

**Metropolitan Transportation
Authority Excess Loss
Trust Fund**

**Financial Statements
December 31, 2001 and 2000**

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Report of Independent Accountants

To the Trustees of the
Metropolitan Transportation Authority
Excess Loss Trust Fund

In our opinion, the accompanying balance sheets and the related statements of revenues, expenses and changes in net assets and cash flow present fairly, in all material respects, the financial position of the Metropolitan Transportation Authority Excess Loss Trust Fund (the "Company"), a trust established pursuant to the New York State Public Authorities Law, at December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

The required supplementary information on pages 11 and 12 is required by the Governmental Accounting Standards Board and is not a required part of the general purpose financial statements. The required supplementary information has not been subjected to the auditing procedures applied in our audits of the general purpose financial statements and, accordingly, we express no opinion on such information.

PricewaterhouseCoopers LLP

March 8, 2002

Metropolitan Transportation Authority Excess Loss Trust Fund
Balance Sheets
December 31, 2001 and 2000
(Amounts in Thousands of Dollars)

	2001	2000
Assets		
Cash	\$ 2	\$ 1
Investments	122,069	120,000
Interest receivable	1,851	2,004
Other receivable	1,628	1,127
Deferred charges	2,108	2,254
	<u>127,658</u>	<u>125,386</u>
Total assets	\$ 127,658	\$ 125,386
Liabilities and Net Assets		
Estimated liability for claims	\$ 2,790	\$ 3,100
Due to MTA	1,270	1,123
Note payable to MTA	41,945	46,205
	<u>46,005</u>	<u>50,428</u>
Total liabilities	46,005	50,428
Net assets	<u>81,653</u>	<u>74,958</u>
Total liabilities and net assets	\$ 127,658	\$ 125,386

The accompanying notes are an integral part of these financial statements.

Metropolitan Transportation Authority Excess Loss Trust Fund
Statements of Revenues, Expenses and Changes in Net Assets
Years ended December 31, 2001 and 2000
(Amounts in Thousands of Dollars)

	2001	2000
Revenues:		
Investment income	\$ 7,679	\$ 9,081
Premium income from affiliated agencies	2,100	260
Other income	83	-
	<u>9,862</u>	<u>9,341</u>
Total revenues	9,862	9,341
Expenses:		
Claims	-	2,667
Interest	2,672	2,747
Administrative expenses paid to MTA	495	188
	<u>3,167</u>	<u>5,602</u>
Total expenses	3,167	5,602
Net income	6,695	3,739
Net assets at beginning of year	<u>74,958</u>	<u>71,219</u>
Net assets at end of year	<u>\$ 81,653</u>	<u>\$ 74,958</u>

The accompanying notes are an integral part of these financial statements.

Metropolitan Transportation Authority Excess Loss Trust Fund
Statements of Cash Flow
Years ended December 31, 2001 and 2000
(Amounts in Thousands of Dollars)

	2001	2000
Cash flows from operating activities:		
Premium income	\$ 472	\$ -
Claims	(227)	(167)
Administrative expenses paid to MTA	(255)	(248)
Net cash used in operating activities	<u>(10)</u>	<u>(415)</u>
Cash flows from non-capital financing activities:		
Interest payments	(2,249)	(2,483)
Repayment of note payable to MTA	(4,630)	(6,490)
Net cash used in non-capital financing activities	<u>(6,879)</u>	<u>(8,973)</u>
Cash flows from investing activities:		
Interest income	7,218	6,373
Purchases of long-term investments	(78,844)	(109,339)
Sales and maturities of long-term investments	93,065	52,821
Net (purchases) sales of short-term investments	(14,549)	59,533
Net cash provided by investing activities	<u>6,890</u>	<u>9,388</u>
Net change in cash	1	-
Cash at beginning of year	<u>1</u>	<u>1</u>
Cash at end of year	<u>\$ 2</u>	<u>\$ 1</u>
Reconciliation of net income to net cash used in operating activities:		
Net income	\$ 6,695	\$ 3,739
Adjustments to reconcile net income to net cash used in operating activities:		
Investment income	(7,679)	(9,081)
Premium income	(1,628)	-
Interest expense	2,526	2,747
Claims	(310)	2,667
Changes in assets and liabilities:		
Interest receivable	153	(1,241)
Other receivable	(501)	(1,127)
Deferred charges	146	-
Estimated liability for claims	-	2,239
Due to MTA	147	(302)
Other	441	(56)
Net cash used in operating activities	<u>\$ (10)</u>	<u>\$ (415)</u>

The accompanying notes are an integral part of these financial statements.

Metropolitan Transportation Authority Excess Loss Trust Fund

Notes to Financial Statements

(Amounts in Thousands of Dollars)

1. Organization

The Metropolitan Transportation Authority Excess Loss Trust Fund (the "Company"), a trust established pursuant to the New York State Public Authorities Law, was established by joint self-insurance agreement between the Metropolitan Transportation Authority ("MTA"), the New York City Transit Authority ("NYCTA"), the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA"), the Metro-North Commuter Railroad Company ("MNCR"), the Long Island Rail Road Company ("LIRR"), the Staten Island Rapid Transit Operating Authority ("SIRTOA") and the Triborough Bridge and Tunnel Authority ("TBTA"), on December 15, 1986.

The Company was established for the purpose of insuring the MTA and the participating operating agencies against losses from catastrophic events and to provide budget stability in the event annual aggregate losses significantly exceed budgeted amounts. It was initially funded by a contribution from the MTA of \$13,000 and the subsequent issuance of \$88,480 of debt by the MTA and is eligible to receive annual premium payments from the MTA and certain of its operating agencies. The Company is governed by three trustees appointed by the MTA Chairman and currently includes representatives from the LIRR, NYCTA and MNCR (the "ELF Trustees").

The self-insurance agreement provides the participants coverage for a broad range of liabilities including, but not limited to, those arising out of personal injury, including bodily injury or death; libel, slander or defamation; false arrest or wrongful discrimination; damage to real or personal property or the sudden and accidental release or escape of pollutants, including toxic or hazardous substances. Certain liabilities of the participants are specifically excluded from coverage under the self-insurance agreement.

The documents establishing the Company were amended and restated as of November 1, 1989. Pursuant to such amendments, SIRTOA withdrew from the Company, except to the extent of claims for incidents occurring prior to November 1, 1989, which continue to be covered by the Company.

The Company is a component unit of the MTA and is included in the MTA's Comprehensive Annual Financial Report. The MTA reporting entity is a component unit of New York State and is included in the State of New York's Comprehensive Annual Financial Report.

2. Significant Accounting Policies

Basis of Presentation

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

Investments

In accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", investments are recorded on the balance sheets at fair value and all investment income, including changes in the fair value of investments, is reported as revenues in the statement of revenues, expenses and changes in net assets.

Metropolitan Transportation Authority Excess Loss Trust Fund
Notes to Financial Statements
(Amounts in Thousands of Dollars)

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

Deferred Charges

Deferred charges consist of bond issue costs and certain underwriters fees. These costs are capitalized upon bond issuance and expensed over the life of the related debt.

Estimated Liability for Claims

The Company establishes claims liabilities based on actuarial estimates of the ultimate cost of claims and expenses. The Company is responsible and establishes appropriate liabilities for claims in excess of the following amounts:

Occurrence Date	NYCTA, LIRR, MNCR, MaBSTOA	MTA and TBTA
December 15, 1986 to October 31, 1996	\$ 5,000	\$ 1,000
November 1, 1996 to October 31, 2001	6,000	1,200
November 1, 2001 forward	7,000	1,400

The maximum amount of claims arising out of any one occurrence which can be paid by the Company is the lesser of the assets available for claims of the Company or \$50,000.

Effective October 31, 1997, a three-year All-Agency Excess Liability Insurance Policy was purchased. This policy was renewed in 2000 for two additional years. This coverage affords the Company an additional limit of \$150,000, for a total limit of \$200,000 (\$150,000 in excess of \$50,000). In the event the Company's assets are exhausted due to payments of claims, the All-Agency Excess Liability Insurance will assume the Company's coverage position of \$50,000.

Indemnification of participants

The Company is authorized to indemnify any participant for amounts paid in excess of the annual aggregate retention when the annual sum of individual claims paid by the participant exceeds its aggregate retention.

The annual aggregate retentions for each of the agencies are formula-based limits determined as 110% of the agencies' budgets, as approved by the MTA Board, for cash outlays for judgments and claims.

Revenue recognition

Semi-annual premium payments are due in June and December from each of the participating agencies and are recognized as revenue by the Company evenly over the period of coverage of one calendar year. The semiannual premiums, if considered necessary, are determined by the Company Trustees with the assistance of an independent actuary using the incurred loss development method. Such determination considers (i) provisions of bond agreements and debt service requirements, (ii) the level of funds available to the Company, (iii) administrative costs, (iv) potential claims and obligations to the MTA; and (v) earnings on Company investments.

Metropolitan Transportation Authority Excess Loss Trust Fund
Notes to Financial Statements
(Amounts in Thousands of Dollars)

Recent Accounting Pronouncements

The GASB issued Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – State and Local Governments: Omnibus – an amendment of GASB statements No. 21 and No. 34* and Statement No. 38, *Certain Financial Statement Note Disclosures* regarding the basic financial statement model for state and local governments units. The Company will adopt the provisions in these statements for the year ended December 31, 2002. Management has not fully assessed the impact of these pronouncements on these financial statements. Additionally, GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, did not have an impact on the Company's financial statements as the Company does not have any nonexchange transactions.

Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

3. Related Party Transactions

The MTA performs record-keeping and administrative services for the Company. The MTA allocates a portion of the cost of these services to the Company and such amounts are recorded as administrative expenses paid to the MTA in the statement of revenues, expenses and changes in net assets.

In December 1989, the MTA issued \$88,480 of Excess Loss Fund Special Obligation Bonds (the "Bonds") insured by Municipal Bond Investors Assurance Corp. The Bonds have interest rates ranging from 5.5% to 6.9% and mature in varying amounts through 2010. In March 1998, the MTA issued \$54,000 of Excess Loss Fund Special Obligation Bonds (the "New Bonds") insured by Municipal Bond Investors Assurance Corp. The New Bonds have interest rates ranging from 3.65% to 5.0% and mature in varying amounts through 2009. The proceeds from the New Bonds were used to refund a portion of the Bonds.

The note payable to the MTA consists of the following at December 31:

	2001	2000
Par value of bonds outstanding	\$ 45,305	\$ 49,935
Unamortized original issue premium	366	426
Unamortized loss on bond refunding	<u>(3,726)</u>	<u>(4,156)</u>
	<u>\$ 41,945</u>	<u>\$ 46,205</u>

The bonds are obligations of the MTA and are secured solely from the assets described in the bond resolutions including certain assessments made by the Company. The bond proceeds have been loaned to the Company in accordance with the terms of a loan agreement with the MTA executed concurrently with the issuance of the bonds. Amounts payable to the MTA for debt

Metropolitan Transportation Authority Excess Loss Trust Fund
Notes to Financial Statements
(Amounts in Thousands of Dollars)

service under the loan agreement correspond with debt service requirements of the bonds and are payable from assessments made by the Company to the MTA and the participating agencies to the extent not provided by investment earnings of the related funds on account.

Participants may withdraw from the Company after December 31, 1994, with one year's notice, provided the participant pays its pro rata share of bonds outstanding.

4. Cash and Investments

Cash and investments consist of the following at December 31:

Cash

	2001		2000	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
FDIC insured deposits	\$ 2	\$ 2	\$ 1	\$ 1

Investments

	2001	2000
	Market Value	Market Value
Repurchase agreements	\$ 600	\$ -
U.S. Treasury bills	21,757	16,634
U.S. Treasury notes	10,441	22,315
Municipal Bonds	53,564	53,203
GNMA	19,391	8,570
SBA notes	11,007	14,142
HUD notes	5,309	5,136
	<u>\$ 122,069</u>	<u>\$ 120,000</u>

Market values include interest to the extent it is included in the carrying amounts. Accrued interest on investments other than Treasury bills is included in interest receivable on the balance sheet. All investments are either insured or registered and held by the Company or its agent in the Company's name. Accordingly, all investments are category one credit risk (the lowest risk category).

Investments had weighted average yields of 6.6% and 5.7%, respectively, for the years ended December 31, 2001 and 2000.

Of the above cash and investments, \$2,695 and \$1,984 were restricted for debt service as of December 31, 2001 and 2000, respectively. In addition, other receivables of \$1,127 relating to investments were restricted for debt service as of December 31, 2000.

Metropolitan Transportation Authority Excess Loss Trust Fund
Notes to Financial Statements
(Amounts in Thousands of Dollars)

5. Estimated Liability for Claims

The Company establishes a liability for both reported and unreported insured events, which include estimates of both future payments of claims and related claim adjustment expenses. The following represents changes in those aggregate liabilities during the past two years.

	2001	2000
Estimated liability for claims at beginning of year	\$ 3,100	\$ 861
Change in provision for insured events of prior years	(83)	2,667
Payments attributable to insured events of prior years	<u>(227)</u>	<u>(428)</u>
Total estimated liability for claims at end of year	<u>\$ 2,790</u>	<u>\$ 3,100</u>

The Company establishes claims liabilities for unpaid claims and claim adjustment expenses based on claim adjusters' evaluations of individual claims and management's evaluation and an actuarial review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The liability represents the estimated ultimate cost of settling the claims, including the effects of inflation and other societal and economic factors. Any adjustments resulting from the settlement of losses will be reflected in earnings at the time the adjustments are determined.

6. Contingencies

In 1990, a fire occurred in a subway tunnel operated by NYCTA resulting in passenger injuries on a subway train passing through the same tunnel. In addition, in 1991, a subway train operated by NYCTA derailed at Union Square resulting in injuries to passengers who were aboard the train. Current projections by management indicate that the loss from each of these events has exceeded the NYCTA's retention limit and results in a liability to the Company. The Company had a \$290 loss accrual recorded for these cases at December 31, 2001. Management believes that the coverage provided by the Company will be sufficient to satisfy all claims and that payments of such claims by the Company will not result in a significant increase in premiums payable to the Company by the participants.

In 1994, an individual sustained injuries when struck by a train after falling on the subway trackbed. Judgment in the case was decided against NYCTA and the plaintiff was awarded \$25,000. In February 2000, the trial judge reduced damages to \$12,500. The case is currently in Appellate Court and it is the opinion of the MTA, based on certain evidence not submitted during the trial, that the verdict will be overturned completely or substantially reduced. As such, no amount has been accrued in the financial statements at December 31, 2001.

In 1993, an individual fell onto the subway tracks and was struck by a train losing both legs. In August 2000, judgment in the case was decided against NYCTA for approximately \$30,000. NYCTA filed a notice of appeal and the Company believes there is strong likelihood that the case will be reversed on appeal or settled for an amount below the retention amount. As such, no amount has been accrued in the financial statements. However, if the plaintiff prevails, the exposure to the Company could approximate \$25,000.

Metropolitan Transportation Authority Excess Loss Trust Fund
Notes to Financial Statements
(Amounts in Thousands of Dollars)

In 1993, an individual was struck by a LIRR train, resulting in paraplegia. Claimant contends there was no required fence at the location. The case was removed from the Court's calendar in January 2001. The plaintiff and the Company are currently in settlement negotiations.

**Metropolitan Transportation Authority Excess Loss Trust Fund
Required Supplementary Information (unaudited)
Ten Year Claims Development Information**

The table on the following page illustrates how the fund's premium revenue and investment revenue compare to related costs of loss and other expenses assumed by the Fund as of the end of each of the last ten years. The rows of the table are defined as follows: (1) This line shows the total of each fiscal year's earned premium revenues and investment revenues. (2) This line shows each fiscal year's other operating costs of the Fund including administration and interest expense. (3) This section of eight rows shows the cumulative amounts paid as of the end of successive years for each accident year. (4) This section of eight rows shows how each accident year's incurred claims increased or decreased as of the end of successive years. (This annual reestimation results from new information received on known claims, reevaluation of existing information of known claims, and emergence of new claims not previously known). (5) This line compares the latest reestimated incurred claims amount to the amount originally established and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual accident years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature accident years. The columns of the table show data for successive accident years.

**Metropolitan Transportation Authority Excess Loss Trust Fund
 Required Supplementary Information (Unaudited)
 Ten-Year Claims Development Information
 (Amounts in Thousands of Dollars)**

	Fiscal and Accident Year Ended December 31,									
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Premium revenue	\$ 639	\$ 8,658	\$ 1,809	\$ 8,457	\$ 8,457	\$ 8,527	\$ 875	\$ 3,782	\$ 260	\$ 2,100
Investment revenue	7,086	8,658	6,852	8,457	8,457	8,527	11,281	3,782	9,081	7,679
Total	\$ 7,725	\$ 8,658	\$ 8,661	\$ 8,457	\$ 8,457	\$ 8,527	\$ 12,156	\$ 3,782	\$ 9,341	\$ 9,779
Other expenses										
Administration	\$ 290	\$ 223	\$ 185	\$ 193	\$ 177	\$ 271	\$ 231	\$ 211	\$ 188	\$ 495
Interest	5,880	5,735	5,577	5,140	5,190	4,792	2,925	3,107	2,747	2,672
Total	\$ 6,170	\$ 5,958	\$ 5,762	\$ 5,333	\$ 5,367	\$ 5,063	\$ 3,156	\$ 3,318	\$ 2,935	\$ 3,167
Changes in provision for insured events prior to 1992									\$ 167	\$ 83
Payments attributable for insured events prior to 1992									428	227
Paid cumulative as of:										
End of year										
One year later										
Two years later										
Three years later										
Four years later										
Five years later										
Six years later										
Seven years later										
Eight years later										
Nine years later										
Ten years later										
Reestimated incurred claims and expenses:										
End of year										
One year later										
Two years later										
Three years later										
Four years later										
Five years later										
Six years later										
Seven years later		\$ 2,500								
Eight years later		2,500								
Nine years later										
Ten years later										
Increase in estimated incurred claims and expenses from end of accident year										2,500