>
Total grants, appropriations and taxes	<u>2,340</u>	<u>1,655</u>

(Continued)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(Dollars in Millions)

	September 2004	September 2003
	(Unaudited)	
Operating subsidies recoverable from Connecticut Department of Transportation related to New Haven Line	\$ 37	\$ 44
Subsidies paid to Dutchess, Orange and Rockland counties	(4)	(4)
Suburban Highway Transportation Fund subsidy	-	-
Interest on long-term debt	(585)	(545)
Station maintenance, operation and use assessments	97	94
Loss on disposal of subway cars	-	(25)
Unrealized gain/(loss) on investment	13	(8)
Other nonoperating revenue/(expense)	<u>178</u>	<u>152</u>
Net nonoperating revenues and expense	<u>2,076</u>	<u>1,363</u>
LOSS BEFORE APPROPRIATIONS	(194)	(847)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>494</u>	<u>1,007</u>
CHANGE IN NET ASSETS	300	160
NET ASSETS, BEGINNING OF YEAR	<u>17,513</u>	<u>16,862</u>
NET ASSETS, END OF PERIOD	<u>\$ 17,813</u>	<u>\$ 17,022</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003 (Dollars in Millions)

	September 2004	September 2003
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipt/tolls	\$ 3,514	\$ 3,223
Rents and other receipts	147	124
Payroll and related fringe benefits	(3,473)	(3,450)
Other operating expenses	<u>(1,168)</u>	<u>(1,095)</u>
Net cash used in operating activities	<u>(980)</u>	<u>(1,198)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations and taxes	1,760	1,454
Operating subsidies from CDOT	41	45
Suburban transportation fund subsidy	(19)	-
Subsidies paid to Dutchess, Orange and Rockland counties	(19)	(13)
WTC insurance claims	<u>200</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>1,963</u>	<u>1,486</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,635	1,277
MTA bonds refunded	(345)	-
TBTA bond proceeds	250	511
Proceeds from capital lease transactions	-	157
Capital lease payments	(23)	(7)
Grants and appropriations	1,095	1,058
CDOT capital contributions	3	2
Capital expenditures	(2,530)	(2,805)
Debt service payments	<u>(771)</u>	<u>(1,050)</u>
Net cash used in capital and related financing activities	<u>(686)</u>	<u>(857)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities - long-term	(2,102)	(3,184)
Sales of maturities of securities - long-term	2,424	2,667
Purchase/(sales) of short-term securities	(661)	1,072
Earnings on investments	<u>28</u>	<u>35</u>
Net cash (used in)/provided by investing activities	<u>(311)</u>	<u>590</u>
NET (DECREASE) INCREASE IN CASH	(14)	21
CASH, BEGINNING OF YEAR	<u>88</u>	<u>84</u>
CASH, END OF PERIOD	<u>\$ 74</u>	<u>\$ 105</u>

See notes to financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS NINE MONTHS ENDED SEPTEMBER 30, 2004 AND 2003

(Dollars in Millions)

	September 2004	September 2003
	(Unaudited)	
RECONCILIATION OF OPERATING DEFICIT FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (2,270)	\$ (2,210)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	996	914
Net decrease in payables, accrued expenses and other liabilities	(211)	34
Net decrease (increase) in receivables	415	6
Net decrease (increase) in materials and supplies and prepaid expenses	<u>90</u>	<u>58</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (980)</u>	<u>\$ (1,198)</u>

(Concluded)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS NINE MONTHS ENDED SEPTEMBER 30, 2004 (Dollars in Millions)

1. BASIS OF PRESENTATION

The Metropolitan Transportation Authority 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 and its legally separate related groups (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”) 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”) provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MSBA”) provides public bus service in NYC and Nassau County.
- 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.
- 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 Capital Construction Company (“MTA Capital Construction”) provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.

- 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”) 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”) 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.

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 current approved 1992-1999 Capital Program, including TBTA, equals \$18,091.

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 current 1992 – 1999 MTA Board approved program for TBTA totals \$1,149.

At September 30, 2004, \$17,954 had been committed and \$17,435 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 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 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. The current approved 2000 - 2004 Capital Program equals \$20,364.

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 \$1,030 and in December 2002 to \$1,036. In December 2003 the MTA board amended the TBTA capital program to \$1,029.

At September 30, 2004, \$15,121 had been committed and \$8,940 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.

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

Certain reclassifications have been made to the prior year 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 sheet at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of operations. Fair values have been determined using quoted market values at September 30, 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, Web-Tickets 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 - LIRR and MNCR are self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non-employees and off-duty employees arising from occurrences at NYS stations (“Station Liability”), and employees and non-employees, arising from reimbursable project work (“Force Account”). LIRR and MNCR accrue the estimated total cost for the self-insured liability arising out of these claims. Claims arising from Station Liability and Force Account occurring after December 15, 2002 are fully insured up to \$7 per occurrence, claims arising December 15, 1997 to December 15, 2002 are insured up to \$6, and claims arising prior to December 15, 1997 are insured up to \$5. NYCTA and TBTA are self-insured up to certain per-occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising after November 1, 2001, the limits are \$7 and \$1.4 respectively; for claims arising between November 1, 1996 and October 31, 2001, the limits are \$6 and \$1.2 respectively, and for claims arising between December 15, 1986 and October 31, 1996, the limits are \$5, and \$1 respectively.

On October 31, 2003, FMTAC, a subsidiary of MTA, assumed the existing ELF program on both a retrospective and prospective basis. 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. This includes insurance of certain claims in excess of the self-insured retention limits for LIRR, MNCR, NYCTA and TBTA noted above, and in excess of \$1.4 for MTAHQ (\$1.2 for claims arising between December 15, 1986 and October 31, 1996). The coverage limit will remain \$50 per occurrence or the proceeds of the program whichever is less. 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. On December 12, 2003, the ELF transferred all assets and liabilities at historical cost to FMTAC. FMTAC will charge appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. 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, 2003, an All-Agency Excess Liability Insurance Policy was renewed. This coverage affords the MTA and its subsidiaries and affiliates an additional limit of \$150, for a total limit of \$200 (\$150 excess of \$50). In certain circumstances, when the ELF’s assets are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the ELF’s coverage position of \$50.

Property and Casualty Insurance - FMTAC insured property damages or loss exposures in excess of \$15 per occurrence, \$30 annual aggregate, for claims brought by the MTA and its subsidiaries and affiliates until October 30, 2001. From October 31, 2001 to January 31, 2002 coverage units were \$500 per occurrence. By February 1, 2002, coverage limits were increased to \$900. This policy excludes coverage for acts of terrorism. Effective November 1, 2001, a stand-alone policy was purchased to cover sabotage and terrorism up to \$70 in excess of a \$30 self-insured retention.

Effective October 31, 2003, FMTAC insures property damages or loss exposures in excess of \$25 per occurrence, \$75 annual aggregate, up to a limit of \$1 billion for claims brought by the MTA and its subsidiaries and affiliates. This policy excludes acts of terrorism. Effective November 1, 2003, a stand-alone policy was purchased to cover sabotage and terrorism up to \$100 in excess of a \$25 self-insured retention. On November 26, 2002, with the enactment of the Terrorism Risk Insurance Act (“TRIA”) of 2002, any endorsements excluding certified acts of terrorism were void if the act of terrorism is covered by TRIA. The stand-alone terrorism policy is structured to provide \$100 of coverage in excess of the \$25 self-insured retention for all acts of terrorism or 10 percent of \$1 billion for those acts covered by TRIA. FMTAC reinsures the majority of its property risks above the \$25 retention.

Effective December 15, 2001, FMTAC reinsures the primary \$7 in losses for Station Liability and Force Account Liability for MNCR and LIRR with a third-party insurer. FMTAC established an aggregate blanket stop loss protection agreement with the third party whereby if losses and allocated expenses retained by FMTAC exceed \$45 for the insurance policy period ending December 15, 2002, a cover limit of \$10 (inclusive of allocated expenses) is available. The third-party insurer will be responsible for paying all losses and allocated expenses within the cover limit. If the cover limit is exhausted, any additional losses and allocated expenses are payable by FMTAC. Effective December 15, 2002, 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.
- *NYS and Regional Mass Transit Taxes* - MTA, NYCTA, and SIRTOA receive, subject to annual appropriation, revenues from taxes enacted by the NYS Legislature. These taxes are recognized as revenue when all applicable eligibility requirements are met. Tax proceeds are distributed to the Authority as they are needed.
- *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 the NYCTA and SIRTOA 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 September 30, 2004 and December 31, 2003 the amount allocated to the NYS Suburban Highway Transportation Fund was \$0 and \$18.9, respectively. Of the NYCTA portion, the Authority distributed 0 and \$17.8 as of September 30, 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 September 30, 2004 and December 31, 2003, were \$0 and \$15.2, respectively. Through September 30, 2004 the Authority has distributed \$0 from the MRT-2 funds to the Commuter Railroads and 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 certain properties assessed value (collectively referred to as "Urban Tax Subsidies").
- *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 are comprised 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 NYCTA, SIRTOA, and the Commuter System.
- 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 NYCTA and SIRTOA 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.
- *Interagency Subsidy-Triborough Bridge and Tunnel Authority* - NYS Law requires TBTA to transfer its annual operating surplus, as defined, to NYCTA and MTA. The initial \$24 of the operating surplus is provided to NYCTA and the balance, as adjusted to reflect debt service requirements of TBTA bonds issued for their respective benefit, is divided between NYCTA and MTA. As of September 30, 2004 the amounts allocated to NYCTA and MTA were \$118.7 and \$183.5 respectively. In 2003 the amounts related to NYCTA and MTA were \$178.3 and \$251.8 respectively.
- Certain TBTA investment income is transferred to MTA and is Board designated for use in acquiring or constructing capital assets for the Commuter Railroads and NYCTA. MTA recognized \$.8 and \$2.3 as of September 30, 2004 and December 31, 2003, respectively, related to the TBTA investment income transfer.
- *Sale of New York Coliseum* - On July 31, 2000, the Authority closed on the sale of the New York Coliseum. The sale contract price was approximately \$345, resulting in a gain on the sale of approximately \$340. Proceeds from the sale were remitted to NYC and are to be returned as contributions to the capital program, which NYC funds through issuance of its bonds. MTA has recorded accounts receivable due from NYC of \$0 and \$42 at September 30, 2004 and December 31, 2003, respectively.
- *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 NYCTA for costs of the free fare program for students. However, pursuant to an agreement with NYS and NYC, NYCTA continued the student program beginning with the 1995 - 1996 school year with NYS and NYC each agreeing to pay \$45. NYC continues 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. NYCTA's 2004 - 2007 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 NYCTA 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 NYCTA 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. NYCTA, 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. NYCTA received approximately \$1.6 in the first nine months of 2004, \$1.0 in the first nine months of 2003, and \$4.2 in the twelve months ended December 31, 2003 from NYC for the reimbursement of transit police costs.
- Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, NYCTA, effective July 1, 1993, assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. NYC reimburses NYCTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation and administrative costs less fare revenues and 6.25 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 \$38.8 in the first nine months of 2004, \$32.0 in the first nine months of 2003, 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 Pronouncement - 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 not completed the process of evaluating the impact that will result from adopting GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries, GASB Statement No. 44, Economic Condition Reporting: the Statistical Section, or GASB Statement No. 45, Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions. The Authority is therefore unable to disclose the impact that adopting these statements will have on its financial position and results of operations when such statements are adopted. GASB Statement No. 42 is effective for financial statements for periods beginning after December 15, 2004. GASB Statement No. 44 is effective for financial statements for periods beginning after June 15, 2005, and GASB Statement No. 45 is effective in three phases. The three phases are for periods beginning after December 15, 2006, December 15, 2007, and December 15, 2008. These phases are based upon the criteria used for the implementation of GASB Statement No. 34.

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at September 30, 2004 and December 31, 2003:

	September 2004 (Unaudited)		December 2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured or collateralized deposits	\$ 19	\$ 14	\$ 21	\$ 16
Uninsured and not collateralized	<u>55</u>	<u>21</u>	<u>67</u>	<u>22</u>
	<u>\$ 74</u>	<u>\$ 35</u>	<u>\$ 88</u>	<u>\$ 38</u>

All collateralized deposits are held by the Authority or its agent in the Authority's name. The MTA, on behalf of the NYCTA, TBTA and MSBA, 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 MTA 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 September 30, 2004 and December 31, 2003:

	September 2004 (Unaudited)	December 2003
	Repurchase agreements	\$ 649
U.S. Treasuries due 2003 - 2020	1,122	1,040
Government National Mortgage Association due 2004 - 2021	7	-
Investments restricted for capital lease obligations	2,547	2,555
Other Agencies due 2005 - 2011	<u>1,583</u>	<u>995</u>
Total	<u>\$5,908</u>	<u>\$5,573</u>

Fair values include accrued interest to the extent 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, MTA and TBTA have 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, MTA or TBTA 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 2.0 percent and 1.5 percent for the nine months ended September 30, 2004 and the twelve months ended December 31, 2003 respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at September 30, 2004 and December 31, 2003:

	September 2004 (Unaudited)	December 2003
Construction or acquisition of capital assets	\$ 1,276	\$ 1,667
Funds received from affiliated agencies for investment	495	317
Debt service	608	444
Payment of claims	228	290
Restricted for capital leases	2,547	2,555
Other	<u>305</u>	<u>130</u>
Total	<u>\$ 5,459</u>	<u>\$ 5,403</u>

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 Public Employee Retirement Systems* - 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 2003 and 2002, NYCTA made additional contributions to the MaBSTOA Plan of \$114.4 and \$72.0, 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.
- The Metropolitan Transportation Authority Defined Benefit Pension Plan (“MTA Plan”), a defined benefit pension plan for certain LIRR and MNCR management employees hired after December 31, 1987, certain MSBA employees hired prior to January 23, 1983, and MTA Police, 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 MNCR and LIRR management 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 2003 and 2002 pension expense based upon an assessment, which on average was 18.27 percent and 14.72 percent, respectively, of annual compensation. Also during 2003, LIRR and MNCR made additional contributions of \$30 and \$20 respectively, to decrease the unfunded pension liability. The MTA Plan may be amended by the 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%	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2004				
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	(34.7)	None	56.9	-
2003	(4.8)	None	58.9	-
2002	(4.7)	None	60.8	(3.1)
Percentage of APC contributed:				
2004	129%	100%	101%	100%
2002	100%	100%	101%	89%
2001	106%	100%	102%	112%
Components of APC				
Annual required contrib. (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)	<u>132.8</u>	<u>1.5</u>	<u>142.1</u>	<u>54.7</u>
Change in NPO (assets)	(29.9)	-	(2.0)	-
NPO (assets) beginning of year	<u>(4.8)</u>	<u>-</u>	<u>58.9</u>	<u>-</u>
NPO (assets) end of year	<u>\$ (34.7)</u>	<u>\$ -</u>	<u>\$ 56.9</u>	<u>\$ -</u>

	Single-Employer Plans			
	LIRR	SIRTOA	MaBSTOA	MTA Plan
Date of valuation	1/1/1904	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, accident 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 noncontributory plan, except 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

contributions to NYCERS for the years ended December 31, 2003, and 2002 were \$68.8 and \$30.7, respectively. These amounts cover NYCTA's annual required contribution for the NYCERS 2003 and 2002 fiscal years as well as a portion of the annual required contribution for the 2004 NYCERS fiscal year. These payments cover NYCTA's annual required contributions for the NYCERS 2003 and 2002 fiscal years ended June 30, as well as a portion of the annual required contribution for the 2003 NYCERS fiscal year. The remainder of the 2004 annual required contribution is expected to be paid subsequent to year-end within the NYCERS fiscal year. TBTA's contributions to NYCERS for the years ended December 31, 2003, and 2002 were \$1.0, and \$1.0, respectively, which were equal to or in excess of the actuary's recommendation, plus interest.

Prior to 1981, NYCTA and TBTA were required to pay NYCERS its share of the pension liability on a two-year lag basis. Due to a change in New York State law, the NYCTA and TBTA in 1981 were required to make pension liability payments on a current year basis. The amount representing the "catch-up" liability remaining was included in the consolidated balance sheets in accrued retirement and death benefits. However, in accordance with Chapter 85 of the New York State laws of 2000 (the "Laws of 2000"), enacted as part of a number of changes to actuarial assumptions and methods, this liability is no longer being funded separately as part of actuarially determined pension contributions and a liability on the part of the NYCTA and TBTA separate from its actuarially-determined pension contributions no longer exists. Accordingly, the amount of the recorded catch-up liability and related receivable from the NYCTA for the portion of the catch-up liability applicable to capital project engineers was reduced to zero as of December 31, 2000, with the net effect of such elimination of \$236.8 recorded as a nonoperating transaction in the consolidated statements of operations and surplus.

New York State Employees' Retirement System ("NYSERS") -

Plan Description and Funding Policy - MTAHQ and MSBA employees who were hired after January 23, 1983, are members of NYSERS. NYSERS 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 NYSERS. NYSERS pension expense was approximately \$4.9, \$1.5, and \$1.2, for the years ended December 31, 2003, 2002, and 2001, 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 NYSERS 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 - The MTA also provides retirement benefits to certain of its employees under the following defined-contribution plans:

Single-Employer Public Employee Retirement Systems -

The Long Island Rail Road Company Money Purchase Plan (“Money Purchase Plan”) is a defined contribution plan that covers all 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 of Directors is responsible for establishing or amending the Plan’s provision and contribution requirements.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees (“Agreement Plan”), established January 1, 1988, covers union-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 provision and contribution requirements.

	December 31		December 31	
	2003		2002	
	LIRR		LIRR	
	Money	MNCR	Money	MNCR
	Purchase	Agreement	Purchase	Agreement
	Plan	Plan	Plan	Plan
Employer contributions	\$ 10.9	\$ 16.2	\$ 9.6	\$ 17.4
Employee contributions	6.7	1.2	5.9	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 participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying combined balance sheets.

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 Authority is statutorily required to provide such benefits. 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:

	January 1 2003		January 1 2002	
	Number of Participants (Actual)	Cost of Benefits (In millions)	Number of Participants (Actual)	Cost of Benefits (In millions)
MTAHQ	253	\$ 1.9	204	\$ 1.4
MNCR	1,506	2.7	1,421	2.3
LIRR:				
Management	730	6.5	725	5.4
Represented	4,107	19.3	3,982	13.9
NYCTA	30,846	162.6	31,350	127.9
TBTA	1,366	8.6	1,314	6.7
SIRTOA	51	0.2	40	0.2
MSBA	86	0.8	91	0.7

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 September 30, 2004 and December 31, 2003 and 2002:

	Balance December 31, 2002			Balance December 31, 2003			Balance September 30 2004 (Unaudited)
		Additions	Deletions		Additions	Deletions	
Capital assets, not being depreciated							
Land	\$ 124	\$ -	\$ -	\$ 124	\$ 1	\$ -	\$ 125
Construction work-in-progress	5,376	1,315	1,671	5,020	1,517	606	5,931
Total capital assets, not being depreciated	5,500	1,315	1,671	5,144	1,518	606	6,056
Capital assets, being depreciated							
Buildings and structures	9,267	885	100	10,052	165	-	10,217
Bridges and tunnels	1,183	167	-	1,350	-	-	1,350
Equipment							
Passenger cars and locomotives	6,926	1,127	100	7,953	415	17	8,351
Buses	1,572	166	-	1,738	73	-	1,811
Infrastructure	8,560	1,196	13	9,743	539	-	10,282
Other	6,017	686	3	6,700	374	2	7,072
Total capital assets, being depreciated	33,525	4,227	216	37,536	1,566	19	39,083
Less accumulated depreciation							
Buildings and structures	2,221	318	1	2,538	223	-	2,761
Bridges and tunnels	315	9	-	324	9	-	333
Equipment							
Passenger cars and locomotives	2,237	248	72	2,413	203	17	2,599
Buses	932	97	-	1,029	79	-	1,108
Infrastructure	2,216	314	7	2,523	257	-	2,780
Other	2,025	275	2	2,298	225	2	2,521
Total accumulated depreciation	9,946	1,261	82	11,125	996	19	12,102
Total capital assets, being depreciated, net	23,579	2,966	134	26,411	570	-	26,981
Capital assets, net	\$ 29,079	\$ 4,281	\$ 1,805	\$ 31,555	\$ 2,088	\$ 606	\$ 33,037

Interest capitalized in conjunction with the construction of capital assets at September 30, 2004 and December 31, 2003 is \$55 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 NYCTA. 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 TBTA determines such property is unnecessary for its corporate purpose. NYCTA scrapped 296 "redbird" subway cars and 405 cars in the year ending December 31, 2003 and the year ending December 31, 2002, respectively. Loss on disposal of capital assets of \$30.7 and \$58.3 were recorded for the year ended December 31, 2003 and the year ended December 31, 2002, respectively. The NYCTA concluded the fleet disposal program in 2003.

For certain construction projects, the Authority holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At September 30, 2004 and December 31, 2003 these securities totaled \$57.7 and \$56.5, respectively, and had a market value of \$59.3 and \$58.8 respectively, and are not included in these financial statements.

6. LONG -TERM DEBT

Substantially all of the outstanding debt of MTA, TBTA and the Transit Authority was restructured during 2002 by consolidating most existing credits into four principal new credits:

- MTA Transportation Revenue Bonds,
- MTA State Service Contract Bonds,
- MTA Dedicated Tax Fund Bonds, and
- TBTA General Revenue Bonds and TBTA Subordinate Revenue Bonds.

MTA, TBTA and the NYCTA used the proceeds of bonds issued under the new resolutions, together with other available monies, to fully defease the resolutions and/or trust agreements relating to the following bonds and notes:

- MTA Transit Facilities Revenue Bonds and Bond Anticipation Notes,
- MTA Commuter Facilities Revenue Bonds and Bond Anticipation Notes,
- MTA Subordinated Commuter Facilities Revenue Bonds (Grand Central Terminal Redevelopment Project),
- New York City Transit Authority Subordinated Transit Facilities Revenue Bonds (Livingston Plaza Project),
- MTA Transit Facilities Service Contract Bonds (1982 and 1987 Resolutions),
- MTA Commuter Facilities Service Contract Bonds (1982 and 1987 Resolutions),
- MTA Dedicated Tax Fund Bonds,
- TBTA Special Obligation Bonds (1991 Resolution), and
- TBTA Beneficial Interest Certificates.

Following the defeasance of the old bonds, notes and lease obligations, approximately \$1,100 in debt service reserves were released to MTA, TBTA and the NYCTA to be used primarily to finance transit and commuter rail capital projects.

In a separate transaction, on December 19, 2002, MTA defeased the MTA Excess Loss Fund Special Obligation Bonds, Series 1998.

All of the net proceeds of long-term debt were used for the acquisition or construction of capital assets or to refund outstanding debt.

	December 31, 2003	Issued	Retired	Refunded	September 30 2004 (Unaudited)
MTA:					
Transportation Revenue Bonds 2.25% - 5.752% due through 2035	\$ 6,179	\$ 500	\$ -	\$ -	\$ 6,679
Transportation Revenue Bond Anticipation Notes Commercial Paper	420	1	-	-	421
State Service Contract Bonds 3.00% - 5.50% due through 2031	2,395	-	20	-	2,375
Dedicated Tax Fund Bonds 3.00% - 6.25% due through 2031	2,193	750	-	-	2,943
Certificates of Participation 4.40% - 5.625% due through 2029	<u>422</u>	<u>358</u>	<u>9</u>	<u>317</u>	<u>454</u>
	11,609	1,609	29	317	12,872
Less net unamortized bond discount and premium	<u>(480)</u>	<u>26</u>	<u>(9)</u>	<u>4</u>	<u>(449)</u>
	<u>\$ 11,129</u>	<u>\$ 1,635</u>	<u>\$ 20</u>	<u>\$ 321</u>	<u>\$ 12,423</u>
TBTA:					
General Revenue Bonds 4.00% - 5.77% due though 2033	\$ 4,470	\$ -	\$ 1	\$ -	\$ 4,469
Subordinate Revenue Bonds 4.00% - 5.77% due though 2032	<u>2,187</u>	<u>250</u>	<u>20</u>	<u>-</u>	<u>2,417</u>
	6,657	250	21	-	6,886
Less net unamortized bond discount and premium	<u>141</u>	<u>-</u>	<u>14</u>	<u>-</u>	<u>127</u>
	<u>\$ 6,798</u>	<u>\$ 250</u>	<u>\$ 35</u>	<u>\$ -</u>	<u>\$ 7,013</u>
Combined total	\$ 17,927	<u>\$ 1,885</u>	<u>\$ 55</u>	<u>\$ 321</u>	\$ 19,436
Current portion	<u>(214)</u>				<u>(195)</u>
Long-term portion	<u>\$ 17,713</u>				<u>\$ 19,241</u>

MTA Transportation Revenue Refunding Bonds - As part of the Authority debt restructuring, the Authority issued in May of 2002 Transportation Revenue Refunding Bonds, Series 2002A, 2002B, 2002C, 2002D for a total amount of \$3,724. In September of 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 of 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 of 2004 the Authority issued Transportation Revenue Bonds, Series 2004A in the amount of \$500. In May of 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 of 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 will be 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 of 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 of 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.

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 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 \$358. 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 TBTA's 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 subsidiaries and affiliates of the MTA, 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 \$16,100 compared with issuances totaling approximately \$10,226 at September 30, 2004.

Bond Refundings - During 2002 and as part of the Debt Restructuring, the Authority retired most of the outstanding debt of MTA, TBTA and NYCTA 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 September 30, 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	<u>268</u>
Total	<u>\$ 9,154</u>

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

	MTA		TBTA				Aggregate	
	Principal	Interest	Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2004	149	\$ 221	\$ 38	\$ 55	\$ 13	\$ 61	\$ 200	\$ 337
2005	228	583	77	217	40	117	345	917
2006	238	573	81	213	40	115	359	901
2007	242	564	78	210	43	112	363	886
2008	252	554	88	206	44	111	384	871
2009-2013	1,452	2,584	491	959	262	515	2,205	4,058
2014-2018	1,843	2,191	650	806	364	435	2,857	3,432
2019-2023	2,346	1,691	810	624	472	336	3,628	2,651
2024-2028	2,965	1,071	962	402	570	217	4,497	1,690
2029-2033	2,736	304	1,194	122	570	70	4,500	496
2034-2038	-	-	-	-	-	-	-	-
	<u>\$ 12,451</u>	<u>\$ 10,336</u>	<u>\$ 4,469</u>	<u>\$ 3,814</u>	<u>\$ 2,418</u>	<u>\$ 2,089</u>	<u>\$ 19,338</u>	<u>\$ 16,239</u>

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

- *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 09/01/2013 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, 2003, the Authority recorded a rebate liability amounting to \$4.1.

Swap Agreements

Board-adopted Guidelines. The Related Entities adopted guidelines with respect to 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, 2004.

- On March 16, 2004, MTA entered into a forward hedge in the notional amount of \$500 million with Merrill Lynch Capital Services Inc. with an effective date of March 15, 2005 in connection with the expected issuance of approximately \$500 million in Transportation Revenue Bonds.
- On May 19, 2004, MTA terminated a \$336 million hedge with Lehman Brothers Special Financing Inc. and a \$224 million hedge with Bear Stearns Capital Markets Inc. in return for net payments to MTA of \$6.8 million and \$4.4 million, respectively.
- On August 10, 2004, MTA, NYCTA and TBTA entered into separate swaps with UBS AG for \$358 million notional amount in anticipation of the expected refunding on or about September 22, 2004 of a substantial portion of the 2 Broadway Certificates of Participation, Series 1999A and 2000A.
- On September 10, 2004, MTA entered into a forward hedge in the notional amount of \$500 million, 60% of which was with UBS AG, 20% with Lehman Brothers Special Financing Inc. and 20% with AIG Financial Products Corp., with an effective date of September 1, 2005 in

connection with the expected issuance of approximately \$500 million in Transportation Revenue Bonds.

- On September 17, 2004, MTA entered into a forward hedge in the notional amount of \$500 million, 60% of which was with Lehman Brothers Special Financing Inc. and 40% with AIG Financial Products Corp., with an effective date of July 1, 2005 in connection with the expected issuance of approximately \$500 million in Transportation Revenue Bonds.

Fair Value. Relevant market interest rates on the valuation date of the swaps reflected in the following charts (September 30, 2004) in some cases were higher than, and in some cases lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, some of the swaps had negative fair values and some had positive fair values. In the event there is a positive fair value, MTA, TBTA and the Transit Authority would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to the defaulting party to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. In the event both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. MTA, TBTA and the Transit Authority are not aware of any event that would lead to a termination event with respect to any of their 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							
<u>Associated Bond Issue</u>	Notional Amounts as of 9/30/04 (Unaudited) (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 9/30/04 (Unaudited) (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
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⁾	\$(23.4)	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	(3.8)	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	(6.3)	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⁾	(17.5)	11/01/32	Bear Stearns Capital Markets Inc.
Proposed Issuance of Transportation Revenue Bonds	500.0	03/15/05	3.444	67% of one-month LIBOR	0.1	11/01/34	Merrill Lynch Capital Services Inc.
Proposed Issuance of Transportation Revenue Bonds	500.0	09/01/05	3.584	67% of one-month LIBOR	(5.6)	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	(2.0)	11/01/35	60% – Lehman Brothers Special Financing Inc. 40% – AIG Financial Products Corp.
Total	\$2,540.0				\$(58.5)		

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

(2) London Interbank Offered Rate.

TBTA							
<u>Associated Bond Issue</u>	Notional Amounts as of 9/30/04 (Unaudited) (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 9/30/04 (Unaudited) (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B ⁽³⁾	\$234.3	01/01/01	6.08 %	Actual bond rate	\$(46.0)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	234.3	01/01/01	6.07	Actual bond rate	(44.3)	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	(43.1)	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	(13.2)	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	(2.2)	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	(2.1)	01/01/18	JPMorgan Chase Bank
Total	\$1,013.4				\$(150.9)		

⁽³⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying a premium of \$22,740,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of \$19,204,000.

⁽⁵⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of \$8,400,000.

In addition to the foregoing, MTA, the Transit Authority and TBTA entered into separate ISDA Master Agreements with UBS AG relating to the \$357,925,000 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (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 \$245,900,000 notional amount of the swaps, MTA for \$75,150,000 aggregate notional amount, and TBTA for \$36,875,000 aggregate notional amount. As of September 30, 2004, the aggregate unaudited fair value of the swaps was \$(10.0 million).

The current ratings of the counterparties, or their credit support providers, are as follows:

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
AIG Financial Products Corp.	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 September 30, 2004 for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
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 MTA’s, TBTA’s and the Transit Authority’s perspective, the following risks are generally associated with swap agreements:

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

MTA/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.

- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, TBTA or the Transit Authority on the associated bonds are not the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, 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 MTA, TBTA or the Transit Authority.
- **Termination Risk** – The swap agreement will be terminated and MTA, 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, and MTA, 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 MTA 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 effective date of the other swap). The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in millions)</u>	<u>% of Total Notional Amount</u>
Bear Stearns Capital Markets Inc.	\$ 834.3	21.3%
UBS AG	657.9	16.8
Citigroup Financial Products Inc.	512.3	13.1
Merrill Lynch Capital Services Inc.	500.0	12.8
Morgan Stanley Capital Services Inc.	440.0	11.2
Lehman Brothers Special Financing Inc.	400.0	10.2
AIG Financial Products Corp.	300.0	7.7
JPMorgan Chase Bank	181.0	4.6
Ambac Financial Services, L.P.	<u>85.8</u>	2.2
Total	\$3,911.3	

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 rating of MTA, 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 MTA, 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			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	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.	<u>Fitch</u> – BBB+, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, or <u>S&P</u> – BBB and below or unrated	\$0
MTA Transportation Revenue Variable Rate Refunding Bonds – Series 2002D-1 and Series 2002D-2	Bear Stearns Capital Markets Inc.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
MTA March 15, 2005 Hedge – Transportation Revenue Bonds	Merrill Lynch Capital Services Inc.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
MTA July 1, 2005 Hedge – Transportation Revenue Bonds	60% – Lehman Brothers Special Financing Inc. 40% – AIG Financial Products Corp.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0

MTA (continued)			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	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.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0

2 BROADWAY CERTIFICATES OF PARTICIPATION, SERIES 2004A			
<u>Associated Agencies</u>	<u>Counterparty</u>	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	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$25,000,000
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
		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
		<u>Moody's</u> – Baa1 or lower, or <u>S&P</u> – 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 \$1,000,000.	
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 \$1,000,000.	
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 \$1,000,000.	
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 \$1,000,000.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds – Series 2002G-1 and Series 2002G-2	JPMorgan Chase Bank	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
		<u>Fitch</u> – Below BBB+, <u>Moody's</u> – Below Baa1, or <u>S&P</u> – Below BBB+	\$0

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

Basis Risk. For those swaps for which MTA, TBTA and the Transit Authority receive a variable-rate payment other than the actual bond rate, such as if the interest rate is based on BMA or LIBOR, MTA, TBTA and the Transit Authority are exposed to basis risk to the extent that the rate based on BMA or LIBOR is less than the actual bond rate for any given period. To the extent that the rate based on BMA or LIBOR is greater than the actual bond rate for any given period, there is a benefit to MTA, TBTA or the Transit Authority.

Termination Risk. Any party to the swap may terminate the swap if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, MTA, TBTA or the Transit Authority could be liable to the counterparty for a payment equal to the swap's fair value. MTA, TBTA and the Transit Authority are not aware of any event that would lead to a termination event with respect to any of their swaps.

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. MTA, TBTA and 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.

<u>MTA</u>		
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>Additional Termination Event(s)</u>
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 March 15, 2005 Hedge – Transportation Revenue Bonds	Merrill Lynch Capital Services 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.

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

TBTA		
Associated Bond Issue	Counterparty	Additional Termination Events
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	<p>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, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	<p>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, <u>or</u> TBTA redeems a portion of the Series 2000C or 2000D Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	<p>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, <u>or</u> TBTA redeems a portion of the Series 2001B or 2001C Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	<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, <u>or</u> TBTA redeems a portion of the Series 2002C Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Ambac Assurance Corporation.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	<p>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.</p> <p>2. TBTA may terminate the swap at no cost on or after December 29, 2010.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	JPMorgan Chase Bank	<p>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.</p> <p>2. TBTA may terminate the swap at no cost on or after January 5, 2011.</p>

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:

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
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 \$90,500,000 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 \$90,525,000 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:

- Beginning in 2004, it was 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)				
<u>Variable-Rate Bonds</u>				
<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2004	\$ 0	\$34.0	\$4.6	\$38.6
2005	0	42.2	(1.7)	40.5
2006	0	42.3	(0.5)	41.9
2007	0	42.1	1.2	43.3
2008	0	42.1	1.2	43.3
2009-2013	9.0	210.6	5.7	225.3
2014-2018	274.0	185.9	4.5	464.4
2019-2023	435.8	113.0	4.5	553.3
2024-2028	125.3	56.0	4.5	185.8
2029-2033	206.4	24.4	2.7	233.5

TBTA (in millions)				
<u>Variable-Rate Bonds</u>				
<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2004	\$ 19.9	\$35.2	\$21.9	77.0
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
2009-2013	194.3	168.8	44.8	407.9
2014-2018	295.6	118.3	12.3	426.2
2019-2023	143.3	76.6	0	219.9
2024-2028	164.4	46.9	0	211.3
2029-2033	154.0	11.7	0	165.7

7. LEASE TRANSACTIONS

Hillside Facility - On March 31, 1997, the Authority entered into a lease/leaseback transaction with a third party whereby MTA 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, 2003, 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, 2003, the Authority has recorded a long-term capital obligation and capital asset of \$51 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 \$33 through September 30, 2004 and \$42 through December 31, 2003.

At September 30, 2004, the future minimum lease payments under non-cancelable leases are as follows:

Year	Operating	Capital
2004	\$ 11	\$ 195
2005	23	149
2006	22	187
2007	22	1,149
2008	21	100
2009 - 2013	84	799
2014 - 2018	69	396
2019 - 2023	60	701
2024 - 2028	57	269
2029 - 2033	45	1,068
Thereafter	<u>471</u>	<u>1,201</u>
	<u>\$ 885</u>	6,214
Amount representing interest		<u>(3,506)</u>
Present value of capital lease obligations		<u>\$ 2,708</u>

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 September 30, 2004 and December 31, 2003 is presented below:

	September 2004 (Unaudited)	December 31, 2003
Balance, beginning of year	\$ 1,049	\$ 949
Activity during the year:		
Current year claims and changes in estimates	134	253
Claims paid	<u>(102)</u>	<u>(153)</u>
Balance, end of period	1,081	1,049
Less current portion	<u>(165)</u>	<u>(160)</u>
Long-term liability	<u>\$ 916</u>	<u>\$ 889</u>

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.

A Federal appellate court has upheld a District Court opinion that the Authority is a common carrier under the Federal Employers' Liability Act ("FELA") and therefore, an Authority police officer involved in a car accident while on duty may seek recovery for damages based upon his alleged personal injuries pursuant to FELA. The court limited its holding to the Authority's employees and expressly excluded employees who provide local transportation services and those who operate bridges and tunnels. The Authority has filed a petition for a Rehearing In Banc, which was denied. The Authority has filed a petition for certiorari to the Supreme Court of the United States. The Authority cannot determine the probable outcome of the litigation, but if the police officer's position prevails, and the holding is extended to those similarly situated, The Authority's liability could be significant.

On December 30, 1996, MTAHQ, LIRR and MSBA entered into a Funding Agreement ("First Nassau County Agreement") with the County of Nassau (the "County"). Pursuant to the First Nassau County Agreement, MTAHQ agreed to make a grant transfer of \$51 to the County, after certain conditions were met by the County. In exchange, the County would make project contributions to MTAHQ equal to two times the amount of the grant transfer, provided that the aggregate amount of project contributions does not exceed \$102. At December 31, 1997, \$51 had been paid to the County as a grant and was recorded by MTAHQ as a receivable against future project contributions. At December 31, 2002, MTAHQ had requisitioned \$90 and had received \$81 from the County for reimbursement of project costs incurred. A second Funding Agreement ("Second Nassau County Agreement") with the County containing substantially the same terms was entered into by MTAHQ and LIRR on May 1, 1999. Pursuant to the Second Nassau County Agreement, MTAHQ made a grant transfer of \$70 to the County and, in exchange, the County made project contributions in 2001 of \$140 to MTAHQ.

Pursuant to a Memorandum of Understanding ("MOU") dated May 20, 1996, by and among MTAHQ, NYCTA and NYC, NYCTA was authorized, and made grant transfers to NYC, totaling \$250 through 1997. In exchange, NYC agreed to pay \$500 from its capital budget to fund NYCTA's capital program. The intent of the MOU was to provide additional capital funding to the NYCTA, which did not require the issuance of bonds supported by NYCTA revenues, including fare receipts. MTAHQ treats the first \$250 as a receivable due from NYC and the second \$250 as contributed capital. As of December 31, 2002, NYC had made capital payments totaling \$475, thereby reducing the receivable due from NYC in the consolidated balance sheets to \$0 and recognizing the additional \$229 as contributed capital.

On March 31, 1995, the MTA Board agreed to a merger of the transit police with the New York City Police Department, in accordance with a memorandum of understanding between NYCTA and NYC. Pursuant to the terms of the merger, NYCTA's operation of the transit police and NYC's obligation to reimburse the cost of operating the transit police terminated effective April 2, 1995. NYC has assumed the liability for substantially all past and future costs associated with operating the transit police, including all future pension costs. NYCTA has asserted a claim of approximately \$92 against NYC relating to reimbursement of costs incurred in the operation of the transit police. NYCTA claims that

NYC underpaid these amounts in the period from 1988 through December 1994. In January 1995, NYCTA filed a demand for arbitration pursuant to the lease governing the overall relationship between NYCTA and NYC to pursue, among other matters, payment of these arrearages. The arbitration matter has been held in abeyance while NYC, NYCTA, and the Authority explore the possibility of an amicable resolution.

In 1990, a fire occurred in a subway tunnel operated by NYCTA resulting in passenger injuries on a subway train passing through that tunnel. In 1991, a subway train operated by NYCTA derailed at Union Square resulting in injuries to passengers who were aboard the train. While the ultimate loss from each of these events has exceeded NYCTA's retention limit, thereby resulting in a liability to the ELF, there are few remaining cases. A verdict has been reached in a 1993 subway accident case. The verdict will require a payment from ELF in the amount of \$4. The amount was paid in November 2003 by ELF before its termination and transferring of the assets to FMTAC.

The Authority previously reported that its lease of new office space at Two Broadway has resulted in civil litigation between the Authority and the owner/landlord of Two Broadway in the Supreme Court of New York, New York County (the "Supreme Court action"), asking for declaratory, injunctive and monetary relief as a result of the landlord's defective performance and interference with the reconstruction and refurbishment of the base, core and shell of the building (the "Base Building Work"). In turn, the landlord commenced a nonpayment of rent proceeding in the Civil Court of New York City, New York County (the "Civil Court action"), seeking to collect rent withheld by the Authority to cover the costs of the base Building Work, which was being financed by the Authority. The Civil Court action has been stayed pending adjudication of the Supreme Court action, on the condition that the Authority pay use and occupancy rent. On May 22, 2000, the Supreme Court granted the Authority's request for a preliminary injunction enjoining the defendants from taking any action to interfere with the Base Building Work, evict the Authority, or terminate the Authority's tenancy, pending the outcome of the case. On January 16, 2001, the Appellate Division modified the May 22, 2000 order to condition the injunction on the Authority's payment of use and occupancy rent, from that day forward. On November 22, 2002, the Court granted in part the Authority's motion for summary judgment and referred the determination of the full amount of the Base Building Work budget to a judicial referee. On November 4, 2003, the parties to this dispute entered into a Settlement Agreement that resolves all the issues in both lawsuits on terms that are acceptable to the Authority and which will not have a negative impact on its budget for the development of the property. The lawsuits have both been dismissed.

10. SEGMENT INFORMATION

	MTA *	Commuters	Transit	Bridges and Tunnels	Eliminations	Total
SEPTEMBER 30, 2004 (Unaudited)						
Operating revenue	\$ 66	\$ 650	\$ 2,081	\$ 828	\$ (28)	\$ 3,597
Depreciation and amortization	19	283	662	32	-	996
Subsidies and grants	293	-	238	-	(79)	452
Tax revenue	1,578	-	790	-	(480)	1,888
Interagency subsidy	301	-	84	(301)	(84)	-
Operating (deficit) surplus	(204)	(810)	(1,828)	572	-	(2,270)
Net (deficit) surplus	542	(772)	549	(19)		300
Capital expenditures	2,538	155	533	249	(945)	2,530
SEPTEMBER 30, 2004 (Unaudited)						
Total assets	10,109	8,719	23,437	3,527	(1,825)	43,967
Net working capital	1,559	(74)	(325)	206	(326)	1,040
Long-term debt	12,424	-	-	7,059	(47)	19,436
Net assets	(6,767)	7,606	21,037	(4,063)		17,813
SEPTEMBER 30, 2003 (Unaudited)						
Operating revenue	\$ 63	\$ 601	\$ 1,916	\$ 769	\$ (28)	\$ 3,321
Depreciation and amortization	19	255	613	27	-	914
Subsidies and grants	312	-	233	-	(159)	386
Tax revenue	1,398	-	518	-	(647)	1,269
Interagency subsidy	291	-	131	(291)	(131)	-
Operating (deficit) surplus	(172)	(759)	(1,790)	511	-	(2,210)
Net (deficit) surplus	1,362	(715)	718	(818)	(387)	160
Capital expenditures	2,800	165	505	1,060	(1,725)	2,805
DECEMBER 31, 2003						
Total assets	9,230	8,408	22,661	3,304	(1,574)	42,029
Net working capital	801	(39)	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

*Includes the amounts for MTAHQ, MSBA, SIRTOA, FMTAC and ELF.

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 TBTA's bridges and tunnels, not all facilities, 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.

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 %

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION NINE MONTHS ENDED SEPTEMBER 30, 2004 (Dollars in Millions)

FINANCIAL PLAN ACTUAL - OPERATING LOSS	<u>\$ (2,218.5)</u>
Reconciling items:	
Inspector General expenses are recorded in the Financial Plan net of MTAHQ allocation.	(2.5)
The Financial Plan subtracts TBTA depreciation in order to calculate operating surplus transfer.	(31.5)
East Side Access ("ESA") expenses are reflected in the financial statement until capital reimbursements are recorded.	(0.1)
Capital Construction expenses are reflected in the financial statement until capital reimbursements are recorded.	(0.6)
Historically, FMTAC expenses have not been included in the Financial Plan. The Financial Plan will be adjusted in 2005 to include those expenses.	(9.0)
MTAHQ pays for 2 Broadway miscellaneous and administrative expenses not reimbursed by MTA Agencies. These expenses have not been recorded in the Financial Plan.	(4.3)
MNCR accrual adjustments made after the close of the Financial Plan.	(0.3)
Depreciation expense recorded in Consolidated Services Departments and other minor adjustments not recorded in Financial Plan.	<u>(3.3)</u>
FINANCIAL STATEMENT OPERATING LOSS	<u>\$ (2,270.1)</u>

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION

CONSOLIDATED RECONCILIATION BETWEEN SEPTEMBER FINANCIAL PLAN AND FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2004

(Dollars in Millions)

<u>Category</u>	<u>Mid-Year Forecast</u> (1)	<u>Financial Plan Actual</u> (2)	<u>Financial Statement GAAP Actual</u> (3)	<u>Variance (Financial Plan Actual - Mid-Year Forecast)</u> (2) - (1)	<u>Variance (Financial Statement Actual - Financial Plan Actual)</u> (3) - (2)
REVENUE					
Farebox Revenue	\$ 2,551.6	\$ 2,545.8	\$ 2,545.8	\$ (5.8)	\$ -
Vehicle Toll Revenue	818.1	820.8	820.8	2.7	-
Other Operating Revenue	231.2	237.6	230.1	6.4	(7.5)
Total Revenue	3,600.9	3,604.2	3,596.7	3.3	(7.5)
EXPENSES					
Labor:					
Payroll	2,427.0	2,428.1	2,429.8	(1.1)	(1.7)
Overtime	256.1	262.1	261.5	(6.0)	0.6
Health and Welfare	542.0	533.1	534.6	8.9	(1.5)
Pensions	381.2	380.9	381.2	0.3	(0.3)
Other Fringe Benefits	265.0	263.4	265.3	1.6	(1.9)
Reimbursable Overhead	(173.1)	(160.3)	(147.0)	(12.8)	(13.3)
Rounding	-	-	-	-	-
Total Labor Expenses	3,698.2	3,707.3	3,725.4	(9.1)	(18.1)
Non-Labor:					
Traction and Propulsion Power	151.0	153.4	153.4	(2.4)	-
Fuel for Buses and Trains	67.3	65.4	65.4	1.9	-
Insurance	48.3	48.3	20.1	(0.0)	28.2
Claims	75.0	67.7	99.5	7.3	(31.8)
Paratransit Service Contracts	102.7	97.6	97.6	5.1	-
Maintenance and Other Operating Contracts	321.9	285.4	291.1	36.5	(5.7)
Professional Service Contract	129.4	122.9	122.3	6.5	0.6
Materials & Supplies	284.1	269.2	274.0	14.9	(4.8)
Other Business Expenses	73.6	65.8	21.7	7.8	44.1
Rounding	-	-	-	-	-
Total Non-Labor Expenses	1,253.3	1,175.7	1,145.1	77.6	30.6
Other Expenses Adjustments:					
TBTA Transfer	-	-	-	-	-
General Reserve	-	-	-	-	-
Interagency Subsidy	(33.3)	(26.7)	-	(6.6)	(26.7)
Other	12.0	9.4	-	2.6	9.4
Total Other Expense Adjustments	(21.3)	(17.3)	-	(4.0)	(17.3)
Total Expenses Before Depreciation	4,930.2	4,865.7	4,870.5	64.5	(4.8)
Depreciation	1,008.5	988.5	996.3	20.0	(7.8)
TBTA Depreciation Expense	(31.5)	(31.5)	-	-	(31.5)
Rounding	-	-	-	-	-
Total Expenses (Excluding TBTA Depreciation)	5,907.2	5,822.7	5,866.8	84.5	(44.1)
Net Operating Surplus/(Deficit) Excluding Subsidies and Debt Service	\$ (2,306.3)	\$ (2,218.5)	\$ (2,270.1)	\$ 87.8	\$ (51.6)

METROPOLITAN TRANSPORTATION AUTHORITY

SUPPLEMENTARY INFORMATION

CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS

NINE MONTHS ENDED SEPTEMBER 30, 2004

(Dollars in Millions)

<u>Accrued Subsidies</u>	Mid-Year	Financial Plan	Financial Statement	Variance	Variance
	<u>Forecast</u>	<u>Actual</u>	<u>GAAP Actual</u>	(Financial Plan Actual - <u>Mid-Year Forecast</u>)	(Financial Statement Actual - <u>Financial Plan Actual</u>)
	(1)	(2)	(3)	(2) - (1)	(3) - (2)
Mass Transportation Operating Assistance	\$ 768.7	\$ 736.4	\$ 751.1	\$(32.3)	\$ 14.7 {1}
Petroleum Business Tax	406.0	406.9	408.1	0.9	1.2 {1}
Mortgage Recording Tax 1	233.9	268.5	268.3	34.6	(0.2) {2}
Mortgage Recording Tax 2	193.9	222.7	222.7	28.8	-
Urban Tax	149.9	237.7	237.7	87.8	-
State and Local Operating Assistance	378.7	375.7	378.8	(3.0)	3.1 {1}
Additional Mass Transportation Assistance Program	-	-	15.0	-	15.0 {1}
Nassau County Subsidy to Long Island Bus	7.4	6.0	6.0	(1.4)	-
Station Maintenance	95.9	97.1	97.1	1.2	-
Connecticut Department of Transportation (CDOT)	38.8	37.5	37.5	(1.3)	-
NYS Grant for D.S.	-	-	51.5	-	51.5 {3}
Adjustment for Rounding	-	-	-	-	-
Total Accrued Subsidies	2,273.2	2,388.5	2,473.8	115.3	85.3
Net Operating Surplus/(Deficit)					
Excluding Accrued Subsidies and Debt Service	(2,306.3)	(2,218.5)	(2,270.1)	87.8	(51.6)
Total Net Operating Surplus/(Deficit)	<u>\$ (33.1)</u>	<u>\$ 170.0</u>	<u>\$ 203.7</u>	<u>\$ 203.1</u>	<u>\$ 33.7</u>

{1} New York subsidies paid directly to the Long Island Bus were not picked up in the Financial Plan until the fourth quarter.

{2} Miscellaneous rounding.

{3} In The Financial Statement funds received from NYS to cover debt service expenditures for Service Contract Bonds are included in the subsidies line. The Financial Plan does not reflect either the funding or the debt service expense because the transactions result in a zero cash impact.