

New York City Transit Authority

**Consolidated Financial Statements
Management's Discussion and Analysis
December 31, 2006 and 2005**

New York City Transit Authority

Index

December 31, 2006 and 2005

	Page(s)
Report of Independent Auditors	1
Management’s Discussion and Analysis	2–12
Consolidated Financial Statements	
Balance Sheets	13–14
Statements of Revenues, Expenses and Change in Net Assets	15–16
Statements of Cash Flows	17–18
Notes to Financial Statements.....	19–46
Required Supplementary Information	
Schedule of Funding Progress.....	47

Report of Independent Auditors

Members of the Board
Metropolitan Transportation Authority

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenues, expenses and changes in net assets, and cash flows present fairly, in all material respects, the financial position of the New York City Transit Authority (the Authority) at December 31, 2006 and 2005, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

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

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Management's Discussion and Analysis for the years ended December 31, 2006 and 2005 on pages 2 through 12 and the required supplementary information on page 47 are not required parts of the basic consolidated financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

April 6, 2007

NEW YORK CITY TRANSIT AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) For the Years Ended December 31, 2006 and 2005

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction to the Annual Report

This annual report consists of three parts: Management's Discussion and Analysis, Consolidated Financial Statements and Notes to the Consolidated Financial Statements and Required Supplementary Information.

The Consolidated Financial Statements Include:

The Consolidated Balance Sheets provide information about the nature and amounts of investments in resources (assets) and the obligations to New York City Transit Authority's (the Authority's) creditors (liabilities), with the difference between the two reported as net assets.

The Consolidated Statements of Revenues, Expenses and Changes in Net Assets show how the Authority's net assets changed during each year. It accounts for all of the current year's revenues and expenses, measures the financial results of the Authority's operations over the past year and can be used to determine how the Authority has funded its costs.

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

The Notes to the Consolidated Financial Statements and Required Supplementary Information Provide:

Information that is essential to understanding the basic consolidated financial statements, such as the Authority's accounting methods and policies.

Details of cash and investments, capital assets, 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, results of operations and cash flows.

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 years ended December 31, 2006 and 2005. This management discussion and analysis (MD&A) is intended to serve as an introduction to the Authority's basic consolidated 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 described above.

Financial Reporting Entity

The New York City Transit Authority and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) (collectively, the Authority), are public benefit corporations established pursuant to the New York State (the State) Public Authorities Law, to operate public subway, bus and paratransit services within the City of New York (the City). The Authority is a part of the financial reporting group of the Metropolitan Transportation Authority (MTA), which is a component unit of the State and 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.

CONDENSED FINANCIAL INFORMATION

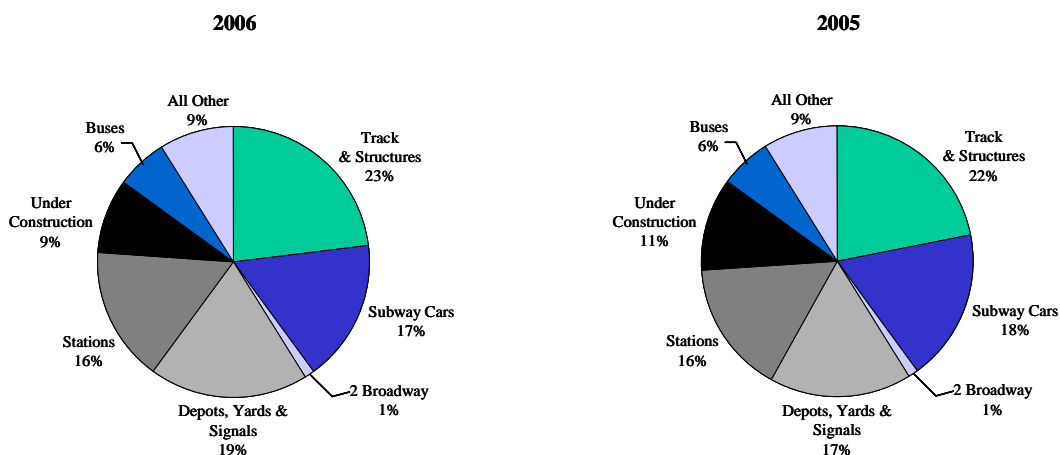
All amounts are in millions, except as noted.

The following sections will discuss the significant changes in the Authority's financial position for the years ended December 31, 2006 and 2005. Additionally, an examination 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 conform with the Authority's financial statements, which are presented in accordance with Generally Accepted Accounting Principles.

Total Assets, Distinguishing Between Capital and Other Assets

	2006	2005	2004	Increase/(Decrease)	
				2006-2005	2005-2004
Gross Capital Assets	\$ 34,983	\$ 32,662	\$ 30,512	\$ 2,321	\$ 2,150
Accumulated Depreciation	(10,087)	(9,080)	(8,129)	(1,007)	(951)
Net Capital Assets	24,896	23,582	22,383	1,314	1,199
Other Assets	2,392	1,847	1,733	545	114
Total Assets	\$ 27,288	\$ 25,429	\$ 24,116	\$ 1,859	\$ 1,313

Gross Capital Assets



CONDENSED FINANCIAL INFORMATION (CONTINUED)

The Authority's Gross Capital Assets totaled approximately \$35.0 billion at year-end 2006. Of the total, depots/yards/signals and stations were 35%, subway cars and buses accounted for 23%, and track/structures were 23%. The majority of assets under construction consist of subway cars, signal systems, track and structures, and station improvements.

Significant changes in assets include:

December 31, 2006 versus 2005

Net Capital Assets increased from December 31, 2005 to December 31, 2006 by \$1,314, or 5.6%. The net increase is due primarily to capital asset additions of \$2,326. Significant additions included station rehabilitations (\$602), track & structures (\$594), signals (\$538) and depots/yards (\$489). The additions are partly offset by incremental annual depreciation of \$1,012.

Other Assets increased by \$545, or 29.5%, as compared with the prior year. This increase involved a higher balance of receivables from the MTA and constituent Authorities of \$253; additional funds held in the MTA investment pool of \$203, due primarily to an increase in tax subsidies from a continuation of the strong regional real estate market, and increased prepaid pension expenses of \$60.

December 31, 2005 versus 2004

Net Capital Assets increased from December 31, 2004 to December 31, 2005 by \$1,199, or 5.4%. The net increase is due primarily to capital asset additions of \$2,150. Significant additions included track & structures (\$592), station rehabilitations (\$531), signals (\$436) and depots/yards (\$253). The additions are partly offset by incremental annual depreciation of \$955.

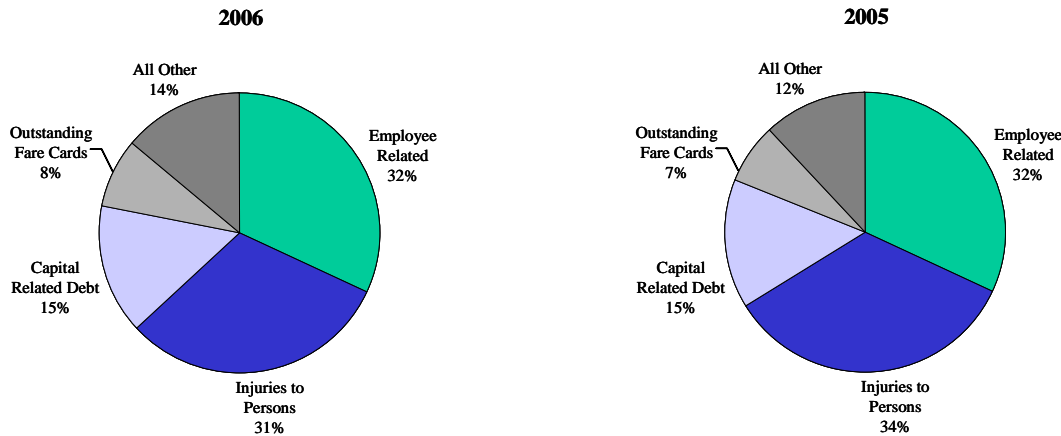
Other Assets increased by \$114, or 6.6%, as compared with the prior year. This increase involved additional funds held in the MTA investment pool of \$245, due primarily to an increase in tax subsidies from a continuation of the strong regional real estate market. Partly offsetting this increase was a net reduction in receivables from the MTA and constituent Authorities of \$89 and the reduction in prepaid pension expenses of \$70.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

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

	2006	2005	2004	Increase/(Decrease)	
				2006-2005	2005-2004
Current Liabilities	\$ 1,505	\$ 1,341	\$ 1,147	\$ 164	\$ 194
Long-Term Liabilities	1,117	1,203	1,195	(86)	8
Total Liabilities	\$ 2,622	\$ 2,544	\$ 2,342	\$ 78	\$ 202

Total Liabilities



At the end of 2006, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for pension, health and other benefits), 32%, and injuries to persons (public liability and workers' compensation), 31%.

Significant changes in liabilities include:

December 31, 2006 versus 2005

Total Liabilities increased from December 31, 2005 to December 31, 2006 by \$78, or 3.1%. Current Liabilities increased \$164, or 12.2%, while Long-Term Liabilities decreased \$86, or 7.1%.

The increase in Current Liabilities was due to increases in accrued salaries & wages (\$76), accounts payable (\$41), accrued vacation and sick leave (\$29) and unredeemed farecard liabilities (\$19). The salary & wage increase was due mostly to TWU wage increases effective December 15, 2005, based upon a contract settlement achieved through arbitration on December 15, 2006. Accrued vacation and sick leave increased due to increased wage rates and headcount levels.

The decrease in Long-Term Liabilities was due largely to a reduction of \$55 in accrued retirement and death benefits due to a MABSTOA pension prepayment and a decrease of \$30 in liabilities associated with injuries to persons due to an adjustment based upon actuarial experience to reduce the liability in line with recent claims payout history and current payout projections.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

December 31, 2005 versus 2004

Total Liabilities increased from December 31, 2004 to December 31, 2005 by \$202, or 8.6%. Current Liabilities increased \$194, or 16.9%, while Long-Term Liabilities increased \$8, or 0.7%.

The increase in Current Liabilities was due primarily to higher accrued liabilities associated with retirement and death benefits (\$103), unredeemed farecard liabilities (\$25), accounts payable (\$16) and accrued vacation and sick leave (\$14). The accrued retirement and death benefits increase was due largely to higher 2005 NYCERS pension funding requirements. The unredeemed farecard liability increase was due primarily to the fare changes implemented in February, 2005 and increased farecard usage on MTA Bus and PATH trains. Accrued vacation and sick leave increased due to a change in workforce eligibility mix and wage rate increases.

The increase in Long-Term Liabilities was due largely to an increase of \$12 in liabilities associated with injuries to persons. This increase is attributable to changes in actuarial experience based on the claims history.

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

	2006	2005	2004	Increase/(Decrease)	
				2006-2005	2005-2004
Investment in Capital Assets,					
Net of Related Debt	\$ 24,505	\$ 23,189	\$ 21,987	\$ 1,316	\$ 1,202
Restricted	-	-	-	-	-
Unrestricted	162	(303)	(213)	465	(90)
Total Net Assets	\$ 24,667	\$ 22,886	\$ 21,774	\$ 1,781	\$ 1,112

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three components: Invested in capital assets, net of related debt, restricted and unrestricted. Net assets invested in capital assets, net of related debt include capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Net assets are reported as restricted when constraints are imposed by third parties or enabling legislation. All other net assets are unrestricted.

December 31, 2006 versus 2005

Total net assets were \$24,667 at the end of 2006, a net increase of \$1,781 from the end of 2005. The net increase was comprised of capital contributions from the MTA of \$2,020, net nonoperating income of \$2,591, partially offset by operating losses of \$2,830.

December 31, 2005 versus 2004

Total net assets were \$22,886 at the end of 2005, a net increase of \$1,112 from the end of 2004. The net increase was comprised of capital contributions from the MTA of \$1,839, net nonoperating income of \$2,037, partially offset by operating losses of \$2,764.

The operating losses and nonoperating income results are summarized on the following table and addressed in the subsequent section.

CONDENSED FINANCIAL INFORMATION (CONTINUED)*Condensed Statements of Revenues, Expenses, and Changes in Net Assets*

	Year Ended December 31,		
	2006	2005	2004
Operating Revenues	\$ 3,041	\$ 2,908	\$ 2,810
Operating Expenses	(5,871)	(5,672)	(5,283)
Operating Loss	(2,830)	(2,764)	(2,473)
Nonoperating Revenues (Expenses)			
Subsidies-New York State & City	2,425	1,880	1,622
Triborough Bridge & Tunnel Authority	167	180	154
MTA Operating Subsidy		-	13
Insurance Recovery Related to World Trade Center Settlement	-	-	103
Interest Expense	(24)	(29)	(25)
Loss on Disposal of Buses and Subway Cars	-	(2)	(1)
Other Nonoperating Revenue/Expenses	23	8	13
Total Nonoperating Revenues	2,591	2,037	1,879
Loss before Capital Contributions	(239)	(727)	(594)
Capital Contributions	2,020	1,839	1,880
Change in Net Assets	1,781	1,112	1,286
Total Net Assets - Beginning of Year	22,886	21,774	20,488
Total Net Assets - End of Year	\$ 24,667	\$ 22,886	\$ 21,774

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Revenue from Fares/Ridership

	2006	2005	2004	Increase/(Decrease)	
				2006-2005	2005-2004
Subway Revenue	1,947	\$ 1,857	\$ 1,795	\$ 90	\$ 62
Bus Revenue	775	762	748	13	14
Expired Fare Media Revenue	29	17	21	12	(4)
Paratransit Revenue	8	7	6	1	1
Total Revenue from Fares	\$ 2,759	\$ 2,643	\$ 2,570	\$ 116	\$ 73
Total Ridership (millions)	2,245	2,190	2,171	55	19
Non-Student Average Fare	\$ 1.29	\$ 1.27	\$ 1.24	\$ 0.02	\$ 0.03

2006 versus 2005

Total revenue from fares was \$2,759 in 2006, an increase of \$116 or 4.4%. This increase was primarily due to reduced fares during the Holiday Bonus Program in 2005, the three-day transit strike in December 2005, an estimated 1.2% increase (net of the transit strike) in non-student ridership, and the full-year impact of the February 27, 2005 fare adjustments. Total ridership from fares was 2,245, the highest since 1969, and an increase of 55 or 2.5% above 2005 due mostly to the transit strike in December 2005, higher student ridership, and continued growth in City employment. The non-student average fare increased by \$0.02 or 1.6%, primarily due to the 2005 Holiday Bonus Program and fare adjustments.

Fare evasion (turnstile/gate evasion) was estimated to be 0.33% in 2006, a reduction of 0.04% from 0.37% in 2005 and a reduction of 0.05% from 0.38% in 2004. This is an improvement from 1996, when fare evasion was estimated to be 1.45%, and from the 1991 high of 5.91%.

2005 versus 2004

Total revenue from fares was \$2,643 in 2005, an increase of \$73, or 2.8%, due primarily to the February 2005 fare adjustment, which raised the price of 7-day and 30-day passes and the express bus fare. Also contributing to the revenue increase was ridership growth from an improving New York City economy and increased tourism. Partly offsetting these increases were the effects of the three-day transit strike in December 2005 and the 2005 Holiday Bonus Program. Total ridership from fares was 2,190, an increase of 19 or 0.9% above 2004. The increase in the non-student average fare of \$0.03 was also due to the February 2005 fare adjustment, partly offset by the effect of the Holiday Bonus Fare Program.

Operating Expenses, by Major Function

	2006	2005	2004	Increase/(Decrease)	
				2006-2005	2005-2004
Salaries and Wages	\$ 2,758	\$ 2,625	\$ 2,557	\$ 133	\$ 68
Health and Welfare	581	558	511	23	47
Pensions	393	457	309	(64)	148
Other Fringe Benefits	195	204	235	(9)	(31)
Traction and Propulsion Power	147	137	114	10	23
Fuel for Buses and Trains	120	103	71	17	32
Fuel & Power for Support Services	73	69	58	4	11
Insurance	33	30	29	3	1
Public Liability Claims	24	52	62	(28)	(10)
Paratransit Service Contracts	184	158	135	26	23
Maint. & Other Oper. Expenses	122	108	97	14	11
Professional Service Contracts	85	89	93	(4)	(4)
Materials and Supplies	275	241	222	34	19
Depreciation	1,012	955	892	57	63
Other Expenses	37	35	41	2	(6)
Reimbursed Overhead Expenses	(168)	(149)	(143)	(19)	(6)
Total Operating Expenses	\$ 5,871	\$ 5,672	\$ 5,283	\$ 199	\$ 389

2006 versus 2005

Total operating expenses increased \$199 or 3.5% versus the prior year, as follows:

Salaries & wages exceeded 2005 by \$133 or 5.1%, largely due to wage increases of approximately 3.0%, additional sick & vacation reserve requirements consistent with wage increases and headcount levels, and the payroll reduction associated with striking workers during the three day transit strike in December 2005.

Health & welfare expenses increased \$23 or 4.1% due mostly to increased rates for health and welfare plans, partly offset by payroll reductions from employee health & welfare contributions established in recent labor settlements.

Pension expenses decreased by \$64 or 14.0% due primarily to a favorable 2006 non-recurring NYCERS pension adjustment.

Total energy costs (power and fuel) increased \$30 or 9.7% due mainly to higher prices.

Public liability claims expenses decreased by \$28 or 53.8% due to favorable actuarial reserve adjustments consistent with current and projected payout rates.

Paratransit service contract expenses increased by \$26 or 16.5% driven mainly by higher trip volume.

Maintenance & other operating expenses increased by \$14 or 13.0% due largely to increased requirements for facility and operating maintenance, water and sewage, and tire & tube rentals.

Materials & supplies increased by \$34 or 14.1% due mostly to additional bus/subway fleet maintenance requirements, data processing maintenance requirements and inventory adjustments.

Depreciation expenses increased by \$57 or 6.0% due to the capitalization of capital projects reaching beneficial use in 2006, including projects for signals/communications, line structures/equipment, station rehabilitations, shops/depots, and track & switches.

Reimbursed overhead expenses represent those expenses that are allocable to direct labor charges incurred in support of capital program work and are therefore eligible for reimbursement by the MTA through the Capital Program. The level of reimbursed overhead expenses increased by \$19 or 12.8% due primarily to higher overhead rates based upon cost increases.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

2005 versus 2004

Total operating expenses increased \$389 or 7.4% versus the prior year, as follows:

Salaries & wages exceeded 2004 by \$68 or 2.7%, largely due to wage increases, including a contractual 3.0% TWU increase effective December 15, 2004. Sick and vacation expenses also increased due in part to the wage increases. Partly offsetting these increases were payroll reductions associated with striking workers during the three-day transit strike in December, 2005 and the effect of an extra leap year day in 2004.

Health & welfare expenses increased \$47 or 9.2% due mostly to increased rates for health and welfare plans.

Pension expense increased by \$148 or 47.9% due mostly to increased NYCERS pension funding requirements.

Other fringe benefits decreased by \$31 or 13.2% due largely to reduced non-cash Workers' Compensation reserve adjustments.

Energy costs (power and fuel) increased \$66 or 27.2% due primarily to higher prices.

Public liability claims expenses decreased by \$10 or 16.1% based upon favorable non-cash actuarial adjustments consistent with current and projected pay-out rates.

Paratransit service contract expenses increased by \$23 or 17.0% driven mainly by higher trip volume.

Maintenance & other operating expenses increased by \$11 or 11.3% due largely to increased real estate rentals and operating maintenance and repair costs.

Materials & supplies increased by \$19 or 8.6% due mostly to additional subway car compressor motor and pneumatic system maintenance requirements.

Depreciation expenses increased by \$63 or 7.1% due to the capitalization of station rehabilitations, new subway cars, new buses, track work, and signal enhancements in 2005.

Nonoperating Revenues and Expenses

The Authority receives a variety of tax-supported subsidies from New York State and New York City. These subsidies represent corporate franchise, sales, energy, mortgage recording and real estate taxes and are sensitive to the strength of the State and City economies and prevailing interest rates.

Operating assistance subsidies from New York State and New York City have been maintained at the same level each year.

The Triborough Bridge & Tunnel Authority, another affiliate of the MTA, distributes to the Authority each year funds that vary based upon its operating surplus.

In April 2004, the MTA settled claims with its property insurance carriers for damage caused as a result of the September 11, 2001 terrorist attacks. The Authority's portion of the MTA global insurance settlement was \$348. The Authority recorded \$245 of the settlement in 2003 for losses related to physical damage of property. The Authority received \$103 from the MTA in 2004 relating to claims for lost revenues, increased operating expenses and other expenses associated with the cleanup of Authority facilities.

CONDENSED FINANCIAL INFORMATION (CONTINUED)

Capital contributions from the MTA of \$2,020 in 2006 and \$1,839 in 2005 represent capital program funding from several sources including bonds, Federal, State and City funding.

Changes in Net Assets

The change in net assets represents the excess of capital contributions over the net of operating losses and nonoperating revenues before capital contributions. The net assets increased by \$1,781 in 2006 and \$1,112 in 2005 due mostly to capital contributions.

Budget Highlights

Total revenue from fares in 2006 was \$2,759, \$33 or 1.2% below budget due primarily to lower than projected non-student ridership. Subway revenues of \$1,947 were 1.2% below budget while bus revenue of \$775 was below budget by 2.2%. Paratransit revenue of \$8 was 1.4% below budget.

Operating expenses of \$5,871 were \$225 or 3.7% below budget. Labor-related expenses underran budget by \$144 or 3.7% due primarily to a favorable nonrecurring NYCERS pension adjustment not anticipated in the budget. Non-labor expenses (including depreciation) were below budget by \$81 or 3.7%. Depreciation was below budget by \$62 or 5.8% due mostly to the timing of assets reaching beneficial use, while public liability claims expenses were below budget by \$47 or 66.3% due to favorable non-cash actuarial reserve adjustments consistent with current and projected payroll rates. Partly offsetting these expense reductions was an increase in materials & supplies of \$25 or 10.1% due primarily to additional bus/subway maintenance requirements and higher material costs.

GOVERNMENT'S OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Important 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.

Recent economic improvement in the City has benefited the Authority's overall ridership.

The Authority expects that, over time, Federal and State economic stimulus measures and the rebuilding of downtown infrastructure will further improve the New York City economy.

Results of Operations and Overall Financial Position

The year 2006 ended with a significant operating cash surplus. This surplus was due, in large part, to a strong City and State economy and the unexpected continuation of the strong regional real estate market which increased the Authority's tax subsidies.

The portion of the 2006 year-end surplus derived from 2006 nonrecurring NYCERS pension savings and from employee health & welfare contributions has been set aside to fund the anticipated cost of the post-

GOVERNMENT'S OVERALL FINANCIAL POSITION, RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS (CONTINUED)

retirement liabilities, pursuant to GASB Statement No. 45, *Other Than Pension Benefits*, in connection with the new standard which is effective in 2007 requiring governmental agencies to account for these liabilities in their financial statements. Additionally, surplus funds were also set aside to fund additional capital security projects, expanded station painting efforts and a scratch-free window program for subway cars. The balance of the surplus, together with other actions, is expected to be used to help balance the 2007 Operating Budget. Large budget gaps are forecasted in all years of the Authority's 2008-2010 Financial Plan due, in large part, to significant growth in debt service requirements and accelerating pension and health benefit costs.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

The Authority's portion of the current MTA Capital Program for 2005-2009 totals \$11.2 billion. As of December 31, 2006, \$2.6 billion has been committed under the five-year plan, of which \$0.8 billion has been expended. Funding for the Capital Program comes mostly from new money bonds, federal grants, the New York State voter approved State-Wide Transportation Bond Act, bonds supported by new State taxes and fees, City capital funding and other sources.

Among the projects in the 2005-2009 Transit Capital Program are the following: normal replacement of 912 B Division Subway Cars; fleet growth of 47 A Division Cars, the purchase of 1,360 new buses, including 1,010 standard, 112 articulated and 238 express buses, the purchase of 951 new paratransit vehicles; rehabilitation of 44 stations; replacement of 25 escalators; replacement of 51 miles of mainline track and 165 mainline switches, signal modernization, communications improvements; and improvements to shops, yards, and depots.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

No matters of material significance were noted.

New York City Transit Authority
Consolidated Balance Sheets
December 31, 2006 and 2005
(in thousands)

	<u>2006</u>	<u>2005</u>
Assets		
Current assets:		
Cash (note 3)	\$ 37,509	\$ 63,194
MTA Investment Pool (note 4)	920,997	717,558
Receivables:		
Billed and unbilled charges due from New York City	26,231	25,780
Accrued subsidies	70,974	55,519
Due from MTA and constituent Authorities	409,403	296,933
Other	92,640	83,606
Less allowance for doubtful accounts	<u>(20,351)</u>	<u>(42,812)</u>
Net receivables	<u>578,897</u>	<u>419,026</u>
Materials and supplies	170,644	165,554
Deferred pension asset	47,467	-
Prepaid pension expense (note 6)	12,500	-
Prepaid expenses and other current assets	<u>28,241</u>	<u>25,088</u>
Total current assets	<u>1,796,255</u>	<u>1,390,420</u>
Due from MTA for purchase of capital assets	571,558	431,204
Capital assets, net of accumulated depreciation (note 5)	24,615,529	23,283,876
Leased property under capital lease, net of accumulated amortization (note 5)	95,602	98,013
Leasehold improvements on property, net of accumulated depreciation (note 5)	185,058	200,097
Deferred expenses related to issuance of debt	23,356	25,206
Restricted deposits and other escrow funds	<u>816</u>	<u>536</u>
Total assets	<u>\$ 27,288,174</u>	<u>\$ 25,429,352</u>

See accompanying notes to consolidated financial statements.

New York City Transit Authority
Consolidated Balance Sheets
December 31, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>
Liabilities and Net Assets		
Current liabilities:		
Bank overdrafts payable	\$ 89,612	\$ 71,795
Accounts payable	128,666	88,040
Accrued expenses:		
Salaries, wages, and payroll taxes	170,018	93,669
Vacation, sick pay and other benefits	495,331	466,631
Retirement and death benefits (note 6)	175,925	198,885
Estimated liability arising from injuries to persons (note 11)	114,981	119,954
Other	117,847	105,725
Total accrued expenses	1,074,102	984,864
Due to MTA for repayment of debt, current portion (note 7)	6,073	8,591
Unredeemed farecards and tokens	200,134	181,053
Deferred subsidy revenue	6,885	6,885
Total current liabilities	1,505,472	1,341,228
Due to MTA for repayment of Certificates of Participation (note 7)	250,998	253,350
Obligations under capital lease, long-term (note 5)	134,549	130,862
Accrued retirement and death benefits (note 6)	-	54,926
Estimated liability arising from injuries to persons (note 11)	697,490	727,650
Other long-term liabilities	32,313	35,244
Restricted deposits and other escrow funds	816	536
Total liabilities	2,621,638	2,543,796
Net assets:		
Invested in capital assets, net of related debt	24,504,569	23,189,183
Restricted	-	-
Unrestricted	161,967	(303,627)
Total net assets	24,666,536	22,885,556
Commitments and contingencies	-	-
Total liabilities and net assets	\$ 27,288,174	\$ 25,429,352

See accompanying notes to consolidated financial statements.

New York City Transit Authority
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>
Revenues:		
Operating revenues:		
Rapid transit	\$ 1,946,774	\$ 1,856,978
Surface transit	775,198	761,838
Expired fare media	28,632	17,048
Paratransit fares	8,279	7,109
School, elderly, and paratransit reimbursement	186,321	170,577
Advertising and other	96,162	94,024
	<u>3,041,366</u>	<u>2,907,574</u>
Expenses:		
Operating expenses:		
Salaries and wages	2,758,199	2,625,142
Health and welfare	580,710	557,801
Pensions	393,461	456,753
Other fringe benefits	195,301	204,490
Traction and propulsion power	147,342	137,418
Fuel for buses and trains	120,110	103,174
Fuel and power for support services	72,613	68,705
Insurance	33,450	29,837
Public liability claims	23,939	51,616
Paratransit service contracts	183,553	158,177
Maintenance and other operating expenses	121,272	107,799
Professional service contracts	84,565	89,015
Materials and supplies	275,104	240,720
Depreciation	1,012,113	954,518
Other expenses	36,881	34,898
Reimbursed overhead expenses	(167,524)	(148,440)
	<u>5,871,089</u>	<u>5,671,623</u>
Operating loss	<u>(2,829,723)</u>	<u>(2,764,049)</u>

See accompanying notes to consolidated financial statements.

New York City Transit Authority
Consolidated Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>
Nonoperating revenues:		
Tax-supported subsidies:		
New York State	1,406,576	1,007,792
New York City	704,666	557,435
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	166,640	179,985
Less: Amounts provided to Staten Island Rapid Transit Operating Authority	<u>(3,364)</u>	<u>(2,896)</u>
Total nonoperating revenues	2,591,862	2,059,660
Interest expense	(24,293)	(29,379)
Loss on disposal of buses and subway cars	-	(1,858)
Interest income and other insurance recoveries	<u>22,889</u>	<u>8,594</u>
Total nonoperating income	<u>2,590,458</u>	<u>2,037,017</u>
Loss before capital contributions	(239,265)	(727,032)
Capital contributions	<u>2,020,245</u>	<u>1,838,467</u>
Change in net assets	1,780,980	1,111,435
Net assets:		
Beginning of year	<u>22,885,556</u>	<u>21,774,121</u>
End of year	<u>\$ 24,666,536</u>	<u>\$ 22,885,556</u>

See accompanying notes to consolidated financial statements.

New York City Transit Authority
Consolidated Statements of Cash Flows
Years Ended December 31, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:		
Cash received from passengers, tenants, advertisers, and others	\$ 3,000,166	\$ 2,930,411
Cash payments for payroll and related employee costs	(3,692,485)	(3,488,500)
Cash payments to suppliers for goods and services	<u>(1,092,243)</u>	<u>(990,499)</u>
Net cash used in operating activities	<u>(1,784,562)</u>	<u>(1,548,588)</u>
Cash flows from noncapital financing activities:		
Subsidies received	2,498,944	2,090,430
Deferred pension payments	(100,331)	-
Increase in bank overdraft	<u>17,817</u>	<u>5,866</u>
Net cash provided by noncapital financing activities	<u>2,416,430</u>	<u>2,096,296</u>
Cash flows from capital and related financing activities:		
Principal payments	(6,073)	(9,643)
Interest paid	(10,731)	(15,772)
Payments on MTA Transportation bonds issued to fund capital assets	(503,919)	(416,077)
Subsidies designated for debt service payments	180,439	163,645
Capital project costs incurred for capital program	(752,185)	(707,779)
Transfer to capital program for security initiatives	(105,053)	-
Reimbursement of capital project costs from MTA	<u>721,394</u>	<u>701,956</u>
Net cash used in capital and related financing activities	<u>(476,128)</u>	<u>(283,670)</u>
Cash flows from investing activities:		
Increase in MTA Investment Pool	(203,439)	(245,286)
Interest on investments	<u>22,014</u>	<u>8,142</u>
Net cash used in investing activities	<u>(181,425)</u>	<u>(237,144)</u>
Net (decrease) increase in cash	(25,685)	26,894
Cash at:		
Beginning of year	<u>63,194</u>	<u>36,300</u>
End of year	<u>\$ 37,509</u>	<u>\$ 63,194</u>

(Continued)

See accompanying notes to consolidated financial statements.

New York City Transit Authority
Consolidated Statements of Cash Flows
Years Ended December 31, 2006 and 2005
(In thousands)

	<u>2006</u>	<u>2005</u>
Reconciliation of cash flows from operating activities:		
Operating loss	\$ (2,829,723)	\$ (2,764,049)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	1,012,113	954,518
Changes in operating assets and liabilities:		
Increase in operating receivables	(60,281)	(1,907)
(Increase) decrease in prepaid expenses and other current assets	(3,153)	2,118
(Increase) decrease increase in prepaid pension expense	(12,500)	70,000
Increase in materials and supplies	(5,090)	(8,184)
Increase in farecard and token liability	19,081	24,744
Increase in accrued salaries, wages, and payroll taxes	76,349	6,281
Increase in accounts payable and other accrued liabilities	50,097	39,917
Increase in accrued vacation, sick pay and other benefits	28,700	13,638
(Decrease) increase in accrued retirement and death benefits	(25,022)	100,556
(Decrease) increase in estimated liability and arising from injuries to persons	(35,133)	13,780
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>\$ (1,784,562)</u>	<u>\$ (1,548,588)</u>
Supplemental schedule of noncash capital and related financing activities:		
Fair value of assets contributed	\$ 1,302,131	\$ 1,325,448

See accompanying notes to consolidated financial statements.

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

1. Financial Statements

Reporting Entity

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

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

The Authority has material transactions with affiliated agencies included in the Metropolitan Transportation Authority (MTA) financial reporting group. Such agencies include the MTA, Triborough Bridge and Tunnel Authority (TBTA), Metro North Commuter Railroad (MNCR), Long Island Rail Road (LIRR), Metropolitan Suburban Bus Authority (MSBA or LIB), and the Staten Island Rapid Transit Operating Authority (SIRTOA).

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

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 the MTA under section 1266(s) 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, include all activities associated with the Long Island Rail Road 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, which are consolidated under the management of the MTA Capital Construction Company.

In December of 2004, MTA Bus Company ("MTA Bus") was created as a public benefit corporation subsidiary of the MTA specifically to operate certain City bus routes. These routes are currently operated by MTA Bus and not by the Authority. All material transactions between MTA Bus and the Authority have been properly recorded as of December 31, 2006.

Operations

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

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Substantial operating losses (the difference between operating revenues and expenses) result from the essential services that the Authority provides; such operating losses will continue in the foreseeable future. To meet the funding requirements of these operating losses, the Authority receives subsidies from:

- (a) The State, in the form of annual subsidies of special State and regional tax revenues, operating assistance, and reimbursement of certain expenses;
- (b) The City, in the form of operating assistance, tax revenues, and reimbursement of certain expenses; and
- (c) An affiliated agency (TBTA), in the form of a portion of its operating surplus.

The New York State Public Authorities Law and the financing agreement between the Authority and the MTA provide that the Authority shall establish fares, tolls, and other fees for the use of its facilities as may be necessary to maintain its combined operations on a self-sustaining basis as defined in such law. It is the opinion of management that the Authority is in compliance with these requirements. The Authority is not liable for real estate taxes, franchise taxes, or sales taxes on substantially all of its purchases or other excise taxes on its properties.

Capital Financing

1992-1999 Capital Programs

The MTA has ongoing programs on behalf of the Authority and other affiliated agencies, subject to approval by the New York State Metropolitan Transportation Authority Capital Program Review Board (the State Review Board), which are intended to improve public transportation in the New York Metropolitan area. The 1992-1999 Capital Programs (the Capital Programs) totaled \$18.1 billion, of which the Authority's portion amounted to \$12.7 billion. The Capital Programs are, and are expected to continue to be, funded by federal capital grants, City capital funds, MTA bonds secured by system revenues and other sources, bonds issued and to be issued by the TBTA, proceeds from the sale of tax benefits on leasing transactions, and by direct transfers of operating budget revenues raised expressly for the purpose of supporting the Capital Programs.

At December 31, 2006, \$12.6 billion has been committed to Authority projects from the 1992-1999 approved plan, of which approximately \$12.5 billion has been expended.

Approved 2000-2004 Capital Program

The 2000-2004 Capital Program, which was approved by the State Review Board in May 2000, provided for \$17.1 billion in capital expenditures, of which the Authority's portion was \$10.3 billion. In May and December of 2002, the MTA Board approved amendments to the program reflecting changes to budgets, schedules, funding and added to the infrastructure and facilities security programs. In December 2003, the MTA Board approved a general update to the plan to incorporate changes and authorized its submission to the MTA Capital Program Review Board (CPRB). In January 2004, the MTA Board approved a further modification to that program to support the accelerated purchase of additional commuter railcars. In December 2004, the MTA Board approved an amendment that incorporates the creation of the MTA Bus Company, includes additional funding from the City for the #7 Extension design work, as well as additional security grant funding. This amendment was approved by the CPRB in March 2005. In December 2005, the MTA Board approved an amendment that increased the overall capital program total to \$19.9

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

billion, of which the Authority's share is \$10.3 billion. This amendment included additional federal funds for the Fulton Street Transit Center, South Ferry Station, a new Bus Depot on Staten Island and CCTV installation in NYCT stations. In December 2006, the MTA Board approved an amendment that increased the overall capital program total to \$20.1 billion, of which the Authority's share remains at \$10.3 billion. Among the projects included in the 2000-2004 Transit Capital Program and subsequent amendments are the following: rebuilding the 1/9 line track and structures destroyed by the September 11, 2001 attacks on the World Trade Center, design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283 cars, acquisition of 1,005 new buses, including 135 CNG buses, rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various stations, replacement of approximately 42 miles of mainline track, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2000-2004 Capital Program are comprised of \$7.9 billion in new money bonds, \$6.5 billion in federal funds, \$4.6 billion from debt restructuring, \$0.5 billion in City capital funding, \$0.2 billion from sale and leasing of assets and \$1.6 billion from other sources.

As part of the 2000-2004 Capital Program, the MTA, the TBTA and the Authority have refunded and defeased substantially all of their outstanding debt and consolidated most of their existing credits.

At December 31, 2006, \$10.0 billion has been committed to Authority projects from the 2000-2004 approved plan, of which approximately \$8.4 billion has been expended.

2005-2009 Capital Program

The proposed MTA Capital Program for 2005-2009 was approved by the CPRB on July 13, 2005 and subsequently amended in July 2006.

The 2005-2009 Capital Program is designed to continue a program of capital expenditures that would support on-going maintenance and provide needed improvements to enhance services to its customers. The 2005-2009 Capital Program totals \$21.3 billion of which the Authority's share is \$11.2 billion. The Authority's portion of the capital program excludes \$5.1 billion of approved capital projects managed by the MTA Capital Construction Company on behalf of the Transit Authority and the Long Island Rail Road. Among the projects in the 2005-2009 Transit Capital Program are the following: normal replacement of 912 B Division Cars, fleet growth of 47 A Division Cars, the purchase of 1,360 new buses including 1,010 standard, 112 articulated and 238 express buses, the purchase of 951 new paratransit vehicles, rehabilitation of 44 stations, replacement of 25 escalators, replacement of 51 miles of mainline track and 165 mainline switches, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2005-2009 Capital Program are comprised of \$4.3 billion in new money bonds, \$6.7 billion in federal funds, \$1.5 billion from the New York State voter approved State-Wide Transportation Bond Act, \$5.1 billion of Bonds supported by \$350 million per year in new State taxes and fees, \$2.5 billion in City capital funding, and \$1.3 billion from other sources.

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

At December 31, 2006, \$2.6 billion has been committed to Authority projects from the 2005-2009 approved plan, of which approximately \$0.8 billion has been expended.

2. Accounting Policies

Basis of Accounting

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

These financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Recent Accounting Pronouncements

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is effective for financial statement periods beginning after December 15, 2006. The Authority has determined the adoption of GASB 45 will have a significant impact on the Authority's consolidated financial statements.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. The Authority has determined any impact the adoption of GASB 47 may have on the Authority's consolidated financial statements will be reflected in the current year pension cost.

In September 2006, GASB issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. This Statement establishes accounting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. This Statement is effective for financial statements for periods beginning after December 15, 2006. The Authority believes this statement will have no material impact on the Authority's consolidated financial statements.

In November 2006, GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement establishes accounting and reporting for obligations and costs related to existing pollution remediation obligations, such as obligations to clean up hazardous waste spills and remove contamination. This Statement is effective for financial statements for periods beginning after December 15, 2007. The Authority has established an ongoing program for identifying pollution remediation obligations. Therefore, no additional

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

material impact is expected from the adoption of GASB 49 on the Authority's consolidated financial statements.

Net Assets

The Authority follows the "business type" activity requirements of GASB 34 which requires that resources be classified for accounting and reporting purposes into the following three net asset categories:

- Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.
- Restricted:

Nonexpendable – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended December 31, 2006 and 2005, the Authority did not have nonexpendable net assets.

Expendable – Net assets whose use by the Authority is subject to externally imposed stipulations that can be fulfilled by actions of the Authority pursuant to those stipulations or that expire with the passage of time.

- Unrestricted: Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by actions of management or the Board of Directors or may otherwise be limited by contractual agreements with outside parties.

Subsidies

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

The principal funding sources for the Authority are as follows:

Operating Assistance Appropriations and Grants

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

Triborough Bridge and Tunnel Authority

The New York State Public Authorities law requires the TBTA to transfer its annual operating surplus, as defined, to the Authority and the MTA. The initial \$24 million of the operating surplus is provided to the Authority and the balance is divided equally between the Authority and the MTA. However, the amounts transferred to the Authority and the MTA are net of a provision for debt service on TBTA bonds issued to finance the acquisition of facilities under their respective portions of the Capital Program. For the years ended December 31, 2006 and 2005, \$220.3 million

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

and \$221.1 million, respectively, were paid from the operating surplus of the TBTA to satisfy the Authority's portion of debt service requirements.

Mortgage Recording Taxes

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

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

In 2006, the MTA disbursed \$97.2 million of the available funds from the Additional Mortgage Recording Tax (after satisfying debt service requirements) to the Authority. The Authority has utilized these funds to meet capital and operating needs. No funds were disbursed to the Authority in 2005.

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

New York State Regional Mass Transit Taxes

The Authority receives, subject to annual appropriations, revenues from taxes enacted by the State legislature from various taxing sources.

In 1980, the State enacted a series of taxes, portions of which are deposited in the Metro Mass Transportation Operating Account (MMTOA), to fund the operating deficits of State mass transportation systems. MMTOA taxes currently include a business privilege tax imposed on petroleum business in the State, a one-quarter of 1% sales and use tax on certain personal property and services, a corporate franchise tax imposed on transportation and transmission companies, and a temporary franchise tax surcharge on certain corporations, banks, insurance, utility, and

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

transportation companies attributable to business activity carried on in the State. MMTOA taxes are subject to annual appropriation, availability of sufficient tax collections, and determination of operating need by the State for the MTA. They are recognized as revenue in the amount of the annual appropriation when such appropriation becomes effective.

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

The composition of New York State tax-supported subsidies for 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
	<u>Accrued</u>	<u>Accrued</u>
	<u>Revenue</u>	<u>Revenue</u>
	(In thousands)	
Petroleum business tax*	\$ 335,700	\$ 315,258
Metro mass tax	835,866	616,988
Mortgage recording taxes	235,010	75,546
	<u>\$ 1,406,576</u>	<u>\$ 1,007,792</u>

*Net of \$180,439 and \$163,645 for debt service payments in 2006 and 2005, respectively.

Paratransit

Pursuant to an agreement between the City and the MTA, the Authority, effective July 1, 1993, assumed operating responsibility for all paratransit service required by the Americans with Disability Act of 1990. Services are provided by private vendors under contract with the Authority. The City reimburses the Authority for the lesser of 33% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6% of gross urban tax proceeds as described above, or an amount that is 20% greater than the amount paid by the City for the preceding calendar year. Fare revenues and the City reimbursement aggregated approximately \$90.8 million in 2006 and \$73.9 million in 2005. Total paratransit expenses, including paratransit service contracts, were \$226.8 million and \$189.8 million in 2006 and 2005, respectively.

Reimbursement of Expenditures

Engineering and labor costs incurred by the Authority for capital projects are reimbursed under the capital program by the MTA to the extent that they relate to approved expenditures applicable to capital projects primarily initiated after April 1, 1982. They are reimbursed by the City to the extent they relate to amounts approved for prior projects. In 2006 and 2005, reimbursements were netted against gross operating expenses on the consolidated statements of revenues, expenses and changes in net assets.

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Fare and Service Reimbursement from the State and City

The City no longer fully reimburses the Authority for costs of the free fare program for students; however, pursuant to a 1995 agreement with the State and the City, the Authority continued the student program beginning with the 1995-1996 school year, with the State and the City each agreeing to pay \$45 million per annum. The estimated cost of this program is approximately \$176 million for the 2006-2007 school year. It is believed the City will continue to provide for the continuation of the City's \$45 million contribution for the 2006-2007 school year, of which \$15 million was received in December 2006. The Authority's approved 2007 Adopted Budget assumes that the remaining \$30 million from the City will be received in 2007. It also assumes that the State's full \$45 million for the 2006-2007 school year will be received in 2007. The Authority's 2008-2010 Financial Plan assumes the continuation of the joint funding of the free fare program for students.

Prior to April 1995, the City was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the New York City Police Department, the City no longer reimburses the Authority for the costs of policing the Transit System on an ongoing basis since policing of the Transit System is being carried out by the New York City Police Department at the City's expense. The Authority continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by the City. The Authority received approximately \$3.7 million in 2006 and \$3.8 million in 2005 for the reimbursement of transit police costs (see note 12). In addition, \$0.9 million was received in February 2007 for calendar 2006.

Due from MTA and Constituent Authorities

Due from MTA and constituent Authorities consists of reimbursements due from the MTA Capital Program for billed and unbilled charges relating to capital projects, farecards and intercompany operating receivables, payables, and inter-agency loan transactions.

Prepaid Expenses and Other Current Assets

The Authority prepaid \$10.6 million to the New York State Health Insurance Plan (NYSHIP) and \$16.0 million for insurance coverage during 2006. In 2005, \$9.8 million was paid to NYSHIP and \$15.2 million towards insurance coverage.

Due from MTA for Purchase of Capital Assets

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

Capital Assets

Capital assets acquired prior to April 1982 were funded primarily by the City, with capital grants made available to the Authority. The City has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the Authority. Subsequent acquisitions, which are part of the capital program, are recorded at cost by the Authority. Funding sources for

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

the acquisition of these capital assets include Federal, State, and City capital grants, grants from the Port Authority of New York and New Jersey, the proceeds from the issuance of Transportation Revenue Bonds, and various TBTA bonding and other sources. Capital assets are recorded at cost and are depreciated on a straight-line basis over 25 or 35 years for subway cars, 12 years for buses, and lives generally ranging from 10 years to 60 years for the other capital assets. Cost includes capitalized interest apportioned to assets during construction. For the purposes of this calculation, interest expense is reported net of investment income.

Contributed Capital

Capital assets contributed by the MTA and restricted funds due from the MTA for the purchase of capital assets are recorded as capital contributions on the consolidated statement of revenues, expenses and changes in net assets. Contributed capital is recognized upon identification of capital costs to be funded by the MTA. Capital contributions for the years ended December 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Capital assets contributed by MTA from:		
Federal grants	\$ 1,144,079	\$ 760,768
Other than federal grants	939,090	1,302,786
Capital assets contributed by MTA for WTC disaster replacement	10,782	13,026
Capital assets contributed by New York City for grant transfers	-	2,204
Petroleum business taxes received for principal and interest payments on debt	180,439	163,645
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(279,019)	(339,959)
Increase (decrease) in funds due from MTA for purchase of capital assets	<u>24,874</u>	<u>(64,003)</u>
Total capital contributions	<u>\$ 2,020,245</u>	<u>\$ 1,838,467</u>

Passenger Revenue

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

Materials and Supplies

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

Staten Island Rapid Transit Operating Authority

The Staten Island Rapid Transit Operating Authority (SIRTOA) is a wholly owned subsidiary of the MTA and provides transportation service on Staten Island. SIRTOA is managed by the Authority on behalf of the City. The Authority has no responsibility for the operating deficit of SIRTOA. The Authority collects, on SIRTOA's behalf, its share of certain operating assistance subsidies determined by formula, and transfers such subsidies to SIRTOA. The amount of subsidy

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

funds to which SIRTOA is entitled is recorded as a reduction of the subsidy revenues of the Authority.

Employee Benefits

Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (ARC) to the pension plan, calculated in accordance with certain parameters.

In 2003, and as a result of the most recent collective bargaining agreement, the Authority assumed responsibility for providing health benefits to its employees who are members of the TWU Local 100, as well as to retirees who were members of the TWU Local 100 and reach normal retirement age while working for the Authority. During 2005, the Authority also began providing health benefits for active and retired members of the ATU Local 1056 and Local 726. Previously, these benefits were being provided by the TWU and ATU Health Benefits Trusts (the Trusts) with the Authority required to make monthly contributions to the Trusts on behalf of the participants on a 'pay as you go' basis. The majority of the benefits provided under the plan are self insured with administrative services provided by various health insurance companies.

The Authority has recorded a liability for claims incurred but not reported (IBNR). The liability represents those estimated future payments that are attributable, under the plan's provisions, to services rendered to participants prior to year end. The estimated liability of claims includes benefits expected to be paid to retired or terminated employees or their beneficiaries and present employees or their beneficiaries, as applicable. The estimated liability for claims incurred but not reported or paid is \$41.2 million and \$37.4 million as of December 31, 2006 and 2005, respectively.

Receivables

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

Reclassifications

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

Accounting Estimates

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

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

3. Cash

Cash consists of the following at December 31:

	<u>2006</u> <u>Book</u> <u>Balance</u>	<u>2005</u> <u>Book</u> <u>Balance</u>
(In thousands)		
Insured (FDIC) and collateralized deposits	\$ 5,666	\$ 38,254
Less escrow and other restricted deposits	(1,072)	(626)
Commercially insured funds on-hand and in-transit	<u>32,915</u>	<u>25,566</u>
	<u>\$ 37,509</u>	<u>\$ 63,194</u>

The on-hand and in-transit funds consist primarily of passenger revenue funds collected, but not yet deposited.

4. MTA Investment Pool

The MTA, on behalf of the Authority, invests funds which are not immediately required for the Authority's operations, in securities permitted by the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds. All investments are held by the MTA's agent, in custody accounts, in the name of the MTA. Investments are recorded at fair value and mature within a year of December 31, 2006. The Authority's earnings from short-term investments approximated \$22.9 million and \$8.6 million for the years ended December 31, 2006 and 2005, respectively. Approximately \$921.0 million and \$717.6 million of funds are included in the MTA investment pool in the consolidated balance sheet for the years ended December 31, 2006 and 2005, respectively.

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

5. Capital Assets

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

	December 2005	Additions	Scrapped Buses/ Subway Cars	December 2006
	(In thousands)			
Subway cars	\$ 5,778,377	\$ 18,082	\$ -	\$ 5,796,459
Buses	1,937,249	51,697	-	1,988,946
Track and structures	7,335,043	593,873	-	7,928,916
Depots and yards	3,172,252	489,061	-	3,661,313
Stations	5,123,370	601,973	-	5,725,343
Signals	2,502,930	537,886	-	3,040,816
Service vehicles	215,031	6,410	-	221,441
Building	169,584	-	-	169,584
Other	2,442,074	448,650	-	2,890,724
Under construction	3,571,346	(429,074)	-	3,142,272
	<u>32,247,256</u>	<u>2,318,558</u>	<u>-</u>	<u>34,565,814</u>
Less: Accumulated depreciation	<u>(8,963,380)</u>	<u>(986,905)</u>	<u>-</u>	<u>(9,950,285)</u>
	<u>\$ 23,283,876</u>	<u>\$ 1,331,653</u>	<u>\$ -</u>	<u>\$ 24,615,529</u>

The Authority scrapped 10 subway cars and 3 buses in 2005. No rolling stock was scrapped in 2006. A loss on disposal of capital assets of \$1.9 million was recorded for the year ended December 31, 2005.

In 1990, the Authority issued approximately \$202.8 million of Transit Facility Revenue Bonds, Series 1990 to fund the acquisition of an office building located in Brooklyn, New York. The bonds were subsequently defeased in May 2002 by the MTA Transportation bonds. The property is located on land owned by the New York City Economic Development Corporation, as trustee for the City, with whom the Authority has entered into a 99-year ground lease. Rent expense, on a cash basis, under the lease for 2006 and 2005, was approximately \$566,000 each year.

Capitalized interest totaled \$44.5 million and \$38.7 million in 2006 and 2005, respectively.

Lease Transaction

In July 1998, the MTA, the Authority and TBTA authorized and entered into a lease and related agreements whereby each agency, as a subleasee, rents office space at Two Broadway in lower Manhattan. The triple-net-lease has an initial stated term of approximately 50 years, with the right to extend the lease for two successive 15-year periods at a rental of at least 95% of fair market rent. Remaining payments under the lease approximate \$1.39 billion. Under the subleases, the lease is apportioned as follows: the Authority, 68.7%, MTA, 21%; and TBTA, 10.3%. However, the involved agencies have agreed to sub-sublease space from one another as necessary to satisfy actual occupancy needs. The agencies will be responsible for obligations under the lease based on such actual occupancy percentages. Actual occupancy percentages at December 31, 2006 for the Authority, TBTA and MTA were 80.6%, 11.3% and 7.9%, respectively. The Authority's sublease

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to \$7.9 million and \$7.7 million in 2006 and 2005, respectively.

Assuming the occupancy percentage at December 31, 2006 will continue, the future minimum lease payments under the Authority's sublease are as follows:

Year Ending December 31:	<u>Operating</u>	<u>Capital</u>
	(In thousands)	
2007	\$ 7,945	\$ 9,013
2008	7,945	9,013
2009	7,945	10,684
2010	7,945	10,684
2011	7,945	10,684
2012-2016	39,724	58,834
2017-2021	39,724	68,292
2022-2026	39,724	78,507
2027-2031	39,724	95,853
2032-2036	39,724	116,329
2037-2041	39,724	132,097
2042-2046	39,724	145,994
2047-2048	11,913	45,517
Total minimum lease payments	<u>\$ 329,706</u>	791,501
Less imputed interest		<u>(656,952)</u>
Present value of net minimum lease payments		<u>\$ 134,549</u>

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

The adjusted capital lease for the aforementioned building is being amortized over the remaining life of the lease. The cost of the building and related accumulated amortization at December 31, 2006 and 2005 is as follows:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Capital lease - building	\$ 114,489	\$ 114,489
Less accumulated amortization	(18,887)	(16,476)
Capital lease - building, net	<u>\$ 95,602</u>	<u>\$ 98,013</u>

In July 1999 and 2000, the MTA issued Certificates of Participation in the amount of \$328.2 million and \$121.2 million, respectively, to finance the renovation of the building and certain other tenant improvements (see note 7).

The amount of such improvements apportioned to the Authority as of December 31, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Base building improvements	\$ 132,883	\$ 132,722
Tenant improvements	130,707	129,709
Furniture and fixtures	11,434	11,434
Computers and equipment	10,779	9,773
Development fees	6,893	6,893
Capitalized interest	9,532	9,507
	302,228	300,038
Less: Accumulated depreciation	(117,170)	(99,941)
Total leasehold improvements	<u>\$ 185,058</u>	<u>\$ 200,097</u>

6. Employee Benefits

New York City Employee's Retirement System

Plan Description

The Authority contributes to the New York City Employees' Retirement System (NYCERS), a cost-sharing, multiple-employer public employee retirement system (PERS) for employees of the City and certain other governmental units whose employees are not otherwise members of the City's four other main pension systems. The NYCERS plan combines features of a defined benefit pension plan with those of a defined contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, accident benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing New York State statutes and New York City laws and may be amended by action of the State legislature. NYCERS issues a publicly available comprehensive annual

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 335 Adams Street, Suite 2300, Brooklyn, NY 11201-3751.

Funding Policy

The contribution requirements of Plan members and the Authority are established and amended by law. The Authority's contribution to NYCERS is actuarially determined. The current rate is 2.4% of annual covered payroll. The Authority's required contributions for NYCERS's fiscal years ending June 30, 2007, 2006, and 2005 were \$331.7, \$220.5 and \$182.4 million, respectively.

For most Transit Authority employees hired prior to July 27, 1976, NYCERS is noncontributory. Certain employees who entered qualifying service after July 27, 1976, commonly referred to as Tier 4, contribute 3% of their salary (see chapter 10 and 126 of the laws of 2000 below).

55/25 and Age 57 Pension Elections

In 1994, hourly employees and certain operating supervisors participating in the NYCERS plan were given the opportunity to elect the Transit 55/25 option, which enabled such employees to become eligible for pension benefits upon reaching 25 years of service and at least 55 years of age. Employees hired after July 26, 1994 in the above titles are mandated into the Transit 55/25 option. All participants were required to make an additional employee contribution of 2.3%.

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

Legislation passed in 1999 enabled elective participants in the Transit 55/25 and the 25 Year Early Retirement plans who, by age 62 would not have 25 years of allowable service with the Authority, to withdraw from the applicable plan and revert back to their previous plan.

Amendments enacted by State legislation in 2000 reflect the most recent significant changes to the plan and are summarized as follows:

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

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

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

- Vesting under the Age 57 plan requires only five years of service.

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

- As of October 1, 2000, regular Tier 3 and 4 employee contributions cease after the completion of ten years of credited service.

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

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

<u>Retirees at Least Age</u>	<u>Retired or Receiving Benefits for at least</u>
62	5 years
65	10
Disabled retirees	5
Accidental death beneficiaries	5

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

These benefit enhancements, as well as the automatic COLA for retirees, were reflected in the actuarial valuation beginning with the June 30, 2000 valuation.

The Plan adopted several amendments during 2002 as a result of State legislation. Amendments include changes to the definition of active service for Tier 1 and Tier 2 members, extension of the phase in period from five years to ten years for funding liabilities created by the benefits provided by Chapter 125 of the Laws of 2000 and increases in accidental disability benefits for Tier 3 and Tier 4 members.

During 2006, pursuant to legislative amendment, the NYCERS Plan enacted significant changes in actuarial assumptions used to determine employer contributions. The more salient changes were the adoption of new demographic assumptions, the actuarial asset valuation method changed from a five-year moving average to six-year, which had the effect of smoothing 2001-2003 investment losses, and the shortening of the amortization period for the 2000 COLA. In addition, the One-Year Lag Methodology was adopted, which used June 30, 2004 payroll data to determine the June 30, 2006 employer contribution. The contribution for June 30, 2007 will be adjusted for retroactive wage settlements for Transit Authority operating employees.

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

Actuarial Assumptions

The more significant actuarial assumptions and methods used in the calculation of employer contributions to NYCERS for the plan's fiscal years ended June 30, 2006 and 2005 are as follows:

Valuation dates	June 30, 2004 (Lag) ⁽¹⁾	June 30, 2004
Actuarial cost method	Frozen initial liability ⁽²⁾	Frozen initial liability ⁽²⁾
Amortization method for Unfunded Actuarial Accrued Liabilities (UAAL)	Level dollar for UAAL attributable to Early Retirement Incentives (ERIs). All outstanding components of UAAL are being amortized over closed periods.	Level dollar for UAAL attributable to Early Retirement Incentives (ERIs). All outstanding components of UAAL are being amortized over closed periods.
Remaining amortization period	1 year for 2000 ERI. 3 years for 2002 ERI	1 year for 1999 ERI and 2 years for 2000 ERI. 4 years for 2002 ERI
Actuarial Asset Valuation Method (AAVM)	Modified six-year moving average of market values with Market Value Restart as of June 30, 1999. As of June 30 thereafter, the AAVM recognizes investment returns greater or less than expected over a period of 6 years.	Modified five-year moving average of market values with Market Value Restart as of June 30, 1999. As of June 30 thereafter, the AAVM recognizes investment returns greater or less than expected over a period of 5 years.
Assumed rate of return on investments	8.0% per annum ⁽³⁾	8.0% per annum ⁽³⁾
Postretirement mortality	Tables based on recent experience	Tables based on recent experience
Active service, withdrawal, death, disability, service retirement	Tables based on recent experience	Tables based on recent experience
Salary increases	In general, merit and promotion increase including an assumed general wage increase of 3.0% per year ⁽³⁾	In general, merit and promotion increase including an assumed general wage increase of 3.0% per year ⁽³⁾
Cost-of-living adjustments	1.3% per annum ⁽³⁾	1.3% per annum ⁽³⁾

- (1) Under the One-Year Lag Methodology, the actuarial valuation determines the employer contribution for the second following fiscal year (June 30, 2004 valuation data used for fiscal year June 30, 2006 contribution).
- (2) Under this actuarial cost method, the initial liability has been established by the Entry Age Actuarial Cost Method, but with the UAAL not less than zero.
- (3) Developed assuming a long-term consumer price inflation assumption of 2.5% per year.

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

Manhattan and Bronx Surface Transit Operating Authority

Plan Description

The Authority contributes to the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) Plan, a single employer governmental retirement plan. MaBSTOA provides retirement, disability, and death benefits to plan members and beneficiaries which are similar to those benefits provided by NYCERS to similarly situated Transit Authority employees. Article 12.08 of the MaBSTOA Plan assigns the authority to establish and amend the benefit provisions to the MaBSTOA Board. MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 15th Floor, New York, NY 10004.

Funding Policy

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

The Authority's contributions to the MaBSTOA Plan for the years ended December 31, 2006, 2005, and 2004 were \$159.6 million, \$153.4 million and \$142.0 million, respectively, equal to the annual required contributions for each year. In December 2006, the Authority made an advance payment of \$12.5 million resulting in the recognition of a prepaid pension expense in the accompanying consolidated balance sheets. During 2006, the Authority also made additional contributions totaling \$100.3 million to the Plan. The \$100.3 million in contributions had the effect of reducing the net pension obligation of \$54.9 million at December 31, 2005 to zero and recognizing a deferred pension asset of \$47.5 million at December 31, 2006, in the accompanying consolidated balance sheets.

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

The MaBSTOA Pension Plan includes the Transit 55/25 Plan, the 25 Year Early Retirement Plan, the Age 57 Plan, and the 2000 amendments under the same terms and conditions as NYCERS.

The cost of additional benefit enhancements to the Plan will be funded by an increase in the employer's normal contribution rate.

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

Annual Pension Cost and Net Pension (Asset) Obligation

The Authority's annual pension cost and net pension (asset) obligation for MaBSTOA for the years ended December 31, 2006 and 2005 were as follows:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Annual required contribution	\$ 159,638	\$ 153,445
Interest on net pension obligation	4,394	4,556
Adjustment to annual required contribution	<u>(6,457)</u>	<u>(6,581)</u>
Annual pension cost	157,575	151,420
Contributions made	<u>(259,968)</u>	<u>(153,444)</u>
Decrease in net pension obligation	(102,393)	(2,024)
Net pension obligation at beginning of year	<u>54,926</u>	<u>56,950</u>
Net pension (asset) obligation at end of year	<u>\$ (47,467)</u>	<u>\$ 54,926</u>

Actuarial Assumptions

The interest rate assumption was lowered from 8.25% to 8.00% prior to expenses, effective with the January 1, 2004 actuarial valuation.

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the MaBSTOA Plan for the years ended December 31, 2006 and 2005 are as follows:

<u>Valuation dates</u>	<u>January 1, 2006</u>	<u>January 1, 2005</u>
Actuarial cost method	Frozen initial liability ⁽¹⁾	Frozen initial liability ⁽¹⁾
Amortization method for UAAL	30-year level dollar	30-year level dollar
Actuarial asset valuation method	Market value restart as of 1/1/96, then five-year moving average of market values	Market value restart as of 1/1/96, then five-year moving average of market values
Interest rate	8.00% per annum ⁽²⁾ , prior to expenses	8.00% per annum ⁽²⁾ , prior to expenses
Provision for expenses	0.50% of market value of assets plus two-year average of administrative charges	0.50% of market value of assets plus two-year average of administrative charges
Deaths after retirement	Tables based on recent experience	Tables based on recent experience
Separations other than for normal retirement	Tables based on recent experience	Tables based on recent experience

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

<u>Valuation dates</u>	<u>January 1, 2006</u>	<u>January 1, 2005</u>
Rates of normal retirement	Tables based on recent experience	Tables based on recent experience
Salary increases	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 18.0% for operating employees and 4.5% to 7.0% for nonoperating employees per year, depending on years of service	In general, merit and promotion increases plus assumed general wage increases of 3.5% to 18.0% for operating employees and 4.5% to 7.0% for nonoperating employees per year, depending on years of service
Overtime	Except for managerial employees, 8.5% of base salary for operating employees and 3.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement	Except for managerial employees, 8.5% of base salary for operating employees and 3.0% of base salary for nonoperating employees, with different assumptions used in the year before retirement
Cost-of-living adjustments	1.3% per annum ⁽²⁾	1.3% per annum ⁽²⁾

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

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

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 consolidated 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 consolidated balance sheets.

Postretirement Benefits

In addition to providing pension benefits, the Authority provides certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority. The Authority recognizes the costs of providing those benefits by expensing the claim

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

payments made to carriers on behalf of the Transit Workers Union (Local 100) and the Amalgamated Transit Union (Local 1056 and Local 726) retirees or their beneficiaries, and the annual insurance premiums for retiree benefits, which aggregated \$208.1 million and \$183.1 million for the years ended December 31, 2006 and 2005, respectively. At December 31, 2006 and 2005, there were 29,469 and 29,442 retired employees, respectively. In 2003 and as a result of collective bargaining agreements, the Authority assumed responsibility for directly providing health care benefits to TWU retirees or their beneficiaries, rather than via the TWU Health & Welfare Trust Fund. In 2005, the Authority also began to administer health care benefits for ATU Local 1056 and Local 726 retirees or their beneficiaries as their respective health and welfare trust funds were dissolved.

7. Due to MTA for Repayment of Debt

Transit Facilities Revenue Bonds

Prior to December 31, 2002, the Authority recognized as a liability in the accompanying consolidated balance sheets the portion of the bond proceeds pledged to the Authority by the MTA for the acquisition of capital assets to the extent of the Authority's expenditure of such bond proceeds. As a result of the MTA's bond restructuring during fiscal year 2002, except for the Authority's portion of the Certificates of Participation, the Authority no longer records a liability to the MTA for the portion of the bonds utilized to fund the Authority's Capital Program.

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

The MTA is responsible for all payments from these bond proceeds and for administering the debt service reserve funds and the unexpended bond funds and has recorded the liability for these bonds. Prior to the debt restructuring, the Authority had recorded a liability to the MTA to the extent of the Authority's expenditure of such bond proceeds. Debt service paid by the Authority is net of the amount provided from the MTA's investment of the unexpended bond funds.

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

Certificates of Participation

In June 1999 and 2000, the MTA issued approximately \$328.2 million and \$121.2 million, respectively, of its Series 1999A and Series 2000A Certificates of Participation. The proceeds from these issuances were used to finance certain building and leasehold improvements to an office building at Two Broadway to be occupied by the Authority, the MTA or its subsidiaries, and the TBTA. Both series represent proportionate interests in the principal and interest components of base rent paid severally, but not jointly, by the Authority, the MTA, and the TBTA pursuant to a Leasehold Improvement Sublease Agreement dated as of June 1, 1999. The Authority, the MTA, and the TBTA are obligated to pay 68.7%, 21.0%, and 10.3%, respectively, of the base rent under the Leasehold Improvement Sublease. The principal amounts of the Series 1999A and Series 2000A certificates are payable in various installments and in various amounts beginning January 1, 2000 and 2001, respectively, through January 1, 2029 and 2030, respectively. Interest was paid on January 1, 2001 and 2002 and is payable each January 1 and July 1, thereafter, until maturity, at rates ranging from 4.70% to 5.63% and 5.00% to 5.88% for the Series 1999A and Series 2000A, respectively. In addition, each issuance is subject to prepayment prior to maturity, as defined.

Amounts due to the MTA for repayment of debt at December 31, 2006 and 2005 consist of the following:

	<u>December 31, 2005</u>	<u>Refunded</u>	<u>Issued</u> (In thousands)	<u>Principal Payments</u>	<u>December 31, 2006</u>
Certificates of Participation					
Series 1999A: 4.70% - 5.63%, due through 2029	\$ 204,543	\$ -	\$ -	\$ 5,449	\$ 199,094
Series 2000A: 5.00% - 5.88%, due through 2030	72,084	-	-	3,142	68,942
	<u>276,627</u>	<u>-</u>	<u>-</u>	<u>8,591</u>	<u>268,036</u>
Less: Unamortized discount	-	-	-	-	-
	276,627	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,591</u>	268,036
Payment due in one year	(8,591)				(6,073)
Debt service reserve funds and unexpended proceeds held by affiliates	<u>(14,686)</u>				<u>(10,965)</u>
Total long-term	<u>\$ 253,350</u>				<u>\$ 250,998</u>

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

Future debt service payments including interest, at December 31, 2006 are as follows:

	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
		(In thousands)	
Year ending December 31:			
2007	\$ 11,150	\$ 6,073	\$ 17,223
2008	10,816	6,368	17,184
2009	10,416	8,405	18,821
2010	9,964	8,811	18,775
2011	9,487	9,268	18,755
2012 - 2016	40,324	53,727	94,051
2017 - 2021	29,309	65,351	94,660
2022 - 2026	16,318	78,799	95,117
2027 - 2030	31,913	31,234	63,147
	<u>\$ 169,697</u>	<u>\$ 268,036</u>	<u>\$ 437,733</u>

Interest paid on the Series 2000A and Series 1999A Certificates of Participation amounted to \$10.7 million and \$15.8 million in 2006 and 2005, respectively.

8. Advertising and Other Income

Advertising and other income for the years ended December 31, 2006 and 2005 consist of:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Advertising revenue	\$ 68,804	\$ 69,910
Transit Adjudication Bureau collections	11,802	9,144
Station income	7,415	7,244
Rental income	3,136	3,132
Fare media transaction fees	3,308	2,413
All other	1,697	2,181
	<u>\$ 96,162</u>	<u>\$ 94,024</u>

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

9. Other Expenses

Other expenses for the years ended December 31, 2006 and 2005 consist of:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Credit and debit card fees for fare media sales	\$ 17,019	\$ 15,254
Fare media sales commissions	10,754	10,020
Taylor Law fines	-	(14,000)
Training courses and programs	6,238	6,914
Allowance for uncollectible accounts	(939)	15,045
Business travel, meetings and conventions	1,251	989
Dues and subscriptions	988	810
Other miscellaneous expenses	1,570	(134)
	<u>\$ 36,881</u>	<u>\$ 34,898</u>

10. Maintenance and Other Operating Expenses

Maintenance and other operating expenses for the years ended December 31, 2006 and 2005 consist of:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Operating maintenance and repair services	\$ 29,203	\$ 25,232
Facility maintenance and repairs	17,585	11,679
2 Broadway operating expenses	14,149	14,186
Security services	9,022	8,396
Refuse and recycling	9,785	7,795
Telephone services	8,795	9,084
Tire and tube rentals	6,748	5,415
Janitorial and custodial services	5,904	5,367
Water and sewage	6,395	5,047
Real estate rentals	5,638	6,582
Data communications	3,670	3,052
Other miscellaneous expenses	4,378	5,964
	<u>\$ 121,272</u>	<u>\$ 107,799</u>

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

11. Risk Management

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

The Authority is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. Claims arising between November 1, 2001 and October 31, 2006 are subject to a \$7 million per occurrence limit; and claims arising after October 31, 2006 are subject to a \$8 million per occurrence limit. Lower limits applied for claims arising prior to November 1, 2001. The Authority is self-insured for work-related injuries to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected in expenses as public liability claims in the accompanying consolidated statements of revenues, expenses and change in net assets.

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

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, for the years ended December 31, 2006 and 2005, is as follows:

	<u>2006</u>	<u>2005</u>
	(In thousands)	
Balance at beginning of year	\$ 847,604	\$ 833,824
Activity during the year:		
Current year claims and changes in estimates	69,594	113,664
Claims paid	<u>(104,727)</u>	<u>(99,884)</u>
Balance at end of year	812,471	847,604
Less: Current portion	<u>(114,981)</u>	<u>(119,954)</u>
Long-term liability	<u>\$ 697,490</u>	<u>\$ 727,650</u>

First Mutual Transportation Assurance Company

First Mutual Transportation Assurance Company (“FMTAC”), a captive insurance company subsidiary of MTA, insures certain claims in excess of the self-insured retention limits of the MTA agencies. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than \$50 million. Since October 31, 2003, FMTAC issues insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention with a limit of \$50 million per occurrence with \$50 million annual aggregate. FMTAC will charge appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program.

Effective October 31, 2006, an All-Agency Excess Liability Insurance Policy was renewed. This coverage affords the MTA and its subsidiaries and affiliates an additional limit of \$250 million (an increase of \$100 million from the previous policy), for a total limit of \$300 million (\$250 million in excess of \$50 million). In certain circumstances, when FMTAC’s assets are exhausted due to

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

payment of claims, the All-Agency Excess Liability Insurance will assume FMTAC's coverage position of \$50 million.

Effective October 31, 2006, FMTAC renewed the all-agency property insurance program. For the period October 31, 2006 through October 30, 2007, FMTAC directly insures property damage claims of the related entities in excess of a \$25 million per occurrence self-insured retention ("SIR"), subject to an annual \$75 million aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of \$7.5 million per occurrence. The total program limit has been maintained at \$1.25 billion per occurrence covering property of the related entities, collectively. With the exception of acts of terrorism (both domestic and foreign), and subject to certain parts of the program limit that have been retained by FMTAC, as discussed in the next paragraph, FMTAC is reinsured in the domestic, London, European and Bermuda marketplaces for this coverage. The storms in 2005 had a severe impact on pricing and capacity for property insurance. Although the market is beginning to stabilize given the absence of major catastrophes in 2006, available capacity at reasonable pricing levels remains tight. As a result, FMTAC was able to obtain additional reinsurance capacity over last year (reducing the amount retained from \$394.5 million for the year beginning October 31, 2005 to \$267.9 million for the year beginning October 31, 2006), but continues to retain portions of upper tiers of the program limit. The following chart shows the portions of the tiers of the program limit that have been reinsured and the portions that have been retained by FMTAC. Within each tier, losses would be shared on a pro rata basis.

<u>Incremental Insurance Loss</u>	<u>Amount Reinsured (In millions)</u>	<u>Amount Retained by FMTAC</u>
\$ 0 - 25	\$ 0.0	\$ 25.0
25 - 125	100.0	0.0
125 - 175	50.0	0.0
175 - 400	225.0	0.0
400 - 700	300.0	0.0
700 - 1,000	57.1	242.9
1,000 - 1,250	250.0	0.0
Total	<u>\$ 982.1</u>	<u>\$ 267.9</u>

The property insurance, which is subject to annual renewal on October 31, 2007, provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage. With respect to acts of international terrorism committed by or on behalf of foreign interests, as covered by the Terrorism Risk Insurance Act of 2002, and amended by the Terrorism Risk Insurance Extension Act of 2005 ("2005 TRIA"), FMTAC is reinsured by the United States Government for 85% of such "certified" losses, subject to an annual cap on all losses payable under TRIA of \$100 billion. No federal compensation will be paid unless the aggregate industry insured losses exceed \$100 million ("trigger"). The remaining 15% of MTA losses would be covered under an additional policy described below. TRIA coverage is provided through December 31, 2007. Negotiations are underway in Congress to extend the current arrangement, or implement a more permanent solution.

With respect to terrorism losses not covered by the United States Government under TRIA, MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. (part of AIG).

New York City Transit Authority

Notes to Consolidated Financial Statements

December 31, 2006 and 2005

That policy provides coverage for (1) 15% of any "certified" act of terrorism caused by foreign interests, or (2) 100% of any terrorism loss not "certified" by the United States Government (including losses within the established event "trigger"), up to a maximum recovery of \$100 million for any occurrence. This coverage expires on December 31, 2007. Recovery under this policy is subject to retention of \$25 million per occurrence and \$75 million in the annual aggregate, in the event of multiple losses during the policy year. Should the MTA's retention in any one year come to a total \$75 million, then future losses in that policy year are subject to retention of just \$7.5 million.

At December 31, 2006, the Authority has no outstanding claims covered by FMTAC. At December 31, 2006, FMTAC had \$442 million of assets to insure current and future claims. The Authority paid premiums of approximately \$7.8 million and \$11.1 million to FMTAC for the policy years November 1, 2005 through October 31, 2006 and November 1, 2006 through October 31, 2007, respectively.

12. Contingencies

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

The Authority was cited in 1991 by the New York State Department of Environmental Conservation (NYSDEC) for not complying with a State requirement for tightness testing of underground storage tanks and for failure to notify NYSDEC of leaking tanks. The Authority is obligated to remediate contaminated soil and groundwater. In 2006 and 2005, the Authority expended \$1.4 million and \$3.4 million, respectively, on such cleanup efforts. Expenditures exclude the cost of capital improvements. An additional \$6.2 million in spills and remediation reserves were accrued in 2005; there were no new incidents requiring accruals during 2006. At December 31, 2006, the Authority believes that its remaining accrued liability of \$27.6 million is sufficient to cover future costs associated with this cleanup.

On March 31, 1995, the MTA Board agreed to a merger of the transit police with the New York City Police Department, in accordance with a memorandum of understanding between the Authority and the City. Pursuant to the terms of the merger, the Authority's operation of the transit police and the City's obligation to reimburse the cost of operating the transit police terminated, effective April 2, 1995. Additionally, the City has assumed the liability for substantially all past and future costs associated with operating the transit police, including, but not limited to all future pension costs. The Authority has asserted a claim of approximately \$92 million against the City relating to reimbursement of costs incurred in the operation of the transit police. The Authority claims that the City underpaid these amounts in the period from 1988 through December 1994. In January 1995, the Authority filed a demand for arbitration pursuant to the master agreement governing the overall relationship between the Authority and the City to pursue, among other matters, payment of these arrearages. The arbitration matter has been held in abeyance pending a possible resolution of the matter. At December 31, 2005, the Authority reserved as uncollectible its estimate of the net realizable value of this claim amounting to \$20.7 million. At December 31, 2006, the receivable amount and corresponding reserve were offset in the consolidated balance sheets.

New York City Transit Authority
Notes to Consolidated Financial Statements
December 31, 2006 and 2005

13. Recent Developments

Westchester Bus Company began accepting Metro Cards on its buses on April 1, 2007 pursuant to a Memorandum of Understanding (MOU) between the entity and the Authority, which was approved in August 2006.

**New York City Transit Authority
Required Supplementary Information
Schedule of Funding Progress for the MaBSTOA Pension Plan (Unaudited)
December 31, 2006 and 2005
(in millions)**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Initial Entry Age (b)	Unfunded (AAL) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) As a Percentage of Covered Payroll ((b-a)/c)
1/1/98 (1)	404.5	1,286.2	881.7	31.45	343.3	256.8
1/1/99	467.6	1,342.0	874.4	34.84	362.0	241.5
1/1/00 (2)	540.1	1,471.8	931.7	36.70	378.9	245.9
1/1/01 (3)	611.5	1,592.5	981.0	38.40	400.5	244.9
1/1/02	656.4	1,614.9	958.6	40.60	432.7	221.5
1/1/03 (4)	629.8	1,564.6	934.8	40.30	450.6	207.5
1/1/04 (5)	713.2	1,663.3	950.1	42.87	460.9	206.1
1/1/05	762.0	1,680.5	918.4	45.34	479.5	191.6
1/1/06	841.0	1,725.2	884.2	48.74	498.0	177.5

- (1) The method for determining valuation compensation and the use of the overtime assumption were changed.
- (2) Pension supplementation payable on September 30, 2000 increased the Plan's UAAL by \$67.9 million.
- (3) Automatic COLA adjustment for 2001 increased the Plan's UAAL by \$75.2 million. This increase was offset, in part, by changes in certain actuarial assumptions, which decreased the Plan's UAAL by \$16.9 million.
- (4) Increased employer contributions in 2003 have resulted in a decrease in the Plan's UAAL.
- (5) Lowering of the valuation interest rate from 8.25% to 8.0% increased the Plan's UAAL by \$41.4 million.