New York City Transit Authority

Consolidated Financial Statements as of and for the Years Ended December 31, 2010 and 2009, Required Supplementary Information, and Independent Auditors' Report

NEW YORK CITY TRANSIT AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority:

We have audited the accompanying balance sheets of the New York City Transit Authority (the "Authority"), a public benefit corporation which is part of the related financial reporting group of Metropolitan Transportation Authority ("MTA"), as of December 31, 2010 and 2009, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Authority, as of December 31, 2010 and 2009, and the respective changes in revenues, expenses and changes in net assets, and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the notes to the financial statements, the Authority is a public benefit corporation that requires significant subsidies from and has material transactions with MTA, The City of New York and the State of New York.

The Management's Discussion and Analysis on pages 2 through 11; the Schedule of Funding Progress for the MaBSTOA Pension Plan on page 53; and the Schedule of Funding Progress for the New York City Transit Postemployment Benefit Plan on page 54 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. 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 such information and we do not express an opinion on it.

Deloitte & Touche LLP

April 21, 2011

1. OVERVIEW OF THE CONSOLIDATED 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 Supplementary Information.

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, 2010 and 2009. 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 consolidated financial statements described below.

The Consolidated Financial Statements Include:

The Consolidated Balance Sheets provide information about the nature and amounts of investments in resources (assets) and the obligations (liabilities) to New York City Transit Authority's (the Authority's) creditors, 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. They account 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 Provide:

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

Details of cash and investments, 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.

Required Supplementation Information:

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

2. 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.

3. 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, 2010 and 2009. 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 to the Authority's consolidated financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

Total Assets, Distinguishing Between Capital and Other Assets

				Increase/(Decrease)	
	2010	2009	2008	2010-2009	2009-2008
			(In millions)		
Capital assets	$ 47,386	$ 44,339	$ 40,542	$ 3,047	$ 3,797
Accumulated depreciation	(14,761)	(13,479)	(12,255)	(1,282)	(1,224)
Capital assets, net of accumulated depreciation	32,625	30,860	28,287	1,765	2,573
Other assets	949	904	1,598	45	(694)
Total assets	$ 33,574	$ 31,764	$ 29,885	$ 1,810	$ 1,879

The Authority's Capital Assets totaled $47.4 billion at year-end 2010. Of the total, depots, yards, signals, and stations were 36%, subway cars and buses accounted for 25% and track/structures were 21%. These gross capital assets exclude significant infrastructure assets such as tunnels and elevated structures which are assets owned by The City. More detailed information about the Authority's capital assets is presented in Note 5 to the financial statements.

Significant changes in assets include:

December 31, 2010 versus 2009

Gross Capital Assets increased from December 31, 2009 to December 31, 2010 by $3,047, or 6.9%. Significant additions included under construction ($1,155), stations ($523), subway cars ($443), track & structures ($349) and depots & yards ($326). These additions are partly offset by annual depreciation expense of $1,290.

Other Assets increased by $45, or 5.0%, compared with the prior year. This increase was mostly due to higher accrued subsidies of $62 for New York City Operating Assistance subsidies and New York City Urban Tax subsidies.

December 31, 2009 versus 2008

Capital Assets increased from December 31, 2008 to December 31, 2009 by $3,797, or 9.4%. Significant additions included subway cars ($1,241), assets under construction ($909), track & structures ($605) and stations ($344). These additions are partly offset by annual depreciation expense of $1,231.

Other Assets decreased by $694, or 43.4%, compared with the prior year. This decrease was mostly due to reductions in funds held in the MTA investment pool of $450 and receivables from the MTA for the purchase of capital assets of $226.

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

				Increase/(Decrease)	
	2010	**2009**	**2008**	**2010-2009**	**2009-2008**
			(In millions)		
Current liabilities	$ 1,762	$ 1,802	$ 1,575	$ (40)	$ 227
Long-term liabilities	5,112	4,142	3,229	970	913
Total liabilities	$ 6,874	$ 5,944	$ 4,804	$ 930	$ 1,140

At the end of 2010, the Authority's liabilities consisted primarily of employee fringe benefit-related liabilities (for pensions, health and other benefits), 66.7%, and injuries to persons (public liability and workers' compensation), 16.7%. Included in the employee fringe benefit-related liabilities was $3,727 of post-employment benefits other than pensions based upon adoption of Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2007.

Significant changes in liabilities include:

December 31, 2010 versus 2009

Liabilities increased from December 31, 2009 to December 31, 2010 by $930, or 15.6%. Current Liabilities decreased by $40, or 2.2% and Long-Term Liabilities increased by $970, or 23.4%.

The decrease in Current Liabilities was mainly due to a reduction in accrued retirement and death benefits of $83 due to the timing of pension payments, partly offset by increases in accrued vacation and other benefits of $19 and unredeemed farecards of $19.

The increase in Long-Term Liabilities was primarily the result of the addition of $881 to post-employment benefits other than pensions based upon an updated OPEB actuarial valuation and $100 of increased liabilities arising from injuries to persons.

December 31, 2009 versus 2008

Total Liabilities increased from December 31, 2008 to December 31, 2009 by $1,140, or 23.7%. Current Liabilities increased by $227, or 14.4% and Long-Term Liabilities increased by $913, or 28.3%.

The increase in Current Liabilities was mainly due to additional accrued retirement and death benefits of $124 due to higher pension costs, salaries & wages of $61 due to wage settlements/increased wage rates, unredeemed fare cards of $17, and estimated liability arising from injuries to persons of $15, based on current actuarial valuations.

The increase in Long-Term Liabilities was primarily caused by the addition of $828 of post employment benefits other than pensions based upon an updated OPEB actuarial valuation and $92 of increased liability arising from injuries to persons.

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

	2010	2009	2008 (In millions)	Increase/(Decrease) 2010-2009	Increase/(Decrease) 2009-2008
Investment in capital assets — net of related debt	$ 32,249	$ 30,479	$ 27,900	$ 1,770	$ 2,579
Unrestricted	(5,550)	(4,658)	(2,819)	(892)	(1,839)
Total net assets	$ 26,699	$ 25,821	$ 25,081	$ 878	$ 740

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, 2010 versus 2009

Total net assets were $26,699 at the end of 2010, a net increase of $878, or 3.4% from the end of 2009. The net increase was due to capital contributions from the MTA of $2,573 and net nonoperating income of $3,040, partly offset by an operating loss of $4,735.

December 31, 2009 versus 2008

Total net assets were $25,821 at the end of 2009, a net increase of $740, or 3.0% from the end of 2008. The net increase was due to capital contributions from the MTA of $3,361 and net nonoperating income of $2,151, offset by an operating loss of $4,772.

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

	Year Ended December 31,		
	2010	2009	2008
		(In millions)	
Operating revenues	$ 3,602	$ 3,386	$ 3,321
Operating expenses	(8,337)	(8,158)	(8,046)
Operating loss	(4,735)	(4,772)	(4,725)
Nonoperating revenues (expenses):			
Subsidies: New York State and The City of New York	2,917	2,137	2,209
Triborough Bridge and Tunnel Authority	152	92	120
Interest expense	(29)	(37)	(25)
Other nonoperating revenue/expenses	-	(41)	9
Total nonoperating revenues (expenses)	3,040	2,151	2,313
Loss before capital contributions	(1,695)	(2,621)	(2,412)
Capital contributions	2,573	3,361	2,374
Change in net assets	878	740	(38)
Total net assets — beginning of year	25,821	25,081	25,119
Total net assets — end of year	$ 26,699	$ 25,821	$ 25,081

Revenue from Fares/Ridership

				Increase/(Decrease)	
	2010	2009	2008	2010-2009	2009-2008
			(In millions)		
Subway revenue	$ 2,399	$ 2,246	$ 2,176	$ 153	$ 70
Bus revenue	839	821	802	18	19
Expired fare media revenue	67	52	39	15	13
Paratransit revenue	15	14	12	1	2
Total revenue from fares	$ 3,320	$ 3,133	$ 3,029	$ 187	$ 104
Total ridership (millions)	2,310	2,315	2,378	(5)	(63)
Non-student average fare	$ 1.49	$ 1.41	$ 1.33	$ 0.08	$ 0.08

2010 versus 2009

Total revenue from fares was $3,320 in 2010, an increase of $187 or 6.0%, due mostly to the annualized effect of the June 2009 fare increase. Total ridership was 2,310, a decrease of 5 or 0.2% from 2009. Subway ridership was 1,604, the second highest subway ridership since 1950, and an increase of 24 or 1.5% from 2009. Bus ridership was 697, a decrease of 30 or 4.1% from 2009; adjusting for a methodology change implemented in 2010, bus ridership decreased by 20 or 2.8%.

2009 versus 2008

Total revenue from fares was $3,133 in 2009, an increase of $104, or 3.4%, mostly due to increased fares (effective June 28, 2009). Total ridership from fares was 2,315, the second highest annual ridership since 1969, and a decrease of 63 or 2.6% below 2008. Subway ridership was 1,580, a decrease of 44 or 2.7% below 2008. Bus ridership was 726, a reduction of 21 or 2.7% below 2008. The ridership decrease from 2008 to 2009 was due to a weak economy and the June 2009 fare increase.

Operating Expenses, by Major Function

				Increase/(Decrease)	
	2010	**2009**	**2008**	**2010-2009**	**2009-2008**
			(In millions)		
Salaries and wages	$ 3,052	$ 3,052	$ 3,001	$ -	$ 51
Health and welfare	501	466	455	35	11
Pensions	749	757	686	(8)	71
Other fringe benefits	304	281	277	23	4
Postemployment benefits other than pensions	1,147	1,085	1,261	62	(176)
Traction and propulsion power	180	177	165	3	12
Fuel for buses and trains	121	119	183	2	(64)
Fuel & power for support services	94	90	91	4	(1)
Insurance	56	54	42	2	12
Public liability claims	126	114	63	12	51
Paratransit service contracts	380	370	299	10	71
Maintenance and other oper. expenses	114	123	131	(9)	(8)
Professional service contracts	107	99	95	8	4
Pollution remediation projects	11	-	16	11	(16)
Materials and supplies	276	299	302	(23)	(3)
Depreciation	1,290	1,231	1,122	59	109
Other expenses	60	54	42	6	12
Reimbursed overhead expenses	(231)	(213)	(185)	(18)	(28)
Total operating expenses	$ 8,337	$ 8,158	$ 8,046	$ 179	$ 112

2010 versus 2009

Total operating expenses increased by $179, or 2.2% compared to 2009 as follows:

- Salaries & wages were equal to 2009, as the effect of various wage rate increases was offset by reduced overtime costs from enhanced management controls and reduced headcount from cost reduction programs.

- Health & welfare expenses increased by $35, or 7.5%, primarily due to increased rates for health & welfare plans, partly offset by the effect of reduced headcount.

- Other fringe benefit expenses increased by $23, or 8.2%, primarily due to higher Workers' Compensation medical cost reserve requirements based upon current actuarial determination.

- Post Employment Benefits Other than Pension expenses increased by $62, or 5.8% consistent with current actuarial determination.

- Public liability claims increased by $12, or 10.6%, pursuant to the annual actuarial valuation, which reflected higher pay-outs per major case.

- Materials and supplies expenses decreased by $23, or 7.7%, due mostly to overall lower maintenance material costs and usage, increased scrap sales and lower stationery and printing costs.

- Depreciation expenses increased by $59, or 4.8%, due to the capitalization of capital projects reaching beneficial use in 2010 including projects for station rehabilitations, subway cars, track and structures, and depots and yards.

- Other expenses increased by $6, or 11.1%, due mostly to the annual effects in 2010 of higher fare media costs due largely to the June 2009 fare increase and the imposition in 2009 of the State Mobility Tax.

- Reimbursable overhead credits increased by $18, or 8.5%, due primarily to increased overhead rates based on higher reimbursable labor costs.

<u>2009 versus 2008</u>

Total operating expenses increased by $111, or 1.4% compared to 2008 as follows:

- Salaries & wages exceeded 2008 by $51, or 1.7%, mostly due to various wage rate increases, partly offset by reduced headcount.

- Health & welfare expenses increased by $11, or 2.0%, primarily due to increased rates for health & welfare plans, partly offset by reduced headcount.

- Pension expenses increased by $71, or 10.3%, primarily due to higher costs based upon current actuarial valuations, which reflected investment losses and a decrease in assets available to fund liabilities.

- Post Employment Benefits Other than Pension expenses decreased by $176, or 14.0% consistent with the current actuarial valuation, which reduced the healthcare trend rate assumption from 11% to 5%.

- Total energy costs (power and fuel) decreased by $53, or 12.1%, mostly due to lower fuel prices.

- Insurance costs increased by $12, or 28.6%, due to higher costs of property and liability insurance.

- Public liability claims increased by $51, or 81.0%, pursuant to the annual actuarial valuation, which reflected higher pay-outs per case.

- Paratransit service contract expenses increased by $71, or 23.7%, due primarily to increased trip volume and the impact of new contract costs.

- Pollution remediation project expenses were $16 in 2008 and $0 in 2009, consistent with GASB Statement No. 49 reporting requirements.

- Depreciation expenses increased by $109 or 9.7%, due to the capitalization of capital projects reaching beneficial use in 2009 including projects for subway cars, track and structures, station rehabilitations and signals/communications.

- Other expenses increased by $12, or 28.6%, due mostly to the imposition in 2009 of the State Mobility Tax and higher fare media costs due largely to the June 2009 fare increase.

- Reimbursable overhead credits increased by $28, or 15.1%, due primarily to increased overhead rates based on higher reimbursable labor costs.

Nonoperating Revenues and Expenses

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

Operating assistance subsidies from New York State and The 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.

Capital contributions from the MTA of $2,573 in 2010 and $3,361 in 2009 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 net total of capital contributions, operating losses and nonoperating income. Net assets increased by $878 in 2010 and by $740 in 2009. Both increases were due to capital contributions from the MTA and nonoperating income, partly offset by operating losses.

Budget Highlights

Excluding a budgeted change in student fare policy of $49 that was not implemented, total operating revenue in 2010 was $3,602, $83, or 2.3% over budget. Farebox revenue exceeded budget by $54, or 1.6%, mainly due to higher subway ridership. Other operating revenue was higher than budget by $39, or 16.2%, mainly due to increased New York State student reimbursements.

Total operating expenses in 2010 were $8,337, under budget by $300, or 3.5%. Labor-related expenses were $5,521, under by $189, or 3.4%. This result was largely due to an actuarial-based reduction of post-employment benefits other than pension, partly offset by additional Workers' Compensation reserve requirements, also based on current actuarial information. Non-labor expenses of $2,816 underran budget by $111, or 3.8%, mainly due to decreased maintenance material expenses, lower electric power prices, and depreciation expense underruns, partly offset by higher public liability claims reserve requirements based on recent experience of higher payouts per major case.

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

Economic Conditions

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

At the end of the fourth quarter of 2010, seasonally adjusted non-agricultural employment in New York City showed an increase of 40,000 jobs, up 1.1% compared with the same quarter of 2009. This change, however, represents the net result of a continual decline in employment throughout 2009, followed by employment gains in each of the first three quarters of 2010, and finally a small decline in employment in the fourth quarter. Employment grew in seven of the first nine months of 2010, regaining 44,000 of the 130,000 jobs lost in 2009. The final quarter of 2010 actually saw a loss of 4,500 jobs, and while New York City's employment improved relative to 2009, it remained 2.5% lower than in the fourth quarter of 2008.

Recent information indicates that there is a continuing weakness in the Commercial Real Estate Market, which would impact the number of real estate transactions and can impact receipts from Mortgage Recording and Urban taxes, two important sources of MTA New York City Transit revenue.

Both the State and City continue to experience economic difficulties and are currently striving to develop cost reduction actions to offset significant budget gaps.

Results of Operations and Overall Financial Position

During 2010, significant gap closing actions, including service reductions, administrative/operating efficiencies and paratransit cost reductions were required in order to offset the loss of State and other subsidy revenues announced early in the year.

The results of these actions and a fare increase of 7.5% effective December 30, 2010, were sufficient to enable the Board to approve a balanced 2011 operating budget in December 2010.

In early 2010, it was announced that the State again reduced funding to MTA. In response to this, additional gap-closing actions are currently under review by MTA/New York City Transit to offset this shortfall.

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

The Authority's portion of the current MTA Capital Program for 2010-2014 totals $12.8 billion. As of March 15, 2011, $1.4 billion has been committed under the five-year plan, of which $323 million has been expended. Funding for the Capital Program comes from new money bonds, federal grants, bonds supported by the payroll mobility tax applied within the MTA regional district, City capital funding and other sources. There exists a significant funding gap for the 2012-14 portion of the program.

Among the projects in the 2010-2014 Transit Capital Program are significant customer enhancements in the areas of new fare payment technologies, subway customer information and station accessibility improvements. In addition, core infrastructure investments include: purchase of 463 subway cars to replace and expand the fleet; the purchase of 2,090 new buses, including 1,041 standard, 674 articulated and 375 express buses; the purchase of 943 new paratransit vehicles; elimination of station defects at 39 stations as well as campaign component improvements at 100+ additional locations; replacement of 21 elevators; replacement of approximately 50 miles of mainline track and 145 mainline switches; signal modernization; communications improvements and improvements to shops, yards, and depots.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The Authority's February 2011 Financial Plan includes challenges that need to be met and risks that need to be addressed in order to be able to balance future year budgets. To assist in achieving this, ongoing identification and implementation of new savings programs and gap closing actions will be required.

Funding of the Capital Program is dependant on the MTA's ability to secure funding from the Federal, State and City governments as well as the municipal bond market.

NEW YORK CITY TRANSIT AUTHORITY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	$ 48,594	$ 32,751
Receivables:		
Billed and unbilled charges due from New York City	17,161	16,599
Accrued subsidies	75,119	12,624
Due from MTA and constituent Authorities (Note 9)	321,312	334,209
Other	66,091	44,755
Less allowance for doubtful accounts	(9,596)	(11,744)
Net receivables	470,087	396,443
Materials and supplies	212,290	217,485
Deferred pension asset	41,188	42,906
Prepaid expenses and other current assets	10,124	27,759
Total current assets	782,283	717,344
NONCURRENT ASSETS:		
Due from MTA for the purchase of capital assets	150,274	169,062
Capital assets, net of accumulated depreciation (Note 5)	32,414,595	30,632,306
Leased property under capital lease, net of accumulated amortization (Note 5)	85,955	88,367
Leasehold improvements on property, net of accumulated depreciation (Note 5)	124,419	139,198
Deferred expense related to issuance of debt	14,850	16,877
Restricted deposits and other escrow funds	1,142	1,090
Total noncurrent assets	32,791,235	31,046,900
TOTAL ASSETS	$33,573,518	$31,764,244

See notes to consolidated financial statements. (Continued)

NEW YORK CITY TRANSIT AUTHORITY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2010 AND 2009
(In thousands)

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES:		
Bank overdrafts payable	$ 31,809	$ 43,671
Accounts payable	140,107	141,708
Accrued expenses:		
Salaries, wages, and payroll taxes	178,685	183,880
Vacation, sick pay, and other benefits	559,644	540,234
Retirement and death benefits (Note 6)	292,394	375,243
Estimated liability arising from injuries to persons (Note 14)	161,664	145,110
Pollution remediation projects (Note 15)	7,100	8,365
Other	113,135	105,237
Total accrued expenses	1,312,622	1,358,069
Due to MTA for repayment of debt, current portion (Note 8)	9,268	8,811
Unredeemed farecards and tokens	261,728	243,084
Deferred subsidy revenue	6,885	6,885
Total current liabilities	1,762,419	1,802,228
NONCURRENT LIABILITIES:		
Due to MTA for repayment of Certificates of Participation (Note 8)	216,865	226,041
Obligation under capital lease, long-term (Note 5)	149,454	146,134
Postemployment benefits other than pensions (Note 7)	3,727,531	2,846,092
Estimated liability arising from injuries to persons (Note 14)	980,668	880,246
Pollution remediation projects (Note 15)	28,402	33,461
Other long-term liabilities	7,657	8,251
Restricted deposits and other escrow funds	1,142	1,090
Total noncurrent liabilities	5,111,719	4,141,315
Total liabilities	6,874,138	5,943,543
NET ASSETS:		
Invested in capital assets — net of related debt	32,249,382	30,478,885
Unrestricted	(5,550,002)	(4,658,184)
Total net assets	26,699,380	25,820,701
TOTAL LIABILITIES AND NET ASSETS	$33,573,518	$31,764,244

See notes to consolidated financial statements. (Concluded)

NEW YORK CITY TRANSIT AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
OPERATING REVENUES:		
Rapid transit	$ 2,398,466	$ 2,245,620
Surface transit	838,969	821,111
Expired fare media	66,897	52,087
Paratransit fares	15,356	13,942
School, elderly, and paratransit reimbursement	171,217	136,205
Advertising and other	111,284	117,370
Total operating revenues	3,602,189	3,386,335
OPERATING EXPENSES:		
Salaries and wages	3,051,633	3,051,934
Health and welfare	500,749	466,535
Pensions	749,179	756,617
Other fringe benefits	304,010	281,037
Postemployment benefits other than pensions	1,146,800	1,085,131
Traction and propulsion power	180,342	176,878
Fuel for buses and trains	121,202	118,921
Fuel and power for support services	93,904	90,158
Insurance	56,362	53,869
Public liability claims	125,632	114,105
Paratransit service contracts	379,761	370,094
Maintenance and other operating expenses	114,279	122,566
Professional service contracts	106,924	99,298
Environmental remediation	10,667	-
Materials and supplies	276,434	299,213
Depreciation	1,289,637	1,231,057
Other expenses	60,502	53,972
Reimbursed overhead expenses	(231,009)	(213,011)
Total operating expenses	8,337,008	8,158,374
OPERATING LOSS	(4,734,819)	(4,772,039)

See notes to consolidated financial statements. (Continued)

NEW YORK CITY TRANSIT AUTHORITY

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	**2009**
NONOPERATING REVENUES:		
Tax-supported subsidies:		
New York State	$ 2,402,461	$ 1,678,889
New York City	201,401	144,727
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	152,026	92,156
Less: amounts provided to Staten Island Rapid Transit Operating Authority	(3,794)	(3,885)
Total nonoperating revenues	3,069,438	2,229,231
Interest expense	(29,282)	(37,156)
Interest income and other nonoperating (expenses) revenues	304	(40,902)
Total nonoperating income	3,040,460	2,151,173
LOSS BEFORE CAPITAL CONTRIBUTIONS	(1,694,359)	(2,620,866)
CAPITAL CONTRIBUTIONS	2,573,038	3,360,884
Change in net assets	878,679	740,018
NET ASSETS:		
Beginning of year	25,820,701	25,080,683
End of year	$ 26,699,380	$ 25,820,701

See notes to consolidated financial statements. (Concluded)

NEW YORK CITY TRANSIT AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	**2009**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from passengers, tenants, advertisers, and others	$ 3,599,742	$ 3,398,905
Cash payments for payroll and related employee costs	(4,710,850)	(4,395,626)
Cash payments to suppliers for goods and services	(1,471,360)	(1,517,145)
Net cash used in operating activities	(2,582,468)	(2,513,866)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Subsidies received	3,032,224	2,213,717
Net Working Capital Loans from MTA	18,784	40,000
Proceeds from issuance of MTA RANS	335,805	502,763
Repayment of MTA RANS from State Mobility Tax receipts	(335,805)	(502,763)
Decrease in bank overdraft	(11,862)	(18,351)
Net cash provided by noncapital financing activities	3,039,146	2,235,366
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal payments	(9,267)	(8,811)
Interest paid	(14,473)	(21,299)
Payments on MTA Transportation bonds issued to fund capital assets	(486,928)	(348,861)
Subsidies designated for debt service payments	272,996	209,109
Capital project costs incurred for capital program	(893,029)	(849,288)
Cash transferred to/from capital program fund	(3,479)	(6,364)
Reimbursement of capital project costs from MTA	854,297	850,596
Net cash used in capital and related financing activities	(279,883)	(174,918)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in MTA Investment Pool	(161,264)	450,159
Interest on investments	312	2,575
Net cash (used in) provided by investing activities	(160,952)	452,734
NET INCREASE (DECREASE) IN CASH	15,843	(684)
CASH — Beginning of year	32,751	33,435
CASH — End of year	$ 48,594	$ 32,751

See notes to consolidated financial statements.

(Continued)

NEW YORK CITY TRANSIT AUTHORITY

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
RECONCILIATION OF CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating loss	$ (4,734,819)	$ (4,772,039)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	1,289,637	1,231,057
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Increase in operating receivables	(21,091)	(2,428)
Decrease (increase) in prepaid expenses and other current assets	17,635	(4,589)
Decrease in prepaid pension expense/deferred pension asset	1,718	1,664
Decrease (Increase) in materials and supplies	5,195	(15,883)
Increase in farecard and token liability	18,644	16,529
(Decrease) increase in accrued salaries, wages and payroll taxes	(84,906)	6,462
Decrease in accounts payable and other accrued liabilities	(3,133)	(43,357)
Increase in accrued vacation, sick pay and other benefits	19,410	9,913
(Decrease) increase in accrued retirement and death benefits	(82,849)	124,372
Increase in postemployment benefits other than pensions	881,439	828,291
Increase in estimated liability arising from injuries to persons	116,976	107,675
Decrease in liability for environmental pollution remediation	(6,324)	(1,533)
NET CASH USED IN OPERATING ACTIVITIES	$ (2,582,468)	$ (2,513,866)
SUPPLEMENTAL SCHEDULE OF NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES —		
Fair value of assets contributed	$ 1,789,528	$ 2,635,397

See notes to consolidated financial statements. (Concluded)

1. BASIS OF PRESENTATION

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 Number 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, 2010.

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 8). The City has the option to terminate the leases at any time. In the event of termination, The

City is required to assume the assets and liabilities of the Authority and must pay or make provision for the payment of any debt incurred pursuant to financing agreements of the Authority.

Substantial operating 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

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.

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 incorporated the creation of the MTA Bus Company, and included additional funding from The City for the #7 Extension design work, as well as additional security grant funding. In December 2005, the MTA Board approved an amendment that increased the overall capital program total to $19.9 billion, of which the Authority's share was $10.2 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 $21.2 billion, of which the Authority's share was increased to $10.5 billion. In 2009, the capital program received $0.2 billion in federal stimulus funding. In 2010, a reallocation between programs resulted in an additional $0.4 billion to the 2000-2004 Capital Program, increasing the overall total plan to $21.8 billion, of which the Authority's share remains at $10.5 billionAmong 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 $8.0 billion in bonds, $6.9 billion in federal funds, $4.6 billion from debt restructuring, and $2.3 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, 2010, $10.4 billion has been committed to Authority projects from the 2000-2004 approved plan, of which approximately $10.1 billion has been expended.

2005-2009 Capital Program — The MTA Capital Program for 2005-2009 was approved by the CPRB in July 2005 and amended in July 2006. The 2005-2009 Program, as approved, provided for $20.1 billion in capital expenditures, of which the Authority's share was $11.2 billion. In February 2007, the MTA Board further amended the Program to add $1.2 billion of Federal East Side Access Full Funding Grant Agreement (FFGA) funds to the East Side Access project, which relates to the Capital Construction Company's capital program. In July 2008, the MTA Board further amended the Program to add an additional $267 million of Federal East Side Access FFGA funds and $764 million in Federal Second Avenue Subway FFGA funds relating to the Capital Construction Company's capital program. Also included in this amendment were the rollover of unused LaGuardia Airport Project funds from the 2000-2004 Capital Program and other miscellaneous funding adjustments. In 2009, the capital program received $0.7 billion in federal stimulus funding.

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, including amendments and the federal stimulus funding noted above, totals $24.4 billion, of which the Authority's share is $11.6 billion. The Authority's portion of the capital program excludes $7.4 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 1,002 B Division Cars, fleet growth of 23 A Division Cars, the purchase of 1,357 new buses including 1,121 standard, 10 articulated and 226 express buses, the purchase of 1,387 new paratransit vehicles, rehabilitation of 25 stations, replacement of 23 escalators, replacement of 53.4 miles of mainline track and 153 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 $9.6 billion in federal funds, $1.5 billion from the New York State voter approved State-Wide Transportation Bond Act, $9.4 billion in bonds, and $3.9 billion from other sources.

At December 31, 2010, $11.2 billion has been committed to Authority projects from the 2005-2009 approved plan, of which approximately $8.4 billion has been expended.

2010-2014 Capital Program — The 2010-2014 Capital Program was approved by the MTA Board in September 2009. The program totaling approximately $25.6 billion was subsequently submitted to the

NYS Capital Program Review Board for their review and approval. The submitted Program was vetoed without prejudice by the Review Board in December 2009. Subsequently, the resubmitted 2010-2014 Program, totaling $26.3 billion was approved by the CPRB in June 2010, of which the Authority's share is $12.8 billion.

The combined funding sources for the 2010-2014 Capital Program are comprised of $6.0 billion in MTA bonds, $6.7 billion in federal funds, $2.5 billion in Bridges and Tunnels dedicated funds, $0.2 billion in MTA Bus Federal and City Match, $1.0 billion from other sources, and $9.9 billion from future State and local funding.

At December 31, 2010, $1.4 billion has been committed to Authority projects from the 2010-2014 approved plan, of which approximately $0.3 billion has been expended.

The federal government has a contigent equity interest in assets acquired by the MTA with federal funds and upon disposal of such assets, the federal government may have a right to its share of the proceeds from the sale. This provision has not been a substantial impediment to the MTA's operation.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting — The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

New Accounting Standards — The Authority has completed the process of evaluating GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement amends GASB Statement 34, paragraphs 19-21, and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, paragraphs 9e, 16, and 18 and relates to the recognition and recording of intangible assets as capital assets in the statement of net assets. The Authority has determined that GASB Statement No. 51 will have no impact on its financial position, results of operations, and cash flows and therefore is not applicable at this time.

The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The objective of this Statement is to establish the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. The Authority has determined that GASB Statement No. 53 will have no impact on its financial position, results of operations, and cash flows and therefore is not applicable at this time.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Authority is therefore unable to disclose the impact GASB Statement No. 54 will have on its financial position, results of operations, and cash flows when such statement is adopted. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010.

The Authority has not completed the process of evaluating the impact that would result from adopting GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This Statement clarifies actuarially determined OPEB measures reported by an agent multiple-employer OPEB plan and its participating employers. Those measures should be determined by a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirement. The Authority is therefore unable to disclose the impact GASB Statement No. 57 will have on its financial position, results of operations, and cash flows when such statement is adopted. This Statement is effective for financial statements for periods beginning after June 15, 2011.

The Authority has completed the process of evaluating GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies.* The Authority has determined that GASB Statement No. 58 will have no impact on its financial position, results of operations, and cash flows and therefore is not applicable to its operations at this time. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The Statement is effective for financial statements prepared by state and local governments for periods beginning after June 15, 2010.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements (SCA)*. The requirement of this statement improves financial reporting by establishing recognition, measurement and disclosure requirements for SCAs for both transferors and governmental operators, requiring governments to account for and report SCAs in the same manner, which improves the comparability of financial statements. The Statement is effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011.

The Authority has not completed the process of evaluating the impact that will result from implementing GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statements Nos. 14 and 34*. The requirements of this Statement result in financial reporting entity financial statements being more relevant by improving guidance for including, presenting and disclosing information about component units and equity interest transactions of a financial reporting entity. The Statement is effective for financial statements prepared by state and local governments for periods beginning after December 15, 2011.

The Authority has not completed the process of evaluating the impact of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 1989 FASB and AICPA Pronouncements*. The Statement objective is to incorporate pronouncements that do not contradict or conflict with GASB pronouncements. This Statement is effective for financial statements for periods beginning after December 15, 2011.

Net Assets — The Authority follows the "business type" activity requirements of GASB 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* 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, 2010 and 2009 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, which are included in nonoperating revenues. 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, 2010 and 2009 $281.2 million and $290.6 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.

No funds from the Additional Mortgage Recording Tax were disbursed to the Authority in 2010 and 2009.

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 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 (DFT 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.

Metropolitan Commuter Transportation Mobility Tax — In June 2009, Chapter 25 of the Laws of 2009 added Article 23, which established the Metropolitan Commuter Transportation Mobility Tax (MCTMT). This tax is administered by the NYS Tax Department, and the proceeds from this tax are distributed to the MTA. This tax is imposed on certain employers and self-employed individuals engaging in business within the Metropolitan Commuter Transportation District (MCTD), which includes all counties in New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Duchess, and Westchester. This tax requires certain employers that have payroll expenses within the MCTD to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The effective date of this tax was March 1, 2009 for employers other than public schools districts; September 1, 2009 for public schools districts, and January 1, 2009 for individuals. In December 2009, the MTA received approximately $502.8 million in MCTMT receipts on behalf of the Authority, which were used to repay Transit's portion of the 2009 RANS. In calendar year 2010, approximately $335.8 million in MCTMT receipts were used to repay Transit's share of the 2010 RANS.

The composition of New York State tax-supported subsidies for 2010 and 2009 is as follows:

	Accrued Revenue	
	2010	2009
	(In thousands)	
Petroleum business tax*	$ 235,720	$ 318,365
Metro mass tax	834,966	857,761
Mortgage recording taxes	-	-
Mobility tax	1,331,775	502,763
	$2,402,461	$1,678,889

* Net of $272,996 and $209,109 for debt service payments in 2010 and 2009, 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 $102.6 million in 2010 and $85.1 million in 2009. Total paratransit expenses, including paratransit service contracts, were $458.8 million and $440.5 million in 2010 and 2009, respectively.

Operating and Non-operating Expenses — Operating and non-operating expenses are recognized in the accounting period in which the liability is incurred. All expenses related to operating the Authority (e.g. salaries, insurance, depreciation, etc.) are reported as operating expenses. All other expenses (e.g. interest on long-term debt, fuel hedge transactions, etc.) are reported as non-operating expenses.

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 2010 and 2009, reimbursements were netted against gross operating expenses on the consolidated statements of Revenues, Expenses, and Changes in Net Assets.

Fare and Service Reimbursement from the State and City — In 1995, The City ceased reimbursing the Authority for the full costs of the free/reduced fare program for students. Beginning in 1996, the State and The City each began paying $45 million per annum to the Authority toward the cost of the program. In 2009, the State reduced their $45 million reimbursement to $6.3 million.

The 2010 Adopted Budget proposed that the Student Fare Program be eliminated and student fares be phased in, with the first phase to commence 9/1/10. In June 2010, following fare reimbursement commitments of $25.3 million from New York State and $45.0 million from The City, the Authority declined to proceed with the proposal to eliminate the Student Fare Program. These fare reimbursement commitments were paid to the Authority in 2010.

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 $4.9 million and $3.8 million in 2010 and 2009, respectively for the reimbursement of transit police costs. In addition, $1.2 million was received in January 2011 for calendar 2010.

MTA Investment Pool —The MTA, on behalf of the Authority, invests funds which are not immediately required for 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.

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 $10.1 million for insurance coverage during 2010. The Authority prepaid $12.6 million to the New York State Health Insurance Plan (NYSHIP) and $15.2 million for insurance coverage during 2009.

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 2002 Transportation Revenue 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 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 statements 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, 2010 and 2009, consist of the following:

	2010	2009
	(In thousands)	
Capital assets contributed by MTA from:		
Federal grants	$ 916,356	$ 1,382,925
Other than federal grants	1,850,001	2,181,244
Capital assets contributed by MTA for WTC disaster replacement	334	5,173
Petroleum business taxes received for principal and interest interest payments on debt	272,996	209,109
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(433,446)	(292,129)
Decrease in funds due from MTA for purchase of capital assets	(33,204)	(125,438)
Total capital contributions	$ 2,573,038	$ 3,360,884

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

Employee Benefits — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has adopted this standard for its pension plans. 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 $53.1 million and $52.0 million as of December 31, 2010 and 2009, respectively.

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. 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 No. 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

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.

Pollution Remediation Projects — Pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 15). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

Use of Management's 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. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, they affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions..

3. CASH

Cash consists of the following at December 31:

	Book Balance 2010	Book Balance 2009
	(In thousands)	
Insured and collateralized deposits*	$ 17,410	$ 4,093
Less escrow and other restricted deposits	(2,050)	(1,511)
Commercially insured funds on-hand and in-transit	33,234	30,169
	$ 48,594	$ 32,751

* Deposits are insured up to FDIC limits of $250,000 at December 31, 2010.

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. The Authority records its position in the Pool based upon a net asset value derived on assets invested in the Pool plus all realized income and losses earned. Unrealized appreciation, which is not significant to the Authority, is retained on the MTA's books and not included in the Authority's financial statements. The Authority's earnings from short-term investments approximated $0.3 million and $2.2 million for the years ended December 31, 2010 and 2009, respectively. For the years ended December 31, 2010 and 2009, the Authority had a negative investment pool balance of $88.6 million and $72.7 million, respectively, as funds were used for working capital purposes to offset the shortfall in Tax subsidy revenues. The $88.6 million and $72.7 million have been included in the Due from MTA and constituent authorities category in the consolidated balance sheets.

5. CAPITAL ASSETS

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

	December 2009	Additions (In thousands)	December 2010
Subway cars	$ 8,576,083	$ 443,180	$ 9,019,263
Buses	2,458,509	104,083	2,562,592
Track and structures	9,581,272	349,325	9,930,597
Depots and yards	3,901,227	325,968	4,227,195
Stations	8,377,425	522,670	8,900,095
Signals	3,869,642	50,892	3,920,534
Service vehicles	271,080	11,629	282,709
Building	169,584	-	169,584
Other	3,204,243	83,758	3,288,001
Under construction*	3,508,701	1,154,947	4,663,648
	43,917,766	3,046,452	46,964,218
Less accumulated depreciation	(13,285,460)	(1,264,163)	(14,549,623)
	$ 30,632,306	$ 1,782,289	$ 32,414,595

* Assets under construction are non-depreciable.

Capitalized interest totaled $42.4 million and $45.6 million 2010 and 2009, respectively.

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 2010 and 2009 was approximately $566,000 each year.

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 $1.3 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, 2010, for the Authority, TBTA and MTA (including MTA Bus and MTA Connections) were 78.7%, 11.1% and 10.2%, respectively. The Authority’s sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to $7.8 million and $8.1 million in 2010 and 2009, respectively.

Assuming the occupancy percentage at December 31, 2010, will continue, the future minimum lease payments under the Authority's sublease are as follows:

Years Ending December 31:	**Operating**	**Capital**
	(In thousands)	
2011	$ 7,753	$ 10,425
2012	7,753	10,425
2013	7,753	10,425
2014	7,753	12,187
2015	7,753	12,187
2016-2020	38,763	64,738
2021-2025	38,763	74,553
2026-2030	38,763	89,262
2031-2035	38,763	109,703
2036-2040	38,763	126,313
2041-2045	38,763	139,667
2046-2048	19,381	74,026
Total minimum lease payments	$ 290,720	733,911
Less imputed interest		(584,457)
Present value of net minimum lease payments		$ 149,454

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, 2010 and 2009, is as follows:

	2010	**2009**
	(In thousands)	
Capital lease — building	$ 114,489	$ 114,489
Less accumulated amortization	(28,534)	(26,122)
Capital lease — building — net	$ 85,955	$ 88,367

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 8).

The amount of such improvements apportioned to the Authority as of December 31, 2010 and 2009, are as follows:

	2010	2009
	(In thousands)	
Base building improvements	$ 134,394	$ 132,883
Tenant improvements	130,792	130,792
Furniture and fixtures	11,434	11,434
Computers and equipment	10,781	10,781
Development fees	6,893	6,893
Capitalized interest	13,702	13,702
	307,996	306,485
Less accumulated depreciation	(183,577)	(167,287)
Total leasehold improvements	$ 124,419	$ 139,198

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 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 19.5% of annual covered payroll. The Authority's required contributions for NYCERS's fiscal years ending June 30, 2011, 2010, and 2009 were $563.8, $532.8 and $515.0 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.

- 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:

Retirees at Least Age	Retired or Receiving Benefits for at Least
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.

In September 2006 and June 2007, pursuant to legislation (Chapter 734 of the Laws of 2006 and Chapter 379 of the Laws of 2007), current and former members of the ATU 726/1056 and the TWU Local 100, respectively, who had an accumulated balance of additional member contributions (AMC) made in accordance with the NYC Transit 55/25 Plan enacted in 1994, were allowed to apply for a refund of such contributions. Beginning in the first quarter of 2008, current and former members of the TSO Local 106 were also allowed to receive a refund of their additional member contributions. Refunds of employee contributions from the Transit 55/25 Plan amounted to approximately $120.0 million through December 31, 2010.

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, 2010 and 2009, are as follows:

Valuation Dates	**June 30, 2008 (Lag)[1]**	**June 30, 2007 (Lag)[1]**
Actuarial cost method	Frozen initial liability[2]	Frozen initial liability[2]
Amortization method for Unfunded Actuarial Accrued Liabilities (UAAL)	None	None
Remaining amortization period	None	None
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 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.
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, 2008 valuation data used for fiscal year June 30, 2010 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. The financial results using this Frozen Initial Liability Actuarial Cost Method differ minimally from those that would be produced using the Aggregate Actuarial Cost Method.

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

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, 2010, 2009, and 2008, were $200.6 million, $204.3 million, and $201.9 million, respectively, equal to the annual required contributions for each year. During 2006, the Authority 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. The amortized value of this deferred pension asset was $41.2 million at December 31, 2010.

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 (Tiers 1 and 2). Certain employees entering qualifying service on or after July 27, 1976, are required to contribute 3% of their salary (Tiers 3 and 4). See 2000 Plan amendments.

The MaBSTOA Pension Plan includes the Tier 3 and 4 62/5 Plan, Transit 55/25 Plan, the 25 Year Early Retirement Plan, the Age 57/5 Plan, and the 2000 amendments under the same terms and conditions as NYCERS.

The MaBSTOA Plan also adopted the legislative provisions of Chapter 379 regarding the refunding of additional member contributions for certain TWU Local 100 and TSO Local 106 employees. Refunds of employee contributions from Plan assets amounted to approximately $1.0 million, $1.1 million, and $6.4 million in 2010, 2009, and 2008, respectively.

In a recent development, NYCERS had determined that the Tier 4 segment of operating employees are and have been eligible for a post retirement death benefit retroactive to 1986. This issue is currently being reviewed by MTA and Transit Authority counsel.

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

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, 2010 and 2009 were as follows:

	2010	2009
	(In thousands)	
Annual required contribution	$ 200,633	$ 204,274
Interest on net pension asset	(3,432)	(3,566)
Adjustment to annual required contribution	5,150	5,230
Annual pension cost	202,351	205,938
Contributions made	(200,633)	(204,274)
Decrease in net pension asset	1,718	1,664
Net pension asset — beginning of year	(42,906)	(44,570)
Net pension asset — end of year	$ (41,188)	$ (42,906)

The Authority's annual pension cost, the percentage of annual pension cost contributed, and the net pension asset for the current year and each of the two preceding years:

Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
	(In thousands)		
12/31/2010	$ 202,351	99.2 %	$ (41,188)
12/31/2009	205,938	99.2	(42,906)
12/31/2008	203,352	99.3	(44,570)

The Authority's funding progress information as of December 31, 2010, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Initial Entry Age	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	(UAAL) As a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
			(In millions)			
1/1/10	$ 1,396.9	$ 2,133.9	$ 737.0	65.50 %	$ 591.1	124.7 %

The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits

.Actuarial Assumptions — The January 1, 2010 valuation reflects the actuarial assumptions adopted by the Authority based on the 2001–2005 Experience Study effective with the January 1, 2007 valuation. These changes increased the life expectancy for members included in the valuation, incorporated future anticipated mortality improvements, decreased rates of turnover and modified rates of retirement, so fewer retirements are expected for members with less than 20 years of service and more retirements are expected for members with at least 20 years of service. These changes increased the unfunded accrued liability by $135.5 million, which is being amortized over 10 years, and increased the total employer contribution by $24.4 million per year.

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the MaBSTOA Plan for the years ended December 31, 2010 and 2009, are as follows:

Valuation Dates	**January 1, 2010**	**January 1, 2009**
Actuarial cost method	Frozen initial liability[1]	Frozen initial liability[1]
Amortization method for UAAL	30-year level dollar	30-year level dollar
Period closed or open	Closed	Closed
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 valu
Interest rate	8.00% per annum[2], prior to expenses	8.00% per annum[2], prior to expenses
Provision for expenses	0.80% of market value of assets for investment expenses plus two-year average of administrative charges	0.80% of market value of assets for investment expenses 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
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 t 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.

7. OTHER POSTEMPLOYMENT BENEFITS

The Authority has implemented GASB Statement No. 45, *Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions* (GASB 45). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits (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.

Postemployment benefits are part of an exchange of salaries and benefits for employee services rendered. Most OPEB have been funded on a pay-as-you-go basis and have been reported in financial statements when the promised benefits are paid. GASB 45 requires state and local government's financial reports to reflect systematic, accrual-basis measurement and recognition of OPEB cost (expense) over a period that approximates employees' years of service and provides information about actuarial accrued liabilities associated with the OPEB and whether and to what extent progress is being made in funding the plan.

The Authority elected not to record the entire amount of the Unfunded Actuarial Accrued Liability (UAAL) in the year ended December 31, 2010, and to record the net annual OPEB obligation. The Authority also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The UAAL relating to post-employment benefits decreased from $10.5 billion at the end of 2007 to $10.1 billion at the end of 2008 and remained the same for 2009 and 2010. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.2% less the amortization amount included in the Annual Required Contribution for the prior year plus or minus assumption changes and plan changes.

Plan Description — The benefits provided by the Authority include medical, pharmacy, dental, vision and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursement and welfare fund contributions.

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. At December 31, 2010 and 2009, there were 30,065 and 29,734 retired employees, respectively.

GASB 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2009 and was performed with a valuation date of January 1, 2008.

Annual OPEB Cost and Net OPEB Obligation — The Authority's annual OPEB cost (expense) represents the accrued cost for postemployment benefits under GASB 45. The cumulative difference between the annual OPEB cost and the benefits paid during a year will result in a net OPEB obligation, included on the consolidated balance sheets. The annual OPEB cost is equal to the annual required contribution (ARC) less adjustments if a net OPEB obligation exists and plus the interest on net OPEB obligations. The ARC is equal to the normal cost plus an amortization of the unfunded frozen actuarial accrued liability.

For determining the ARC, the Authority has chosen to use the Frozen Initial Liability (FIL Cost Method) cost method, one of the cost methods in accordance with the parameters of GASB 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2010 is 19 years.

In order to recognize the liability over an employee's career, an actuarial cost method divides the present value into three pieces: the part that is attributed to past years (the "Accrued Liability" or "Past Service Liability"), the part that is being earned this year (the "Normal Cost"), and the part that will be earned in future years (the "Future Service Liability"). Under the FIL Cost Method, an initial past service liability is determined based on the Entry Age Normal (EAN) Cost Method and is amortized separately. This method determines the past service liability for each individual based on a level percent of pay. The Future Service Liability is allocated based on the present value of future compensation for all members combined to determine the Normal Cost. In future years, actuarial gains/losses will be incorporated into the Future Service Liability and amortized through the Normal Cost.

Actuarial Methods and Assumptions — The FIL Cost Method is used for determining the Normal Cost. The EAN Cost Method is used to determine the initial Frozen Accrued Liability as well as any subsequent changes in Accrued Liability due to changes in the plan and/or actuarial assumptions. The initial Frozen Unfunded Accrued Liability was determined as of January 1, 2006 to be used in the financials for the 2007 fiscal year. EAN will also be used to determine the unfunded actuarial accrued liability in the GASB 45 supplementary schedules. The EAN method determines the Accrued liability for each individual based on a level percent of pay for service accrued through the valuation date.

The Frozen Unfunded Accrued Liability is determined each year as the Frozen Unfunded Accrued Liability for the prior year, increased with interest, reduced by the end-of-year amortization payment and increased or decreased by any new bases established for the current year.

The difference between the Actuarial Present Value of Benefits and the Frozen Unfunded Accrued Liability equals the Present Value of Future Normal Cost. The Normal Cost equals the Present Value of Future Normal Cost divided by the present value of future compensation and multiplied by the total of current compensation for members less than certain retirement age.

The Annual Required Contribution (ARC) is equal to the sum of the Normal Cost and the amortization for the Frozen Unfunded Accrued Liability with appropriate interest adjustments. Any difference between the ARC and actual plan contributions from the prior year are considered an actuarial gain/loss and thus, are included in the development of the Normal Cost. This methodology differs from the approach used for the pension plan where the difference between the ARC and actual plan contributions from the prior year, if any, will increase or decrease the Frozen Unfunded Accrued Liability and will be reflected in future amortization payments. A different approach was applied to the OPEB benefits because these benefits are not actuarially funded.

The OPEB-specific actuarial assumptions used in the twelve months ended December 31, 2010, OPEB actuarial valuations are as follows:

Valuation date	January 1, 2008
Actuarial cost method	Frozen Initial Liability
Discount rate	4.2%
Price inflation	2.5% per annum, compounded annually
Per-Capita retiree contributions	*
Amortization method	Frozen Initial Liability
Amortization period	19 years
Period closed or open	Closed

* In general, all coverages are paid for by the MTA and the Transit Authority.

Actuarial valuation involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Per Capita Claim Costs — For members of NYSHIP and members who retired prior to NYSHIP availability, unadjusted premiums were used.

For some of the self-insured benefits provided to Pre-NYSHIP members and TWU Local 100, ATU 1056 and ATU 726 represented employees, per capita claim costs adjusted by age were used. A sample of these claim costs are shown below:

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Group 1 Pharmacy	Pre-NYSHIP Group 2 Hospital
Male Employees					
30–34	168.4	45.6	103.6	56.6	84.5
35–39	200.7	65.0	129.0	80.6	105.2
40–44	253.3	82.9	171.4	102.8	139.7
45–49	326.8	110.8	233.1	137.5	190.0
50–54	407.4	133.4	306.5	165.4	249.8
55–59	464.0	139.2	362.9	172.7	295.8
60–64	601.7	164.3	486.9	203.8	396.9
Female Employees					
30–34	330.7	76.7	227.2	95.2	185.2
35–39	327.2	91.0	218.3	112.9	178.0
40–44	332.2	111.9	211.9	138.8	172.7
45–49	374.6	140.9	237.5	174.8	193.6
50–54	420.7	166.0	274.7	205.9	223.9
55–59	448.6	181.1	304.7	224.6	248.4
60–64	549.9	199.5	398.0	247.5	324.5

Medicare Part B Premiums — The Medicare Part B premium reimbursement was included in the 2008 premium for those members covered by NYSHIP. Medicare Part B reimbursements were assumed to have an annual trend of 6%. These trends were combined with the adjusted Getzen model trend to determine a single weighted trend assumption. The weighting was based on an estimated liability basis.

For those retirees participating in NYSHIP, the trend assumption used for 2009 and 2010 was 0% and 4.3%, respectively. This was based on the fact that the 2009 NYSHIP premium was lower than 2008 and rose modestly in 2010. It also reflected actual premium increases for dental and vision benefits and Medicare Part B reimbursements.

The trend assumption utilized in this valuation has changed from the assumption used in the previous valuation and lowered actuarial liabilities 5% to 10% for each agency. Further reflection of actual NYSHIP premiums for 2009 and 2010 further lowered the actuarial liabilities.

Health Care Cost Trend Rates —

Fiscal Year	Trend	Fiscal Year	Trend
2008	5.0 %	2022	5.7 %
2009	6.2	2027	5.7
2010	6.9	2032	5.6
2011	6.4	2037	5.2
2012	6.0	2042	5.1
2017	5.9	2047	5.0

In addition, 2008 premiums and claim costs were trended 5% to 2009.

Participation — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, various coverage election rates are used. The following table displays the election rates used for future union retirees:

	TWU 100	ATU 1056	ATU 726
Future Retiree Plan Election Percentages			
GHI	65 %	65 %	50 %
HIP	35	35	38
Aetna	-	-	12
Medicare HIP/Aetna HMO Elections			
VIP 1	80 %	100 %	75 %
VIP 2	20	-	-
Aetna	-	-	25

Dependent Coverage — Current retirees are valued using coverage reported by the MTA. Based on an analysis of members who retired within the last 5 years, we have assumed that, for future retirees, 85% of male members and 55% of female members elect family coverage with a spouse.

Demographic Assumptions:

Mortality — Preretirement and postretirement healthy annuitant rates are projected on a generational basis using Scale AA, as recommended by the Society of Actuaries Retirement Plans Experience Committee.

Preretirement — RP-2000 Employee Mortality Table for Males and Females with blue collar adjustments. No blue collar adjustments were used for management members of the Authority.

Postretirement Healthy Lives — RP-2000 Healthy Annuitant mortality table for males with Blue Collar adjustments and 133% of the rates from the RP-2000 Healthy Annuitant mortality table for females. No blue collar adjustments were used for management members of the Authority.

Postretirement Disabled Lives — 75% of the rates from the RP-2000 Disabled Annuitant mortality table for males and females. At age 85 and later for males and age 77 and later for females, the disability rates are set to the male and female healthy rates, respectively.

Turnover and Retirement Rates — All demographic assumptions were based on assumptions utilized in the 2008 actuarial valuations for the pension plans, with the exception of the mortality assumption. The following is a table displaying the various sources of the assumptions utilized.

Group	Pension Plan
Transit — OA	MaBSTOA
Transit — TA	NYCERS — TA

Vestee Coverage — For members that participate in NYSHIP, Vestees (members who have terminated, but not yet eligible to retire) are eligible for NYSHIP benefits provided by the Authority upon retirement, but must maintain NYSHIP coverage at their own expense from termination to retirement. Vestees are assumed to retire at first eligibility and would continue to maintain NYSHIP coverage based on the following percentages. This assumption is based on the Development of Recommended Actuarial Assumptions for New York State/SUNY GASB 45 Valuation report provided to Participating Employers of NYSHIP. These percentages were also applied to current vestees.

Age at Termination	Percent Electing
< 40	0 %
40-43	5
44	20
45-46	30
47-48	40
49	50
50-51	80
52+	100

The following table shows the elements of the Authority's annual OPEB cost, the amount contributed, and changes in the Authority's net OPEB for the years ending December 31, 2010 and 2009:

	2010	2009
	(In thousands)	
Annual required contribution	$ 1,340,200	$ 1,222,215
Interest on net OPEB obligation	119,536	84,748
Adjustment to annual required contribution	(312,936)	(221,832)
Annual OPEB cost/expense	1,146,800	1,085,131
Contributions made	(265,361)	(256,840)
Increase in net OPEB obligation	881,439	828,291
Net OPEB obligation — beginning of year	2,846,092	2,017,801
Net OPEB obligation — end of year	$ 3,727,531	$ 2,846,092

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed, and the net OPEB obligation for the years ending December 31, 2010 and 2009, were as follows:

Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
	(In thousands)		
12/31/2010	$ 1,146,800	23.2 %	$ 3,727,531
12/31/2009	1,085,131	23.7	2,846,092
12/31/2008	1,261,000	18.6	2,017,801

The Authority's funding progress information as of December 31, 2010, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Initial Entry Age	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	(UAAL) As a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
			(In millions)			
1/1/08	$ -	$ 10,109.9	$ 10,109.9	- %	$ 2,953.5	342.3 %

The schedule of funding progress, presented as RSI following the notes to the consolidated financial statements, present multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits. The AAL, UAAL, and covered payroll remains the same year over year as a new valuation will be prepared as of January 1, 2010.

8. 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.

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, which were substantially defeased with the issuance of the Series 2004A variable rate Certificates of Participation totaling $357.9 million in September 2004. 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. The 1999A, 2000A, and 2004A 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 Authority's payable to the MTA for its portion of the Certificates of Participation is $226.1 million as of December 31, 2010. Transit's share of future debt service payments to the MTA for the Certificates of Participation totals approximately $365.7 million at year-end 2010.

Interest paid on the Certificates of Participation amounted to $14.5 million and $21.3 million in 2010 and 2009, respectively.

9. RELATED PARTY TRANSACTIONS

The Authority receives support services from the MTA in the areas of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, most of which are charged back to the Authority through intercompany billings. The MTA also provides funding for the Authority's capital program via MTA debt issuance, federal capital grant pass-throughs, and proceeds from the sale of tax benefits on leasing transactions. The Authority recognizes funds contributed to Transit capital programs as contributed capital in the consolidated statements of revenues, expenses, and changes in net assets. State and City tax –supported subsidies received by the Authority from the MTA to support operations are recorded as nonoperating revenues. The MTA also provides short-term loans, as required, to supplement the Authority's working capital needs.

The Authority has intercompany transactions with MNR, LIRR, MTA Bus, TBTA, and SIRTOA related to farecard settlements, service agreements, shared operating contracts, inter-agency loan transactions, and other operating receivables and payables.

The resulting receivables and payables from the above transactions are recorded in Due from MTA and constituent authorities included in the accompanying consolidated balance sheets.

Due from MTA and constituent authorities consist of the following at December 31, 2010 and 2009:

	2010		2009	
	Receivable	(Payable)	Receivable	(Payable)
	(In Thousands)			
MTA	$ 335,743	$ (148,690)	$ 365,379	$ (147,984)
Constituent authorities	139,461	(5,202)	120,543	(3,730)
Total MTA and constituent authorities	$ 475,204	$ (153,892)	$ 485,922	$ (151,713)

10. ADVERTISING AND OTHER INCOME

Advertising and other income for the years ended December 31, 2010 and 2009, consist of:

	2010	2009
	(In thousands)	
Advertising revenue	$ 86,065	$ 88,988
Transit Adjudication Bureau collections	8,687	10,101
Station income	8,121	8,490
Rental income	3,356	3,979
Fare media transaction fees	4,333	4,259
All other	722	1,553
	$ 111,284	$ 117,370

11. OTHER EXPENSES

Other expenses for the years ended December 31, 2010 and 2009, consist of:

	2010	2009
	(In thousands)	
Credit and debit card fees for fare media sales	$ 30,680	$ 25,931
Fare media sales commissions	12,788	12,206
NYS tax MCTMT expense	11,322	9,396
Training courses and programs	4,039	4,312
Allowance for uncollectible accounts	(1,363)	819
Business travel, meetings, and conventions	610	336
Dues and subscriptions	614	733
Other miscellaneous expenses	1,814	239
	$ 60,502	$ 53,972

12. MAINTENANCE AND OTHER OPERATING EXPENSES

Maintenance and other operating expenses for the years ended December 31, 2010 and 2009, consist of:

	2010	2009
	(In thousands)	
Operating maintenance and repair services	$ 27,484	$ 27,656
Facility maintenance and repairs	13,235	14,280
2 Broadway operating expenses	16,887	14,234
Security services	9,186	9,816
Refuse and recycling	8,735	9,282
Telephone services	8,363	8,315
Tire and tube rentals	7,993	8,673
Janitorial and custodial services	5,509	6,194
Water and sewage	7,667	6,994
Data communications	5,109	3,739
Specialized equipment	1,310	4,916
Painting contracts	39	5,700
Bridge, tunnel and highway tolls	3,178	3,406
Other miscellaneous expenses	(416)	(639)
	$ 114,279	$ 122,566

13. FUEL HEDGE

An energy hedging strategy was employed to lock in fuel prices for the 15 month period beginning October 1, 2008 through December 31, 2009. MTA set aside $150 million in 2008 which was used to lock in pricing for more than one-half of its fuel budget for the 15 month contract period.

The strategy employed is a financial hedge, which consists of a fixed-rate lock on forward delivery of NYMEX No.2 heating oil. This commodity remains highly correlated to the fuel type being used by MTA, ultra low sulfur diesel, (“ULSD”). MTA executed four separate hedges with Merrill Lynch

Capital Services, Inc. for a total of 49,770,000 gallons of ULSD at an average fixed price of $2.9941/gallon. Each of the four contracts expired on December 31, 2009 and provided for 15 monthly settlements. Settlements were based on the daily price of NYMEX heating oil whereby MTA either received a payment, or made a payment to Merrill Lynch Capital Services, Inc. depending on the average monthly price of the commodity in relation to the average contract price of $2.99/gallon. The Authority recognized a fuel hedge cost of $43.1 million and $4.9 million in 2009 and 2008, respectively, as fuel prices decreased below the average contract price of $2.99 per gallon.

The contract was renewed on December 22, 2009 for 35,607,600 gallons of ULSD at a fixed price of $2.05/gallon for 2010. MTA set-aside $73 million in 2009 which was used to lock in pricing for approximately one-half of its fuel budget for 2010. In addition, the Adopted Budget assumes that in 2010, the MTA will set-aside $82 million to lock in one-half of its expected 2011 fuel requirements. As of December 31, 2010, the contract was settled for a net amount of $1.3 million in MTA's favor. The Authority recognized a negligible net fuel hedge gain of $20,974.

14. 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. For claims arising from incidents that occurred on or after November 1, 2001, but before November 1, 2006, the self-insured retention limit was $7 million per occurrence. Claims arising on or after November 1, 2006, but before November 1, 2009 were subject to an $8 million limit. Effective November 1, 2009, the retention limit was increased to $9 million per occurrence. 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, 2010 and 2009, is as follows:

	2010	2009
	(In thousands)	
Balance at beginning of year	$ 1,025,356	$ 917,681
Activity during the year:		
Current year claims and changes in estimates	273,251	237,514
Claims paid	(156,275)	(129,839)
Balance at end of year	1,142,332	1,025,356
Less current portion	(161,664)	(145,110)
Long-term liability	$ 980,668	$ 880,246

First Mutual Transportation Assurance Company — (“FMTAC”), an insurance captive subsidiary of MTA, operates a liability insurance program (“ELF”) that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: $8 million for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; $2.3 million for MTA Long Island Bus and MTA Staten Island Railway; and $1.6 million for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2009, the self-insured retention limits for ELF were increased to the following amounts: $9 M for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; $2.6 million for MTA Long Island Bus and MTA Staten Island Railway; and $1.9 M for MTAHQ and MTA Bridges and Tunnels. 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. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of $50 million per occurrence with a $50 million annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. On December 31, 2010, the balance of the assets in this program was $74.1 million.

MTA also maintains an All-Agency Excess Liability Insurance Policy that affords the MTA Group additional coverage limits of $350 million for a total limit of $400 million ($350 million excess of $50 million). In certain circumstances, when the assets in the program described in the preceding paragraph are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume the coverage position of $50 million.

Property Insurance — Effective May 1, 2010, FMTAC renewed the all-agency property insurance program. For the period May 1, 2010 to May 1, 2011 at 12:00 AM, FMTAC directly insures property damage claims of the other MTA Group 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 reduced to $1.075 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, London, European and Bermuda marketplaces for this coverage.

The property insurance 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 terrorism, FMTAC is reinsured by the United States Government for 85% of “certified” losses, as covered by the Terrorism Risk Insurance Act (“TRIA”) of 2007 (originally introduced in 2002). Under the 2007 extension, terrorism acts sponsored by both foreign and domestic organizations are covered. Until 2007, the Act only provided coverage for acts sponsored by foreign organizations. The remaining 15% of MTA Group losses would be covered under an additional policy described below. Additionally, no federal compensation will be paid unless the aggregate industry insured losses exceed $100 million (“trigger”).

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program, the MTA obtained an additional commercial reinsurance policy with Lexington Insurance Co. Lexington Insurance Company is part of Chartis, Inc. That policy provides coverage for (1) 15% of any "certified" act of terrorism — up to a maximum recovery of $161.25 million for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15%"certified" acts of terrorism insurance or (3) 100% of any "certified" terrorism loss which exceeds $5 million and less than the $100 million TRIPRA trigger — up to a maximum recovery of $100 million for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2011. 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 Group's retention in any one year exceed $75 million future losses in that policy year are subject to retention of just $7.5 million.

During 2010, FMTAC reimbursed the Authority $1.6 million for a passenger struck by a train in 1992 and a bicyclist struck by a bus in 2003. At December 31, 2010, the Authority had two outstanding claims covered by FMTAC for approximately $12.3 million, which were related to a pedestrian struck by a bus in 2005, and a track worker injured in 2006. At December 31, 2010, FMTAC had $592.6 million of assets to insure current and future claims.

15. CONTINGENCIES

The Authority is involved in various litigations 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.

In accordance with GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, in 2009, the Authority recognized a $1.5 million decrease in the remediation liability as encumbrances for new remediation work were less than amounts expended on existing projects. In 2010, the Authority recognized $10.7 million in pollution remediation expenses. The expense provision was measured at its current value utilizing the prescribed expected cash flow method (see Note 2). Pollution remediation obligations are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations.

At December 31, 2010, the Authority's pollution remediation liability totaled $35.5 million on the consolidated balance sheets, primarily consisting of future remediation activities associated with asbestos removal, lead abatement, ground water contamination, and soil remediation.

16. SUBSEQUENT EVENTS

MTA continues to employ a financial hedging strategy with respect to its fuel cost exposure. On March 2, 2011, as a result of a competitive bidding process, MTA executed two separate hedges with Deutsche Bank AG: 6,329,112 gallons of ultra-low sulfur diesel (ULSD) at a fixed price of $3.16/gallon and 2,829,180 MMBtus of natural gas at a fixed price of $4.2415/MMBtu. Both hedges provide for 12 monthly settlements with the ULSD hedge beginning on March 1, 2011 and terminating on February 29, 2012, and the natural gas hedge beginning on April 1, 2011 and terminating on March 31, 2012. The settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to Deutsche Bank AG depending on the floating price of the commodities in relation to the contract prices.

On March 8, 2011, as a result of a competitive bidding process, MTA executed another ULSD hedge with Deutsche Bank AG for 6,417,456 gallons of ultra-low sulfur diesel at a fixed price of

$3.1165/gallon. This hedge provides for 12 monthly settlements beginning on April 1, 2011 and terminating on March 31, 2012. The settlements mechanics are as described in the paragraph above.

The following items were not included in the February Plan:

Reductions in State subsidies – On February 1, the State released its Executive Budget. Among the many budget-balancing actions included in that document was a reduction of approximately $200 million in aid to the MTA. However, the State will redirect $100 million from economic development programs to the MTA Capital Program which will allow the MTA to forgo its $100 million in planned Pay-As-You-Go funding from the operating budget. Therefore, the net impact from these two actions was a $100 million reduction in funding for the MTA operating budget.

Lower revenue and higher expenses resulting from January inclement weather – Thirty-six inches of snow fell in Central Park in January, which is four and one-half times the average January snowfall of eight inches. Included within these snowfall totals were three major snow storms that had significant impacts on service and revenues. As a result, January revenues were lower by 3.6% at NYCT, 4.5% at the LIRR and 1.1% at MNR. Toll revenues at B&T were 2.4% lower, reflecting the impact on traffic volume. Higher expenses related to snow removal and maintenance of tracks and facilities were also experienced and, in some cases, additional shop work to repair damage to the fleet is continuing. In total, January weather had a combined unfavorable impact on MTA revenues and expenses of over $30 million.

Impact on expenses from increased energy prices – Rising fuel costs will have an impact on the MTA's expenses. In January, fuel expenses were $2 million unfavorable, and prices have remained high.

Favorable combined real estate taxes – On a favorable note, combined real estate tax receipts for YTD February were $26.7 million or 33.2% favorable. Sixty percent of the favorable YTD variance is the result of the $1.8 billion purchase of 111 Eighth Avenue by Google, which netted MTA $15.9 million in Real Property Transfer Tax. Excluding the Google purchase, YTD real estate tax receipts would have been $10.8 million or 13.4% favorable.

While these subsequent developments will have an adverse impact on MTA finances, the MTA has already taken actions that will mitigate most of that impact. It has already developed a new expense reduction program of close to $100 million for 2011 that will be included in the July Financial Plan. It also continues to identify strategic areas suitable for cost reduction through consolidations, strategic sourcing, health care, worker's compensation and the non-revenue vehicle fleet, and has retained several consulting firms to support some of these efforts. The MTA is confident that with this systematic approach to identifying areas for cost reduction, additional savings beyond those included in the 2011 Budget can be achieved.

On March 23, 2011, the MTA issued $127.450 Dedicated Tax fund Refunding Bonds., Series 2011A. Proceeds of the issuance will be used to refund certain outstanding Dedicated Tax Fund Bonds.

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REQUIRED SUPPLEMENTARY INFORMATION

NEW YORK CITY TRANSIT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE MABSTOA PENSION PLAN (UNAUDITED)
DECEMBER 31, 2010 AND 2009
(In millions)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Initial Entry Age	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	(UAAL) As a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
1/1/10	$ 1,396.9	$ 2,133.9	$ 737.0	65.50 %	$ 591.1	124.7 %
1/1/09	1,190.0	1,977.4	787.4	60.20	569.4	138.3
1/1/08	1,190.8	2,045.0	854.1	58.23	562.2	151.9

NEW YORK CITY TRANSIT AUTHORITY

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR THE NEW YORK CITY TRANSIT POSTEMPLOYMENT BENEFIT PLAN (UNAUDITED)
DECEMBER 31, 2010 AND 2009
(In millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Initial Entry Age	Unfunded (AAL) (UAAL)	Funded Ratio	Covered Payroll	(UAAL) As a Percentage of Covered Payroll
		(a)	(b)	(b-a)	((a/b)	(c)	((b-a)/c)
12/31/10	1/1/08	$ -	$ 10,109.9	$ 10,109.9	- %	$ 2,953.5	342.3 %
12/31/09	1/1/08	-	10,109.9	10,109.9	-	2,953.5	342.3
12/31/08	1/1/06	-	10,118.8	10,118.8	-	3,213.0	314.9