

Metropolitan Transportation Authority

Independent Accountants' Review Report

Financial Statements

Nine Months Ended September 30, 2003 and
Twelve Months Ended December 31, 2002

METROPOLITAN TRANSPORTATION AUTHORITY

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METROPOLITAN TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS NINE MONTHS ENDED SEPTEMBER 30, 2003 AND TWELVE MONTHS ENDED DECEMBER 31, 2002

1. OVERVIEW OF THE FINANCIAL STATEMENTS

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

The Basic Financial Statements Include - The Consolidated Statement of Net Assets provides information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority ("Authority") creditors (liabilities), with the difference between the two reported as net assets.

The Consolidated Statement of Revenues, Expenses and Changes in Fund Net Assets shows how the Authority's net assets changed during each year and accounts for all of the current year's revenues and expenses, measures the success of the Authority's operations during the period and can be used to determine how the Authority has funded its costs.

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

The Notes to the Financial Statements Provide - Information that is essential to understanding the basic financial statements, such as the Authority's accounting methods and policies.

Details of cash and investments, employee benefits, long-term debt, lease transactions, and future commitments and contingencies of the Authority.

Any other events or developing situations that could materially affect the Authority's financial position.

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

Management's Discussion and Analysis - The following is a narrative overview and analysis of the financial activities of the Authority for the nine months ended September 30, 2003 and the twelve months ended December 31, 2002. This management discussion and analysis ("MD&A") is intended to serve as an introduction to the Authority's basic financial statements. It provides an assessment of how the Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with the financial statements.

2. FINANCIAL REPORTING ENTITY

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

MTA Related Groups

- Headquarters (“MTAHQ”) - provides general oversight, planning, and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the agencies listed below.
- The Long Island Rail Road Company (“LIRR”) - provides passenger transportation between New York City and Long Island.
- Metro-North Commuter Railroad Company (“MNCR”) - provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority (“SIRTOA”) - provides passenger rail transportation on Staten Island.
- Metropolitan Suburban Bus Authority (“MSBA”) - provides public bus service in Nassau and Queens counties.
- MTA Excess Loss Trust Fund (“ELF”) - provides coverage against losses from catastrophic events and provides budget stability in the event annual aggregate losses impact negatively upon the operating budgets of its participants. ELF will be terminated in the fourth quarter of 2003 and the assets will be transferred to First Mutual Transportation Assurance Company (“FMTAC”) (as defined below). FMTAC will be responsible for ELF’s past liabilities and issue a new policy covering similar claims.
- First Mutual Transportation Assurance Company (“FMTAC”) - operates as a captive insurance company to provide insurance coverage for property and primary liability.
- New York City Transit Authority (“NYCTA”) and the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”) - provide subway and public bus service within the five boroughs of New York City.
- Triborough Bridge and Tunnel Authority (“TBTA”) - operates seven toll bridges, two tunnels, and the Battery Parking Garage.

3. CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in the Authority's financial position for the nine months ended September 30, 2003. Additionally, an analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the Authority's financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All dollar amounts are in millions.

	September 2003	December 2002
Capital assets, net	\$ 30,923	\$ 28,960
Other assets	<u>11,105</u>	<u>10,808</u>
Total assets	<u>\$ 42,028</u>	<u>\$ 39,768</u>

- Capital Assets increased approximately \$1,963 from the prior year-end. The increase is primarily due to the additions of \$1,446 mainly for new subway cars and track, and construction in the amount of \$517 related primarily to the East Side Access project, the rehabilitation of Jamaica Station and the construction of an inter-modal transportation center linking LIRR, JFK Air Train, and other construction in progress from the NYCTA. The increase is partially offset by the disposal of subway cars.
- Other assets increased by \$297 from the prior year. The increase is mostly attributable to:
 - Cash increased by \$21 due primarily to additional reserve held by the MTA to accommodate increased wire transfers.
 - Decrease of current investments of \$227 due to loans provided to the agencies for their operations, and the utilization of other funds for the Agencies operation.
 - Increase of other current receivable of \$464. This increase consists of:
 - \$479 increase on Metropolitan Mass Transportation Operating Assistance (“MMTOA”) receivable. As per Governmental Accounting Standards Board (“GASB”) Statement No. 33, the full amount of the appropriation is recorded when requirements are met. While at December 31, 2002 all MMTOA funds were received, as of September 30, 2003, of the total funds allocated to the Commuter and NYCTA in the amount of \$731 only \$92 and \$160 respectively were received.
 - \$62 increase in other receivable specifically relates to New York State and Local Transit Operating Assistance receivable in the amount of \$210; partially offset by a decrease in Federal and State receivables of \$108 and FMTAC receivable in the amount of \$40.
 - \$27 decrease in Station Maintenance Receivable represents a lesser amount of months accrued (6 months as of September 30 versus 9 months at December 31).
 - \$3 decrease of interest receivable was caused by a reduction of the investments as well as a different maturity date of the investments.

- \$47 decrease in New York City Receivable.
- o An increase in materials and supplies of \$4.
- o Decrease of \$37 in prepaid expense.
- o Increase of \$179 in investments held under capital lease obligations was due to new lease for \$330, partially reduced by the use of funds for payment of capital leases.
- o Decrease of \$351 in non-current investments. The decrease was due to the use of Debt Service Reserve Funds which became available in 2002 after the debt restructuring for capital project expenditures.
- o Increase of \$328 in New York State Recoverable as the funds available from the issuance of the Service Contract Bond were utilized for capital projects.
- o Decrease of \$84 in other non current assets.
- The decrease is due primarily to declines of \$70 and \$22 in MTA and TBTA receivables, respectively and an increase of \$8 in LIRR receivables.

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

	September 2003	December 2002
Other liabilities	\$ 2,558	\$ 2,101
Long-term liabilities	<u>22,062</u>	<u>20,805</u>
Total liabilities	<u>\$24,620</u>	<u>\$22,906</u>

Significant Changes in Liabilities Include:

- Total liabilities increased from December 31, 2002 to September 30, 2003 by approximately \$1,714, long-term liabilities increased \$1,257 and other liabilities increased \$457.
 - o The increase in the other liabilities is primarily due to:
 - An increase in the current portion of long-term debt of \$404. This is for the principal balance of Transportation Revenue Bonds-Commercial Paper which will be paid off in November 2003.
 - An increase of accrued expenses in the amount of \$131 attributable mainly to an increase in interest payable as well as related costs for retirement and other employee benefits.
 - These increases are partially offset by a decrease in accounts payable of \$80 and other increases of \$2.
 - o Long-term liabilities increased by \$1,257 primarily due to increases in:
 - Long-term debt of \$989. The increase in long-term debt is related to new issuance of MTA and TBTA bonds. The net proceeds from these issuances will be used for the acquisition of capital assets.

- Obligations under capital leases of \$380. The increase in obligations under capital leases is derived from the sale/leaseback transactions signed in the second and third quarters of 2003 by the Authority and MetLife, Bank of New York and Bank of America as the equity investors.
- Liability arising from injuries to persons of \$40.
- The increases are partially offset by a decrease in other long-term liabilities in the amount of \$152.

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

	September 2003	December 2002
Invested in capital assets, net of related debt	\$ 11,842	\$ 13,891
Restricted for debt service	1,413	768
Unrestricted	<u>4,153</u>	<u>2,203</u>
Total	<u><u>\$ 17,408</u></u>	<u><u>\$ 16,862</u></u>

The total net assets increase of \$546 is comprised of operating losses of \$2,222, nonoperating revenues of \$1,708 and appropriations, grants and other receipts externally restricted for capital projects of \$1,060.

Capital assets net of related debt decreased by \$2,049. This is primarily due to the increase in long-term debt. The amount restricted for debt service increased by \$645. This increase is related to the bond restructuring that took place in 2002 and to new issuances in 2003.

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

	September 2003	December 2002
Operating revenues	\$ 3,298	\$ 4,053
Operating expenses	<u>(5,520)</u>	<u>(6,996)</u>
Operating loss	<u>(2,222)</u>	<u>(2,943)</u>
Nonoperating revenues:		
Grants, appropriations, and taxes	2,051	2,097
Interest on long-term debt	(547)	(558)
Other	164	65
Subsidies	<u>40</u>	<u>33</u>
Total nonoperating revenues	1,708	1,637
Appropriations, grants and other receipts externally restricted for capital projects	<u>1,060</u>	<u>1,666</u>
Change in net assets	546	360
Net assets - beginning of year	<u>16,862</u>	<u>16,502</u>
Net assets - end of period	<u><u>\$ 17,408</u></u>	<u><u>\$ 16,862</u></u>

Revenues and Expenses, by Major Source

- Revenues from fares and tolls for the nine months ended September 30, 2003 were \$236 higher compared with the first nine months of revenue collected in 2002. This increase is a result of the fare and toll increases that became effective in May 2003. The increases were partially offset by a loss of revenue due to the August 2003 black out, as well as a decrease in ridership with the declining of New York City employment.

- Salaries and wages increased for the nine months ended September 30, 2003. The major impact on the salary increase was due primarily to lump-sum payouts agreed to in the collective bargaining process, paid in the third quarter of 2003 by the NYCTA at the rate of \$1 thousand per employee for a total of \$33. NYCTA also had salary increases due to sick time and vacation accrual (\$10 million). Long Island Rail Road due to the lump-sum payment to all represented staff in anticipation of a settlement of labor contract with the union. MTA, and TBTA salary increases were associated with overtime, and additional security required.
- Retirement and other employee benefits increased in part due to the increase in salaries. In addition, health and hospital cost increased significantly due to a rate increase from the insurance providers. The NYCTA experienced a considerable increase in pension expenses due to the prior year investment market weakness (\$48 million). A similar situation was experienced by the LIRR where the impact on the pension cost escalated to \$18.6. Also the workers compensation reserve at NYCTA was increased by \$17.
- Materials and supplies expenses, and Computer and engineering and other consulting services decreased by \$43 and \$30 respectively as compared to the first nine months of prior year expenses. This was due to more costs being allocable to the overhead rate.
- Depreciation expense increased by approximately \$62, mostly due to the Authority's capital program, resulting from new capital assets being placed in service.

- Capital contributions decreased by \$190 compared with the first nine months of prior year due to the decrease in capitalized interest income, as a result of using Debt Service Reserve Funds that became available as part of the new debt restructuring that took place in 2002, as well as other funds available for capital projects.

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

Economic Conditions - The Authority's business consists of both urban and suburban transportation systems as well as bridges and tunnel facilities all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the Authority must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well being.

While the National Bureau of Economic Research has declared that the national recession that began in March 2001 ended in November 2001, the region - and New York City in particular - continued to experience the impacts of a longer and deeper economic slowdown through 2002 and into 2003. Despite this economic climate, Authority-wide ridership posted a modest 1.2 percent increase in 2003, albeit the slowest rate of ridership growth in the past six years. The low ridership growth, along with security costs and a worsening of the operating balance position, moved the Authority to increase fares and tolls in May 2003.

The Authority expects the City and regional economies to eventually follow the national economy; in fact, there are signs that the regional recession has bottomed out. The regional recovery is expected to gradually gain strength during the latter part of 2003 and throughout 2004 as federal and state economic stimulus measures, and the rebuilding of the downtown infrastructure, begin to have a noticeable impact on the New York City economy. Also having a beneficial impact on the regional economy is the economic stimulus provided through the Authority's capital investments, which create an annual average of 21,000 private sector jobs, \$1,100 in wages, \$100 in state and local tax revenues, and \$2,500 in economic activity.

Results of Operations - In the first nine months of 2003, TBTA traffic level was slightly lower than in 2002 over the same period. This can be attributed to poor weather conditions in the winter and early spring of 2003. The E-Zpass electronic collection system continues to grow in acceptance and use, and through September 30, 2003, the E-Zpass Market share averaged 70.3%. Commuter ridership also declined slightly for the nine-month period ending September 30, 2003 as the number of jobs in New York City continues to decline. New technology to improve customer service was introduced in 2002 with new Ticket Machines, which provide customers the ability to pay with cash, credit or debit cards. Revenues were higher compared with the similar prior year period, due to the fare and toll increases that became effective in May 2003.

Capital Programs - In February 2003, the MTA Board approved a revised 2000-2004 Capital Program totaling \$17,901, exclusive of TBTA. This was an increase of \$677 over the last Capital Program Review Board (CPRB) approved plan. In May 2003 the \$17,901 revised Capital Program was submitted to the CPRB and subsequently returned due to security funding concerns. The plan was resubmitted to the CPRB in June 2003. CPRB approved the revised plan on July 5, 2003, to bring total commitments under the five-year plan to \$17,901, exclusive of TBTA.

Funding for the Capital Program comes from a combination of bond sales; money freed up through the debt restructuring, earned interest income, proceeds from selling or leasing assets, and federal, state, and local contributions.

Three categories of modifications are taken into consideration for plan changes: revisions to project budgets and schedules, program modifications reflecting new or changed capital investment strategies, and various revisions to the program funding plan.

The TBTA Capital Program for 2000-2004 was approved for \$1,030. TBTA revised its Plan by \$6 in December 2002, bringing the total plan for the five years to \$1,036. TBTA funds its programs with TBTA bonds and pay-as-you-go funding.

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority has proposed implementing a complete restructuring strategy related to the merging of its various Agencies into five distinct companies, each with a single transportation mission. The reorganization is required to provide for the region's growing demand on the transportation network. The guiding principles of the strategy are to serve the Authority's customers in the most effective and efficient means possible and support both ongoing transportation operations, as well as, the significant system expansion projects to respond to needs of the changing travel patterns and ridership.

The MTA Bus Company would merge the existing services of NYC Transit bus system, MTA Long Island Bus and MaBSTOA entities. Currently, MTA Long Island Bus, in Nassau County, provides various routes with a total of 399 buses. MTA NYC Transit provides a total of 4,700 buses in separate surface transit divisions, which include: the boroughs of Manhattan and the Bronx in one division; and, Brooklyn, Queens and Staten Island in the other. The new MTA Bus Company will concentrate on developing enhanced services to improve the quality of each ride for their customers.

When the MTA Bus Company is fully merged, consideration will be given to having the "non-MTA" bus transportation providers also included. This would merge private bus companies that operate in New York City into the system and provide a means to regulate the public companies throughout the service region. These changes however, would require the agreement of both the Authority, and the local government where "non-MTA" providers operate as well as the State Legislature.

On March 6, 2003, the Authority's Board adopted fare and toll increases and fare policy changes that became effective in May 2003. The base fare at Transit has increased from one dollar and fifty cents to two dollars. MTA has also enhanced the bonus and unlimited ride pass. The Transit Authority recently stopped selling tokens, and their use for subways ended on May 4, 2003 and for buses will end on December 31, 2003. Commuter system fares increased 25 percent on average for travel between points in New York State; the fare increases will not take effect on travels that begin or end in the State of Connecticut.

TBTA tolls increased on May 18, 2003 for two-axle passenger vehicles on average by fifty cents for one-way travel on major facilities. Various discount programs will apply. The toll increase averaged 16.7 percent for most passenger and commercial vehicles.

In July 2003, the MTA Capital Construction Company was created by action of the MTA Board of Directors as a public benefit corporation subsidiary of MTA under section 1266(5) of the Public Authorities Law. The mission of this new subsidiary company is to plan, design and construct current and future major MTA system expansion projects. Projects currently underway, including all activities associated with East side access, the #7 Line Extension, the Lower Manhattan Fulton Transit Center, the new South Ferry station complex, system-wide capital Security Projects, and the Second Avenue

Subway, will be consolidated under the management of the MTA Capital Construction Company. The Board also authorized the advance to the Capital Company \$2.5 from the MTAHQ operating budget to be recovered from charge backs to the Capital Program.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have reviewed the accompanying balance sheet of Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of September 30, 2003, and the related statements of revenues, expenses, and changes in net assets and its cash flows for the quarter ended September 30, 2003. These interim financial statements are the responsibility of the Authority's management.

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

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

The financial statements for the year ended December 31, 2002 were audited by us, and based on our audit and the reports of other auditors, we expressed an unqualified opinion on them in our report dated March 21, 2003; we also applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the 2002 Management's Discussion and Analysis and other supplementary information required by the Governmental Accounting Standards Board and such report expressed no opinion on the information. We have not performed any auditing procedures since the date of such report.

A handwritten signature in black ink that reads "Deloitte & Touche LLP".

December 9, 2003

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

(Dollars in Millions)

	September 2003	December 2002
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	\$ 105	\$ 84
Investments (Note 3)	1,575	1,802
Receivables:		
Station maintenance, operation, and use assessments	61	88
State and regional mass transit taxes	484	5
Interest	4	7
Due from New York City	61	108
Other	471	409
Less allowance for doubtful accounts	(27)	(27)
Total receivables - net	1,054	590
Materials and supplies	267	263
Prepaid expenses and other current assets (Notes 2 and 4)	96	133
Total current assets	3,097	2,872
NONCURRENT ASSETS:		
Properties and equipment - net (Note 5)	30,923	28,960
Restricted investments held for lease obligations (Notes 3 and 7)	2,408	2,229
Investments (Note 3)	1,662	2,013
Receivable from New York State	2,312	1,984
Other noncurrent assets	1,626	1,710
Total noncurrent assets	38,931	36,896
TOTAL ASSETS	\$42,028	\$39,768

(Continued)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED BALANCE SHEETS

SEPTEMBER 30, 2003 AND DECEMBER 31, 2002

(Dollars in Millions)

	September 2003	December 2002
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 570	\$ 650
Accrued expenses:		
Interest	253	201
Salaries, wages, and payroll taxes	152	185
Vacation and sick pay benefits	518	506
Current portion - retirement and death benefits	83	15
Current portion - estimated liability from injuries to persons (Note 8)	150	153
Other	104	69
	<u>1,260</u>	<u>1,129</u>
Total accrued expenses	1,260	1,129
Current portion - long-term debt (Note 6)	449	45
Current portion - obligations under capital lease (Note 7)	-	7
Deferred revenue	279	270
	<u>2,558</u>	<u>2,101</u>
Total current liabilities	2,558	2,101
NONCURRENT LIABILITIES:		
Retirement and death benefits (Note 4)	61	61
Estimated liability arising from injuries to persons (Note 8)	836	796
Long-term debt (Note 6)	17,258	16,269
Obligations under capital lease (Note 7)	2,667	2,287
Other long-term liabilities	1,240	1,392
	<u>22,062</u>	<u>20,805</u>
Total noncurrent liabilities	22,062	20,805
Total liabilities	<u>24,620</u>	<u>22,906</u>
NET ASSETS:		
Invested in capital assets, net of related debt	11,842	13,891
Restricted for debt service	1,413	768
Unrestricted	4,153	2,203
	<u>17,408</u>	<u>16,862</u>
Total net assets	17,408	16,862
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 42,028</u>	<u>\$ 39,768</u>

(Concluded)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES

AND CHANGES IN NET ASSETS

NINE MONTHS ENDED SEPTEMBER 30, 2003 AND TWELVE MONTHS ENDED DECEMBER 31, 2002

(Dollars in Millions)

	September 2003	December 2002
OPERATING REVENUES:		
Passenger and tolls	\$ 3,170	\$ 3,912
Rents, freight and sundry	<u>128</u>	<u>141</u>
Total operating revenues	<u>3,298</u>	<u>4,053</u>
OPERATING EXPENSES:		
Salaries and wages	2,643	3,395
Retirement and other employee benefits	1,010	1,099
Materials and supplies	259	402
Fuel and power	225	278
Computer, engineering and other consulting services	275	406
Public liability and claims	123	140
Depreciation and amortization	914	1,135
Other expenses	<u>71</u>	<u>141</u>
Total operating expenses	<u>5,520</u>	<u>6,996</u>
OPERATING LOSS	<u>(2,222)</u>	<u>(2,943)</u>
NONOPERATING REVENUES (EXPENSES):		
Grants, appropriations and taxes:		
Tax supported subsidies - NYS	1,232	1,215
Tax supported subsidies - NYC and local	440	453
Operating subsidies - NYS	191	230
Operating subsidies - NYC and local	<u>188</u>	<u>199</u>
Total grants, appropriations and taxes	<u>2,051</u>	<u>2,097</u>
Operating subsidies recoverable from CDOT related to MNCR's New Haven Line	44	47
Subsidies to Dutchess, Orange and Rockland counties	(4)	(14)
Interest on long-term debt	(547)	(558)
Station maintenance, operation and use assessments	94	117
Loss on disposal of subway cars	(25)	(58)
Unrealized gain (loss) on investment	(8)	(9)
Other nonoperating income	<u>103</u>	<u>15</u>
Total nonoperating revenues	<u>1,708</u>	<u>1,637</u>
LOSS BEFORE APPROPRIATIONS	(514)	(1,306)
APPROPRIATIONS, GRANTS AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	<u>1,060</u>	<u>1,666</u>
CHANGE IN NET ASSETS	546	360
NET ASSETS, BEGINNING OF YEAR	<u>16,862</u>	<u>16,502</u>
NET ASSETS, END OF PERIOD	<u>\$ 17,408</u>	<u>\$ 16,862</u>

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2003 AND TWELVE MONTHS ENDED DECEMBER 31, 2003

(Dollars in Millions)

	September 2003	December 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipt/tolls	\$ 3,016	\$ 3,937
Rents and other receipts	291	212
Payroll and related fringe benefits	(3,566)	(4,546)
Other operating expenses	<u>(983)</u>	<u>(1,280)</u>
Net cash used in operating activities	<u>(1,242)</u>	<u>(1,677)</u>
CASH FLOWS FROM NONCAPITAL FINANCIAL ACTIVITIES:		
Grants, appropriations and taxes	1,461	2,591
Operating subsidies from CDOT	45	49
Subsidies to Dutchess, Orange and Rockland counties	<u>(13)</u>	<u>(10)</u>
Net cash provided by noncapital financing activities	<u>1,493</u>	<u>2,630</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,277	9,138
MTA bonds refunded	-	(7,635)
MTA ELF special obligation bonds cash refunded	-	(41)
TBTA bond proceeds	511	4,116
TBTA bonds refunded	-	(4,613)
Proceeds from capital lease transactions	157	476
Capital lease payments	(7)	(5)
Loan repayment	-	(300)
Grants and appropriations	1,058	1,327
CDOT capital contributions	2	4
Capital expenditures	(2,856)	(4,488)
Debt service payments	(962)	(955)
Subsidies designated for debt service payments	<u>-</u>	<u>7</u>
Net cash used in capital and related financing activities	<u>(820)</u>	<u>(2,969)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of securities - long-term	(3,184)	(7,343)
Sales of maturities of securities - long-term	2,667	5,229
Sales of short-term securities	1,072	3,994
Earnings on investments	<u>35</u>	<u>142</u>
Net cash provided by investing activities	<u>590</u>	<u>2,022</u>
NET INCREASE IN CASH	21	6
CASH, BEGINNING OF YEAR	<u>84</u>	<u>78</u>
CASH, END OF PERIOD	<u>\$ 105</u>	<u>\$ 84</u>

(Continued)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS

NINE MONTHS ENDED SEPTEMBER 30, 2003 AND TWELVE MONTHS ENDED DECEMBER 31, 2002

(Dollars in Millions)

	September 2003	December 2002
RECONCILIATION OF OPERATING DEFICIT FROM OPERATIONS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (2,222)	\$ (2,943)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	914	1,135
Net increase in payables, accrued expenses and other liabilities	18	(82)
Net (increase) decrease in receivables	(10)	181
Net decrease in materials and supplies and prepaid expenses	<u>58</u>	<u>32</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (1,242)</u>	<u>\$ (1,677)</u>

(Concluded)

See notes to financial statements.

METROPOLITAN TRANSPORTATION AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NINE MONTHS ENDED September 30, 2003 AND TWELVE MONTHS ENDED DECEMBER 31, 2002

(Dollars in Millions)

1. BASIS OF PRESENTATION

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

These consolidated financial statements are of the Metropolitan Transportation Authority, including its subsidiary units and its legally separate related groups (collectively, the "Authority") as follows:

Metropolitan Transportation Authority and Related Groups -

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the subsidiary and related groups listed below.
- The Long Island Rail Road Company ("LIRR") provides passenger transportation between New York City ("NYC") and Long Island.
- Metro-North Commuter Railroad Company ("MNCR") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.
- Staten Island Rapid Transit Operating Authority ("SIRTOA") provides passenger transportation on Staten Island.
- Metropolitan Suburban Bus Authority ("MSBA") provides public bus service in NYC and Nassau County.
- MTA Excess Loss Trust Fund ("ELF") provides coverage against losses from catastrophic events and provides budget stability in the event annual aggregate losses impact negatively upon the operating budgets of its participants. ELF was terminated effective October 31, 2003, when its assets were transferred to FMTAC (as defined below), and FMTAC assumed responsibility for ELF's past liabilities and issued a new policy covering similar claims.
- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for property losses, which are reinsured, and assumes reinsurance coverage for station liability and force account liability.

MTAHQ, LIRR, MNCR, SIROTA, MSBA, ELF, and FMTAC collectively are referred to herein as MTA. LIRR and MNCR are referred to collectively as the Commuter Railroads.

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

The NYCTA and TBTA are operationally and legally independent of the Authority. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the Authority’s financial statements because of the Authority’s financial accountability for these entities and they are under the direction of the MTA board. Under accounting principles generally accepted in the United States of America (“GAAP”), the Authority is required to include these related groups in its financial statements.

Effective January 1, 2003, the MTA changed its method of accounting for the related groups of the MTA from accounting for the related group as blended component units to the consolidation method of accounting to more accurately reflect the reporting entity. Accordingly, the MTA is no longer required to present combining financial statements. The change in accounting is predicated on the following:

- the MTA Board serves as the Board of the other entities,
- the Chair and Executive Director of the MTA serve as the Chair and Executive Director of the other entities,
- MTA Headquarters performs certain consolidated functions for all of the other entities,
- while certain individual revenue streams may be restricted to use by the specified entities, MTA retains discretion over certain other revenues, subsidies and other monies or securities that are available for use by all of the entities in the related group,
- each of the entities is authorized to loan its revenues, subsidies and other monies or securities to the other entities, and
- MTA and TBTA are authorized to issue bonds, the proceeds of which can be used by substantially all of the other entities and to secure such bonds by consolidating the many sources of revenue of the individual entities.

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

1995 - 1999 Capital Program - In November 1995, the Authority’s Board approved a proposed 1995 - 1999 Capital Program exclusive of TBTA totaling \$11,929, which was increased in July 1997 to \$12,169, when it was first approved by the CPRB. In September 1996, the Governor signed legislation to increase the current bonding authority for capital projects and approved additional changes to the provisions governing capital programs. In February 1999, the Authority’s Board approved certain changes to the 1995 - 1999 Capital Program, raising the amount to \$12,553. The March 1999 amendments have been approved by the CPRB.

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

At September 30, 2003, \$17,913 had been committed and \$16,933 has been expended for the 1992-1999 Capital Program for the Authority, including TBTA.

2000 - 2004 Capital Program - The 2000-2004 Capital Program exclusive of TBTA, initially totaling \$16,462, was approved by the Authority's Board in September 1999. This plan was submitted to the CPRB for approval in October 1999, but was returned for revision in December 1999. In April 2000, the Authority's Board approved subsequent revisions to the proposed 2000-2004 Capital Program, with total capital expenditures of \$17,062. In May 2000, CPRB approved the \$17,062 Capital Program. In February 2002 the CPRB approved the bonding resolution for restructuring debt that funds the 2000-2004 Capital Program. In February 2002, the Authority's Board increased the 2000 - 2004 Capital Program to \$17,224. The CPRB approved the increase in April 2002. In May 2002, the MTA Board increased the 2000 - 2004 Capital Program to \$17,301. In December 2002, the Authority's Board approved changes within and an increase to the Transit, Commuter and TBTA 2000 - 2004 programs totaling \$591.2 for infrastructure and facilities security program. In February 2003, the MTA Board approved an amended 2000 - 2004 Capital Program of \$17,901, exclusive of TBTA. In May 2003 the \$17,901 amended Capital Program was submitted to the CPRB and subsequently returned due to security funding concerns. The plan was resubmitted to the CPRB in June 2003 and approved on July 5, 2003.

In September 1999, the MTA Board approved a proposed 2000 - 2004 Capital Program for the TBTA that provides for approximately \$1,000 in capital expenditures. This plan does not require approval of the CPRB. In March 2000, the MTA Board increased the 2000 - 2004 Capital Program for TBTA to \$1,025. In May 2002 the MTA Board increased the TBTA program again to \$1,030 and in December 2002 to \$1,036.

At September 30, 2003, \$12,809 had been committed and \$6,052 has been expended for the 2000 - 2004 Capital Program for the Authority, including TBTA.

The federal government has a contingent equity interest in assets acquired by the Authority with federal funds, and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale.

The Authority is a government unit that is not subject to real estate taxes, franchise taxes, and other excise taxes on its properties and sales taxes on its purchases.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

All investments are recorded on the balance sheet at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of operations. Fair values have been determined using quoted market values at September 30, 2003 and December 31, 2002.

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

Prepaid Expenses and Other Current Assets - In December 2002, NYCTA prepaid \$15.1 towards insurance coverage. The various policies cover environmental liability, sabotage and terrorism, property and excess liability.

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

Self-Insurance and Risk Retention - LIRR and MNCR are self-insured for liabilities arising from injuries to passengers, employees and others with the exception of injuries to non-employees and off-duty employees arising from occurrences at NYS stations ("Station Liability"), and employees and non-employees, arising from reimbursable project work ("Force Account"). LIRR and MNCR accrue the estimated total cost for the self-insured liability arising out of these claims. Claims arising from Station Liability and Force Account occurring after December 15, 2002 are fully insured up to \$7 per occurrence, claims arising December 15, 1997 to December 15, 2002 are insured up to \$6, and claims arising prior to December 15, 1997 are insured up to \$5. NYCTA and TBTA are self insured up to certain per-occurrence limits for liability claims arising from injuries to persons, excluding employees. For claims arising after November 1, 2001, the limits are \$7 and \$1.4 respectively; for claims arising between November 1, 1996 and October 31, 2001, the limits are \$6 and \$1.2 respectively, and for claims arising between December 15, 1986 and October 31, 1996, the limits are \$5, and \$1 respectively.

ELF insured certain claims in excess of the self-insured retention limits for LIRR, MNCR, NYCTA, and TBTA noted above, and in excess of \$1.4 for MTAHQ (\$1.2 for claims arising between November 1, 1996 and October 31, 2001 and \$1 for claims arising between December 15, 1986 and October 31, 1996). It received payments, as required by the ELF self-insurance agreement, from the participating agencies to cover the actuarially computed amount required to pay claims, and fund operations. At September 30, 2003 and December 31, 2002, ELF had \$82 and \$81, respectively, of assets available to insure current and future claims. The maximum amount of claims arising out of any one occurrence, which can be paid by ELF, is the lesser of the assets available for claims of the ELF or \$50.

On October 31, 2003, First Mutual Transportation Assurance Company (“FMTAC”), a subsidiary of MTA, assumed the existing ELF program on both a retrospective and prospective basis. The retrospective portion contains the same insurance agreements, participant retentions and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC will issue insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention. The policy limit will remain \$50 or the proceeds of the program, whichever is less. The current balance of the ELF (between \$81 and \$82) will be transferred to and invested by FMTAC in order to secure any claims assumed from the ELF, as well as to capitalize the prospective programs and insure current and future claims. FMTAC will charge appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program.

Effective October 31, 2003, an All-Agency Excess Liability Insurance Policy was renewed. This coverage affords the MTA and its subsidiaries and affiliates an additional limit of \$150, for a total limit of \$200 (\$150 excess of \$50). In certain circumstances, when the ELF’s assets are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the ELF’s coverage position of \$50.

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

Effective October 31, 2003, FMTAC insures property damages or loss exposures in excess of \$25 per occurrence, \$75 annual aggregate, up to a limit of \$975 for claims brought by the MTA and its subsidiaries and affiliates. This policy excludes acts of terrorism. Effective November 1, 2003, a stand-alone policy was purchased to cover sabotage and terrorism up to \$100 in excess of a \$25 self-insured retention. On November 26, 2002, with the enactment of the Terrorism Risk Insurance Act (“TRIA”) of 2002, any endorsements excluding certified acts of terrorism were void if the act of terrorism is covered by TRIA. The stand-alone terrorism policy was restructured to provide \$100 of coverage in excess of the \$24 self-insured retention for acts of terrorism not covered by TRIA or 10 percent of \$975 in coverage. FMTAC reinsures the majority of its property risks above the \$25 retention.

Effective December 15, 2001, FMTAC reinsures the primary \$7 in losses for Station Liability and Force Account Liability for MNCR and LIRR with a third-party insurer. FMTAC established an aggregate blanket stop loss protection agreement with the third party whereby if losses and allocated expenses retained by FMTAC exceed \$45 for the insurance policy period ending December 15, 2002, a cover limit of \$10 (inclusive of allocated expenses) is available. The third-party insurer will be responsible for paying all losses and allocated expenses within the cover limit. If the cover limit is exhausted, any additional losses and allocated expenses are payable by FMTAC. Effective December 15, 2002, FMTAC directly insures the primary \$7 in losses for Station Liability and Force Account Liability for MNCR and LIRR.

Operating Revenues -

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

Nonoperating Revenues -

Operating Assistance, Appropriations and Grants - The Authority receives, subject to annual appropriation, NYS operating assistance funds that are generally recognized as revenue when all applicable eligibility requirements are met. Generally, funds received under the NYS operating assistance program are fully matched by contributions from NYC and the seven other counties within the Authority's service area.

NYS and Regional Mass Transit Taxes - MTA, NYCTA, and SIRTOA receive, subject to annual appropriation, revenues from taxes enacted by the NYS Legislature. These taxes are recognized as revenue when all applicable eligibility requirements are met. Tax proceeds are distributed to the Authority as they are needed.

Mortgage Recording Taxes ("MRT") - Under NYS law, the Authority receives capital and operating assistance through a Mortgage Recording Tax (MRT-1), which is collected by NYC and the seven other counties within the Authority's service area, at the rate of one-quarter of one percent of the debt secured by certain real estate mortgages. The Authority also receives an additional Mortgage Recording Tax (MRT-2) of one-quarter of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to six dwelling units in the Authority's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55 percent to the NYCTA and SIRTOA and 45 percent to the Commuter Railroads. The Commuter Railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed \$20 annually. Until these bonds were defeased in November 2002, any funds remaining after this payment were used to pay the commuter portion of debt service on the Mortgage Recording Tax Bonds (the "MRT Bonds"). Any funds remaining after meeting debt service requirements are to be used for operating and capital needs of the Commuter Railroads at the discretion of the Authority's Board. Similarly, the NYCTA portion was used to pay the transit portion of debt service on the MRT Bonds. Any excess funds subsequent to meeting debt service requirements are to be used for operating and capital needs of NYCTA at the discretion of the Authority's Board. The MRT bonds were defeased in 2002, so there are currently no MRT bonds outstanding or contemplated.

The first \$5 of the MRT-2 proceeds is transferred, to the MTA Dutchess, Orange, and Rockland Fund (\$1.5 each for Dutchess and Orange counties and \$2 for Rockland County). Additionally, the Authority must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments to the Authority increased over such payments in 1989 and (ii) the base amount received by each county as described above. The amount transferable for 2003 has not been determined. Excess amounts transferable to the counties were \$0 and \$9.0 for 2003 and 2002, respectively. Until these bonds were defeased in November 2002, remaining funds, if any, were used to pay debt service on the MRT Bonds. Unexpended funds from MRT-2 of \$141.3 and \$133.0 at September 30, 2003 and December 31, 2002, respectively, are available to meet capital and operating needs, including debt service, of the Commuter Railroads and NYCTA, as determined by the Authority's Board. During 2003 and 2002, the Commuter Railroads used \$0, and \$12.4, and NYCTA used \$0 and \$71.3, respectively, of MRT-2 funds to satisfy debt service requirements on the MRT bonds. Also, in 2003 the Authority advanced from the MRT-2 funds \$50.0 to the Commuter Railroads and \$95.2 to NYCTA for their current operations. These advances will be repaid within a one-year period. In 2002 the Authority

provided \$50.0 of MRT-2 funds to TBTA. Of this amount, \$17.3 was used for bond defeasance and \$32.7 was used to satisfy debt service funds.

In addition, NYCTA receives operating assistance directly from NYC through a mortgage recording tax at the rate of five-eighths of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of certain properties assessed value (collectively referred to as "Urban Tax Subsidies").

Dedicated Taxes - Under NYS law, subject to annual appropriation, the Authority receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts are comprised of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and nonregistration fees. MTTF receipts are applied first to meet certain debt service requirements of obligations and in the second instance are used to pay operating and capital costs. The MMTOA receipts comprise a quarter of one percent regional sales tax, a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the NYCTA, SIRTOA, and the Commuter System.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (see Note 6), 85 percent to NYCTA and SIRTOA and 15 percent to the Commuter Railroads. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

Operating Subsidies Recoverable from Connecticut Department of Transportation ("CDOT") - The portion of the deficit from operations relating to MNCR's New Haven line is recoverable from CDOT and is recorded as a credit to operations. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100 percent of the net operating deficit of MNCR's branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65 percent of the New Haven mainline operating deficit, and a fixed fee for the New Haven line's share of the net operating deficit of Grand Central Terminal ("GCT") calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT's North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100 percent of the cost of non-movable capital assets located in Connecticut, 100 percent of movable capital assets to be used primarily on the branch lines and 65 percent of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the Authority. The Service Agreement provides for automatic five-year renewals. For a third consecutive time, the Service Agreement has been renewed for an additional five years beginning January 1, 2000. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year are subject to audit by CDOT. Years subsequent to 1998 remain subject to final audit.

Interagency Subsidy-Triborough Bridge and Tunnel Authority - NYS Law requires TBTA to transfer its annual operating surplus, as defined, to NYCTA and MTA. The initial \$24 of the operating surplus is provided to NYCTA and the balance, as adjusted to reflect debt service requirements of TBTA bonds issued for their respective benefit, was divided between NYCTA and MTA in their respective amounts of \$119.3 and \$172.0 recognized in 2003. In 2002, the amounts related to NYCTA and MTA were \$103.9 and \$144.2, respectively.

Certain TBTA investment income is transferred to MTA and is Board designated for use in acquiring or constructing capital assets for the Commuter Railroads and NYCTA. MTA recognized \$1.9 and \$14.7 in 2003 and 2002, respectively, related to the TBTA investment income transfer.

Sale of New York Coliseum - On July 31, 2000, the Authority closed on the sale of the New York Coliseum. The sale contract price was approximately \$345, resulting in a gain on the sale of approximately \$340. Proceeds from the sale were remitted to NYC and are to be returned as contributions to the capital program, which NYC funds through issuance of its bonds. MTA has recorded accounts receivable due from NYC of \$61 and \$108 at September 30, 2003 and December 31, 2002, respectively. MTA expects to receive the remainder of these funds in 2003.

Reimbursement of Expenses - The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the Authority to NYC and the other counties in which such stations are located for each NYS fiscal year ending March 31, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

NYC no longer fully reimburses NYCTA for costs of the free fare program for students. However, pursuant to an agreement with NYS and NYC, NYCTA continued the student program beginning with the 1995 - 1996 school year with NYS and NYC each agreeing to pay \$45. It is believed NYC will continue to provide for the continuation of the City's \$45 contribution for the 2003 - 2004 school year, of which \$0 has been received. NYCTA's approved 2003 mid-year forecast assumes that the \$45 from NYC will be received in 2003. The Authority's preliminary financial plan assumes the continuation of the joint funding of the free fare program for students. For the school year 2002 - 2003, the remaining balance of \$30 from NYC was received in July 2003 and \$45 from NYS in September 2003.

Prior to April 1995, NYC was obligated to reimburse the NYCTA for the transit police force. As a result of the April 1995 merger of the transit police force into the NYC Police Department, NYC no longer reimburses NYCTA for the costs of policing the transit system on an ongoing basis since policing of the transit system is being carried out by the NYC Police Department at NYC's expense. NYCTA continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. NYCTA received \$1.0 in 2003 and approximately \$4.2 in 2002 from NYC for the reimbursement of transit police costs.

Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, NYCTA, effective July 1, 1993, assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. NYC reimburses NYCTA for the lesser of 33 percent of net paratransit operating expenses defined as labor, transportation and administrative costs less fare revenues and 6 percent of gross Urban Tax

Subsidies or, an amount that is 20 percent greater than the amount paid by the City for the preceding calendar year. Fare revenue and NYC reimbursement aggregated approximately \$32.0 in 2003 and \$32.0 in 2002.

Grants and Appropriations - Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions.

Recent Accounting Pronouncements - During the year ended December 31, 2002, the Authority adopted GASB Statement No. 34 (as amended by GASB Statement No. 37), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 38, Certain Financial Statement Disclosures. GASB Statement No. 34 requires changes to the basic financial statements for state and local governmental entities. Among those requirements are certain changes applicable to special purpose governments engaged in business-type activities. Those changes require a balance sheet, with net assets displayed in the categories - invested in capital assets net of related debt, restricted, and unrestricted; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows presented using the direct method. In addition, GASB Statement No. 34 requires a management's discussion and analysis to be presented as required supplementary information. GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34. Certain reclassifications and additional disclosures have been made to the financial statements for the year ended December 31, 2001 to conform to GASB Statement No. 34 and the current year's presentation.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 39, Determining Whether Certain Organizations Are Component Units, an Amendment of GASB Statement 14. The Authority is therefore unable to disclose the impact that adopting GASB Statement No. 39 will have on its financial position and results of operations when such statement is adopted. The Statement is effective for financial statements for periods beginning after June 15, 2003.

GASB Statement No. 40, issued in 2003, *Deposit and Investment Risk Disclosure*, modifies the disclosure required by GASB Statement No. 3 to:

Deposits that are not covered by depository insurance

Investment securities insured that are held not in the government's name

The Authority has not adopted the provisions of this statement, which are effective for financial statements for periods beginning after June 15, 2004.

3. CASH AND INVESTMENTS

Cash, including deposits in transit, consists of the following at September 30, 2003 and December 31, 2002:

	September 2003		December 2002	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured (FDIC) or collateralized deposits	\$ 55	\$ 24	\$ 54	\$ 13
Uninsured and not collateralized	<u>50</u>	<u>16</u>	<u>30</u>	<u>195</u>
	<u>\$ 105</u>	<u>\$ 40</u>	<u>\$ 84</u>	<u>\$ 208</u>

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

The MTA, on behalf of the NYCTA, TBTA and MSBA, invests funds, which are not immediately required for the Authority's operations in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

Investments, at fair value, consist of the following at September 30, 2003 and December 31, 2002:

	September 2003	December 2002
Repurchase agreements	\$ 580	\$ 1,086
U.S. Treasuries due 2003 - 2020	1,557	2,487
Government National Mortgage Association due 2004 - 2021		21
Investments restricted for capital lease obligations	2,408	2,229
Other Agencies due 2005 - 2011	<u>1,100</u>	<u>221</u>
Total	<u>\$ 5,645</u>	<u>\$ 6,044</u>

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

In connection with certain lease transactions described in Note 7, MTA and TBTA have purchased securities or entered into payment undertaking, letter of credit or similar type agreements or instruments (Guaranteed investment contracts) with financial institutions that have a credit rating of AAA by Standard and Poors, which generate sufficient proceeds to make payments under the terms of the leases. If the obligors do not perform, MTA or TBTA may have an obligation to make the related rent payments.

All investments are either insured or registered and held by the Authority or its agent in the Authority's name. Accordingly, all investments are category one credit risk (the lowest risk category) as defined in GASB No. 3. Investments had weighted average yields of 1.4 percent and

2.1 percent for the nine months ended September 30, 2003 and 12 months ended December 31, 2002, respectively.

Of the above cash and investments, amounts held for restricted purposes were as follows at September 30, 2003 and December 31, 2002:

	September 2003	December 2002
Construction or acquisition of capital assets	\$ 1,255	\$ 1,983
Funds received from affiliated agencies for investment	361	448
Debt service	279	768
Payment of claims	293	286
Restricted for capital leases	2,408	2,229
Other	<u>712</u>	<u>130</u>
Total	<u>\$ 5,308</u>	<u>\$ 5,844</u>

4. EMPLOYEE BENEFITS

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

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

Defined Benefit Pension Plans -

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

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

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

At year-end 2002 and 2001, NYCTA made additional contributions to the MaBSTOA Plan of \$72.0 and \$83.5, respectively, resulting in the recognition of a pension asset in the combined balance sheets.

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

The Metropolitan Transportation Authority Defined Benefit Pension Plan ("MTA Plan"), a defined benefit pension plan for certain LIRR and MNCR management employees hired after December 31, 1987, certain MSBA employees hired prior to January 23, 1983, and MTA Police, is a cost sharing multiple-employer retirement plan. LIRR, MNCR and MTA contribute to the MTA Plan, which offers distinct retirement, disability and death benefits for MNCR and LIRR management employees, MTA 20-year Police Retirement Plan and MSBA Employees' Pension Plan. MTA Police contribute to the MTA Plan at various rates. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. Employer contributions made in 2003 are as of September 30, 2003. A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

LIRR, MNCR, MTA and MSBA recognized 2003 and 2002 pension expense based upon an assessment, which on average, was 18.29 percent and 14.72 percent, respectively, of annual compensation. The MTA Plan may be amended by the action of the MTA Board.

Annual pension costs and related information about each plan follows:

	LIRR	Single-Employer Plans		MTA Plan
		SIRTOA	MaBSTOA	
Required contribution rates:				
Plan members	variable	3.00%	variable	variable
Employer:	actuarially determined	actuarially determined	actuarially determined	actuarially determined
Employer contributions made in 2003	\$ 44.2	\$ 1.1	\$ 136.7	\$ 19.0
Three-year trend information:				
Annual Pension Cost (APC):				
2003	\$ 62.8	\$ 1.6	\$ 135.1	\$ 28.2
2002	41.6	1.4	121.7	21.3
2001	34.6	1.4	114.2	16.5
Net Pension Obligation (NPO) (assets) at end of year:				
2003	13.9	0.5	59.2	6.1
2002	(4.7)	None	60.8	(3.1)
2001	(2.2)	None	62.6	(0.5)
Percentage of APC contributed:				
2003	70%	69%	101%	67%
2002	106%	100%	102%	103%
2001	93%	100%	102%	87%
Components of APC				
Annual required contrib. (ARC)	\$ 62.9	\$ 1.6	\$ 137.0	\$ 28.1
Interest on NPO	(0.4)	-	5.0	(0.2)
Adjustment of ARC	<u>(0.3)</u>	<u>-</u>	<u>6.9</u>	<u>0.3</u>
APC	62.8	1.6	135.1	28.2
Contributions made	<u>44.2</u>	<u>1.1</u>	<u>136.7</u>	<u>19.0</u>
Change in NPO (assets)	18.6	0.5	(1.6)	9.2
NPO (assets) beginning of year	<u>(4.7)</u>	<u>-</u>	<u>60.8</u>	<u>(3.1)</u>
NPO (assets) end of year	<u>\$ 13.9</u>	<u>\$ 0.5</u>	<u>\$ 59.2</u>	<u>\$ 6.1</u>

		Single-Employer Plans		
	LIRR	SIRTOA	MaBSTOA	MTA Plan
Date of valuation	1/1/2003	1/1/2003	1/1/2003	1/1/2003
Actuarial cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00%	8.00%	8.25%	8.25%
Projected salary increases	3.5%	4.0% - 11.0%	3.5% - 18.0%	3.0% - 36.2%
Consumer price inflation	2.50%	2.50%	2.50%	2.50%
Amortization method and period	level % of payroll / 38 years	level dollar / 30 years	level dollar / 30 years	level dollar / 25 years
Period closed or open	closed	closed	closed	closed

Cost Sharing Multiple-Employer Plans -

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

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

Funding Policy - NYCERS is a noncontributory plan, except for employees who entered qualifying service after July 1976, who contribute 3 percent of their salary. The State legislature passed legislation in 2000 that suspends the 3 percent contribution for employees who have 10 years or more of credited service. The NYCTA and TBTA are required to contribute at an actuarially determined rate. The contribution requirements of plan members and NYCTA and TBTA are established and amended by law. NYCTA,

based on notification from NYCERS has recorded a liability in July 2003 of \$68.9 payable by December 31, 2003. NYCTA's contributions to NYCERS for the years ended December 31, 2002, and 2001 were \$30.7, and \$19.5, respectively, equal to the annual required contributions for each year. TBTA has received notice of a contribution requirement of \$3.2 for the 2003-2004 NYCERS fiscal year. TBTA's contributions to NYCERS for the years ended December 31, 2002, and 2001 were \$1.0, and \$1.0, respectively, which were equal to or in excess of the actuary's recommendation, plus interest.

These payments cover the Authority's annual required contributions for the NYCERS 2002 and 2001 fiscal years ended June 30, as well as a portion of the annual required contribution for the 2003 NYCERS fiscal year. The remainder of the 2003 annual required contribution is expected to be paid subsequent to year-end within the NYCERS fiscal year.

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

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

Plan Description and Funding Policy - MTAHQ and MSBA employees who were hired after January 23, 1983, are members of NYSERS. NYSERS is a cost sharing multiple-employer plan and offers a broad spectrum of benefits including retirement and disability benefits. Generally, employees contribute 3 percent of salary. In 2000, the State legislature passed legislation that suspends the 3 percent contribution of members who have 10 or more years of credited service. MTAHQ and MSBA recognize pension expense based upon annual assessments made by NYSERS. NYSERS pension expense was approximately \$1.5, \$1.2, and \$0.7, for the years ended December 31, 2002, 2001, and 2000, respectively, and was equal to the annual required contributions for each year. Further information about the plan is more fully described in the publicly available statement of NYSERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Defined Contribution Plans - The MTA also provides retirement benefits to certain of its employees under the following defined-contribution plans:

Single-Employer Public Employee Retirement Systems -

The Long Island Rail Road Company Money Purchase Plan (“Money Purchase Plan”) is a defined contribution plan that covers all employees who began service with LIRR after December 31, 1987. Employees participating in the plan contribute three percent of their compensation and LIRR contributes four percent of their compensation. The Plan is administered by the LIRR Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan’s provision and contribution requirements.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees (“Agreement Plan”), established January 1, 1988, covers union-represented employees in accordance with applicable collective bargaining agreements. Under this plan, MNCR will contribute an amount equal to 4 percent of each eligible employee’s gross compensation to the plan on that employee’s behalf. For employees who have 19 or more years of service MNCR contributes 7 percent. In addition, employees may voluntarily match MNCR’s contribution to the plan, on an after-tax basis. The Plan is administered by an employee of Metro-North Commuter Railroad and the Metro-North Board of Managers of Pension. The MTA Board of Directors is responsible for establishing or amending the Plan’s provision and contribution requirements.

	September 2003		December 2002	
	LIRR		LIRR	
	Money	MNCR	Money	MNCR
	Purchase	Agreement	Purchase	Agreement
	Plan	Plan	Plan	Plan
Employer contributions	\$ 8.2	\$ 12.0	\$ 9.6	\$ 17.4
Employee contributions	5.2	0.8	5.9	1.2

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

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying combined balance sheets.

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

	September 2003		December 2002	
	Number of Participants (Actual Amounts)	Cost of Benefits (In millions)	Number of Participants (Actual amounts)	Cost of Benefits (In millions)
MTAHQ	245	\$ 1.4	204	\$ 1.4
MNCR	1,500	2.2	1,421	2.3
LIRR:				
Management	696	4.7	725	5.4
Represented	4,018	13.1	3,982	13.9
NYCTA	31,800	97.0	31,350	127.9
TBTA	1,336	7.6	1,314	6.7
SIRTOA	39	0.2	40	0.2

5. PROPERTIES AND EQUIPMENT

Properties and equipment consist of the following at September 30, 2003 and December 31, 2002.

	Useful Life	September 30, 2003	December 31, 2002
Land		\$ 124	\$ 124
Road and track	25-60	8,975	8,249
Bridges and tunnels	100	1,183	1,183
Buildings and structures	25-50	9,087	8,930
Equipment:			
Passenger cars	25-35	7,369	6,530
Buses	12	1,667	1,573
Other	2-40	7,367	6,905
Construction in progress		<u>5,875</u>	<u>5,358</u>
		41,647	38,852
Less accumulated depreciation		<u>(10,724)</u>	<u>(9,892)</u>
		<u>\$ 30,923</u>	<u>\$ 28,960</u>

Interest capitalized in conjunction with the construction of capital assets at September 30, 2003 and December 31, 2002 is \$28 and \$49, respectively.

Capital assets acquired prior to April 1982 for NYCTA were funded primarily by NYC with capital grants made available to NYCTA. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of NYCTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by NYCTA. In certain instances, title to TBTA's real property may revert to NYC in the event TBTA determines such property is unnecessary for its corporate purpose. NYCTA scrapped 218 "redbird" subway cars and 405 cars in the nine-month period ending September 30, 2003 and the twelve-month period ending December 31, 2002, respectively. Loss on disposal of capital assets of \$25.5 and \$58.3 were recorded for the nine-month period ended September 30, 2003 and the twelve-month period ended December 31,

2002, respectively. NYCTA will continue the disposal of certain subway cars in its fleet through 2003.

For certain construction projects, the Authority holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At September 30, 2003 and December 31, 2002 these securities totaled \$66.6 and \$67.3, respectively, and had a market value of \$68.4 and \$68.5 respectively, and are not included in these financial statements.

6. LONG -TERM DEBT

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

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

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

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

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

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

The two Broadway Certificates of Participation and TBTA's Convention Center Project Bonds were not restructured.

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

	December 31, 2002	Issued	Retired	Refunded	September 30, 2003
MTA:					
Transportation Revenue Bonds Commercial Paper	\$ 750	\$ -	\$ -	\$ 361	\$ 389
Dedicated Tax Fund Bonds 3.00 - 6.25% due through 2031	2,231	-	-	-	2,231
Certificates of Participation 4.40 - 5.625% due through 2029	431	-	9	-	422
Transportation Revenue Bonds 2.25% - 5.752% due through 2035	4,968	1,227	-	-	6,195
State Service Contract Bonds 3.00% - 5.50% due through 2031	<u>2,395</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,395</u>
	10,775	1,227	9	361	11,632
Less net unamortized bond discount and premium	<u>(537)</u>	<u>50</u>	<u>(8)</u>	<u>-</u>	<u>(479)</u>
	<u>\$ 10,238</u>	<u>\$ 1,277</u>	<u>\$ 1</u>	<u>\$ 361</u>	<u>\$ 11,153</u>
TBTA:					
General Revenue Bonds Senior Revenue 4.00% - 5.77% due through 2033	\$ 4,221	\$ -	\$ 1	\$ -	\$ 4,220
General Revenue Bonds Subordinate Revenue 4.00% - 5.77% due through 2032	<u>1,706</u>	<u>500</u>	<u>19</u>	<u>-</u>	<u>2,187</u>
	5,927	500	20	-	6,407
Less net unamortized bond discount and premium	<u>149</u>	<u>11</u>	<u>13</u>	<u>-</u>	<u>147</u>
	<u>\$ 6,076</u>	<u>\$ 511</u>	<u>\$ 33</u>	<u>\$ -</u>	<u>\$ 6,554</u>
Combined total	\$ 16,314	<u>\$ 1,788</u>	<u>\$ 34</u>	<u>\$ 361</u>	\$ 17,707
Current portion	<u>(45)</u>				<u>(449)</u>
Long-term portion	<u>\$ 16,269</u>				<u>\$ 17,258</u>

MTA Transit and Commuter Facilities Revenue Bonds - These bonds were obligations payable solely from, and secured by a pledge of, the gross operating revenues, certain state and local operating subsidies and other monies, and the physical assets of LIRR and MNCR for Commuter Facilities Revenue Bonds, and a pledge of the gross revenues of the NYCTA and certain state and local operating subsidies and other monies for the Transit Facilities Revenue Bonds. In 2002 these bonds were fully defeased with the issuance of MTA Transportation Revenue Bonds Series 2002A-E as part of the Authority's restructuring.

MTA Commuter Facilities Subordinated Revenue Bonds (GCT Redevelopment Project) - These bonds were obligations payable solely from, and secured by a pledge of, the gross operating revenues, certain state and local operating subsidies and other monies, of LIRR and MNCR. These bonds are subordinate to MTA Commuter Facilities Revenue Bonds. In 2002 these bonds were fully defeased with the issuance of MTA Transportation Revenue Refunding Bonds Series 2002A.

MTA Bond Anticipation Notes - In 2002, MTA Transit and Commuter Facilities Special Obligation Bond Anticipation Notes were reissued under the new MTA Transportation Bond Resolution. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. At December 31, 2002, the average rate on the outstanding notes was 1.3 percent. Payment of principal and interest on the notes are additionally secured by a letter of credit issued by a bank. It is the Authority's intention to reissue the notes as they become due or to issue other securities, such as bonds, to refund the notes. If the notes are not reissued (or other securities issued), the amounts due to the letter of credit bank are converted to bank parity obligation bonds with a term of three years payable in 2005. In August 2003, MTA issued \$752 of Transportation Revenue Bonds, Series 2003B as long-term financing for the outstanding Bond Anticipation Notes. In October 2003, MTA issued \$420 in new Bond Anticipation Notes under the MTA Transportation Bond Resolution as a new commercial paper program, with terms similar to the old commercial paper program.

MTA Transit and Commuter Facilities Service Contract Bonds - These bonds are special obligations payable solely from, and secured by, semi-annual payments from NYS provided for under service contracts entered into with the Authority and from certain funds established under the bond resolutions. The obligation of NYS to make payments of principal and interest under the service contracts is dependent upon annual appropriations by the NYS Legislature and the availability of monies to fund such payments. In 2002, these bonds were defeased with the issuance of MTA State Service Contract Bonds Series 2002A.

Excess Loss Trust Fund Bonds - In 2002 these bonds were retired with funds available from the investment portfolio of the ELF.

MTA Dedicated Tax Fund Bonds - These bonds are payable solely from and secured by monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, as well as certain special taxes, including a regional sales tax, a temporary regional franchise tax surcharge, a portion of a tax on certain companies and a portion of the business privilege tax imposed by the State on petroleum businesses, be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

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

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

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

Short-Term Note - On November 8, 2001, the Authority entered into a revolving credit agreement with a financial institution for \$600 to provide capital assistance in connection with expenses incurred after the WTC attack. The Authority had drawn down \$300 as of December 31, 2001, and in October 2002 the amount was repaid.

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

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

MTA State Service Contract Bonds - In September of 2002, the Authority issued State Service Contract Refunding Bonds, Series 2002A, in the amount of \$1,716 to refund outstanding service contract bonds issued by MTA. Also in September of 2002, the Authority issued State Service Contract Bonds, Series 2002B, in the amount of \$679 to finance certain transit and commuter projects. The Series 2002A and 2002B are MTA's special obligations, payable solely from certain payments from the State of New York under a service contract.

NYCTA Transit Facilities Revenue Bonds - These bonds were obligations of NYCTA payable solely from and secured by a pledge of all the gross operating revenues and operating subsidies of NYCTA, excluding the federal operating assistance subsidy and reimbursements for project labor and engineering costs. These bonds are subordinate to MTA Transit Facilities Revenue Bonds. These bonds were defeased in 2002 with the issuance of MTA Transportation Revenue Bonds Series 2002A through 2002D.

TBTA General Purpose Revenue Bonds - These bonds are obligations of the TBTA and are secured by a pledge of the net TBTA revenues and the funds and accounts established under the TBTA General Purpose Revenue Bonds 1980 Resolution.

In 2002 these bonds defeased.

TBTA Mortgage Recording Tax Bonds - These bonds were obligations payable from MRT levied by NYS and allocated between MTA and NYCTA as described in Note 2. If available MRT receipts are not sufficient to fund debt service, TBTA was obligated to fund the required amount from its net operating revenue after satisfying the requirements of the 1980 resolution. Total debt service for these bonds for 2002 was \$85. The portion not covered by MRT receipts and funded by TBTA was zero in 2002. These bonds were on parity, as to claims on available TBTA net revenue, with TBTA Beneficial Interest Certificates and with TBTA Special Obligation Subordinated Bonds. In 2002, TBTA defeased all outstanding bonds issued under the 1991 Bond Resolution.

TBTA Beneficial Interest Certificates - The Beneficial Interest Certificates were obligations of TBTA payable from net revenues and other amounts derived from TBTA facilities. These certificates are subordinate to the TBTA General Purpose Revenue Bonds and are on parity as to claims on available TBTA net revenues with the TBTA Mortgage Recording Tax Bonds and TBTA Special Obligation Subordinated Bonds. These bonds were defeased in 2002.

TBTA Special Obligation Subordinated Bonds - These bonds were special obligations of the TBTA payable from operating revenues, after satisfying the requirements of the 1980 Revenue Bond Resolution, on a parity with the TBTA Beneficial Interest Certificates and TBTA Mortgage Recording Tax Bonds.

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

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

Debt Limitation - The NYS Legislature has imposed limitations on the aggregate amount of debt that the Authority and TBTA can issue to fund the approved transit and commuter capital programs. For the 1992 through 2004 Capital Programs, the imposed limitation, subject to certain exclusions, is \$16,500 compared with issuances totaling approximately \$6,798 at December 31, 2002.

Bond Refundings - During 2002 and as part of the Debt Restructuring, the Authority retired most of the outstanding debt of MTA, TBTA and NYCTA with either funds available or by issuing new bonds the proceeds of which were used to purchase US. Treasury obligations that were placed in irrevocable trusts. The principal and interest will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

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

The debt refundings resulted in an economic loss of approximately \$56.9 and an increase in future debt service cash flow of \$4,283. The economic loss is defined as the present value of the increase in future debt service cash flows.

The Authority has completed escrow restructuring during 2003 that resulted in a gross benefit of \$27.4. Additional restructurings will take place in October with a gross benefit of \$28.6. After estimated expenses of \$2.1, the Authority should realize a total net benefit of approximately \$53.9.

At September 30, 2003, the following amounts of Authority bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

MTA Transit and Commuter Facilities:	
Transit Facilities Revenue Bonds	\$ 2,057
Commuter Facilities Revenue Bonds	1,846
Commuter Facilities Subordinate Revenue Bonds	81
Transit and Commuter Facilities Service Contract Bonds	1,057
Dedicated Tax Fund Bonds	1,455
Excess Loss Trust Fund	35
NYCTA:	
Transit Facilities Revenue Bonds (Livingston Plaza Project)	137
TBTA:	
Beneficial Interest Certificates	19
General Purpose Revenue Bonds	2,600
Special Obligation Subordinate Bonds	235
Mortgage Recording Tax Bonds	283
Total	<u>\$ 9,805</u>

Swap Agreements

Board-adopted Guidelines. The Related Entities have adopted guidelines with respect to the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract.

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

Activity During the Period.

- In an effort to hedge against rising interest rates, on April 17, 2003, MTA entered into the following two forward hedges with an effective date of October 7, 2003 in connection with the expected issuance of approximately \$750 million in Transportation Revenue Bonds to provide long-term financing for MTA's commercial paper program:
 - \$336.3 million notional amount with Lehman Brothers Special Financing Inc., and
 - \$224.2 million notional amount with Bear Stearns Capital Markets Inc.

On July 23, 2003, MTA terminated the Lehman hedge and the Bear Stearns hedge in return for payments to MTA of \$1.1 million and \$0.7 million, respectively. At the same time, MTA entered into new hedges with Lehman and Bear Stearns in the same notional amounts with an effective date of May 15, 2004 in order to hedge against rising interest rates in connection with the expected issuance in 2004 of approximately \$750 million of Transportation Revenue Bonds to finance transit and commuter projects. The terms of the new hedges are reflected in the tables below.

- In an effort to hedge against rising interest rates, on May 29, 2003, TBTA entered into a forward hedge in the notional amount of \$370.7 million with Lehman Brothers Special Financing Inc. with an effective date of January 1, 2004 in connection with the expected issuance of approximately \$500 million in General Revenue Bonds to finance TBTA's Facilities.

Due to favorable market conditions, on July 23, 2003, TBTA terminated the Lehman hedge in return for a payment to TBTA of \$16.4 million.

Fair Value. Relevant interest rates were lower on September 30, 2003 (the valuation date) than they were on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values and MTA and TBTA were not exposed to the credit risk of the counterparties. However, should interest rates change and the fair values of the swaps become positive, MTA and TBTA would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value.

The fair values listed in the following tables, which were provided by the respective counterparties, are what it would cost the defaulting party to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. In the event both parties continue to perform their obligations under the swap, there is not a risk of termination and neither party is required to make a termination payment to the other. Neither MTA nor TBTA is aware of any event that would lead to a termination event with respect to any of their swaps. See "*Termination Risk*" below.

Terms and Fair Values. The terms, fair values and counterparties of the outstanding swaps of MTA and TBTA are as follows:

<u>MTA</u>							
<u>Associated Bond Issue</u>	Notional Amounts as of 9/30/03 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 9/30/03 (in millions)	Swap Termination Date	<u>Counterparty</u>
Dedicated Tax Fund Variable Rate Bonds, Series 2002B	\$440.0	09/05/02	4.06 %	Actual bond rate until 04/30/10, and thereafter, BMA ⁽¹⁾	\$(24.0)	09/01/13	Morgan Stanley Capital Services Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002B	210.5	05/30/02	2.565	BMA	(1.9)	01/01/04	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	200.0	05/30/02	3.385	BMA	(8.1)	01/01/06	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	200.0	05/30/02	3.627	BMA	(10.2)	01/01/07	Bear Stearns Capital Markets Inc.
Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	200.0	01/01/07	4.45	69% of one-month LIBOR ⁽²⁾	(11.7)	11/01/32	Bear Stearns Capital Markets Inc.
Proposed Issuance of Transportation Revenue Bonds	336.3	05/15/04	3.605	67% of one-month LIBOR	(5.2)	11/15/32	Lehman Brothers Special Financing Inc.
Proposed Issuance of Transportation Revenue Bonds	224.2	05/15/04	3.605	67% of one-month LIBOR	(3.5)	11/15/32	Bear Stearns Capital Markets Inc.
Total	\$1,811.0				\$(64.6)		

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

⁽²⁾ London Interbank Offered Rate.

<u>TBTA</u>							
<u>Associated Bond Issue</u>	Notional Amounts as of 9/30/03 (in millions)	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	Fair Values as of 9/30/03 (in millions)	<u>Swap Termination Date</u>	<u>Counterparty</u>
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B ⁽³⁾	\$234.8	01/01/01	6.08 %	Actual bond rate	\$(51.8)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D ⁽³⁾	234.8	01/01/01	6.07	Actual bond rate	(49.8)	01/01/19	Salomon Brothers Holding Company Inc.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C ⁽⁴⁾	296.2	01/01/02	5.777	Actual bond rate	(50.1)	01/01/19	Salomon Brothers Holding Company Inc.
General Revenue Variable Rate Refunding Bonds, Series 2002C ⁽⁵⁾	93.9	01/01/00	5.634	Actual bond rate	(15.5)	01/01/13	Ambac Financial Services, L.P.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one- month LIBOR minus 45 basis points	(2.8)	01/01/18	JPMorgan Chase Bank
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one- month LIBOR minus 45 basis points	(2.8)	01/01/18	JPMorgan Chase Bank
Total	\$1,040.7				\$(172.8)		

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

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

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

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

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A	A1	A+
JPMorgan Chase Bank	AA-	Aa3	
Lehman Brothers Special Financing Inc.	A	A1	A+
Morgan Stanley Capital Services Inc.	A+	Aa3	AA-
Salomon Brothers Holding Company Inc.	AA-	Aa1	AA+

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amounts and the outstanding principal amounts as of September 30, 2003 for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	\$244.3	\$234.8
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	244.2	234.8
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	296.4	296.2
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	103.3	93.9

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

Risks Associated with the Swap Agreements

From MTA’s and TBTA’s perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or MTA/TBTA, the swap agreement may require that collateral be posted to secure the party’s obligations under the swap agreement. See “*Collateralization*” below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA or TBTA on the associated bonds are not the same. If the counterparty’s rate under the swap is lower than the bond interest rate, then the counterparty’s payment under the swap agreement does not fully reimburse MTA or TBTA for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty’s rate on the swap, there is a net benefit to MTA or TBTA.

- Termination Risk – The swap agreement will be terminated and MTA or TBTA will be required to make a large termination payment to the counterparty.
- Rollover Risk – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds, and MTA or TBTA may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or TBTA. The notional amount totals below include both Bear Stearns swaps relating to the Transportation Revenue Bonds, Series 2002D-2 (one of which swaps terminates on January 1, 2007, which is the effective date of the other swap) and both the Lehman and Bear Stearns hedges that become effective on May 15, 2004. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in millions)</u>	<u>% of Total Notional Amount</u>
Bear Stearns Capital Markets Inc.	\$1,269.5	44.5%
Salomon Brothers Holding Company Inc.	531.0	18.6
Morgan Stanley Capital Services Inc.	440.0	15.4
Lehman Brothers Special Financing Inc.	336.3	11.8
JPMorgan Chase Bank	181.0	6.3
Ambac Financial Services, L.P.	93.9	3.3
Total	\$2,851.7	

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

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

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

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

The following table sets forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA or TBTA, as the case may be, and the counterparty for each swap agreement.

MTA			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	If the highest rating of the related MTA bonds or the counterparty's long-term <u>unsecured debt falls to</u>	Then the downgraded party must post collateral if its estimated termination payments are in excess of <u>(in millions)</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	<u>Fitch</u> – BBB+, or <u>S&P</u> – BBB+	\$10.0
		<u>Fitch</u> – BBB and below or unrated, or <u>S&P</u> – BBB and below or unrated	\$0
MTA Transportation Revenue Variable Rate Refunding Bonds – Series 2002B and Series 2002D-2	Bear Stearns Capital Markets Inc.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10.0
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Lehman Brothers Special Financing Inc.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10.0
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Bear Stearns Capital Markets Inc.	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10.0
		<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0

TBTA			
Associated Bond Issue	Counterparty	If the highest rating of the related TBTA bonds or the counterparty's long-term <u>unsecured debt falls to</u>	Then the downgraded party must post collateral if its estimated termination payments are in excess of <u>(in million)</u>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of \$1.0.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Salomon Brothers Holding Company Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Salomon is required to post collateral if its estimated termination payments are in excess of \$1.0.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Salomon Brothers Holding Company Inc.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Salomon is required to post collateral if its estimated termination payments are in excess of \$1.0.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	N/A – Because TBTA's swap payments are insured, TBTA is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of \$1.0.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds – Series 2002G-1 and Series 2002G	JPMorgan Chase Bank	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10.0
		<u>Fitch</u> – Below BBB+, <u>Moody's</u> – Below Baa1, or <u>S&P</u> – Below BBB+	\$0

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

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

Termination Risk. Any party to the swap may terminate the swap if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, MTA or TBTA could be liable to the counterparty for a payment equal to the swap's fair value. Neither MTA nor TBTA is aware of any event that would lead to a termination event with respect to any of their swaps.

Under each MTA and TBTA bond resolution, the payments relating to debt service on the swaps is a parity obligation with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and TBTA have structured each of the

swaps in a manner that will permit MTA or TBTA to bond the termination payments under any available bond resolution.

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

The following table sets forth, for each swap, the additional termination events for the following associated bond issues.

<u>MTA</u>		
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>Additional Termination Events</u>
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	Morgan Stanley Capital Services Inc.	1. The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds falls below “BBB-” or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002B	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody’s of the Counterparty or the MTA Transportation Revenue Bonds falls below “BBB-” and “Baa3”, respectively, or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody’s of the Counterparty or the MTA Transportation Revenue Bonds falls below “BBB-” and “Baa3”, respectively, or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody’s of the Counterparty or the MTA Transportation Revenue Bonds falls below “BBB-” and “Baa3”, respectively, or are withdrawn.
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody’s of the Counterparty or the MTA Transportation Revenue Bonds falls below “BBB-” and “Baa3”, respectively, or are withdrawn.
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Lehman Brothers Special Financing Inc.	1. The ratings by S&P and Moody’s of the Counterparty or the MTA Transportation Revenue Bonds falls below “BBB-” and “Baa3”, respectively, or are withdrawn.
MTA May 15, 2004 Hedge – Transportation Revenue Bonds	Bear Stearns Capital Markets Inc.	1. The ratings by S&P and Moody’s of the Counterparty or the MTA Transportation Revenue Bonds falls below “BBB-” and “Baa3”, respectively, or are withdrawn.

TBTA		
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>Additional Termination Events</u>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>Note: The TBTA swap payments are insured by Financial Security Assurance Inc., so there is no ratings downgrade or withdrawal termination.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Salomon Brothers Holding Company Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>Note: The TBTA swap payments are insured by Financial Security Assurance Inc., so there is no ratings downgrade or withdrawal termination.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Salomon Brothers Holding Company Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>Note: The TBTA swap payments are insured by Ambac Assurance Corporation, so there is no ratings downgrade or withdrawal termination.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>Note: The TBTA swap payments are insured by Ambac Assurance Corporation, so there is no ratings downgrade or withdrawal termination.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	1. TBTA may terminate the swap at no cost on or after December 29, 2010.
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G	JPMorgan Chase Bank	1. TBTA may terminate the swap at no cost on or after January 5, 2011.

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

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001 B and 2001C	01/01/32	01/01/19
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	11/01/22	09/01/13
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002B	11/01/22	01/01/04
MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-1	11/01/29	01/01/06
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G ⁽¹⁾	11/01/32	01/01/18

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

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

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

- During 2003, variable-rate bond interest payments were calculated using actual interest payments through November 25, 2003, and 4.0% per annum thereafter.
- Beginning in 2004, it was assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

The Lehman Brothers and Bear Stearns hedges with effective dates of May 15, 2004 are not included in the following tables.

MTA (in millions)				
	<u>Variable-Rate Bonds</u>			
<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2003		\$13.6	\$23.5	\$ 37.1
2004		42.2	(1.7)	40.5
2005		42.2	(1.7)	40.5
2006		42.3	(0.5)	41.9
2007		42.1	1.2	43.3
2008-2012		210.7	5.8	216.5
2013-2017	\$224.2	195.2	4.7	424.1
2018-2022	473.2	131.8	4.5	609.5
2023-2027	119.0	60.8	4.5	184.3
2028-2032	234.1	33.5	3.6	271.2

TBTA (in millions)				
	<u>Variable-Rate Bonds</u>			
<u>Fiscal Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2003	\$ 19.1	\$ 12.9	\$ 43.0	\$ 75.0
2004	19.9	42.0	15.5	77.3
2005	20.8	41.3	14.5	76.6
2006	22.1	40.3	13.5	76.0
2007	23.5	39.1	12.7	75.3
2008-2012	178.4	176.8	50.4	405.6
2013-2017	280.9	130.5	18.3	429.7
2018-2022	173.4	81.9	0.6	255.8
2023-2027	161.2	53.3	0	214.5
2028-2032	182.6	18.3	0	200.9
2033	6.5	0	0	6.5

Debt Service Payments - Principal and interest debt service payments (excluding refunded bonds) at September 30, 2003, are as follows:

	MTA		TBTA				Aggregate	
	Principal	Interest	Senior Revenue		Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2003	\$ 53	\$ 205	\$ -	\$ 64	\$ -	\$ 74	\$ 53	\$ 343
2004	179	546	39	204	33	110	251	860
2005	205	541	73	202	35	108	313	851
2006	212	530	76	199	36	107	324	836
2007	218	520	73	201	38	104	329	825
2008-2012	1,239	2,447	495	924	222	492	1,956	3,863
2013-2017	1,573	2,108	586	799	288	429	2,447	3,336
2018-2022	2,018	1,664	995	634	433	333	3,446	2,631
2023-2027	2,568	1,112	1,242	433	495	218	4,305	1,763
2028-2032	2,978	404	634	175	607	84	4,219	663
2033-2037	-	-	7	-	-	-	7	-
	<u>\$ 11,243</u>	<u>\$ 10,077</u>	<u>\$ 4,220</u>	<u>\$ 3,835</u>	<u>\$ 2,187</u>	<u>\$ 2,059</u>	<u>\$ 17,650</u>	<u>\$ 15,971</u>

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

Dedicated Tax Fund, Series 2002B - 4.06% per annum until 09/01/2013 based on the interest rate swap and 4.00% per annum thereafter

Transportation Revenue Refunding Bonds, Series 2002B - 5.50% per annum

Transportation Revenue Refunding Bonds, Series 2002C - 7.00% per annum

Transportation Revenue Refunding Bonds, Series 2002D - 5.50% per annum

Transportation Revenue Refunding Bonds, Series 2002G - 4.00% per annum

TBTA Subordinate Refunding Bonds, Series 2000A and 2000B - 4.00% per annum

and including net payments made by TBTA under the swap agreements

TBTA General Revenue Refunding Bonds, Series 2002C - 4.00% per annum and including net payments made by TBTA under the swap agreements

TBTA General Revenue Refunding Bonds, Series 2002D - 4.00% per annum

TBTA General Revenue Refunding Bonds, Series 2002F - 4.00% per annum

TBTA General Revenue Refunding Bonds, Series 2002G - 4.00% per annum

Tax Rebate Liability (Not Updated from 12/31/02) - Under the Internal Revenue Code of 1986, the Authority accrues a liability for an amount of rebatable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years and is reported as part of other long-term liabilities. At December 31, 2002, the Authority recorded a rebate liability amounting to \$6.9.

7. LEASE TRANSACTIONS

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

Under the terms of the lease/leaseback agreement, the Authority initially received \$313.5, which was utilized as follows. The Authority paid \$266.4 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the Authority to make these payments to the third party. The Authority used \$20.7 to purchase Treasury securities, which it deposited under pledge to the third party. This deposit, together with the aforementioned obligation of the third party's lender, resulted in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the 22 year sublease period, if the purchase option is exercised. A further \$.6 was used to pay for legal and other costs of the transaction, and \$3.2 was used to pay the first rental payment under the sublease. A further \$22.5 is the Authority's net benefit from the transaction, representing consideration for the tax benefits. TBTA has entered into a guarantee with the third party that the sublease payments will be made. At September 30, 2003, the Authority has recorded a long-term capital obligation and capital asset of \$282 arising from the transaction.

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

Under the terms of the lease/leaseback agreement, the Authority initially received \$76.6, which was utilized as follows. The Authority paid \$59.8 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the Authority to make these payments to the third party. The Authority used \$12.5 to purchase a Letter of Credit from an affiliate of the third-party's lender, guaranteed by the third party lender's parent. This payment, together with the aforementioned obligation of the third party's lender, is sufficient to settle all obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the purchase options are exercised. At September 30, 2003, the Authority has recorded a long-term capital obligation and capital asset of \$54 arising from the transaction. The net proceeds are deferred and amortized to operations over the period of the lease.

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

Under the terms of the sale/leaseback agreements, the Authority initially received \$1,514.9, which was utilized as follows. The Authority paid \$1,058.6 to affiliates of certain of the lenders to the third parties,

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

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

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

Under the terms of the sale/leaseback agreements, the Authority initially received \$507.4, which was utilized as follows. The Authority paid \$316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to make a portion of the lease rent payment equal to the debt service on the related loans, thereby eliminating the need for the Authority to make these payments to the third parties. The Authority also purchased FNMA and U.S. Treasury debt securities in amounts and with maturities, which are sufficient, to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of three of the four leases, the Authority also purchased U.S. Treasury debt securities in amounts and with maturities which are expected to be sufficient to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by the Authority of the purchase options if exercised. In the case of the other lease, the Authority entered into an Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which is guaranteed by XL Financial Assurance Ltd.) whereby that entity has the obligation to provide to the Authority the amounts necessary to make the remainder of the basic lease rent payments under that lease and to pay the purchase price due upon exercise by the Authority of the purchase option if

exercised. The amount remaining after payment of transaction expenses, \$57.6, was the Authority's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to NYCTA and the Authority, the Authority is obligated to pay to the City 24.11% of the net benefit received from these four QTE transactions.

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

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

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

Under the terms of the sale/leaseback agreements, MTA initially received \$293.9, which was utilized as follows. In the case of one of the leases, MTA paid \$97.0 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to make a portion of the lease rent payment equal to the debt service on the related loan, thereby eliminating the need for MTA to make these payments to the third party. In the case of the other lease, MTA purchased U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loan from the other lender to the third party. In the case of both of the leases, MTA also purchased REFCO debt securities that mature in 2030 under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.) whereby AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay the remainder of the lease rent payments under those leases and the purchase price due upon exercise by MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, \$23.6, was MTA's net benefit from these two transactions. These amounts are deferred and amortized to operations over the period of the respective leases.

Other Lease Transactions - On July 29, 1998, the MTAHQ, NYCTA and TBTA entered into a lease and related agreements whereby each agency, as sublessees, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are \$1,602 with rent being abated from the commencement date through June 30, 1999. During 2002 and 2001 the Authority made rent payments of \$ 20.8. In connection with the renovation of the building and for tenant

improvements, the Authority issued \$121.2 and \$328.2 in 2000 and 1999, respectively, of long-term obligations (see Note 6). The office building is principally occupied by NYCTA and TBTA.

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

In August 1988, the Authority entered into a 99-year lease agreement with Amtrak for Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms. The \$44.6 paid to Amtrak by the Authority under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, LIRR entered into an agreement with Amtrak to share equally the cost of the design and construction of certain facilities at Pennsylvania Station. Under this agreement, the Authority may be required to contribute up to \$60 for its share of the cost. As of December 31, 2000 the project was closed and \$50 were included in property and equipment.

Total rent expense under operating leases approximated \$29 for the nine months ended September 30, 2003 and \$14 in 2002.

At September 30, 2003, the future minimum lease payments under noncancellable leases are as follows:

Year	Operating	Capital
2003	\$ 12	\$ 20
2004	21	250
2005	20	150
2006	20	190
2007	20	1,151
2008 - 2012	85	831
2013 - 2017	72	429
2018 - 2022	58	700
2023 - 2027	58	316
2028 - 2032	43	339
Thereafter	<u>399</u>	<u>1,987</u>
	<u>\$ 808</u>	6,363
Amount representing interest		<u>(3,696)</u>
Present value of capital lease obligations		<u>\$ 2,667</u>

8. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the 6 months ended September 30, 2003 and the year ended December 31, 2002 is presented below:

	September 2003	December 2002
Balance, beginning of year	\$ 949	\$ 890
Activity during the year:		
Current year claims and		
changes in estimates	147	192
Claims paid	<u>(110)</u>	<u>(133)</u>
Balance, end of period	986	949
Less current portion	<u>(150)</u>	<u>(153)</u>
Long-term liability	<u>\$ 836</u>	<u>\$ 796</u>

9. COMMITMENTS AND CONTINGENCIES

The September 11, 2001 terrorist attack on the World Trade Center in New York resulted in the following significant items: (1) significant physical and structural damage to NYCTA's N, R, 1 and 9 lines and related facilities and stations; (2) temporary closure of TBTA's bridges and tunnels, not all facilities, and certain restrictions imposed on the number of vehicle occupants when the facilities were reopened; (3) safety and security expenditures in and around the World Trade Center; and (4) temporary closure of MNCR's Grand Central Terminal and LIRR's Pennsylvania Station. The Authority has submitted claims to its reinsurance providers for reimbursement for expenditures incurred, for physical and structural damages and for loss of revenues due to business interruption. The Authority, on behalf of the agencies, has submitted certain reinsurance claims in connection with such losses and has received \$191 as of December 31, 2002.

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

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

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

determine the probable outcome of the litigation, but if the police officer's position prevails, and the holding is extended to those similarly situated, The Authority's liability could be significant.

On December 30, 1996, MTAHQ, LIRR and MSBA entered into a Funding Agreement ("First Nassau County Agreement") with the County of Nassau (the "County"). Pursuant to the First Nassau County Agreement, MTAHQ agreed to make a grant transfer of \$51 to the County, after certain conditions were met by the County. In exchange, the County would make project contributions to MTAHQ equal to two times the amount of the grant transfer, provided that the aggregate amount of project contributions does not exceed \$102. At December 31, 1997, \$51 had been paid to the County as a grant and was recorded by MTAHQ as a receivable against future project contributions. At December 31, 2002, MTAHQ had requisitioned \$90 and had received \$81 from the County for reimbursement of project costs incurred. A second Funding Agreement ("Second Nassau County Agreement") with the County containing substantially the same terms was entered into by MTAHQ and LIRR on May 1, 1999. Pursuant to the Second Nassau County Agreement, MTAHQ made a grant transfer of \$70 to the County and, in exchange, the County made project contributions in 1991 of \$140 to MTAHQ.

Pursuant to a Memorandum of Understanding ("MOU") dated May 20, 1996, by and among MTAHQ, NYCTA and NYC, NYCTA was authorized, and made grant transfers to NYC, totaling \$250 through 1997. In exchange, NYC agreed to pay \$500 from its capital budget to fund NYCTA's capital program. The intent of the MOU was to provide additional capital funding to the NYCTA, which did not require the issuance of bonds supported by NYCTA revenues, including fare receipts. MTAHQ treats the first \$250 as a receivable due from NYC and the second \$250 as contributed capital. As of December 31, 2002, NYC had made capital payments totaling \$444.6, thereby reducing the receivable due from NYC in the consolidated balance sheets to \$0 and recognizing the additional \$194.6 as contributed capital.

On March 31, 1995, the MTA Board agreed to a merger of the transit police with the New York City Police Department, in accordance with a memorandum of understanding between NYCTA and NYC. Pursuant to the terms of the merger, NYCTA's operation of the transit police and NYC's obligation to reimburse the cost of operating the transit police terminated effective April 2, 1995. NYC has assumed the liability for substantially all past and future costs associated with operating the transit police, including all future pension costs. NYCTA has asserted a claim of approximately \$92 against NYC relating to reimbursement of costs incurred in the operation of the transit police. NYCTA claims that NYC underpaid these amounts in the period from 1988 through December 1994. In January 1995, NYCTA filed a demand for arbitration pursuant to the lease governing the overall relationship between NYCTA and NYC to pursue, among other matters, payment of these arrearages. The arbitration matter has been held in abeyance while NYC, NYCTA, and the Authority explore the possibility of an amicable resolution.

In 1990, a fire occurred in a subway tunnel operated by NYCTA resulting in passenger injuries on a subway train passing through that tunnel. In 1991, a subway train operated by NYCTA derailed at Union Square resulting in injuries to passengers who were aboard the train. While the ultimate loss from each of these events has exceeded NYCTA's retention limit, thereby resulting in a liability to the ELF, there are few remaining cases. A verdict has been reached in a 1993 subway accident case. The verdict will require a payment from ELF in the amount of \$4.1. Management believes that the coverage provided by the ELF will be sufficient to satisfy all remaining 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 participants.

The Authority previously reported that its lease of new office space at Two Broadway has resulted in civil litigation between the Authority and the owner/landlord of Two Broadway in the Supreme Court of New York, New York County (the "Supreme Court action"), asking for declaratory, injunctive and monetary relief as a result of the landlord's defective performance and interference with the

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

10. SEGMENT INFORMATION

	MTA	* Commuters	Transit	Bridges and Tunnels	Eliminations	Total
2003						
Operating revenue	\$ 68	\$ 601	\$ 1,892	\$ 769	\$ (32)	\$ 3,298
Depreciation and amortization	20	254	613	27	-	914
Subsidies and grants	249	-	317	-	(187)	379
Tax revenue	1,491	-	829	-	(648)	1,672
Interagency subsidy	291	-	133	(424)		-
Operating (deficit) surplus	(201)	(759)	(1,801)	511	28	(2,222)
Net (deficit) surplus	1,161	(715)	(610)	38	(388)	(514)
Capital expenditures	2,800	165	556	1,060	(1,725)	2,856
Total assets	10,532	8,159	22,305	3,059	(2,027)	42,028
Net working capital	1,590	(25)	(107)	(301)	(618)	539
Long-term debt	11,153	-	-	6,595	(41)	17,707
Net assets	(5,352)	7,077	20,143	(4,073)	(387)	17,408
2002						
Operating revenue	\$ 81	\$ 740	\$ 2,330	\$ 939	\$ (37)	\$ 4,053
Depreciation and amortization	26	312	761	36	-	1,135
Subsidies and grants	111	-	318	-	-	429
Tax revenue	634	-	1,034	-	-	1,668
Interagency subsidy	163	-	100	(263)	-	-
Operating (deficit) surplus	(252)	(980)	(2,314)	603	-	(2,943)
Net (deficit) surplus	(6,265)	502	6,066	57	-	360
Capital expenditures	4,062	251	734	263	(1,056)	4,254
Total assets	9,622	7,751	21,093	3,536	(2,234)	39,768
Net working capital	1,166	(70)	(120)	119	(324)	771
Long-term debt	10,214	-	6,097		(42)	16,269
Net assets	(5,598)	6,678	19,037	(3,255)		16,862

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

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

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METROPOLITAN TRANSPORTATION AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION: SCHEDULE OF PENSION FUNDING PROGRESS (Unaudited - In millions)

	January 1, 2003	January 1, 2002	January 1, 2001
LIRR			
a. Actuarial value of plan assets	\$ 701.9	\$ 820.8	\$ 813.8
b. Actuarial accrued liability (AAL)	1,633.5	1,451.4	1,361.1
c. Total unfunded AAL (UAAL) [b-a]	931.6	630.6	547.3
d. Funded ratio [a/b]	43.0 %	56.6 %	59.8 %
e. Covered payroll	\$ 174.9	\$ 180.3	\$ 192.5
f. UAAL as a percentage of covered payroll [c/e]	532.6 %	349.8 %	284.3 %
SIRTOA			
a. Actuarial value of plan assets	\$ 34.4	\$ 33.8	\$ 31.0
b. Actuarial accrued liability (AAL)	42.4	42.0	39.2
c. Total unfunded AAL (UAAL) [b-a]	8.1	8.2	8.2
d. Funded ratio [a/b]	81.0 %	80.5 %	79.1 %
e. Covered payroll	\$ 15.7	\$ 15.3	\$ 13.7
f. UAAL as a percentage of covered payroll [c/e]	51.6 %	53.6 %	59.9 %
MaBSTOA			
a. Actuarial value of plan assets	\$ 629.8	\$ 656.4	\$ 611.5
b. Actuarial accrued liability (AAL)	1,564.6	1,614.9	1,592.5
c. Total unfunded AAL (UAAL) [b-a]	934.8	958.5	981.0
d. Funded ratio [a/b]	40.3 %	40.6 %	38.4 %
e. Covered payroll	\$ 450.6	\$ 432.7	\$ 400.5
f. UAAL as a percentage of covered payroll [c/e]	207.5 %	221.5 %	244.9 %
MTA			
a. Actuarial value of plan assets	\$ 243.2	\$ 255.5	\$ 240.4
b. Actuarial accrued liability (AAL)	268.0	284.3	270.2
c. Total unfunded AAL (UAAL) [b-a]	24.8	28.8	29.8
d. Funded ratio [a/b]	90.7 %	89.9 %	89.0 %
e. Covered payroll	\$ 154.0	\$ 144.7	\$ 135.1
f. UAAL as a percentage of covered payroll [c/e]	16.1 %	19.9 %	22.1 %