NEW YORK CITY TRANSIT AUTHORITY

Consolidated Financial Statements

December 31, 2001 and 2000

(With Independent Auditors' Report Thereon)

NEW YORK CITY TRANSIT AUTHORITY

Consolidated Financial Statements

December 31, 2001 and 2000

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Independent Auditors' Report

Members of the Board
Metropolitan Transportation Authority:

We have audited the accompanying consolidated balance sheets of the New York City Transit Authority (the Authority) as of December 31, 2001 and 2000, and the related consolidated statements of operations and surplus, changes in contributed capital, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in the notes to the consolidated financial statements, the Authority is a public benefit corporation that receives a significant portion of its operating and capital financing requirements from the City of New York, the State of New York, federal and regional governmental entities, and from the sale of bonds to the public. Also, the Authority has material transactions with affiliated agencies and other public transportation agencies.

As discussed in note 2 to the consolidated financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions* and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*. In addition, see note 13 for discussion of the impact of the World Trade Center disaster.

The supplementary information on page 41 is not a required part of the consolidated financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit this information and express no opinion on it.

KPMG LLP

March 15, 2002

NEW YORK CITY TRANSIT AUTHORITY

Consolidated Balance Sheets

December 31, 2001 and 2000

(In thousands)

Assets		2001	2000
Current assets:			
Cash (note 3)	$	31,405	41,115
MTA Investment Pool (note 4)		160,070	218,270
Receivables:			
Billed and unbilled charges due from New York City		31,499	32,691
Accrued subsidies		299,660	317,197
Due from MTA and constituent Authorities		160,175	181,333
Other		44,106	38,261
Less allowance for doubtful accounts		(25,893)	(25,042)
Net receivables		509,547	544,440
Investments – restricted for debt service (note 3)		13,709	23,477
Materials and supplies		147,478	126,971
Prepaid pension expenses (note 6)		83,530	116,065
Prepaid expenses and other current assets		22,433	94,292
Total current assets		968,172	1,164,630
Investments – restricted for debt service (note 3)		17,996	17,852
Due from New York City for capital cost reimbursement (note 1)		17,631	45,597
Due from MTA for purchase of capital assets		840,724	859,738
Capital assets, net of accumulated depreciation (note 5)		17,191,725	15,972,421
Leased property under capital lease, net of accumulated amortization (note 5)		122,085	124,655
Leasehold improvements on property, net of accumulated depreciation (note 5)		214,355	213,528
Deferred expenses related to issuance of debt		145,819	126,104
Restricted deposits and other escrow funds		700	758
Total assets	$	19,519,207	18,525,283

See accompanying notes to consolidated financial statements.

(Continued)

Liabilities and Equity		2001	2000
Current liabilities:			
Bank overdrafts payable	$	24,946	48,907
Accounts payable		85,695	73,897
Accrued expenses:			
Salaries, wages, and payroll taxes		134,937	123,263
Vacation and sick pay benefits		372,087	328,138
Retirement and death benefits (note 6)		9,977	3,660
Estimated liability arising from injuries to persons (note 11)		103,459	108,250
Interest		4,886	7,591
Other		52,550	35,932
Total accrued expenses		677,896	606,834
Car overhaul program		5,310	4,562
Due to MTA for repayment of debt, current portion (note 7)		83,606	79,108
Current portion of long-term debt (note 8)		9,195	8,645
Unredeemed farecards and tokens		112,574	107,818
Deferred subsidy revenue		6,885	6,885
Total current liabilities		1,006,107	936,656
Due to MTA for repayment of debt (note 7)		3,808,353	3,690,204
Due to MTA for repayment of Bond Anticipation Notes (note 10)		504,476	504,476
Due to MTA for repayment of Certificates of Participation (note 7)		219,460	212,958
Long-term debt (note 8)		191,594	196,928
Obligations under capital lease, long-term (note 5)		131,128	127,814
Accrued retirement and death benefits (note 6)		62,631	64,478
Estimated liability arising from injuries to persons (note 11)		588,388	587,077
Restricted deposits and other escrow funds		700	758
Other long-term liabilities		35,303	34,249
Total liabilities		6,548,140	6,355,598
Equity:			
Cumulative contributed capital		10,736,081	11,667,260
Cumulative surplus:			
Reserved for capital projects		1,934,992	—
Unreserved (note 12)		299,994	502,425
Total cumulative surplus		2,234,986	502,425
Total equity		12,971,067	12,169,685
Commitments and contingencies (notes 1, 11, and 13)			
Total liabilities and equity	$	19,519,207	18,525,283

NEW YORK CITY TRANSIT AUTHORITY

Consolidated Statements of Operations and Surplus

Years ended December 31, 2001 and 2000

(In thousands)

		2001	2000
Revenues:			
Operating revenues:			
Rapid transit revenue	$	1,523,531	1,533,602
Surface transit revenue		613,117	572,312
School, elderly, and paratransit reimbursement		118,064	115,681
Advertising and other		80,919	97,342
Total operating revenues		2,335,631	2,318,937
Nonoperating revenues:			
Tax-supported subsidies:			
New York State		739,720	691,813
New York City		210,486	174,623
Operating assistance subsidies:			
New York State		158,672	158,672
New York City		158,672	158,672
Triborough Bridge and Tunnel Authority		133,134	163,044
Less amounts:			
Provided to Staten Island Rapid Transit Operating Authority		(3,252)	(2,958)
		1,397,432	1,343,866
Expense reimbursement subsidies:			
New York City transit police		3,928	3,900
Capital project labor and other		466,115	416,088
Capital engineering		239,960	223,844
		710,003	643,832
Capital contributions (note 2)		1,934,992	—
Total nonoperating revenues		4,042,427	1,987,698
Total revenues		6,378,058	4,306,635

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NEW YORK CITY TRANSIT AUTHORITY

Consolidated Statements of Operations and Surplus

Years ended December 31, 2001 and 2000

(In thousands)

	2001	2000
Expenses:		
Salaries and wages	$ 2,748,256	2,574,813
Retirement and death benefits	267,087	248,045
Other employee benefits	501,375	457,222
Materials and supplies	339,639	299,132
Fuel and power	182,901	182,923
Outside computer, engineering, and other services	278,317	233,007
Public liability	49,768	81,568
Rentals	52,409	43,562
Depreciation	727,167	655,295
Interest	153,074	97,408
Other expenses	46,134	39,007
Total expenses	5,346,127	4,911,982
Excess (deficiency) of revenues over expenses	1,031,931	(605,347)
Loss on impairment of capital assets (note 13)	(172,576)	—
Loss on disposal of subway cars (note 5)	(57,973)	—
Elimination of NYCERS long-term pension liability (note 6)	—	236,768
Excess (deficiency) of revenues over expenses and other nonoperating transactions	801,382	(368,579)
Depreciation of capital assets acquired with contributed capital	700,630	635,086
Loss on impairment and disposal of capital assets acquired with contributed capital	230,549	—
Net surplus	1,732,561	266,507
Cumulative surplus at beginning of year	502,425	56,987
Cumulative effect of change in accounting principle (note 2)	—	178,931
Cumulative surplus at beginning of year, as restated	502,425	235,918
Cumulative surplus at end of year	$ 2,234,986	502,425

See accompanying notes to consolidated financial statements.

NEW YORK CITY TRANSIT AUTHORITY

Consolidated Statements of Changes in Contributed Capital

Years ended December 31, 2001 and 2000

(In thousands)

	2001	2000
Contributed capital at beginning of year	$ 11,667,260	10,903,278
Additions to contributed capital (note 2)	—	1,399,068
Depreciation of capital assets acquired with contributed capital	(700,630)	(635,086)
Loss on impairment of capital assets acquired with contributed capital	(172,576)	—
Loss on disposal of capital assets acquired with contributed capital	(57,973)	—
	(931,179)	763,982
Contributed capital at end of year	$ 10,736,081	11,667,260

See accompanying notes to consolidated financial statements.

NEW YORK CITY TRANSIT AUTHORITY

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

(In thousands)

		2001	2000
Cash flows from operating activities:			
Cash received from passengers, tenants, advertisers, and others	$	2,352,561	2,301,291
Cash payments for payroll and related employee costs		(2,994,181)	(2,856,074)
Cash payments to suppliers for goods and services		(595,186)	(664,927)
Net cash used in operating activities		(1,236,806)	(1,219,710)
Cash flows from noncapital financing activities:			
Subsidies received from affiliated agencies		1,420,418	1,392,248
(Decrease) increase in bank overdraft		(23,961)	22,868
Net cash provided by noncapital financing activities		1,396,457	1,415,116
Cash flows from capital and related financing activities:			
Principal payments		(94,726)	(79,678)
Interest paid		(248,807)	(247,458)
Subsidies designated for debt service payments		118,483	109,730
Capital project costs incurred for capital program		(685,313)	(618,788)
Reimbursement of capital project costs from MTA		663,169	622,429
Net cash used in capital and related financing activities		(247,194)	(213,765)
Cash flows from investing activities:			
Purchase of investment securities		(41,620)	(43,900)
Proceeds from sale and maturities of investments		51,244	47,499
Decrease in MTA Investment Pool		58,200	5,220
Interest on investments		10,009	17,160
Net cash provided by investing activities		77,833	25,979
Net (decrease) increase in cash		(9,710)	7,620
Cash at beginning of year		41,115	33,495
Cash at end of year	$	31,405	41,115

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NEW YORK CITY TRANSIT AUTHORITY

Consolidated Statements of Cash Flows

Years ended December 31, 2001 and 2000

(In thousands)

		2001	2000
Reconciliation of cash flows from operating activities:			
Net excess (deficiency) of revenues over expenses	$	1,031,931	(605,347)
Adjustments to reconcile net excess (deficiency) of revenues over expenses to net cash used in operating activities:			
Expense reimbursement subsidies		(710,003)	(643,832)
Capital related costs		706,075	639,932
Nonoperating revenues		(1,397,432)	(1,343,866)
Capital contributions		(1,934,992)	—
Interest income		(9,480)	(18,423)
Interest expense		153,074	97,408
Depreciation		727,167	655,295
Elimination of NYCERS long-term pension liability		—	236,768
		(1,433,660)	(982,065)
Changes in operating assets and liabilities:			
Increase in farecard and token liability		4,756	9,878
Increase in accrued salaries, wages, and payroll taxes		11,674	11,202
Increase (decrease) in accounts payable and other accrued liabilities		29,196	(16,659)
Increase in accrued vacation and sick pay benefits		43,949	46,091
Increase (decrease) in accrued retirement and death benefits		4,470	(242,750)
(Decrease) increase in estimated liability arising from injuries to persons		(3,480)	16,135
Decrease (increase) in operating receivables		21,654	(9,101)
Decrease (increase) in prepaid expenses and other current assets		71,859	(5,331)
Decrease (increase) in prepaid pension expense		32,535	(25,629)
Decrease in due from New York City for engineers’ pension fund		—	6,555
Increase in materials and supplies and change in car overhaul program liability		(19,759)	(28,036)
Net cash used in operating activities	$	(1,236,806)	(1,219,710)
Supplemental schedule of noncash capital and related financing activities:			
Fair value of assets contributed	$	1,000,209	609,763
Debt issued by affiliated agency for capital assets		173,636	386,497

See accompanying notes to consolidated financial statements.

(1) Financial Statements

Reporting Entity

The accompanying consolidated financial statements include the accounts of the New York City Transit Authority (Transit Authority), and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority), which are public benefit corporations created pursuant to the Public Authorities Law (the Act) of the State of New York (the State) to operate public subway and bus services within the City of New York (the City).

MaBSTOA is a component unit of the Transit Authority blended in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and, therefore, the financial results of MaBSTOA are combined with those of the Transit Authority in the consolidated financial statements. The MaBSTOA Pension Plan (the Plan) is not a blended or discretely presented component unit of the Transit Authority, in accordance with GASB Statement No. 14, and, therefore, the financial results of the Plan are not included in the Authority's consolidated financial statements.

The Authority has material transactions with affiliated agencies and other public transportation agencies. Such agencies include the Metropolitan Transportation Authority (MTA), Triborough Bridge and Tunnel Authority (TBTA), Metro North Commuter Railroad (MNCR), Long Island Rail Road (LIRR), and the Staten Island Rapid Transit Operating Authority (SIRTOA).

The Authority is a component unit of the MTA and is included in the combined financial statements of the MTA in accordance with GASB Statement No. 14. The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the State Comptroller as a public benefit corporation.

Operations

Operations are conducted pursuant to leases with the City which expired on November 1, 1989, except that the terms of the leases continue so long as any financing agreement between the Authority and the MTA and any MTA Transit Facilities Revenue Bonds remain outstanding (see note 7). The City has the option to terminate the leases at any time. In the event of termination, the City is required to assume the assets and liabilities of the Authority and must pay or make provision for the payment of any debt incurred pursuant to financing agreements of the Authority.

Substantial operating deficits (the difference between operating revenues and expenses) result from the essential services that the Authority provides; such operating deficits will continue in the foreseeable future. To meet the funding requirements of these operating deficits, the Authority receives subsidies from: (a) the State in the form of annual appropriations of special State and regional tax revenues, operating assistance, and reimbursement of certain expenses; (b) the City in the form of operating assistance, tax revenues, and reimbursement of certain expenses; and (c) an affiliated agency (TBTA), in the form of a portion of its operating surplus. Refer to note 12 in the consolidated financial statements.

The New York State Public Authorities Law and the financing agreement between the Authority and the MTA provide that the Authority shall establish fares, tolls, and other fees for the use of its facilities as may be necessary to maintain its combined operations on a self-sustaining basis as defined in such law. It is the opinion of management that the Authority is in compliance with these requirements.

The Authority is not liable for real estate taxes, franchise taxes, or sales taxes on substantially all of its purchases or other excise taxes on its properties.

Capital Financing

1992-1999 Capital Programs

The MTA has ongoing capital programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area. The 1992-1999 Capital Programs (the Capital Programs) totaled $18.1 billion, of which the Authority's portion amounted to $12.6 billion. The Capital Programs are, and are expected to continue to be, funded by federal capital grants, City capital funds, MTA bonds secured by system revenues and other sources, bonds issued and to be issued by the TBTA, proceeds from the sale of tax benefits on leasing transactions, and by direct transfers of operating budget revenues raised expressly for the purpose of supporting the Capital Programs.

At December 31, 2001, $12.5 billion has been committed to Authority projects from the 1992-1999 approved plan, of which approximately $10.4 billion has been expended.

Approved 2000-2004 Capital Program

The 2000-2004 Capital Program, which was approved by the State Review Board in May 2000, provides for $18.1 billion in capital expenditures, of which the Authority's portion is $10.3 billion. Among the projects included in the 2000-2004 Transit Capital Program are the following: design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,130 new subway cars, replacing 927 existing cars and expanding the fleet by 203 cars, acquisition of 1,056 new buses, including 300 clean fuel buses, rehabilitation of 64 stations, provision of full ADA accessibility at 26 stations, replacement of 32 escalators at various stations, replacement of approximately 40 miles of mainline track, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2000-2004 Capital Program include $7.3 billion in new money bonds, $5.0 billion in federal funds, $3.0 billion from debt restructuring, $2.1 billion in State and City capital funding, and $0.8 billion from other sources. The 2000-2004 Capital Program assumes the issuance of $1.6 billion of bonds by the State; however, the bond referendum authorizing the issuance of such bonds (State Bond Act) was defeated in November 2000.

As part of the 2000-2004 MTA Capital Program, the MTA, the TBTA and the Authority are proposing to refund and defease substantially all of their outstanding debt and consolidate most of their existing credits. Sources from the debt restructuring were originally estimated to be $3.0 billion, including $1.4 billion of new money bonds, with the remainder resulting from the benefits of modernizing the bond resolutions. Due to various factors, the debt restructuring may generate an additional $1.4 billion, thereby substantially eliminating the funding gap caused by the defeat of the State Bond Act.

While the 2000-2004 Capital Program has been approved by the State legislature, there can be no assurance that the funding sources identified will be available in the amounts and at the times contemplated or that the Capital Program will not be delayed or reduced. If the implementation of the 2000-2004 Capital Program is significantly delayed, the Authority's efforts to bring the entire transit system to a state of good

(Continued)

repair and to prevent deterioration of portions of the transit system which have already reached a state of good repair may be impeded, with potential negative effects on ridership and fare revenues.

At December 31, 2001, $3.8 billion has been committed to Authority projects from the 2000-2004 approved plan, of which approximately $1.1 billion has been expended.

Pursuant to a Memorandum of Understanding (MOU) dated May 20, 1996, by and among the MTA, the Authority, and the City, the Authority was authorized, and made grant transfers to the City totaling $250 million through 1997. In exchange, the City agreed to pay $500 million from its capital budget to fund the Authority's capital program. The intent of the MOU was to provide additional capital funding to the Authority which did not require the issuance of bonds supported by Authority revenues, including fare receipts. As of December 31, 2001, the City has made capital payments totaling $232.4 million to reduce the receivable due from the City for the first $250 million in the consolidated balance sheets to $17.6 million. The second $250 million is recognized as capital contributions when the City reimburses the Authority for the costs of certain capital projects. As of December 31, 2001, the City has reimbursed the Authority $163.5 million for capital projects included in the second $250 million amount.

(2) Accounting Policies

Basis of Accounting

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority applies all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989 that do not conflict with GASB pronouncements. Subsequent to November 30, 1989, the Authority exclusively applies all applicable GASB pronouncements.

New Accounting Standards Adopted

In fiscal year 2001, the Authority adopted GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues*, which amends certain provisions of GASB Statement No. 33 relating to shared nonexchange revenues.

GASB Statements No. 33 and No. 36 (collectively, the Statements) establish accounting and financial reporting standards for nonexchange transactions involving financial or capital resources, for example, taxes and grants. Implementation of the Statements changed the timing of revenue recognition for certain of the Authority's tax-supported and operating assistance subsidies, specifically State operating assistance and the Metro mass tax subsidy. Additionally, upon implementation, capital contributions received by the Authority are reported as revenue in the consolidated statement of operations and surplus, as opposed to being reported as additions to contributed capital.

The provisions of the Statements, other than those related to the reporting of capital contributions, have been adopted effective January 1, 2000, and fiscal year 2000 amounts have accordingly been restated. The effect of the implementation of the Statements on beginning cumulative surplus for fiscal years 2001 and 2000 is an increase of $167.5 million and $178.9 million, respectively. Provisions related to the reporting of capital contributions are effective January 1, 2001, and as such, no restatement of fiscal year 2000 amounts related to capital contributions is permitted in accordance with the Statements.

Subsidies

The Authority receives subsidies from various sources including the State and the City. In general, these subsidies are subject to annual appropriations by the governmental units and periodic approval of the continuation of the taxes supporting the subsidies.

The principal funding sources for the Authority are as follows:

Operating Assistance Appropriations and Grants: The Authority receives, subject to annual appropriations, State and City operating assistance funds. The funds received under the State transit operating assistance program are fully matched by contributions from the City. State and City operating assistance subsidies are recognized as revenue in the amount of the respective annual appropriation when such appropriation becomes effective.

Triborough Bridge and Tunnel Authority: The New York State Public Authorities Law requires the TBTA to transfer its annual operating surplus, as defined, to the Authority and the MTA. The initial $24 million of the operating surplus is provided to the Authority and the balance is divided equally between the Authority and the MTA. However, the amounts transferred to the Authority and the MTA are net of a provision for debt service on TBTA bonds issued to finance the acquisition of facilities under their respective portions of the Capital Program. For the years ended December 31, 2001 and 2000, $148.2 million and $144.4 million, respectively, were paid from the operating surplus of the TBTA to satisfy the Authority's portion of debt service requirements. Additionally, in 2001, the Authority reduced the amount of TBTA operating surplus recognized by $4.8 million to reimburse the MTA for the MTA's portion of the allocation of debt service on TBTA Beneficial Interest Certificates.

Mortgage Recording Taxes: Under New York State law, the MTA receives operating and capital assistance from the State Mortgage Recording Tax, which is collected by the City and the seven counties within the MTA transportation region, at the rate of one-quarter of 1% of the debt secured by certain real estate mortgages. State legislation governs the use of the funds from this revenue source whereby the proceeds of this tax are first used by the MTA to meet the operating costs of the MTA headquarters, with the remaining funds allocated 55% to the Authority and 45% to the commuter railroads for their capital and operating needs. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. The portion of this subsidy attributable to the Authority is reported in "tax-supported subsidies: New York State" in the accompanying consolidated statements of operations and surplus. The Authority records the portion of its State Mortgage Recording Tax subsidy which funds principal and interest payments on long-term debt, net of investment earnings on unexpended proceeds, used to construct capital assets as capital contributions. The debt service portion amounted to $0.2 million in 2001 and $3.6 million in 2000.

In addition, the State designated for the MTA's use an additional mortgage recording tax (the Additional Mortgage Recording Tax) of one-quarter of 1% of mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the MTA transportation region. The funds from this additional tax are available, after satisfying debt service requirements, to meet the capital and operating needs of the Authority and the commuter railroads.

The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. The MTA designated $34.6 million in 2001 and $30.9 million in 2000 for the Authority's debt service requirements.

The Authority receives operating assistance directly from the City through the City Mortgage Recording Tax at the rate of five-eighths of 1% of the debt secured by certain real estate mortgages and through the Real Property Transfer Tax at the rate of 1% of certain properties' assessed value (collectively referred to as Urban Tax Subsidies). These Urban Tax Subsidies are reflected in tax supported subsidies: New York City in the accompanying consolidated statements of operations and surplus. These funds are recognized as revenue based upon the reported amount of taxes collected by the City from underlying transactions within the Authority's fiscal year.

New York State Regional Mass Transit Taxes: The Authority receives, subject to annual appropriations, revenues from taxes enacted by the State legislature from various taxing sources.

In 1980, the State enacted a series of taxes, portions of which are deposited in the Metro Mass Transportation Operating Account (MMTOA), to fund the operating deficits of State mass transportation systems. MMTOA taxes currently include a business privilege tax imposed on petroleum businesses in the State, a one-quarter of 1% sales and use tax on certain personal property and services, a corporate franchise tax imposed on transportation and transmission companies, and a temporary franchise tax surcharge on certain corporations, banks, insurance, utility, and transportation companies attributable to business activity carried on in the State. MMTOA taxes are subject to annual appropriation, availability of sufficient tax collections, and determination of operating need by the State for the MTA. They are recognized as revenue in the amount of the annual appropriation when such appropriation becomes effective.

Under New York State law, subject to annual appropriation, the MTA receives operating and capital assistance through a portion of petroleum business tax receipts, certain motor fuel taxes, and certain motor vehicle fees, which are collected by the State. Such assistance is required by law to be allocated, after provision for debt service on any bonds secured by such taxes, 85% to the Authority and 15% to the commuter railroads for their operating and capital needs. MTA Dedicated Tax Fund Bonds (DTF Bonds), Series 2001A, Series 2000A, Series 1999A, Series 1998A, and Series 1996A, are secured by certain petroleum business tax receipts. The Authority recognizes such sources of funds when designated by the MTA for the Authority's use. A portion of the petroleum business tax receipts collected by the MTA is used to satisfy the Authority's debt service requirements for the DTF Bonds and is recorded as capital contributions.

The composition of New York State tax-supported subsidies for 2001 and 2000, as restated for implementation of the Statements, is as follows:

		2001		2000	
		Accrued revenue	Cash	Accrued revenue	Cash
		(In thousands)			
Petroleum business tax (a)	$	224,766	220,629	179,041	177,490
Metro mass tax		511,242	527,400	511,242	543,221
Mortgage recording taxes (b)		3,712	—	1,530	—
	$	739,720	748,029	691,813	720,711

(a) Net of $83,688 and $75,188 for debt service payments in 2001 and 2000, respectively.
(b) Net of $34,795 and $34,542 for debt service payments in 2001 and 2000, respectively.

Paratransit: Pursuant to an agreement between the City and the MTA, the Authority, effective July 1, 1993, assumed operating responsibility for all paratransit service required by the Americans with Disabilities Act of 1990. The City reimburses the Authority for the lesser of 33% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6% of gross urban tax proceeds as described above or, an amount that is 20% greater than the amount paid by the City for the preceding calendar year. Fare revenues and the City reimbursement aggregated approximately $30.3 million in 2001 and $25.4 million in 2000.

Reimbursement of Expenditures: Engineering and labor costs incurred by the Authority for capital projects are reimbursed under the capital program by the MTA to the extent that they relate to approved expenditures applicable to capital projects primarily initiated after April 1, 1982. They are reimbursed by the City to the extent they relate to amounts approved for prior projects.

Fare and Service Reimbursement from the State and City: The City no longer fully reimburses the Authority for costs of the free fare program for students; however, pursuant to a 1995 agreement with the State and the City, the Authority continued the student program beginning with the 1995-1996 school year, with the State and the City each agreeing to pay $45 million of the approximate $135 million cost. The City's current financial plan provides for the continuation of the City's $45 million contribution for the 2001-2002 school year, of which $15 million was received in December 2001. The Authority's approved 2002 Operating Budget assumes that the remaining $30 million from the City and the State's full $45 million for the 2001-2002 school year will be received in 2002. The Authority's 2000-2004 financial plan assumes the continuation of the joint funding of the free fare program for students for the remainder of the 2000-2004 period.

Prior to April 1995, the City was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the New York City Police Department, the City no longer reimburses the Authority for the costs of policing the Transit System on an ongoing basis

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since policing of the Transit System is being carried out by the New York City Police Department at the City's expense. The Authority continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by the City. The Authority received approximately $4,715,000 in 2001 and $7,206,000 in 2000 for the reimbursement of transit police costs. An additional reimbursement of approximately $852,000 was received in March 2002.

Due from MTA and Constituent Authorities

Due from MTA and constituent authorities consists of reimbursements due from the MTA Capital Program for billed and unbilled charges relating to capital projects, farecards and tokens on consignment with sister agencies, and intercompany operating receivables, payables, and prepayments.

Prepaid Expenses and Other Current Assets

In December 2000, the Authority deposited funds totaling $100 million with the New York Power Authority (NYPA) to be used for the Authority's year 2001 energy costs. Each month during the billing period January 1, 2001 through December 31, 2001 (billing is on a one-month lag), NYPA applied an amount equal to the sum of one-twelfth of the aggregate amount plus interest earned on that portion to amounts due from the Authority for power purchased for the prior month. As of December 31, 2000, the aggregate amount of $100 million was reduced by a total credit of $8.5 million for the cost of power purchased from NYPA for the month of December 2000. No prepayment was made during 2001 for year 2002 energy costs.

Due from MTA for Purchase of Capital Assets

Due from MTA for purchase of capital assets consists of funds held by the MTA which are restricted for capital asset acquisitions by the Authority pursuant to the 1982 Transit Facility Special Obligation Bond Resolution. This capital program pool is comprised of non-bond proceeds funds derived from safe harbor and sale/leaseback transactions, operating fund transfers, legal settlements, TBTA bond purchase rights and swap option agreements, and interest earnings on these pooled funds.

Capital Assets

Capital assets acquired prior to April 1982 were funded primarily by the City, with capital grants made available to the Authority. The City has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the Authority. Subsequent acquisitions, which are part of the capital program, are recorded at cost by the Authority. Funding sources for the acquisition of these capital assets include federal, State, and City capital grants, grants from the Port Authority of New York and New Jersey, the proceeds from the issuance of transit facilities revenue bonds, and various TBTA bonding and other sources. Capital assets are recorded at cost and are depreciated on a straight-line basis over 35 years for subway cars, 12 years for buses, and lives generally ranging from 10 years to 60 years for other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

Contributed Capital

For fiscal year 2001, with the implementation of GASB Statements No. 33 and No. 36, capital assets contributed by the MTA and restricted funds due from the MTA for the purchase of capital assets are recorded as capital contributions on the consolidated statement of operations and surplus. In fiscal year 2000 and prior, such items were recorded as additions to contributed capital in the consolidated balance sheets. Capital contributions for the years ended December 31, 2001 and 2000 consist of the following:

		2001	**2000**
		(In thousands)	
Capital assets contributed by MTA from:			
Federal grants	$	707,557	518,179
Other than federal grants		922,800	643,916
Capital assets contributed by New York City for grant transfers		75,926	87,600
New York State mortgage recording taxes received for principal and interest payments on debt		34,795	34,542
Petroleum business taxes received for principal and interest payments on debt		83,688	75,188
Investment earnings on receivables due from MTA for purchase of capital assets		110,226	39,643
Total capital contributions	$	1,934,992	1,399,068

In fiscal year 2001, losses on disposal and impairment of assets acquired or constructed with contributed capital are recorded as a reduction of contributed capital. In both fiscal years 2001 and 2000, depreciation expense on assets acquired or constructed with contributed capital is recorded as a reduction of contributed capital.

Passenger Revenue

Revenues from the sale of farecards and tokens are recognized as income as the farecards and tokens are used.

Advertising and Other Income

Advertising and other income for the years ended December 31, 2001 and 2000 consist of:

		2001	**2000**
		(In thousands)	
Advertising revenue	$	48,368	55,347
Interest income		9,480	18,423
Transit Adjudication Bureau collections		8,358	8,417
Station concessions		8,639	8,914
Rental income		2,842	2,889
All other		3,232	3,352
	$	80,919	97,342

(Continued)

Materials and Supplies

Materials and supplies are recorded at average cost net of a reserve for obsolescence.

Other Expenses

Other expenses for the years ended December 31, 2001 and 2000 consist of:

		2001	2000
		(In thousands)	
Telephone and telecommunications	$	12,471	13,143
Heating fuel		13,647	13,648
Miscellaneous electric		9,841	9,152
Water and sewage		2,982	2,304
Allowance for/recovery of uncollectible accounts		1,687	(1,322)
Data communications		4,968	5,589
Insurance premiums		4,241	2,660
Insurance recoveries		(6,431)	(7,122)
Other miscellaneous expenses		2,728	955
	$	46,134	39,007

Staten Island Rapid Transit Operating Authority

The Staten Island Rapid Transit Operating Authority (SIRTOA) is a wholly owned subsidiary of the MTA and provides transportation service on Staten Island. SIRTOA is managed by the Authority on behalf of the City under a contract which provides that the City fund SIRTOA's deficit. The Authority has no responsibility for the operating deficit of SIRTOA. The Authority collects on SIRTOA's behalf its share of certain operating assistance subsidies determined by formula and transfers such subsidies to SIRTOA. The amount of subsidy funds to which SIRTOA is entitled is recorded as a reduction of the subsidy revenues of the Authority. Separate financial statements are issued by SIRTOA and may be obtained by writing to SIRTOA, 60 Bay Street, 5th Floor, Staten Island, New York 10301.

Employee Benefits

GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, establishes standards for the measurement, recognition, and display of pension expense and related assets, liabilities, note disclosures, and required supplementary information. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters.

Investments

Investments maturing and expected to be liquidated within a year of December 31 have been classified as current assets in the consolidated financial statements. Investments included in the debt service reserve funds pursuant to the Authority's various bond resolutions are recorded at amortized cost, which approximates fair value.

(Continued)

Receivables

Receivables are recorded as amounts due to the Authority, reduced by an allowance for doubtful accounts to report the receivables at net realizable value.

Reclassifications

Reclassification of certain prior year amounts have been made to conform to the current year presentation.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(3) Cash and Investments

Cash consists of the following as of December 31:

	2001		2000	
	Book balance	Bank balance	Book balance	Bank balance
	(In thousands)			
Insured (FDIC) and collateralized deposits	$ 6,093	3,823	3,559	2,761
Less escrow and other restricted deposits	(2,649)	(822)	(1,249)	(846)
Insured funds on hand and in transit	27,961	—	38,805	—
	$ 31,405	3,001	41,115	1,915

The Authority invests the unused proceeds from the Transit Facilities Revenue Bonds, Series 1990 and Transit Facilities Refunding Revenue Bonds, Series 1993 (see note 8), held for debt service accounts and debt service reserve accounts, in repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury bills, and U.S. Treasury notes as permitted by the State Public Authorities Law. All investments are held by the Authority's agent in custody accounts in the name of the Authority.

As of December 31, 2001 and 2000, the carrying amounts and market values of these restricted investments consist of the following:

		2001		2000	
		Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
		(In thousands)			
Investments – short-term:					
U.S. Treasury notes	$	—	—	23,477	23,477
U.S. Treasury bills		1,430	1,430	—	—
Repurchase agreements		12,279	12,279	—	—
		13,709	13,709	23,477	23,477
Investments – long-term:					
U.S. Treasury notes due 2003		17,996	18,718	17,852	17,423
Total	$	31,705	32,427	41,329	40,900

Earnings on these investments amounted to $1.4 million and $1.7 million in 2001 and 2000, respectively.

(4) MTA Investment Pool

The MTA, on behalf of the Authority, 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. All investments are held by the MTA's agent in custody accounts in the name of the MTA. The Authority's earnings from short-term investments approximated $8.0 million and $16.1 million for the years ended December 31, 2001 and 2000, respectively.

In December 1998, the MTA Board approved the establishment of the MTA New York City Transit General Reserve Fund in the amount of $113.0 million. Funds held therein, including interest earned, shall be expended per MTA Board approval to stabilize the Authority's cash flow requirements as needed. As of December 31, 2001, the balance in the reserve fund was approximately $56.0 million. These funds are included in the MTA Investment Pool in the accompanying consolidated balance sheets.

(5) Capital Assets

Capital assets, at December 31, consist of the following:

	2001	2000
	(In thousands)	
Subway cars	$ 4,190,396	3,333,743
Buses	1,531,390	1,493,076
Tracks and structures	4,903,512	4,740,575
Depots and yards	2,536,241	2,449,411
Stations	3,299,830	3,053,212
Signals	1,453,222	1,410,638
Service vehicles	175,920	174,767
Office building	169,584	169,584
Other	1,823,163	1,754,398
Construction in progress	2,810,884	2,457,604
	22,894,142	21,037,008
Less accumulated depreciation	(5,702,417)	(5,064,587)
	$ 17,191,725	15,972,421

Due to the terrorist attacks on September 11, 2001, the Authority recorded a loss on impairment of capital assets of approximately $172.6 million. Refer to note 13 in the consolidated financial statements for a further discussion of the impact of the World Trade Center disaster.

During 2001, the Authority began replacement of certain subway car fleets. The Authority scrapped 229 cars and recorded a loss on disposal of capital assets of approximately $58.0 million.

In 1990, the Authority issued approximately $202.8 million of Transit Facilities Revenue Bonds, Series 1990 (see note 8) to fund the acquisition in April 1991 of an office building located in Brooklyn, New York. The property is located on land owned by the New York City Economic Development Corporation, as trustee for the City, with whom the Authority has entered into a 99-year ground lease. Rent expense, on a cash basis, under the lease for 2001 and 2000, was approximately $566,000 each year.

Capitalized interest amounted to $38.2 million and $39.8 million in 2001 and 2000, respectively. In addition, $31.0 million and $10.5 million in noncash capitalized interest transfers from the TBTA were recorded by the Authority in 2001 and 2000, respectively, on capital program expenditures funded by TBTA debt.

Lease Transaction

In July 1998, the MTA, the Authority and TBTA authorized and entered into a lease and related agreements whereby each agency, as a sublessee, rents office space at Two Broadway in lower Manhattan. The triple-net lease has an initial stated term of approximately 50 years, with the right to extend the lease term for two successive 15-year periods at a rental of at least 95% of fair market rent. Remaining payments under the lease approximate $1.5 billion. Under the separate subleases, the lease is apportioned as follows: the Authority, 68.7%, MTA, 21%, and TBTA, 10.3%. However, the involved agencies have agreed to sub-sublease space from one another as necessary to satisfy actual occupancy needs. The agencies will be responsible for obligations under the lease based on such actual occupancy percentages. Projected occupancy percentages at December 31, 2001 for the Authority and TBTA were 75.6% and 25.4%, respectively. The Authority's sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to $7.5 million in both 2001 and 2000.

Assuming the projected occupancy percentage at December 31, 2001 will continue, the future minimum lease payments under the Authority's sublease are as follows:

	Operating	Capital
	(In thousands)	
Year ending December 31:		
2002	$ 7,451	8,307
2003	7,451	8,307
2004	7,451	9,814
2005	7,451	9,814
2006	7,451	9,814
Thereafter	312,984	775,408
Total minimum lease payments	$ 350,239	821,464
Less imputed interest		(690,336)
Present value of net minimum lease payments		$ 131,128

The capital lease for the aforementioned building will be amortized over the life of the lease. The cost of the building and related accumulated amortization at December 31, 2001 and 2000 is as follows (in thousands):

	2001	2000
Capital lease – building	$ 128,510	128,510
Less accumulated amortization	(6,425)	(3,855)
Capital lease – building, net	$ 122,085	124,655

In July 1999 and July 2000, the MTA issued Certificates of Participation in the amount of $328.2 million and $121.2 million, respectively, to finance the renovation of the building and certain other tenant improvements (refer to note 7). The amount of such improvements apportioned to the Authority as of December 31, 2001 and 2000 is as follows:

		2001	2000
		(In thousands)	
Base building improvements	$	120,656	117,717
Tenant improvements		93,112	90,391
Furniture and fixtures		10,577	10,522
Computers and equipment		4,549	1,471
Development fees		6,850	—
Capitalized interest		8,916	8,730
		244,660	228,831
Less accumulated depreciation		(30,305)	(15,303)
Total leasehold improvements, net	$	214,355	213,528

Additionally, MTA entered into a Coordination and Monitoring Agreement with the lessor, Two Broadway LLC. As part of this agreement, $68.3 million was advanced to the lessor, as of December 31, 1999, to finance contracted base building improvements from proceeds of the 1999 Certificates of Participation. Under the agreement, the lessor is to reimburse the advance with 1.25% interest, primarily through rent credits during the lease term. The obligation to pay these rent credits is currently being disputed by the lessor. The MTA intends to vigorously defend its rights to these rent credits. However, given the uncertainty of the collectibility of the advance through rent credits, the Authority's portion of the net discounted advance at December 31, 2000 of $30.5 million was reclassified to base building improvements during fiscal year 2000. Amounts expended in fiscal years 2000 and 2001 which, under the agreement, would be reimbursable by the lessor have also been recorded as base building improvements.

(6) Employee Benefits

New York City Employees' Retirement System

Plan Description

The Authority contributes to the New York City Employees' Retirement System (NYCERS), a cost-sharing, multiple-employer public employee retirement system (PERS) for employees of the City and certain other governmental units whose employees are not otherwise members of the City's four other main pension systems. The NYCERS plan 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 New York State statutes and New York City 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, NY 11201-3751.

Funding Policy

NYCERS is a noncontributory plan except for certain employees who entered qualifying service after July 27, 1976, who contribute 3% of their salary (see Chapters 10 and 126 of the Laws of 2000 below). The Authority is required to contribute at an actuarially determined rate. The current rate is 0.9% of annual covered payroll. The contribution requirements of plan members and the Authority are established and amended by law. The Authority's contributions to NYCERS for the Authority's fiscal years ending December 31, 2001, 2000, and 1999 were $19.5, $29.5, and $17.4 million, respectively. These payments cover the Authority's annual required contributions for the NYCERS 2001 and 2000 fiscal years, as well as a portion of the annual required contribution for the 2002 NYCERS fiscal year. The remainder of the 2002 annual required contribution is expected to be paid subsequent to year-end within the NYCERS fiscal year.

Prior to 1981, the Authority was 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 Authority in 1981 was 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 on June 24, 2000, as part of a number of changes to actuarial assumptions and methods for the June 30, 1999 actuarial valuation (see the following actuarial assumption table), this liability is no longer being funded separately as part of actuarially determined pension contributions and a liability on the part of the Authority separate from its actuarially determined pension contributions no longer exists. Accordingly, the amount of the recorded catch-up liability and related receivable from the City 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 million recorded as a nonoperating transaction in the consolidated statements of operations and surplus.

During 2000, the State passed Chapter 10 of the Laws of 2000 which allowed for the elimination of certain additional member contributions required under the NYCERS 55/25 Plan and reduction of the basic contribution rates for certain Tier 3 and Tier 4 members.

During 2000, the State also passed Chapter 125 of the Laws of 2000, which provides permanent cost-of-living adjustments (COLAs) for retirees. Chapter 125 provides for a phase-in schedule for funding the additional actuarial liabilities created by the benefits provided by this law. The impact of the phase-in is to postpone funding resulting in increasing employer contributions during the five-year phase-in period.

The State also passed Chapter 126 of the Laws of 2000, which provides additional pension credits for certain Tier 1 and Tier 2 members of up to a maximum of 24 months of additional service retirement credit, and elimination of employee basic contributions for certain Tier 3 and Tier 4 members with more than 10 years of membership. It also allows certain Tier 3 and Tier 4 members to retire at age 55 with reduced benefits under the same formula as used for Tier 2 members.

Legislation providing for several other changes in benefits for various groups was also passed by the State in 2000. These benefit enhancements, as well as the automatic COLA for retirees, were reflected in the actuarial valuation beginning with the June 30, 2000 valuation.

Actuarial Assumptions

The more significant actuarial assumptions and methods used in the calculation of employer contributions to NYCERS for the plan's fiscal years ending June 30, 2001 and 2000 are as follows:

Valuation dates	June 30, 2000	June 30, 1999
Actuarial cost method	Frozen initial liability[1]	Frozen initial liability[1]
Amortization method for Unfunded Actuarial Accrued Liabilities (UAAL)	Level dollar for UAAL attributable to Early Retirement Incentive (ERI) 1999. All outstanding components of UAAL are being amortized over closed periods.	Not applicable[2]
Remaining amortization period	5 years for ERI	Not applicable[2]
Actuarial asset valuation method	Modified five-year moving average of market values with Market Value Restart as of June 30, 1999	Modified five-year moving average of market values with Market Value Restart as of June 30, 1999
Assumed rate of return on investments	8.0% per annum[3]	8.0% per annum[3]
Postretirement mortality	Tables based on recent experience	Tables based on recent experience
Active service, withdrawal, death, disability, service retirement	Tables based on recent experience	Tables based on recent experience
Salary increases	In general, merit and promotion increase plus assumed general wage increase of 3.0% per year[3]	In general, merit and promotion increase plus assumed general wage increase of 3.0% per year[3]
Cost-of-living adjustments	1.3% per annum[3]	Provided by the legislature on an ad-hoc basis

(1) Under this actuarial cost method, the initial liability has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than $-0-.

(2) In conjunction with Chapter 85 of the Laws of 2000, there is an amortization method. However, the UAAL for the plan equals $-0- and no amortization period is required.

(3) Developed assuming a long-term consumer price inflation assumption of 2.5% per year.

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Manhattan and Bronx Surface Transit Operating Authority

Plan Description

The Authority contributes to the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) Plan, a single employer public employee retirement system. MaBSTOA provides retirement, disability, and death benefits to plan members and beneficiaries. Article 12.08 of the MaBSTOA Plan assigns the authority to establish and amend the benefit provisions to the MaBSTOA Board. MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 130 Livingston Street, 8th Floor, Brooklyn, NY 11201.

Funding Policy

The contribution requirements of plan members are established and may be amended only by the MaBSTOA Board in accordance with Article 10.01 of the MaBSTOA Plan. MaBSTOA's funding policy for periodic employer contributions is to provide for actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. It is MaBSTOA's policy to fund, at a minimum, the current year's normal pension cost plus amortization of the unfunded actuarial accrued liability.

The Authority's contributions to the MaBSTOA Plan for the years ended December 31, 2001, 2000, and 1999 were $116.1 million, $102.9 million, and $94.6 million, respectively, equal to the annual required contributions for each year. During 2001 and 2000, the Authority made additional contributions of $83.5 million and $113.8 million, respectively, resulting in the recognition of a pension asset in the accompanying consolidated balance sheets.

For employees, the Plan has both contributory and noncontributory requirements depending on the date of entry into service. Employees entering qualifying service on or before July 26, 1976 are non-contributing. Certain employees entering qualifying service on or after July 27, 1976 are required to contribute 3% of their salary (see 2000 Plan Amendments).

55/25 and Age 57 Pension Elections

In 1994, hourly employees and certain operating supervisors participating in the NYCERS and MaBSTOA plans were given the opportunity to elect a 55/25 option, which enabled such employees to become eligible for pension benefits upon reaching 25 years of service and at least 55 years of age. Employees hired after July 26, 1994 in the above titles are mandated into the 55/25 option. Legislation passed in 2000 mandated that all operating employees who did not elect to join the 55/25 Plan or who were not eligible for it are to be automatically included. Included in the legislation was the elimination of the 2.3% additional employee contribution applicable to members of the 55/25 Plan.

In 1995, managerial employees and certain other employees participating in the NYCERS and MaBSTOA plans were given the opportunity to elect a 55/25 plan, which enabled such employees to become eligible for pension benefits upon reaching 25 years of service and at least 55 years of age. Managerial and certain other employees entering the NYCERS or MaBSTOA plan after June 28, 1995 are mandated into the Age 57 option. Legislation finalized in 2000 changed the 57/10 plan to allow service retirement after age 57 and completion of five years of service (five-year vesting). Employees electing these options must contribute an additional 2.85% of their gross salary. Legislation passed in 1999 enables elective participants in the

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55/25 plan who, by age 62 will not have 25 years of allowable service with the Authority, to withdraw from the 55/25 plan and revert back to their previous plan.

2000 Plan Amendments

The MaBSTOA Plan adopted several plan amendments during 2000 as a result of State legislation. The most significant changes are as follows:

For operating employees (Chapter 10 of the Laws of 2000):

- All operating employees are automatically included in the 1994 55/25 plan except those who are in the Age 57 plan who elect to remain in that plan.
- Elimination of the 2.3% additional employees contributions applicable to members of the 55/25 plan.
- Reduction in the Tier 3 and 4 employee contribution rate from 3.0% to 2.0%.

For managerial and nonoperating employees (Chapter 126 of the Laws of 2000):

- Vesting under the Age 57 plan requires only five years of service versus ten.
- As of October 1, 2000, regular Tier 3 and 4 employee contributions cease after the completion of ten years of service.

For retired members (Chapter 125 of the Laws of 2000):

- Automatic COLAs. The COLAs apply to retired members as follows:

Retirees at least age	Retired or receiving benefits for at least
62	5 years
55	10
Disabled retirees	5
Accidental death beneficiaries	5

- Initial COLA payable September 30, 2000 and based on the first $18,000 of the maximum retirement allowance.
- Thereafter, annual COLAs of 50% of the increase in the consumer price index (CPI), but not less than 1% or more than 3%, of the first $18,000 of maximum retirement allowance will be payable.

The cost of additional benefit enhancements to the Plan will be funded by an increase in the employer's normal contribution rate. The cost of the above Plan amendments was reflected in the January 1, 2001 actuarial valuation. The 2001 automatic COLA increased the Plan's UAAL by approximately $75.2 million.

Annual Pension Cost and Net Pension Obligation

The Authority's annual pension cost and net pension obligation for MaBSTOA for the years ended December 31, 2001, 2000, and 1999 were as follows:

	2001	2000	1999
		(In thousands)	
Annual required contribution	$ 116,080	102,870	94,629
Interest on net pension obligation	5,319	5,942	6,216
Adjustment to annual required contribution	(7,166)	(9,363)	(9,363)
Annual pension cost	114,233	99,449	91,482
Contributions made	(116,080)	(102,870)	(94,629)
Decrease in net pension obligation	(1,847)	(3,421)	(3,147)
Net pension obligation at beginning of year	64,478	67,899	71,046
Net pension obligation at end of year	$ 62,631	64,478	67,899

Actuarial Assumptions

Several changes in actuarial assumptions were made by the Plan, effective with the January 1, 2001 actuarial valuation. These changes in assumptions decreased the Plan's UAAL by approximately $16.9 million. The more significant actuarial assumptions and methods used in the calculation of employer contributions to the MaBSTOA Plan for the years ended December 31, 2001 and 2000 are as follows:

Valuation dates	January 1, 2001	January 1, 2000
Actuarial cost method	Frozen initial liability(1)	Frozen initial liability(1)
Amortization method for UAAL	30-year level dollar	30-year level dollar
Actuarial asset valuation method	Market value restart as of 1/1/96, then five-year moving average of market values	Market value restart as of 1/1/96, then five-year moving average of market values
Interest rate	8.25% per annum(2), prior to expenses	8.75% per annum, net of expenses
Deaths after retirement	Tables based on recent experience	Tables based on recent experience

Valuation dates	January 1, 2001	January 1, 2000
Separations other than for normal retirement	Tables based on recent experience	Tables based on recent experience
Rates of normal retirement	Tables based on recent experience	Tables based on recent experience
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 18.0% for operating employees and 4.5% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 5.0% to 19.0% per year depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 3.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement	8.0% of base salary for non-managerial employees with different assumptions used in the year before retirement
Cost-of-living adjustments	1.3% per annum[(2)]	Provided by the legislature on an ad-hoc basis
Provision for expenses	0.35% of market value of assets plus two-year average of administrative charges	Not applicable

(1) Under this actuarial method, the initial liability has been established by the Entry Age Actuarial Cost Method but with the UAAL not less than $-0-.

(2) Assumes a long-term consumer price inflation assumption of 2.5% per annum.

Survivor Option and Other Benefits

An eligible employee's beneficiary is entitled to receive a settlement benefit if the employee dies before his or her retirement date. Such benefits for MaBSTOA employees are paid by the MaBSTOA Plan, and for Transit Authority employees, by NYCERS.

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Deferred Compensation Plans

Certain Authority employees are eligible to participate in a deferred compensation plan established in 1985 in accordance with Internal Revenue Code (IRC) Section 457. On August 20, 1996, the IRC Section 457 guidelines were amended requiring governmental entities to place Section 457 deferred compensation plan assets in a trust for the benefit of the plan's members. GASB Statement No. 32, *Accounting and Financial Reporting for IRC Section 457 Deferred Compensation Plans*, was issued requiring that once plan assets are placed into trust they be removed from the financial statements of the entity. The assets in the plan which have been excluded from the consolidated balance sheets at December 31, 2001 and 2000 totaled $233.9 million and $221.0 million, respectively.

Beginning in 1988, the MTA and its affiliated agencies' employees are participants in a second deferred compensation plan established in accordance with IRC Section 401(k). All amounts of compensation deferred under this plan, and all income attributable to such compensation, are solely the property of the participants and thus this plan is not reflected in the accompanying consolidated balance sheets.

Postretirement Benefits

In addition to providing pension benefits, the Authority provides certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority. The Authority recognizes the costs of providing those benefits by expensing the annual contributions to the Transport Workers Union Health & Welfare Trust Fund and other funds, and the annual insurance premiums for retiree benefits, which aggregated $121.0 million and $109.5 million for the years ended December 31, 2001 and 2000, respectively. At December 31, 2001 and 2000, there were 31,500 and 32,100 retired employees, respectively.

(7) Due to MTA for Repayment of Debt

Transit Facilities Revenue Bonds

Pursuant to state legislation, the MTA is currently authorized to issue on behalf of the MTA, the Authority, and the TBTA (net of statutory exclusions) up to $16.5 billion of revenue bonds and parity obligations to finance capital improvements as contemplated by the MTA Capital Program. Such amount excludes refunding obligations and bonds issued to fund debt service reserves. The revenue bonds are special obligations of the MTA, payable solely from and collateralized by a pledge of all of the gross operating revenue and operating subsidies of the Authority, excluding reimbursements for project labor and engineering costs.

The current statutory ceiling will likely be modified by the State legislature to accommodate other capital programs.

The MTA's approved 2000-2004 Capital Program anticipates funding $8.7 billion of the cost of the plan with the proceeds from Dedicated Tax Fund Bonds, Transit Facilities Revenue Bonds, and TBTA bonds. Approximately $5.2 billion of the proceeds will be used to finance the Authority's $10.3 billion portion of the Capital Program.

The Authority is required to deposit all of its pledged revenues with a trustee for the bondholders. Such funds are first applied to meet all obligations under the revenue bonds, and the remainder is returned to the Authority for its operating needs.

The MTA is responsible for all payments from these bond proceeds and for administering the debt service reserve funds and the unexpended bond funds and has recorded the liability for these bonds. The Authority has recorded a liability to the MTA to the extent of the Authority's expenditure of such bond proceeds. Debt service paid by the Authority is net of the amount provided from the MTA's investment of the unexpended bond funds. Debt service amounts used in the computation of debt service coverage as set forth below represent the total debt service on the bonds including that paid by the MTA from unexpended bond fund earnings.

Prior to the issuance of additional revenue bonds, the MTA must meet certain tests, including the maintenance of revenues equal to at least four times the debt service, and provide certification that all revenues and subsidies are, and for the ensuing three years (after consideration of fare increases and other changes) are projected to be, sufficient to cover existing and projected operating expenses and debt service as defined in the bond resolutions.

The following is the computation, prepared on a cash basis, of the actual debt service compared with the pledged gross revenues for 2001 and 2000:

		2001	2000
		(In millions)	
Pledged gross revenues	$	3,783.0	3,710.7
Debt service on bond obligations		178.6	163.2
Pledged gross revenues divided by debt service		21X	23X

Summary of Amounts Due to MTA for Repayment of Debt

The Authority recognizes as a liability in the accompanying consolidated balance sheets the portion of the bonds pledged to the Authority by the MTA for the acquisition of capital assets to the extent of the Authority's expenditure of such bond proceeds. Amounts due to the MTA for repayment of debt at December 31, 2001 and 2000 consist of the following:

	December 31, 2000	Refunded	Issued (In thousands)	Principal payments	December 31, 2001
Transit Facilities Revenue Bonds:					
Series I: 6.00% - 7.00%, due through 2011	$ 61,000	—	—	3,875	57,125
Series J: 5.50% - 6.25%, due through 2022	99,295	—	—	5,790	93,505
Series K: 5.50% - 6.30%, due through 2016	204,880	—	—	8,935	195,945
Series L: 5.50%, due 2013	19,000	—	—	—	19,000
Series M: 4.90% - 6.00%, due through 2014	382,630	—	—	13,875	368,755
Series N: 4.40% - 5.35%, due through 2014	124,899	—	—	20,150	104,749
Series O: 5.30% - 8.00%, due through 2007	27,389	—	—	3,990	23,399
Series 1996A: 4.75% - 6.00%, due through 2016	84,595	—	—	3,510	81,085
Series 1997A: 5.00% - 6.00%, due through 2027	183,435	—	—	3,040	180,395
Series 1997B - 1: 4.25% - 5.50%, due through 2018	124,525	—	—	645	123,880
Series 1997B - 2: 4.25% - 5.00%, due through 2020	65,155	—	—	330	64,825
Series 1997C: 4.50% - 6.00%, due through 2027	156,875	—	—	2,795	154,080
Series 1998A: 4.00% - 5.00%, due through 2024	107,075	—	—	500	106,575
Series 1998B: 4.10% - 4.87%, due through 2026	124,040	—	—	450	123,590
Series 1998C: 3.90% - 5.125%, due through 2016	309,140	—	—	650	308,490
Series 1999A: 4.50% - 6.50%, due through 2029	222,900	—	—	3,375	219,525
	2,296,833	—	—	71,910	2,224,923

(Continued)

	December 31, 2000		Refunded	Issued	Principal payments		December 31, 2001	
				(In thousands)				
TBTA Mortgage Recording Tax Special Obligation Bonds apportioned to Authority:								
Series 1991A: 6.00% - 6.70%, due through 2019	$ 9,116		—	—	2,180		6,936	
Series 1991B: 6.60% - 7.10%, due through 2015	1,153		—	—	801		352	
Series 1992 SOB: 5.80%, due through 2002	122,262		—	—	12,473		109,789	
Series 1998A SOB: 4.00% - 5.50%, due through 2017	299,685		—	—	788		298,897	
	432,216		—	—	16,242		415,974	
Dedicated Tax Fund Bonds apportioned to Authority:								
Series 1996A: 4.25% - 6.25%, due through 2026	262,833		—	—	—		262,833	
Series 1998A: 4.00% - 5.50%, due through 2028	350,000		—	—	—		350,000	
Series 1999A: 4.00% - 5.25%, due through 2029	228,447		—	—	—		228,447	
Series 2000A: 4.10% - 6.12%, due through 2030	303,233		—	—	—		303,233	
Series 2001A: 4.00% - 5.25%, due through 2031	—		—	173,636	—		173,636	
	1,144,513	(b)	—	173,636	—		1,318,149	(b)
Special Obligation Bond Anticipation Notes, Series CP - 1 Subseries A&B	504,476	(b)	—	—	—		504,476	(b)
Certificates of Participation:								
Series 1999A:4.40% - 5.63%, due through 2029	223,869		—	—	3,535		220,334	
Series 2000A: 4.38% - 5.88%, due through 2030	83,264		—	—	1,693		81,571	
	307,133		—	—	5,228		301,905	
Total	4,685,171		—	173,636	93,380		4,765,427	
Less unamortized discount	(7,504)		—	—	(5,700)	(a)	(1,804)	
Total debt	4,677,667		—	173,636	87,680		4,763,623	
Payment due in one year	(79,108)						(83,606)	
Debt service reserve funds and unexpended proceeds held by affiliates	(190,921)						(147,728)	
Total long term	$ 4,407,638						4,532,289	

(a) Current year amortization of discount.

(b) Authority fixed-asset expenditures from inception to date.

Future debt service payments for Transit Facilities Revenue Bonds, including interest, at December 31, 2001 are as follows:

	Amount (In thousands)
Year ending December 31:	
2002	$ 196,146
2003	196,201
2004	196,235
2005	196,575
2006	196,892
2007 – 2016	1,907,178
2017 – 2026	783,601
2027 – 2029	55,247
	$ 3,728,075

The Authority's share of future debt service payments for the TBTA Mortgage Recording Tax Special Obligation Bonds to be made by the TBTA from the proceeds of the State Mortgage Recording Tax received by the MTA totals approximately $1,138 million at December 31, 2001. In the event mortgage recording tax receipts are not adequate to cover debt service, the TBTA will fund the required amount from its net operating surplus after satisfying the requirements of its 1991 Mortgage Recording Tax Bond Resolution. Mortgage recording tax receipts were adequate to cover debt service requirements in 2001 and 2000.

During 2000, the TBTA issued $526.0 million of MRT Bonds, Series 2000A, B, C, and D, under the 1991 Special Obligation Bond Resolution. The proceeds were applied to refund a portion of the outstanding MRT Bonds, Series 1991A and 1991B. The Authority did not recognize any deferred gains or losses nor additional debt from these refundings.

In April 2000 and November 2001 respectively, the MTA issued approximately $344.6 million and $544.1 million of its Series 2000A and Series 2001A Dedicated Tax Fund (DTF Bonds). The proceeds of the DTF Bonds were used to fund the projects in the Transit and Commuter Rail Capital Programs and to fund debt service requirements. The DTF Bonds are special obligations of the MTA payable from, and secured by, certain petroleum business tax receipts, certain motor fuel taxes, and certain motor vehicle fees held in the MTA Dedicated Tax Fund. The MTA is responsible for all payments from the bond proceeds and for administering the debt service reserve funds and the unexpended bond funds and has recorded the liability for these bonds. The Authority has recorded a liability to the MTA to the extent of the Authority's expenditure of such bond proceeds.

Aggregate future debt service payments for the MTA DTF Bonds, to be paid by the MTA from certain State petroleum business tax receipts, certain motor fuel taxes, and certain motor vehicle fees, total $3.94 billion at December 31, 2001. The Authority's share of this amount is approximately $2.6 billion.

Interest paid on the Transit Facilities Revenue Bonds, the TBTA Mortgage Recording Tax Special Obligation Bonds, and the MTA DTF Bonds amounted to $208.9 million in 2001 and $207.1 million in 2000.

In June 1999 and June 2000, the MTA issued approximately $328.2 million and $121.2 million, respectively, of its Series 1999A and Series 2000A Certificates of Participation. The proceeds from these issuances were used to finance certain building and leasehold improvements to an office building at Two Broadway to be occupied by the Authority, the MTA or its subsidiaries, and the TBTA. Both series represent proportionate interests in the principal and interest components of base rent paid severally, but not jointly, by the Authority, the MTA, and the TBTA pursuant to a Leasehold Improvement Sublease Agreement dated as of June 1, 1999. The Authority, the MTA, and the TBTA are obligated to pay 68.7%, 21.0%, and 10.3%, respectively, of the base rent under the Leasehold Improvement Sublease. The principal amounts of the Series 1999A and Series 2000A certificates are payable in various installments and in various amounts beginning January 1, 2000 and 2001, respectively, through January 1, 2029 and 2030, respectively. Interest was paid on January 1, 2000 and 2001 and is payable each January 1 and July 1, thereafter, until maturity, at rates ranging from 4.40% to 5.63% and 4.70% to 5.88% for the Series 1999A and Series 2000A, respectively. In addition, each issuance is subject to prepayment prior to maturity, as defined.

Future debt service payments, including interest, at December 31, 2001 are as follows:

		Amount (In thousands)
Year ending December 31:		
2002	$	21,974
2003		21,920
2004		21,863
2005		21,804
2006		21,745
2007-2016		205,005
2017-2026		203,540
2027-2029		65,932
	$	583,783

Interest paid on the Series 2000A and Series 1999A Certificates of Participation amounted to $17.8 million in 2001 and $16.2 million in 2000.

(8) Long-Term Debt

In August 1990, the Authority issued approximately $202.8 million of Transit Facilities Revenue Bonds, Series 1990, in connection with the construction and acquisition of a 12-story office building in Brooklyn, New York for offices of the Authority (Livingston Plaza). In July 1993, the Authority refunded $125 million principal amount of the Series 1990 Bonds with approximately $149.3 million principal amount of Transit Facilities Refunding Revenue Bonds, Series 1993.

These special bonds are obligations of the Authority payable solely from and secured as to the payment of principal, redemption premium, if any, and interest thereon by a pledge of all of the gross operating revenues and operating subsidies of the Authority, excluding the State Mortgage Recording Tax and reimbursements for project labor and engineering costs.

The right to payments of the principal and interest on the Series 1990 and Series 1993 Bonds from pledged revenues is subordinate to the lien of the pledged revenues for the MTA Transit Facilities Revenue Bonds (see note 7).

Amounts due for repayment of Livingston Plaza Project debt at December 31, 2001 and 2000 consist of the following:

	December 31, 2000	Refunded	Issued		Principal payments		December 31, 2001
		(In thousands)					
Transit Facilities Revenue Bonds:							
Series 1990: 6.00% - 7.50%, due through 2021	$ 42,275	—	—		5,920		36,355
Series 1993: 4.70% - 5.65%, due through 2020	143,699	—	—		2,725		140,974
	185,974				8,645		177,329
Plus unamortized discount and accretion of Capital Appreciation Bonds	19,599	—	3,651	(b)	(210)	(a)	23,460
	205,573	—	3,651		8,435		200,789
Payments due in one year	(8,645)						(9,195)
Total	$ 196,928						191,594

(a) Current year amortization of discount.
(b) Accretion of Capital Appreciation Bonds.

Future debt service payments, including interest, at December 31, 2001 are as follows:

		Amount (In thousands)
Year ending December 31:		
2002	$	16,827
2003		16,890
2004		16,869
2005		17,049
2006		17,043
2007-2016		170,184
2017-2021		83,624
	$	338,486

Interest paid on this debt amounted to $5.8 million in 2001 and $2.9 million in 2000.

(9) Bond Refunding

GASB Statement No. 23, *Accounting and Financial Reporting for Refunding of Debt Reported by Proprietary Activities*, requires gains or losses on defeasances of debt to be deferred and amortized as components of interest expense over the shorter of the remaining life of the old debt or the life of the new debt. The deferred amounts represent the excess of the investments placed in trust over the carrying amount of the bonds and related unamortized deferred issuance costs for the bonds that were legally defeased. The reduction in total debt service requirements results in economic gains due to lower interest rates on the bonds issued to fund the defeasance.

During 2000, the TBTA issued $526 million of MRT Bonds, Series 2000A, B, C, and D, under the 1991 Special Obligation Bond Resolution. The proceeds were applied to refund a portion of the outstanding MRT Bonds, Series 1991A and 1991B. The Authority did not recognize any deferred gains or losses nor additional debt from these refundings. There were no refundings in 2001.

At December 31, 2001, the following amounts of MTA and Authority bonds have been refunded and defeased and are secured by and payable solely from the respective escrow accounts. Therefore, such debt has been removed from the Authority's accompanying consolidated balance sheets.

		Amount (in thousands)
Transit Revenue Bonds	$	604,480
Triborough Bridge and Tunnel Authority Bonds		668,770
	$	1,273,250

(10) Bond Anticipation Notes

On September 30, 1998, the MTA issued, on behalf of the Authority, $500 million of Special Obligation Bond Anticipation Notes, Subseries A and Subseries B (the Notes). The proceeds of the Notes were used to finance the cost of equipment for and improvements to the subway and bus systems, and to fund debt service requirements. In connection with the Notes, the MTA entered into a Letter of Credit and Reimbursement Agreement (the Letter of Credit) with ABN AMRO Bank NV (the Bank). The Bank issued the Letter of Credit in the amount of $512.5 million in order to pay principal and interest due on the Notes. Each Note bears interest from its date of issuance (not to exceed 12% annually) and is payable at maturity. Each Note matures no later than 270 days from the issuance date. The MTA expects to pay the principal of and interest on the Notes with the proceeds of draws under the Letter of Credit, and to immediately reimburse the Bank for such draws with the proceeds of the remarketing of additional Notes, until the Authority provides for permanent financing of the projects initially financed with the proceeds of the Notes either by the issuance of the Series CP-1 Bonds or other long-term bonds issued under the Resolution or with federal grants. Interest paid on this debt amounted to approximately $16.3 million in 2001 and $21.3 million in 2000.

(11) Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

The Authority is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. Claims arising prior to November 1, 1996 are subject to a $5 million per occurrence limit; claims arising between November 1, 1996 and October 31, 2001 are subject to a $6 million per occurrence limit; and claims arising after October 31, 2001 are subject to a $7 million per occurrence limit. The Authority is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected as expenses: public liability in the accompanying consolidated statements of operations and surplus.

The Authority establishes its liability for injuries to employees and to the general public on the basis of independent actuarial estimates of future liability.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2001 and 2000, is as follows:

		2001	2000
		(In thousands)	
Balance at beginning of year	$	695,327	679,192
Activity during the year:			
Current year claims and changes in estimates		89,182	127,273
Claims paid		(92,662)	(111,138)
Balance at end of year		691,847	695,327
Less current portion		(103,459)	(108,250)
Long-term liability	$	588,388	587,077

Claims over the applicable per occurrence limits up to the lesser of the assets available for claims or $50 million are insured by the Excess Loss Fund (ELF) maintained and managed by the MTA on behalf of itself and its affiliates. The ELF covers the Authority and other MTA subsidiaries and affiliated agencies. The Authority contributed $287,000 to the ELF in 2001; a contribution was not required in 2000. At December 31, 2001, the ELF had assets available for claims of $121.0 million.

Effective October 31, 1997, a three-year MTA All-Agency Excess Liability Insurance Policy was purchased. This policy was renewed in 2000 for two additional years. This coverage affords $150 million in additional limits above the ELF to give a total limit of $200 million ($150 million in excess of $50 million). Additionally, in the event ELF assets are exhausted due to the payment of claims, the Excess Liability Insurance will assume ELF's coverage position.

There are currently two accidents with outstanding claims which have breached the $5 million per occurrence limit. In 1990, a fire occurred in a subway tunnel at Clark Street operated by the Authority, resulting in passenger injuries on a subway train passing through the same tunnel. Additionally, in 1991, a subway train operated by the Authority, which derailed at Union Square, resulted in injuries to passengers who were aboard the train.

Based on management's review of the data currently available, a $223,000 loss reserve has been recorded by the ELF as of December 31, 2001 to cover remaining claims on occurrences in excess of self-insured amounts. Management believes that the coverage provided by the ELF will be sufficient to satisfy all claims and that payments of such claims by the ELF will not result in a significant increase in premiums payable to the ELF by the Authority.

In accordance with the terms of the ELF, the Authority has requested cumulative reimbursement of $10,648,000 for the net losses paid in excess of the per occurrence limits. As of December 31, 2001, this amount has been paid to the Authority.

First Mutual Transportation Assurance Company

The First Mutual Transportation Assurance Company (FMTAC) was established as a captive insurance company on December 5, 1997 and provides reinsurance coverage for property and primary insurance coverage for station liability and force account liability. FMTAC insures property damage or loss exposures in excess of $15 million per occurrence and annually in the aggregate for claims brought against the MTA and its subsidiaries, retroactive to October 31, 1997. FMTAC reinsures all of its property risks with a third party. At December 31, 2001, the Authority has five outstanding claims covered by FMTAC, with a total exposure of $727.2 million; approximately $685.0 million relates to the World Trade Center disaster. At December 31, 2001, FMTAC had $863.0 million of assets to insure current and future claims. The Authority paid premiums of approximately $2.2 million to FMTAC for the policy year November 1, 2000 through October 31, 2001.

(Continued)

(12) Cumulative Unreserved Surplus

Cumulative unreserved surplus, at December 31, 2001 and 2000 as restated for the implementation of GASB Statement Nos. 33 and 36 consists of:

		2001	2000
		(In thousands)	
Cumulative operating subsidies provided by:			
City	$	9,213,146	8,840,060
State		14,748,320	13,849,928
Federal		2,039,083	2,039,083
		26,000,549	24,729,071
TBTA operating surplus		3,452,789	3,319,655
		29,453,338	28,048,726
Less cumulative transfers to SIRTOA and amounts restricted for debt service		(705,569)	(702,317)
		28,747,769	27,346,409
Less cumulative operating losses		(28,447,775)	(26,843,984)
Cumulative unreserved surplus	$	299,994	502,425

(13) Contingencies

World Trade Center Disaster

As a result of the terrorist attacks on September 11, 2001, which destroyed the World Trade Center (WTC), the #1 and #9 subway tunnels were heavily damaged, including damage to line equipment, signals, communications, tunnel lighting, power facilities, and fan plants. Approximately 1,800 feet of tunnel was destroyed. There was also damage to subway stations located at Cortlandt Street, Rector Street, Chambers Street, and Wall Street. Although damage assessment is still ongoing, the current estimate of the Authority's capital loss exposure recorded in fiscal year 2001 for impaired capital assets is approximately $172.6 million. The Authority also incurred approximately $53.3 million in operating expenses in 2001 primarily for increased service and equipment costs for rescue efforts, debris removal, added security, and customer information costs. The MTA advanced the Authority $24.2 million to help defray these costs; the advance has been recorded as an intercompany liability in the 2001 consolidated balance sheet. The Authority's estimate of lost operating revenues as a result of the suspension of fare collection on September 11th and the sharp reduction in ridership in the days immediately following the WTC attack is approximately $37.8 million for 2001. The Authority has submitted an insurance claim to the MTA's insurance providers for reimbursement of expenses incurred, for physical and structural damage to capital assets, and for loss of revenues due to business interruption.

It is the Authority's belief that substantially all of the losses resulting from this event are covered by the existing insurance coverage. In the event aggregate losses exceed available insurance, or the insurance does not cover the loss (such as the $15 million deductible), additional federal assistance may be available under the FEMA Public Assistance Program. Since the resolution of contingencies with insurance

(Continued)

providers and FEMA is uncertain at the present time, the Authority has not recognized an insurance recovery in the accompanying consolidated financial statements.

General

The Authority is involved in various litigation and claims involving personal liability claims and certain other matters. The ultimate outcome of these claims and suits cannot be predicted at this time. Nevertheless, management does not believe that the ultimate outcome of these matters will have a material effect on the consolidated financial position of the Authority.

The Authority was cited in 1991 by the New York State Department of Environmental Conservation (NYSDEC) for not complying with state requirements for tightness testing of underground storage tanks and for failure to notify NYSDEC of leaking tanks. The Authority is obligated to remediate contaminated soil and groundwater. In 2001 and 2000, the Authority expended $2.5 million and $3.1 million, respectively, on such cleanup efforts. Expenditures exclude the cost of capital improvements. In 2001 and 2000, an additional $2.0 million in groundwater remediation reserves and $6.3 million in soil remediation reserves, respectively, were accrued. At December 31, 2001, the Authority believed that its remaining accrued liability of $27.9 million was sufficient to cover future costs associated with this cleanup. Also, in 2001, in settlement of allegations of noncompliance with various provisions of the Environmental Conservation Law and related regulations concerning petroleum and chemical bulk handling and storage, underground storage tanks, tidal wetlands, and air emission requirements, the Authority and NYSDEC entered into a global consent order resolving the outstanding environmental issues. The financial terms of the global consent required the payment of a $400,000 penalty and the commitment of $2.0 million toward implementation of an environmental benefits program.

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 the Authority and the City. Pursuant to the terms of the merger, the Authority's operation of the transit police and the City's obligation to reimburse the cost of operating the transit police terminated, effective April 2, 1995. Additionally, the City has assumed the liability for substantially all past and future costs associated with operating the transit police, including, but not limited to, all future pension costs. The Authority has asserted a claim of approximately $92 million against the City relating to reimbursement of costs incurred in the operation of the transit police. The Authority claims that the City underpaid these amounts in the period from 1988 through December 1994. In January 1995, the Authority filed a demand for arbitration pursuant to the lease governing the overall relationship between the Authority and the City to pursue, among other matters, payment of these arrearages. The arbitration matter has been held in abeyance pending a possible resolution of the matter.

NEW YORK CITY TRANSIT AUTHORITY

Required Supplementary Information

Schedule of Funding Progress for the MaBSTOA Pension Plan

(Unaudited)

(In millions)

Actuarial valuation date	Actuarial value of assets (a)	Actuarial Accrual Liability (AAL) initial entry age (b)	Unfunded AAL (UAAL) (b-a)	Funded ratio (a/b)	Covered payroll (c)	UAAL as a percentage of covered payroll ((b-a)/c)
1/1/94	$ 212.6	1,093.5	880.9	19.44%	$ 308.4	285.7%
1/1/95	246.7	1,127.4	880.7	21.88	317.0	277.8
1/1/96 (1)	316.0	1,188.3	872.3	26.59	321.3	271.5
1/1/97	355.4	1,232.4	877.0	28.84	322.5	271.9
1/1/98 (2)	404.5	1,286.2	881.7	31.45	343.3	256.8
1/1/99	467.6	1,342.0	874.4	34.84	362.0	241.5
1/1/00 (3)	540.1	1,471.8	931.7	36.70	378.9	245.9
1/1/01 (4)	611.5	1,592.5	981.0	38.40	400.5	244.9

(1) Certain actuarial assumptions, including the interest rate and the amortization period of the unfunded actuarial accrued liability, were changed.

(2) The method for determining valuation compensation and the use of the overtime assumption were changed.

(3) Pension supplementation payable on September 30, 2000 increased the Plan's UAAL by $67.9 million.

(4) Automatic COLA adjustment for 2001 increased the Plan's UAAL by $75.2 million. This increase was offset, in part, by changes in certain actuarial assumptions.

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