

# **New York City Transit Authority**

**Consolidated Financial Statements  
Management's Discussion and Analysis  
December 31, 2004 and 2003**

# New York City Transit Authority

## Index

December 31, 2004 and 2003

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**Report of Independent Auditors**

Members of the Board  
Metropolitan Transportation Authority

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of revenues, expenses and changes in net assets, and of cash flows present fairly, in all material respects, the financial position of the New York City Transit Authority (the Authority) at December 31, 2004 and 2003, and changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Authority's management; our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of the statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

The Management's Discussion and Analysis for the years ended December 31, 2004 and 2003 on pages 2 through 12 and the required supplementary information on page 48 are not required parts of the basic financial statements but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



March 18, 2005

**NEW YORK CITY TRANSIT AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)  
For the Years Ended December 31, 2004 and 2003**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

**Introduction to the Annual Report**

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

***The Financial Statements Include:***

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

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

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

***The Notes to the Financial Statements and Supplementary Information 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.

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

***Management's Discussion and Analysis:***

The following is a narrative overview and analysis of the financial activities of the Authority for the years ended December 31, 2004 and 2003. This management's discussion and analysis (MD&A) is intended to serve as an introduction to the Authority's basic financial statements. It provides an assessment of how the Authority's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the financial statements described above.

## Financial Reporting Entity

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

## CONDENSED FINANCIAL INFORMATION

**All amounts are in millions, except as noted.**

The following sections will discuss the significant changes in the Authority's financial position for the years ended December 31, 2004 and 2003. 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 are in conformity with the Authority's financial statements, which are presented in accordance with Generally Accepted Accounting Principles.

### *2004 Reporting Format-Reclassification of 2003 and 2002*

The format for the reporting of financial data in 2004 was revised to better conform to the MTA All-Agency standardized format. The formats for 2003 and 2002 have been reclassified to be consistent with the revised 2004 format.

### *Debt Restructuring-2002*

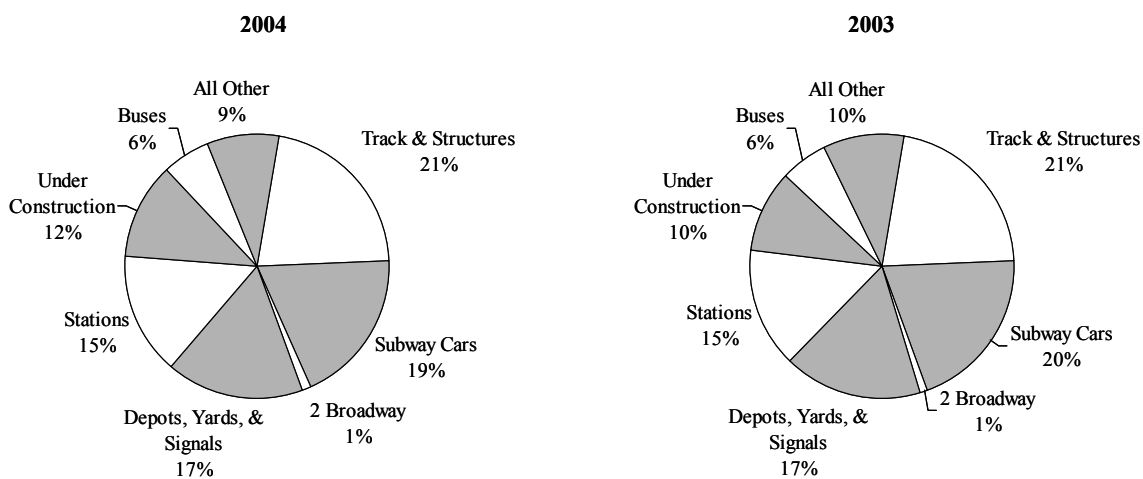
Substantially all of the outstanding debt of MTA, Triborough Bridge and Tunnel Authority (TBTA) and the Authority was restructured during 2002 by consolidating most existing credits into four principal new credits: (1) MTA Transportation Revenue Bonds; (2) MTA State Service Contract Bonds; (3) MTA Dedicated Tax Fund Bonds and (4) TBTA General Revenue and Subordinate Revenue Bonds. In connection with the debt restructuring, the following MTA and Authority bonds and notes that were secured by the Authority's operating revenues were paid or defeased with the proceeds of MTA's Transportation Revenue Bonds: MTA Transit Facilities Revenue Bonds and Bond Anticipation Notes and Transit Authority Subordinated Transit Facilities Revenue Bonds (Livingston Plaza Project).

### *Total Assets, Distinguishing Between Capital and Other Assets*

	2004	2003	2002	Increase/(Decrease)	
				2004-2003	2003-2002
Gross capital assets	\$ 30,512	\$ 28,321	\$ 25,908	\$ 2,191	\$ 2,413
Allow. for depreciation	(8,129)	(7,245)	(6,449)	(884)	(796)
Net capital assets	22,383	21,076	19,459	1,307	1,617
Other assets	1,733	1,585	1,634	148	(49)
<b>Total assets</b>	<b>\$ 24,116</b>	<b>\$ 22,661</b>	<b>\$ 21,093</b>	<b>\$ 1,455</b>	<b>\$ 1,568</b>

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

### Gross Capital Assets



The Authority's Gross Capital Assets totaled over \$30 billion at year-end 2004. Of the total, depots/yards/signals and stations were 32%, subway cars and buses accounted for 25%, and track/structures were 21%. The majority of assets under construction consist of subway cars, signal systems, track and structures, and station improvements.

Significant changes in assets include:

#### December 31, 2004 versus 2003

Net Capital Assets increased from December 31, 2003 to December 31, 2004 by \$1,307, or 6.2%. The net increase is due primarily to capital asset additions of \$2,191. Significant additions included assets under construction (\$642), track & structures (\$521), and station rehabilitations (\$464). The additions are partly offset by annual depreciation of \$892.

Other Assets increased by \$148, or 9.3%, as compared with the prior year. This increase involved additional funds held in the MTA investment pool of \$251, due to the timing of receipts and expenditures. Partly offsetting this increase was the net reduction in receivables from the MTA of \$106.

#### December 31, 2003 versus 2002

Net Capital Assets increased from December 31, 2002 to December 31, 2003 by \$1,617, or 8.3%. The net increase was due primarily to capital asset additions of \$2,413. Significant additions included track & structures (\$939), new subway cars (\$581) and station rehabilitations (\$497). The additions were partially offset by the disposal of 296 "redbird" subway cars (\$64) and two buses, as well as annual depreciation of \$829. The Authority completed the disposal of "redbird" subway cars through 2003, which resulted in a \$31 loss on disposal in 2003 and a \$58 loss on disposal in 2002.

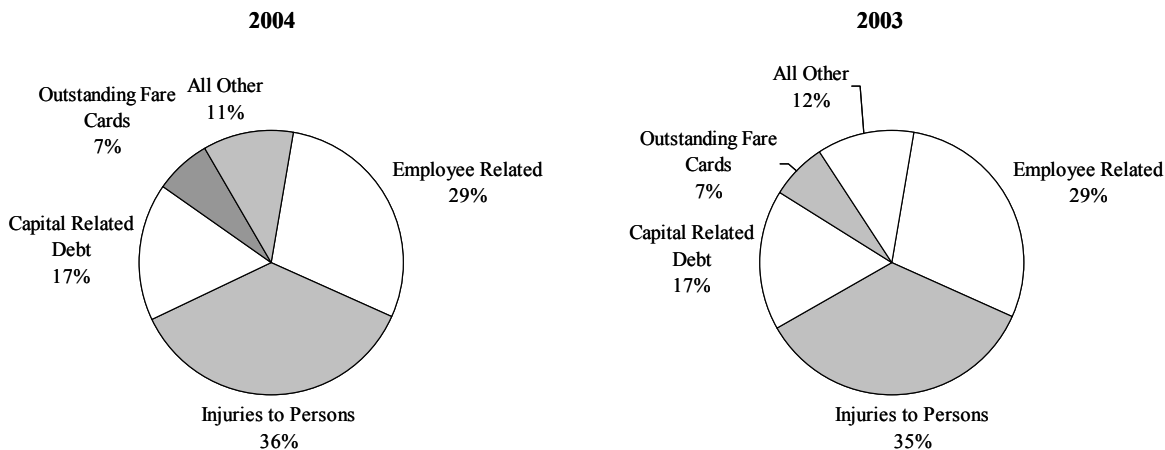
Other Assets decreased by \$49, or 3.0%, as compared with the prior year. This decrease was mostly attributable to a decrease in funds held in the MTA investment pool of \$79, partially offset by an increase in subsidies receivable of \$25, due to the timing of receipts and expenditures.

**CONDENSED FINANCIAL INFORMATION (CONTINUED)**

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

	2004	2003	2002	Increase/(Decrease)	
				2004-2003	2003-2002
Current Liabilities	\$ 1,147	\$ 1,075	\$ 968	\$ 72	\$ 107
Long-Term Liabilities	1,195	1,098	1,088	97	10
<b>Total Liabilities</b>	<b>\$ 2,342</b>	<b>\$ 2,173</b>	<b>\$ 2,056</b>	<b>\$ 169</b>	<b>\$ 117</b>

**Total Liabilities**



At the end of 2004, the Authority's liabilities consisted primarily of Injuries to Persons (public liability and workers' compensation), 36% and employee fringe benefit-related liabilities (for pensions, health and other benefits), 29%.

Significant changes in liabilities include:

December 31, 2004 versus 2003

Total Liabilities increased from December 31, 2003 to December 31, 2004 by \$169, or 7.8%. Current Liabilities increased \$72, or 6.7%, while Long-Term Liabilities increased \$97, or 8.8%.

The increase in Current Liabilities was due primarily to higher accrued liabilities associated with retirement & death benefits (\$54) and vacation & sick leave (\$17), due to higher workforce eligibility mix and wage rate increases. The accrued retirement and death benefits increase was due largely to higher 2004 NYCERS pension funding requirements.

The increase in Long-Term Liabilities was due largely to an increase in liabilities of \$60 associated with injuries to persons. This increase is attributable to changes in actuarial experience based on the claims history. Inter-agency long-term liability to the MTA associated with Certificates of Participation increased \$35.

December 31, 2003 versus 2002

Total Liabilities increased from December 31, 2002 to December 31, 2003 by \$117, or 5.7%. Current Liabilities increased \$107, or 11.1%, while Long-Term Liabilities increased \$10, or 0.9%.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

The increase in Current Liabilities was due primarily to an increase in bank overdrafts payable of \$56, accrued expenses of \$41 and to the increase in unredeemed farecards of \$40, partly offset by a \$16 write-off of token liabilities. The bank overdrafts payable increase was due to the timing of payroll and other expense checks issued at the end of the year but not as yet funded by the bank. Total accrued expenses increased primarily due to the effect of the Authority assuming responsibility, in July, 2003, for providing health benefits to its employees or their beneficiaries who are members of TWU Local 100, as well as to retirees or their beneficiaries who were members of TWU local 100 at the time of retirement. Prior to this assumption of responsibility, the TWU Health Benefit Trust was financed by the Authority.

In addition, accrued retirement and death benefits increased due to higher NYCERS 2004 pension funding requirements. Accrued salaries, wages and payroll taxes decreased due to the timing of year-end payrolls. The unredeemed farecard liability increase was the result of the May, 2003 fare increase.

The increase in Long-Term Liabilities was due largely to an increase in liabilities associated with injuries to persons. This increase is attributable to changes in actuarial experience based on the claims history. Obligations under capital leases decreased \$10 due to settlement with the lessor resulting in rent credits, which will be applied against annual lease payments over the next thirty years.

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

	2004	2003	2002	Increase/(Decrease)	
				2004-2003	2003-2002
Investment in Capital Assets,					
Net of Related Debt	\$ 21,987	\$ 20,718	\$ 19,088	\$ 1,269	\$ 1,630
Restricted	-	-	19	-	(19)
Unrestricted	(213)	(230)	(70)	17	(160)
<b>Total Net Assets</b>	<b>\$ 21,774</b>	<b>\$ 20,488</b>	<b>\$ 19,037</b>	<b>\$ 1,286</b>	<b>\$ 1,451</b>

Net assets represent the residual interest in the Authority's assets after liabilities are deducted and consist of three sections: 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, 2004 versus 2003

Total net assets reached \$21,774 at the end of 2004, a net increase of \$1,286 from the end of 2003. The net increase was comprised of capital contributions from the MTA of \$1,880, net nonoperating income of \$1,902, partially offset by operating losses of \$2,496.

#### December 31, 2003 versus 2002

Total net assets reached \$20,488 at the end of 2003, a net increase of \$1,451 from the end of 2002. The net increase was comprised of capital contributions from the MTA of \$1,945, net nonoperating income of \$1,891, partially offset by operating losses of \$2,385.

The operating losses and nonoperating income results are addressed in the following section.

In 2002, restricted assets consisted of unused bond proceeds, which were restricted and utilized by the MTA for debt service in 2003.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

Unrestricted assets reflect non-capital assets and liabilities. Assets that decreased include current receivables from the MTA and constituent authorities, and prepaid pension expenses. Liabilities that increased include liabilities due to the MTA for repayment of Certificates of Participation, estimated liabilities arising from injuries to persons, and accrued retirement and death benefits.

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

	Year Ended December 31,		
	2004	2003	2002
Operating Revenues	\$ 2,787	\$ 2,602	\$ 2,347
Operating Expenses	(5,283)	(4,987)	(4,665)
Operating Loss	(2,496)	(2,385)	(2,318)
Nonoperating Revenues (Expenses)			
Subsidies-New York State & City	1,644	1,461	1,349
Triborough Bridge & Tunnel Authority	154	243	100
MTA Operating Subsidy	13	-	-
Insurance Recovery Related to World Trade Center Settlement	103	245	-
Interest Expense	(25)	(29)	(87)
Loss on Disposal of Buses and Subway Cars	(1)	(31)	(58)
Other Nonoperating Revenue/Expenses	14	2	12
Total Nonoperating Revenues (Expenses)	1,902	1,891	1,316
Loss before Capital Contributions	(594)	(494)	(1,002)
Capital Contributions	1,880	1,945	7,068
Change in Net Assets	1,286	1,451	6,066
Total Net Assets - Beginning of Year	20,488	19,037	12,971
<b>Total Net Assets - End of Year</b>	<b>\$ 21,774</b>	<b>\$ 20,488</b>	<b>\$ 19,037</b>

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

### Revenue from Fares/Ridership

	2004	2003	2002	Increase/(Decrease)	
				2004-2003	2003-2002
Subway Revenue	\$ 1,795	\$ 1,664	\$ 1,504	\$ 131	\$ 160
Bus Revenue	748	702	634	46	68
Expired Fare Media Revenue	21	25	9	(4)	16
Paratransit Revenue	6	5	4	1	1
Total Revenue from Fares	\$ 2,570	\$ 2,396	\$ 2,151	\$ 174	\$ 245
Total Ridership (millions of riders)	2,171	2,115	2,171	56	(56)
Non-Student Average Fare	\$ 1.24	\$ 1.19	\$ 1.04	\$ 0.05	\$ 0.15

#### 2004 versus 2003

Total revenue from fares was \$2,570 in 2004, an increase of \$174, or 7.3%. Included in this increase is approximately \$130 that was due to the full-year effect of the fare increase effective May, 2003, about \$8 that was due to the extra leap year day in 2004, and approximately \$8 due to the August 2003 blackout and related lost revenue not recurring in 2004. The remaining increase included restoration of full service in 2004 on the Manhattan Bridge and an upturn in the City economy representing increased employment and tourism, which positively impacted ridership. Total ridership from fares was 2,171 trips, 56 trips or 2.6% higher than 2003. This increase was due primarily to the improving City economy and absence of the August 2003 blackout. The non-student average fare increased by 5 cents or 4.2%, primarily due to the full year effect of the 2003 fare increase.

Fare evasion (turnstile/gate evasion) was estimated to be 0.38% in 2004, unchanged from 2003, and slightly above the 2002 level of 0.36%. This is an improvement from 1996 when fare evasion was estimated to be 1.45% and from the 1991 high of 5.91%.

#### 2003 versus 2002

Total revenue from fares was \$2,396 in 2003, an increase of \$245, or 11.4%, from the prior year. Ridership in 2003 was 2,115, a decrease of 56, or 2.6%, from 2002. The increase in revenue was largely due to the May 2003 fare increase and the write-off of unused tokens no longer accepted for use on the subway/bus system partially offset by the impact of the August, 2003 blackout and an adverse ridership trend caused by economic factors that preceded the fare increase. The non-student average fare increased by 15 cents or 14.4%, due to the May, 2003 fare increase.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

### *Operating Expenses, by Major Function*

	2004	2003	2002	Increase/(Decrease)	
				2004-2003	2003-2002
Salaries and Wages	\$ 2,557	\$ 2,497	\$ 2,434	\$ 60	\$ 63
Health and Welfare	511	524	400	(13)	124
Pensions	309	198	153	111	45
Other Fringe Benefits	235	205	219	30	(14)
Traction and Propulsion Power	114	107	108	7	(1)
Fuel for Buses and Trains	71	56	45	15	11
Fuel and Power for Support Services	58	58	51	-	7
Insurance	29	25	17	4	8
Public Liability Claims	62	81	73	(19)	8
Paratransit Service Contracts	135	123	117	12	6
Maint. & Other Oper. Expenses	97	90	87	7	3
Professional Service Contracts	93	88	87	5	1
Materials and Supplies	222	233	242	(11)	(9)
Depreciation	892	829	761	63	68
Other Expenses	41	34	37	7	(3)
Reimbursed Overhead Expenses	(143)	(161)	(166)	18	5
<b>Total Operating Expenses</b>	<b>\$ 5,283</b>	<b>\$ 4,987</b>	<b>\$ 4,665</b>	<b>\$ 296</b>	<b>\$ 322</b>

### 2004 versus 2003

Total operating expenses increased \$296 or 5.9% versus prior year as follows:

Salaries and wages exceeded 2003 by \$60 or 2.4% due largely to wage rate increases including a contractual 3.0% TWU increase effective December 15, 2003. Partly offsetting these increases were one-time TWU lump sum bonus payments totaling \$33 made in 2003.

Health & welfare expenses decreased \$13 or 2.5% due to non-recurring expenses in 2003 associated with the Authority assuming responsibility for the TWU Health Benefit Trust, partially offset by increased rates for health and welfare plans.

Pension expense increased by \$111 or 56.1% due to increased NYCERS pension funding requirements.

Other fringe benefits increased by \$30 or 14.6% due mostly to non-cash Workers' Compensation reserve adjustments based upon the most recent actuarial valuation.

Power and fuel expenses increased \$22 or 10.0% due primarily to higher prices.

Paratransit service contract expenses increased by \$12 or 9.8% driven mainly by higher trip volume.

Public liability claims expenses decreased by \$19 or 23.5% based upon favorable non-cash reserve adjustments to be more consistent with current and projected pay-out rates.

Depreciation expenses increased by \$63 or 7.6% due to the capitalization of station rehabilitations, new buses, trackwork, and signal enhancements in 2004.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

Reimbursed overhead expenses represent those expenses that are incurred as part of labor support for capital program work and are therefore eligible for reimbursement by the MTA through the Capital Program. The level of reimbursed expenses declined by \$18 or 11.1% due to a 2% overhead rate reduction and a different mix of capital projects/reimbursable in-house labor requirements.

### 2003 versus 2002

Total operating expenses increased \$322 or 6.9% year over year as follows:

Salaries and wages increased \$63, or 2.6% due to one-time TWU lump sum bonus payments paid in 2003 and increased unscheduled overtime and bonus expenses to largely support additional work requirements for bus depot maintenance, shop programs and shuttles. Bus and subway overtime also increased to compensate for unfilled positions and the impact of the August, 2003 blackout. Sick and vacation expenses increased due to a higher workforce eligibility mix and the effect of labor enhancements agreed to in the collective bargaining process.

Health and welfare expenses increased by \$124 or 31.0%, principally due to the effect of the Authority assuming the responsibilities of the TWU Health Benefit Trust during 2003 and escalating health benefit costs.

Pension expense increased by \$45 or 29.4% due to additional pension funding requirements.

Depreciation expense increased by \$68 or 8.9% due mostly to capitalization of new subway cars, track and structures, station rehabilitations and other infrastructure enhancements.

### ***Nonoperating Revenues and Expenses***

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

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

The TBTA, another affiliate of the MTA, distributes to the Authority each year funds that vary based upon its operating surplus. Subsidies from the TBTA decreased in 2004 primarily due to additional debt service requirements.

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

Capital contributions from the MTA of \$1,880 in 2004 and \$1,945 in 2003 represent capital program funding from several sources including bonds, Federal, State and City funding. In 2002, capital contributions of \$7,068 included \$4,567 to replace debt extinguished as a result of the MTA Debt Restructuring Program. The remaining capital contributions of \$2,501 represented capital program funding from Federal, State and City sources as well as Mortgage Recording Tax and Petroleum Business Tax proceeds used to fund debt service contributions.

## CONDENSED FINANCIAL INFORMATION (CONTINUED)

### *Changes in Net Assets*

The change in net assets represents the excess of capital contributions over the net of operating losses and nonoperating revenues before capital contributions. The net assets increased by \$1,286 in 2004 and \$1,451 in 2003 due mostly to capital contributions. In 2002, net assets increased by \$6,066, due primarily to the MTA Debt Restructuring Program.

### *Budget Highlights*

Excluding expired fare media revenue, total revenue from fares in 2004 was \$2,549, consistent with budgeted amounts. Subway revenue of \$1,795 was essentially on budget while bus revenue of \$748 was less than budget by 0.2%. Paratransit revenue of \$6 was 6.6% below budget.

Total 2004 ridership of 2,171 (million rides) exceeded budget by 6 or 0.3%. Subway ridership of 1,426 was 11 or 0.8% above budget and bus ridership of 741 was 5 or 0.7% below budget. Paratransit ridership of 4 was 0.4% below budget.

Operating expenses of \$5,283 were \$24 or 0.5% higher than budget. Labor related expenses exceeded budget by \$51 or 1.5% due primarily to Workers' Compensation reserve adjustments based upon the most recent actuarial valuation. Non-labor expenses were below budget by \$27 or 1.5% comprised of favorable variances of \$58 due largely to the timing of facility relocations and non-capital program expenses partly offset by increased energy costs (fuel and power) of \$31 or 20% due to higher prices.

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

### *Important Economic Conditions*

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

Recent economic improvement in the City has benefited the Authority's overall ridership. However, severe State and City budget constraints remain.

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

### *Results of Operations and Overall Financial Position*

The 2004 year ended with a significant operating cash surplus due, in large part, to unanticipated increases in the Authority's tax subsidies mostly related to real estate transactions. This surplus, along with subway, local bus, and express bus fare changes effective February 27, 2005, are required to enable the 2005 Adopted Operating Budget to be balanced without imposing severe service cuts and layoffs of represented employees.

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

The Authority's 2006-2008 Financial Plan projects significant annual operating budget deficits due, in large part, to significant growth in debt service requirements and accelerating pension and health benefit costs. Extensive internal efforts are being made to reduce non-critical spending and improve operating efficiencies. It will be a significant challenge, in light of the severe State and City budget constraints, to balance the 2006-2008 Financial Plan years.

Another significant challenge facing the Authority is to find sufficient funding to support the 2005-2009 MTA Capital Program. This significant program provides for: maintaining the system infrastructure in a state of good repair; increased security costs driven by the 9/11 attacks; and system expansion to meet current and future mass transit needs.

### **SIGNIFICANT CAPITAL ASSET ACTIVITY**

#### **Capital Program**

The Authority's portion of the current MTA Capital Program for 2000-2004 totals \$10.1 billion. As of December 31, 2004, \$9.6 billion has been committed under the five-year plan, of which \$5.8 billion has been expended. Funding sources for the Capital Program come mostly from new money bonds, federal funds, and money made available through debt restructuring and City capital funding.

Among the projects included in the 2000-2004 Transit Capital Program and subsequent amendments are the following: rebuilding the 1/9 line track and structures destroyed by the September 11, 2001 attacks on the World Trade Center, design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283 cars, acquisition of 1,060 new buses, including 255 clean fuel buses, rehabilitation of 70 stations, provision for full Americans with Disability Act (ADA) accessibility at 23 stations, replacement of 20 escalators at various stations, replacement of approximately 41 miles of mainline track, signal modernization, communications improvements and improvements to shops, yards and depots.

### **CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS**

Effective February 27, 2005, the Authority implemented fare changes as follows: the cost of a 30-day unlimited ride MetroCard increased from \$70.00 to \$76.00; the cost of a 7-day unlimited ride MetroCard increased from \$21.00 to \$24.00; and express bus fares increased from \$4.00 to \$5.00 per ride. The \$2.00 base fare and the 1-day pass fare of \$7.00 did not change.

In December, 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.

**New York City Transit Authority**  
**Consolidated Balance Sheets**  
**December 31, 2004 and 2003**  
(In thousands)

	<u>2004</u>	<u>2003</u>
<b>Assets</b>		
Current assets:		
Cash (note 3)	\$ 36,300	\$ 36,847
MTA Investment Pool (note 4)	472,272	220,857
Receivables:		
Billed and unbilled charges due from New York City	27,284	23,728
Accrued subsidies	101,347	89,804
Due from MTA and constituent Authorities	185,342	404,437
Other	73,684	57,712
Less allowance for doubtful accounts	<u>(27,547)</u>	<u>(26,368)</u>
<b>Net receivables</b>	<u>360,110</u>	<u>549,313</u>
Materials and supplies	157,370	155,134
Prepaid pension expenses (note 6)	70,000	114,388
Prepaid expenses and other current assets	<u>27,206</u>	<u>24,192</u>
<b>Total current assets</b>	<u>1,123,258</u>	<u>1,100,731</u>
Due from MTA for purchase of capital assets	582,481	469,077
Capital assets, net of accumulated depreciation (note 5)	22,068,249	20,769,963
Leased property under capital lease, net of accumulated amortization (note 5)	100,353	102,923
Leasehold improvements on property, net of accumulated depreciation (note 5)	214,161	202,663
Deferred expenses related to issuance of debt	26,628	14,945
Restricted deposits and other escrow funds	<u>559</u>	<u>771</u>
<b>Total assets</b>	<u>\$ 24,115,689</u>	<u>\$ 22,661,073</u>

See accompanying notes to consolidated financial statements.

**New York City Transit Authority**  
**Consolidated Balance Sheets**  
**December 31, 2004 and 2003**  
(In thousands)

	<u>2004</u>	<u>2003</u>
<b>Liabilities and Net Assets</b>		
Current liabilities:		
Bank overdrafts payable	\$ 65,929	\$ 89,048
Accounts payable	67,104	65,322
Accrued expenses:		
Salaries, wages, and payroll taxes	87,388	89,542
Vacation, sick pay and other benefits	452,993	436,243
Retirement and death benefits (note 6)	94,711	41,107
Estimated liability arising from injuries to persons (note 11)	118,004	108,192
Other	85,447	67,896
<b>Total accrued expenses</b>	<b>838,543</b>	<b>742,980</b>
Car overhaul program	5,300	5,218
Due to MTA for repayment of debt, current portion (note 7)	6,678	6,430
Unredeemed farecards and tokens	156,309	159,336
Deferred subsidy revenue	6,885	6,885
<b>Total current liabilities</b>	<b>1,146,748</b>	<b>1,075,219</b>
Due to MTA for repayment of Certificates of Participation (note 7)	261,096	226,124
Obligations under capital lease, long-term (note 5)	127,583	124,678
Accrued retirement and death benefits (note 6)	56,950	58,931
Estimated liability arising from injuries to persons (note 11)	715,820	656,302
Other long-term liabilities	32,812	30,996
Restricted deposits and other escrow funds	559	771
<b>Total liabilities</b>	<b>2,341,568</b>	<b>2,173,021</b>
Net assets:		
Invested in capital assets, net of related debt	21,987,406	20,718,317
Restricted	-	-
Unrestricted	(213,285)	(230,265)
<b>Total net assets</b>	<b>21,774,121</b>	<b>20,488,052</b>
Commitments and contingencies (notes 1, 11, and 12)	-	-
<b>Total liabilities and net assets</b>	<b>\$ 24,115,689</b>	<b>\$ 22,661,073</b>

See accompanying notes to consolidated financial statements.

**New York City Transit Authority**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2004 and 2003**  
**(In thousands)**

	<u>2004</u>	<u>2003</u>
<b>Revenues:</b>		
Operating revenues:		
Rapid transit	\$ 1,795,334	\$ 1,663,829
Surface transit	747,868	702,180
Expired fare media	20,974	25,294
Paratransit fares	6,024	5,056
School, elderly, and paratransit reimbursement	128,473	124,355
Advertising and other	88,444	80,918
	<u>2,787,117</u>	<u>2,601,632</u>
<b>Expenses:</b>		
Operating expenses:		
Salaries and wages	2,556,555	2,496,944
Health and welfare	511,230	523,938
Pensions	309,388	198,247
Other fringe benefits	234,469	204,668
Traction and propulsion power	114,338	107,055
Fuel for buses and trains	71,217	55,740
Fuel and power for support services	58,139	57,976
Insurance	28,649	25,457
Public liability claims	62,203	80,528
Paratransit service contracts	135,076	123,524
Maintenance and other operating expenses	96,739	89,542
Professional service contracts	93,493	88,335
Materials and supplies	222,229	233,022
Depreciation	891,819	828,957
Other expenses	40,632	33,596
Reimbursed overhead expenses	(143,432)	(160,683)
	<u>5,282,744</u>	<u>4,986,846</u>
<b>Operating loss</b>	<u>(2,495,627)</u>	<u>(2,385,214)</u>

See accompanying notes to consolidated financial statements.

**New York City Transit Authority**  
**Consolidated Statements of Revenues, Expenses and Changes in Net Assets**  
**Years Ended December 31, 2004 and 2003**  
**(In thousands)**

	<u>2004</u>	<u>2003</u>
<b>Nonoperating revenues:</b>		
Tax-supported subsidies:		
New York State	969,091	973,141
New York City	360,151	173,103
Operating Assistance subsidies:		
New York State	158,672	158,672
New York City	158,672	158,672
Triborough Bridge and Tunnel Authority	153,580	242,501
World Trade Center disaster insurance recovery	103,100	244,500
MTA operating subsidies	13,000	-
Less: Amounts provided to Staten Island Rapid Transit Operating Authority	<u>(2,420)</u>	<u>(2,475)</u>
<b>Total nonoperating revenues</b>	<b>1,913,846</b>	<b>1,948,114</b>
Interest expense	(25,412)	(29,433)
Loss on disposal of buses and subway cars	(765)	(30,749)
Interest income and other insurance recoveries	<u>13,665</u>	<u>2,836</u>
<b>Total nonoperating income</b>	<b><u>1,901,334</u></b>	<b><u>1,890,768</u></b>
<b>Loss before capital contributions</b>	<b>(594,293)</b>	<b>(494,446)</b>
Capital contributions	<u>1,880,362</u>	<u>1,945,258</u>
<b>Change in net assets</b>	<b>1,286,069</b>	<b>1,450,812</b>
<b>Net assets:</b>		
Beginning of year	<u>20,488,052</u>	<u>19,037,240</u>
End of year	<u>\$ 21,774,121</u>	<u>\$ 20,488,052</u>

See accompanying notes to consolidated financial statements.

**New York City Transit Authority**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2004 and 2003**  
**(In thousands)**

	<u>2004</u>	<u>2003</u>
<b>Cash flows from operating activities:</b>		
Cash received from passengers, tenants, advertisers, and others	\$ 2,767,635	\$ 2,622,059
Cash payments for payroll and related employee costs	(3,304,827)	(3,263,195)
Cash payments to suppliers for goods and services	(890,392)	(893,081)
<b>Net cash used in operating activities</b>	<u>(1,427,584)</u>	<u>(1,534,217)</u>
<b>Cash flows from noncapital financing activities:</b>		
Subsidies received	1,766,163	1,659,094
MTA operating subsidies	13,000	-
Repayment of interagency loans	-	(101,167)
World Trade Center disaster insurance recovery	103,100	-
(Decrease) increase in bank overdraft	(23,119)	55,639
<b>Net cash provided by noncapital financing activities</b>	<u>1,859,144</u>	<u>1,613,566</u>
<b>Cash flows from capital and related financing activities:</b>		
Principal payments	(6,061)	(7,028)
Interest paid	(14,078)	(17,195)
Payments on MTA Transportation bonds issued to fund capital assets	(320,268)	(323,829)
Subsidies designated for debt service payments	126,260	119,218
Capital project costs incurred for capital program	(723,418)	(746,169)
Reimbursement of capital project costs from MTA	742,355	795,592
<b>Net cash used in capital and related financing activities</b>	<u>(195,210)</u>	<u>(179,411)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investment securities	-	(3,146)
Proceeds from sale and maturities of investments	-	22,071
(Increase) decrease in MTA Investment Pool	(251,415)	79,039
Interest on investments and other insurance recoveries	14,518	2,836
<b>Net cash (used in) provided by investing activities</b>	<u>(236,897)</u>	<u>100,800</u>
<b>Net (decrease) increase in cash</b>	<u>(547)</u>	<u>738</u>
<b>Cash at:</b>		
Beginning of year	<u>36,847</u>	<u>36,109</u>
End of year	<u>\$ 36,300</u>	<u>\$ 36,847</u>

(Continued)

See accompanying notes to consolidated financial statements.

**New York City Transit Authority**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2004 and 2003**  
**(In thousands)**

	<u>2004</u>	<u>2003</u>
<b>Reconciliation of cash flows from operating activities:</b>		
Operating loss	\$ (2,495,627)	\$ (2,385,214)
Adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation	<u>891,819</u>	<u>828,957</u>
	(1,603,808)	(1,556,257)
<b>Changes in operating assets and liabilities:</b>		
(Decrease) increase in farecard and token liability	(3,027)	23,863
Decrease in accrued salaries, wages, and payroll taxes	(2,154)	(58,441)
Increase (decrease) in accounts payable and other accrued liabilities	20,937	(346)
Increase in accrued vacation and sick pay benefits	16,750	49,060
Increase in accrued retirement and death benefits	51,623	30,263
Increase in estimated liability and arising from injuries to persons	69,330	30,892
Increase in operating receivables	(16,455)	(3,436)
Increase in prepaid expenses and other current assets	(3,014)	(9,038)
Decrease (increase) in prepaid pension expense	44,388	(42,359)
(Increase) decrease in materials and supplies and change in car overhaul program liability	<u>(2,154)</u>	<u>1,582</u>
<b>Net cash used in operating activities</b>	<u>\$ (1,427,584)</u>	<u>\$ (1,534,217)</u>
<b>Supplemental schedule of noncash capital and related financing activities:</b>		
Fair value of assets contributed	\$ 1,136,029	\$ 1,240,359

See accompanying notes to consolidated financial statements.

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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#### **1. Financial Statements**

##### **Reporting Entity**

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

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

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

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

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

In December of 2004, MTA Bus Company ("MTA Bus") was created as a public benefit corporation subsidiary of the MTA specifically to operate certain City bus routes. These routes are currently operated by MTA Bus and not by the Authority. There were no material transactions between MTA Bus and the Authority in 2004.

##### **Operations**

Operations are conducted pursuant to leases with the City which expired on November 1, 1989, except that the terms of the leases continue so long as any financing agreement between the Authority and the MTA and any MTA Transportation Revenue Bonds remain outstanding (see note 7). The City has the option to terminate the leases at any time. In the event of termination,

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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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**

#### ***1992-1999 Capital Programs***

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

At December 31, 2004, \$12.6 billion has been committed to Authority projects from the 1992-1999 approved plan, of which approximately \$12.3 billion has been expended.

#### ***Approved 2000-2004 Capital Program***

The 2000-2004 Capital Program, which was approved by the State Review Board in May 2000, provided for \$17.1 billion in capital expenditures, of which the Authority's portion was \$10.3 billion. In May and December of 2002, the MTA Board approved amendments to the program reflecting changes to budgets, schedules, funding and added to the infrastructure and facilities security programs. In December 2003, the MTA Board approved a general update to the plan to incorporate changes and authorized its submission to the MTA Capital Program Review Board (CPRB). In January 2004, the MTA Board approved a further modification to that program to

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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support the accelerated purchase of additional commuter railcars. In December 2004, the MTA Board approved an amendment that incorporates the creation of the MTA Bus Company, includes additional funding from the City for the #7 Extension design work as well as additional security grant funding. The effect of the changes requires that the amendment be submitted for CPRB approval. The current MTA approved plan is now \$19.6 billion, of which the Authority's share is \$10.1 billion. Among the projects included in the 2000-2004 Transit Capital Program and subsequent amendments are the following: rebuilding the 1/9 line track and structures destroyed by the September 11, 2001 attacks on the World Trade Center, design and initiation of construction of the full-length Second Avenue Subway, acquisition of 1,210 new subway cars, replacing 927 existing cars and expanding the fleet by 283 cars, acquisition of 1,060 new buses, including 255 CNG buses, rehabilitation of 70 stations, provision of full Americans with Disability Act (ADA) accessibility at 20 stations, replacement of 20 escalators at various stations, replacement of approximately 41 miles of mainline track, signal modernization, communications improvements, and improvements to shops, yards, and depots.

The combined funding sources for the 2000-2004 Capital Program are comprised of \$7.0 billion in new money bonds, \$6.3 billion in federal funds, \$4.5 billion from debt restructuring, \$0.5 billion in City capital funding, \$0.2 billion from sale and leasing of assets and \$1.1 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, 2004, \$9.6 billion has been committed to Authority projects from the 2000-2004 approved plan, of which approximately \$5.8 billion has been expended.

#### **2005-2009 Capital Program**

The 2005-2009 Capital Program, which was approved by the MTA Board, 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 Capital Program was submitted to the CPRB in October 2004, as required by law and subsequently vetoed. The MTA expects that the revised 2005-2009 Capital Program will be submitted to the Review Board for approval after negotiations are concluded with the Governor's office, the State Legislature and the City.

Pursuant to a Memorandum of Understanding (MOU) dated May 20, 1996, by and among the MTA, the Authority, and the City, the Authority was authorized, and made grant transfers to the City totaling \$250 million through 1997. In exchange, the City agreed to pay \$500 million from its capital budget to fund the Authority's capital program. The intent of the MOU was to provide additional capital funding to the Authority which did not require the issuance of bonds supported by Authority revenues, including fare receipts. As of December 31, 2003, the receivable due from the City for the first \$250 million had been fully recovered. The second \$250 million is recognized as capital contributions when the City reimburses the Authority for the costs of certain capital projects. As of December 31, 2004, the City has reimbursed the Authority \$247.8 million for capital projects included in the second \$250 million amount.

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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## **2. Accounting Policies**

### **Basis of Accounting**

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

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

### **New Accounting Standards**

In March 2003, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, an Amendment of GASB Statement No. 3. The Statement establishes more comprehensive disclosure requirements addressing common risks of the deposits and investments of state and local governments. The Statement is effective for financial statements for periods beginning after June 15, 2004. Adoption of this Statement did not have a material impact on the Authority’s consolidated financial statements.

In November 2003, the GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The Statement defines and establishes new guidance for accounting and reporting for the impairment of capital assets and for insurance recoveries. The Statement is effective for financial statement periods beginning after December 15, 2004. The authority adopted this statement early in April of 2004 to account for the World Trade Center and all other subsequent insurance settlements.

In April 2004, the GASB issued Statement No. 43, *Financial Reporting for Post Employment Benefit Plans Other Than Pension Plans*. The Statement establishes uniform financial reporting standards for funded Other Post Employment Benefit (“OPEB”) Plans, the assets of which are contained in separate trust funds. This statement is effective for financial statement periods beginning after December 15, 2005. The Authority does not anticipate this statement having a material impact on its financial statements.

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

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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In December 2004, GASB issued Statement No. 46, Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34. This Statement clarifies the definition of a “legally enforceable” enabling legislation restriction on a government’s net assets. This Statement is effective for financial statement periods beginning after June 15, 2005. The Authority does not anticipate this statement having a material impact on its financial statements.

#### **Net Assets**

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

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

- Restricted:

*Nonexpendable* – Net assets subject to externally imposed stipulations such that the Authority maintains them permanently. For the years ended December 31, 2004 and 2003, 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 by the passage of time.

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

#### **Subsidies**

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

The principal funding sources for the Authority are as follows:

#### **Operating Assistance Appropriations and Grants**

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

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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#### **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, 2004 and 2003, \$202.8 million and \$171.0 million, respectively, were paid from the operating surplus of the TBTA to satisfy the Authority's portion of debt service requirements. Included in the 2004 TBTA operating surplus is \$12.3 million representing amounts received related to the final distribution of proceeds to the TBTA from the World Trade Center settlement. Additionally, in 2003, the Authority received \$64.0 million representing 2002 TBTA excess debt service funds.

#### **Mortgage Recording Taxes**

Under New York State law, the MTA receives operating and capital assistance from the State Mortgage Recording Tax, which is collected by the City and the seven counties within the MTA transportation region, at the rate of one-quarter of 1% of the debt secured by certain real estate mortgages. 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 operations and surplus. The Authority records the portion of its State Mortgage Recording Tax subsidy which funds principal and interest payments on long-term debt, net of investment earnings on unexpended proceeds, used to construct capital assets as capital contributions.

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.

In 2004 and 2003, respectively, the MTA disbursed \$90.3 million and \$178.6 million of the available funds from the Additional Mortgage Recording Tax (after satisfying debt service requirements) to the Authority. The Authority has utilized these funds to meet capital and operating needs.

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

**New York City Transit Authority**  
**Notes to Consolidated Financial Statements**  
**December 31, 2004 and 2003**

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**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.

The composition of New York State tax-supported subsidies for 2004 and 2003 is as follows:

	<u>2004</u>		<u>2003</u>	
	<u>Accrued Revenue</u>	<u>Cash</u>	<u>Accrued Revenue</u>	<u>Cash</u>
	(In thousands)			
Petroleum business tax*	\$ 341,824	\$ 352,282	\$ 293,564	\$ 276,607
Metro mass tax	463,242	463,242	463,242	463,242
Mortgage recording taxes	164,025	143,080	216,335	196,381
	<u>\$ 969,091</u>	<u>\$ 958,604</u>	<u>\$ 973,141</u>	<u>\$ 936,230</u>

\*Net of \$126,260 and \$119,218 for debt service payments in 2004 and 2003, 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

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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paid by the City for the preceding calendar year. Fare revenues and the City reimbursement aggregated approximately \$53.2 million in 2004 and \$36.5 million in 2003. Total paratransit expenses, including paratransit service contracts, were \$159.5 million and \$144.3 million in 2004 and 2003, respectively.

#### **Reimbursement of Expenditures**

Engineering and labor costs incurred by the Authority for capital projects are reimbursed under the capital program by the MTA to the extent that they relate to approved expenditures applicable to capital projects primarily initiated after April 1, 1982. They are reimbursed by the City to the extent they relate to amounts approved for prior projects. In 2004 and 2003, reimbursements were netted against gross operating expenses on the statements of Revenues, Expenses and Changes in Net Assets.

#### **Fare and Service Reimbursement from the State and City**

The City no longer fully reimburses the Authority for costs of the free fare program for students; however, pursuant to a 1995 agreement with the State and the City, the Authority continued the student program beginning with the 1995-1996 school year, with the State and the City each agreeing to pay \$45 million per annum. The estimated cost of this program is approximately \$151 million for the 2004-2005 school year. It is believed the City will continue to provide for the continuation of the City's \$45 million contribution for the 2004-2005 school year, of which \$15 million was received in December 2004. The Authority's approved 2005 Adopted Budget assumes that the remaining \$30 million from the City will be received in 2005. It also assumes that the State's full \$45 million for the 2004-2005 school year will be received in 2005. The Authority's 2005-2008 Financial Plan assumes the continuation of the joint funding of the free fare program for students.

Prior to April 1995, the City was obligated to reimburse the Authority for the transit police force. As a result of the April 1995 merger of the transit police force into the New York City Police Department, the City no longer reimburses the Authority for the costs of policing the Transit System on an ongoing basis since policing of the Transit System is being carried out by the New York City Police Department at the City's expense. The Authority continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by the City. The Authority received approximately \$3.2 million in 2004 and \$4.2 million in 2003 for the reimbursement of transit police costs (see note 12). In addition, \$0.9 million was received in February 2005 for calendar 2004.

#### **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 \$8.7 million to the New York State Health Insurance Plan (NYSHIP) and \$17.0 million for insurance coverage during 2004. In 2003, \$8.0 million was paid to NYSHIP and \$16.1 million towards insurance coverage.

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**Due from MTA for Purchase of Capital Assets**

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

**Capital Assets**

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

**New York City Transit Authority**  
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**Contributed Capital**

For fiscal year 2001, with the implementation of GASB Statements No. 33 and No. 36, capital assets contributed by the MTA and restricted funds due from the MTA for the purchase of capital assets are recorded as capital contributions on the consolidated statement of revenues, expenses and changes in net assets. In fiscal year 2000 and prior, such items were recorded as additions to contributed capital in the consolidated balance sheets. Capital contributions for the years ended December 31, 2004 and 2003 consist of the following:

	<u>2004</u>	<u>2003</u>
	(In thousands)	
<b>Capital assets contributed by MTA from:</b>		
Federal grants	\$ 647,502	\$ 389,051
Other than federal grants	1,342,781	1,631,027
Capital assets contributed by MTA for WTC disaster replacement	(118,926)	(31,472)
Capital assets contributed by New York City for grant transfers	25,978	26,966
Petroleum business taxes received for principal and interest payments on debt	126,260	119,218
Principal and interest payments on MTA Transportation bonds issued to fund capital assets	(256,636)	(103,179)
(Decrease) increase in funds due from MTA for purchase of capital assets	113,403	(66,671)
Extinguishment of debt issued to fund capital assets (note 7)	-	(19,682)
<b>Total capital contributions</b>	<u>\$ 1,880,362</u>	<u>\$ 1,945,258</u>

**Passenger Revenue**

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

**Materials and Supplies**

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

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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#### **Employee Benefits**

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

In 2003, and as a result of the most recent collective bargaining agreement, the Authority assumed responsibility for providing health benefits to its employees who are members of the TWU Local 100 as well as to retirees who were members of the TWU Local 100 and reach normal retirement age while working for the Authority. Previously, these benefits were being provided by the TWU Health Benefits Trust (the Trust) with the Authority required to make monthly contributions to the Trust 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 \$33.6 million and \$37.1 million as of December 31, 2004 and December 31, 2003, respectively.

#### **Investments**

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

#### **Receivables**

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

#### **Reclassifications**

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

#### **Accounting Estimates**

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

**New York City Transit Authority**  
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**3. Cash and Investments**

Cash consists of the following as of December 31:

	<b>2004</b>		<b>2003</b>	
	<b>Book Balance</b>	<b>Bank Balance</b>	<b>Book Balance</b>	<b>Bank Balance</b>
	<b>(In thousands)</b>			
Insured (FDIC) and collateralized deposits	\$ 3,589	\$ 4,232	\$ 4,066	\$ 3,632
Less escrow and other restricted deposits	(709)	(896)	(1,054)	(1,074)
Insured funds on-hand and in-transit	33,420	-	33,835	-
	<b>\$ 36,300</b>	<b>\$ 3,336</b>	<b>\$ 36,847</b>	<b>\$ 2,558</b>

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's earnings from short-term investments approximated \$4.3 million and \$1.6 million for the years ended December 31, 2004 and 2003, respectively. Approximately \$472.3 million and \$220.9 million of funds are included in the MTA investment pool in the consolidated balance sheet for the years ended December 31, 2004 and 2003, respectively.

In December 1998, the MTA Board approved the establishment of the MTA New York City Transit General Reserve Fund in the amount of \$113.0 million. Funds held therein including interest earned, shall be expended per MTA Board approval to stabilize the Authority's cash flow requirements as needed. The balance in the reserve fund was approximately \$10.8 million for the years ended December 31, 2004 and 2003, respectively. These funds are included in the MTA Investment Pool in the accompanying consolidated balance sheets.

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**5. Capital Assets**

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

	<b>December 2003</b>	<b>Additions</b>	<b>Scrapped Buses/ Subway Cars</b>	<b>December 2004</b>
	<b>(In thousands)</b>			
Subway cars	\$ 5,686,205	\$ 59,662	\$ -	\$ 5,745,867
Buses	1,737,713	121,303	(7,345)	1,851,671
Track and structures	6,222,750	520,787	-	6,743,537
Depots and yards	2,869,739	49,222	-	2,918,961
Stations	4,128,003	463,988	-	4,591,991
Signals	1,881,295	185,180	-	2,066,475
Service vehicles	188,973	9,435	-	198,408
Building	169,584	-	-	169,584
Other	2,222,188	117,151	-	2,339,339
Under construction	2,832,721	641,990	-	3,474,711
	<u>27,939,171</u>	<u>2,168,718</u>	<u>(7,345)</u>	<u>30,100,544</u>
Less: Allowance for depreciation	<u>(7,169,208)</u>	<u>(869,667)</u>	<u>6,580</u>	<u>(8,032,295)</u>
	<u>\$ 20,769,963</u>	<u>\$ 1,299,051</u>	<u>\$ (765)</u>	<u>\$ 22,068,249</u>

Due to the terrorist attacks on September 11, 2001, the Authority recorded a loss on impairment of capital assets of approximately \$172.6 million during 2001. Refer to note 11 in the consolidated financial statements for a further discussion of the impact of the World Trade Center disaster. There were no significant impairments of fixed assets in 2004.

The Authority scrapped 40 buses in 2004 and 296 subway cars in 2003, respectively. Loss on disposal of capital assets of \$0.8 million and \$30.7 million were recorded for the years ended December 31, 2004 and 2003, 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 2004 and 2003, was approximately \$566,000 each year.

Capitalized interest totaled \$28.0 million and \$23.5 million in 2004 and 2003, respectively.

**Lease Transaction**

In July 1998, the MTA, the Authority and TBTA authorized and entered into a lease and related agreements whereby each agency, as a subleasee, rents office space at Two Broadway in lower Manhattan. The triple-net-lease has an initial stated term of approximately 50 years; with the right

## **New York City Transit Authority**

### **Notes to Consolidated Financial Statements**

#### **December 31, 2004 and 2003**

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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 \$1.4 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. Estimated occupancy percentages at December 31, 2004 for the Authority and TBTA were 75.6% and 25.4%, respectively. The Authority's sublease is for a year-to-year term, automatically extended, except upon the giving of a nonextension notice by the Authority.

The lease is comprised of both operating and capital elements, with the portion of the lease attributable to the land recorded as an operating lease, and the portion of the lease attributable to the building recorded as a capital lease. Operating rent expenses under the Authority's sublease amounted to \$7.5 million in both 2004 and 2003.

Additionally, MTA entered into a Coordination and Monitoring Agreement with the lessor, Two Broadway LLC. As part of this agreement, \$68.3 million was advanced to the lessor, as of December 31, 1999, to finance contracted base building improvements from proceeds of the 1999 Certificates of Participation. Under the agreement, the lessor was to reimburse the advance with 1.25% interest, primarily through rent credits during the lease term. The obligation to pay these rent credits had been disputed by the lessor. Given the uncertainty of the collectibility of the advance through rent credits, the Authority's portion of the net discounted advance at December 31, 2000 of \$30.5 million was reclassified to base building improvements during fiscal year 2001.

In November 2003, the MTA and its affiliates and subsidiaries entered into a settlement agreement with the lessor. As part of the settlement, the MTA received rent credits against the ground lease rent totaling \$45.0 million that will be credited over the next 30 years at 1.25% interest. As a result of the settlement, the Authority reduced its "Obligations under capital lease" and the corresponding "Leased property under capital lease" asset by \$14.0 million in the 2003 consolidated balance sheet, which represents the Authority's portion of the discounted rent credits.

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Assuming the projected occupancy percentage at December 31, 2004 will continue, the revised future minimum lease payments under the Authority's sublease, as affected by the rent credits, are as follows:

<b>Year Ending December 31:</b>	<b><u>Operating</u></b>	<b><u>Capital</u></b>
	<b>(In thousands)</b>	
2005	\$ 7,452	\$ 8,454
2006	7,452	8,454
2007	7,452	8,454
2008	7,452	8,454
2009	7,452	10,021
2010-2014	37,260	51,799
2015-2019	37,260	60,399
2020-2024	37,260	69,687
2025-2029	37,260	81,693
2030-2034	37,260	101,785
2035-2039	37,260	118,927
2040-2044	37,260	131,564
2045-2048	<u>26,078</u>	<u>99,616</u>
<b>Total minimum lease payments</b>	<b><u>\$ 324,158</u></b>	<b>759,307</b>
Less imputed interest		<u>(631,724)</u>
<b>Present value of net minimum lease payments</b>		<b><u>\$ 127,583</u></b>

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, 2004 and 2003 is as follows:

	<b><u>2004</u></b>	<b><u>2003</u></b>
	<b>(In thousands)</b>	
Capital lease - building	\$ 114,489	\$ 114,489
Less accumulated amortization	<u>(14,136)</u>	<u>(11,566)</u>
Capital lease - building, net	<b><u>\$ 100,353</u></b>	<b><u>\$ 102,923</u></b>

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

The amount of such improvements apportioned to the Authority as of December 31, 2004 and 2003 is as follows:

	<u>2004</u>	<u>2003</u>
	<u>(In thousands)</u>	
Base building improvements	\$ 132,506	\$ 131,738
Tenant improvements	127,088	99,623
Furniture and fixtures	11,434	11,434
Computers and equipment	9,006	7,789
Development fees	6,893	6,893
Capitalized interest	<u>9,462</u>	<u>9,289</u>
	296,389	266,766
Less: Accumulated depreciation	<u>(82,228)</u>	<u>(64,103)</u>
Total leasehold improvements	<u>\$ 214,161</u>	<u>\$ 202,663</u>

**6. Employee Benefits**

***New York City Employee's Retirement System***

***Plan Description***

The Authority contributes to the New York City Employees' Retirement System (NYCERS), a cost-sharing, multiple-employer public employee retirement system (PERS) for employees of the City and certain other governmental units whose employees are not otherwise members of the City's four other main pension systems. The NYCERS plan combines features of a defined benefit pension plan with those of a defined contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, accident benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing New York State statutes and New York City laws and may be amended by action of the State legislature. NYCERS issues a publicly available comprehensive annual 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 3.5% of annual covered payroll. The Authority's required contributions for NYCERS's fiscal years ending June 30, 2005, 2004, and 2003 were \$176.0, \$68.8 and \$24.4 million, respectively.

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

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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, contributed 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.

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

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

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

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

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

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

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**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, 2004 and 2003 are as follows:

<u>Valuation dates</u>	<u>June 30, 2004</u>	<u>June 30, 2003</u>
Actuarial cost method	Frozen initial liability <sup>(1)</sup>	Frozen initial liability <sup>(1)</sup>
Amortization method for Unfunded Actuarial Accrued Liabilities (UAAL)	Level dollar for UAAL attributable to Early Retirement Incentive (ERI) 1999. All outstanding components of UAAL are being amortized over closed periods.	Level dollar for UAAL attributable to Early Retirement Incentive (ERI) 1999. All outstanding components of UAAL are being amortized over closed periods.
Remaining amortization period	1 years for 1999 ERI and 2 years for 2000 ERI. 4 years for 2002 ERI	2 years for 1999 ERI and 3 years for 2000 ERI. 5 years for 2002 ERI
Actuarial Asset Valuation Method (AAVM)	Modified five-year moving average of market values with Market Value Restart as of June 30, 1999. As of June 30 thereafter, the AAVM recognizes investment returns greater or less than expected over a period of 5 years.	Modified five-year moving average of market values with Market Value Restart as of June 30, 1999. As of June 30 thereafter, the AAVM recognizes investment returns greater or less than expected over a period of 5 years.
Assumed rate of return on investments	8.0% per annum <sup>(2)</sup>	8.0% per annum <sup>(2)</sup>
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 <sup>(2)</sup>	In general, merit and promotion increase including an assumed general wage increase of 3.0% per year <sup>(2)</sup>
Cost-of-living adjustments	1.3% per annum <sup>(2)</sup>	1.3% per annum <sup>(2)</sup>

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

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

# New York City Transit Authority

## Notes to Consolidated Financial Statements

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#### *Manhattan and Bronx Surface Transit Operating Authority*

##### **Plan Description**

The Authority contributes to the Manhattan and Bronx Surface Transit Operating Authority (MaBSTOA) Plan, a single employer 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, 15<sup>th</sup> 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, 2004, 2003, and 2002 were \$142.0 million, \$137.0 million and \$123.5 million, respectively, equal to the annual required contributions for each year. During 2004 and 2003, the Authority made advance payments of \$70.0 million and \$114.4 million, respectively, resulting in the recognition of a pension asset in the accompanying consolidated balance sheets.

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

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

The cost of additional benefit enhancements to the Plan will be funded by an increase in the employer's normal contribution rate. The cost of the above Plan amendments was reflected in the January 1, 2000 and January 1, 2001 actuarial valuations and increased the Plan's UAAL by approximately \$67.9 million and \$75.2 million, respectively.

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**Annual Pension Cost and Net Pension Obligation**

The Authority's annual pension cost and net pension obligation for MaBSTOA for the years ended December 31, 2004, 2003, and 2002 were as follows:

	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
Annual required contribution	\$ 142,049	\$ 137,012	\$ 123,501
Interest on net pension obligation	4,714	5,015	5,167
Adjustment to annual required contribution	<u>(6,690)</u>	<u>(6,874)</u>	<u>(7,008)</u>
<b>Annual pension cost</b>	140,073	135,153	121,660
Contributions made	<u>(142,054)</u>	<u>(137,012)</u>	<u>(123,501)</u>
<b>Decrease in net pension obligation</b>	(1,981)	(1,859)	(1,841)
Net pension obligation at beginning of year	<u>58,931</u>	<u>60,790</u>	<u>62,631</u>
<b>Net pension obligation at end of year</b>	<u>\$ 56,950</u>	<u>\$ 58,931</u>	<u>\$ 60,790</u>

**Actuarial Assumptions**

Several changes in actuarial assumptions were made by the Plan, effective with the January 1, 2001 actuarial valuation. These changes in assumptions decreased the Plan's UAAL by approximately \$16.9 million. The interest rate assumption was lowered from 8.25% to 8.00% prior to expenses, effective with the January 1, 2004 actuarial valuation. This reduction of the valuation interest rate resulted in an increase of \$41.4 million in the Plan's UAAL.

The more significant actuarial assumptions and methods used in the calculation of employer contributions to the MaBSTOA Plan for the years ended December 31, 2004 and 2003 are as follows:

<u>Valuation dates</u>	<u>January 1, 2004</u>	<u>January 1, 2003</u>
Actuarial cost method	Frozen initial liability <sup>(1)</sup>	Frozen initial liability <sup>(1)</sup>
Amortization method for UAAL	30-year level dollar	30-year level dollar
Actuarial asset valuation method	Market value restart as of 1/1/96, then five-year moving average of market values	Market value restart as of 1/1/96, then five-year moving average of market values
Interest rate	8.00% per annum <sup>(2)</sup> , prior to expenses	8.25% per annum <sup>(2)</sup> , prior to expenses
Provision for expenses	0.35% of market value of assets plus two-year average of administrative charges	0.35% of market value of assets plus two-year average of administrative charges

**New York City Transit Authority**  
**Notes to Consolidated Financial Statements**  
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This decrease of the valuation interest rate resulted in an increase of \$41.4 million in the Plan's UAAL.

<u>Valuation dates</u>	<u>January 1, 2004</u>	<u>January 1, 2003</u>
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 <sup>(2)</sup>	1.3% per annum <sup>(2)</sup>

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

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

**Deferred Compensation Plans**

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

Certain Authority employees are participants in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k). Participation in the plan is available to all nonunion and certain other employees. All amounts of compensation deferred under the plan, and

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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all income attributable to such compensation, are solely the property of the participants; accordingly, this plan is not reflected in the accompanying consolidated balance sheets.

#### **Postretirement Benefits**

In addition to providing pension benefits, the Authority provides certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees may become eligible for those benefits if they reach normal retirement age while working for the Authority. The Authority recognizes the costs of providing those benefits by expensing the claim payments made to carriers on behalf of Transit Workers Union (Local 100) retirees or their beneficiaries, and the annual insurance premiums for retiree benefits, which aggregated \$166.3 million and \$162.6 million for the years ended December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, there were 30,259 and 30,846 retired employees, respectively. In 2003 and as a result of the most recent collective bargaining agreement, 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.

#### **7. Due to MTA for Repayment of Debt**

##### **Transit Facilities Revenue Bonds**

Prior to December 31, 2002, the Authority recognized as a liability in the accompanying consolidated balance sheets the portion of the bond proceeds pledged to the Authority by the MTA for the acquisition of capital assets to the extent of the Authority's expenditure of such bond proceeds. As a result of the MTA's bond restructuring during fiscal year 2002 and 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 MTA's approved 2000-2004 Capital Program anticipates funding \$7.0 billion of the cost of the plan with the proceeds from DTF Bonds, Transportation Revenue Bonds, and TBTA bonds. A portion of the proceeds will be used to finance the Authority's \$10.1 billion portion of the Capital Program.

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

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

**New York City Transit Authority**  
**Notes to Consolidated Financial Statements**  
**December 31, 2004 and 2003**

**Certificates of Participation**

In June 1999 and June 2000, the MTA issued approximately \$328.2 million and \$121.2 million, respectively, of its Series 1999A and Series 2000A Certificates of Participation. The proceeds from these issuances were used to finance certain building and leasehold improvements to an office building at Two Broadway to be occupied by the Authority, the MTA or its subsidiaries, and the TBTA. Both series represent proportionate interests in the principal and interest components of base rent paid severally, but not jointly, by the Authority, the MTA, and the TBTA pursuant to a Leasehold Improvement Sublease Agreement dated as of June 1, 1999. The Authority, the MTA, and the TBTA are obligated to pay 68.7%, 21.0%, and 10.3%, respectively, of the base rent under the Leasehold Improvement Sublease. The principal amounts of the Series 1999A and Series 2000A certificates are payable in various installments and in various amounts beginning January 1, 2000 and 2001, respectively, through January 1, 2029 and 2030, respectively. Interest was paid on January 1, 2001 and 2002 and is payable each January 1 and July 1, thereafter, until maturity, at rates ranging from 4.50% to 5.63% and 4.85% to 5.88% for the Series 1999A and Series 2000A, respectively. In addition, each issuance is subject to prepayment prior to maturity, as defined.

Amounts due to the MTA for repayment of debt at December 31, 2004 and 2003 consist of the following:

	<u>December 31, 2003</u>	<u>Refunded</u>	<u>Issued</u> <u>(In thousands)</u>	<u>Principal Payments</u>	<u>December 31, 2004</u>
<b>Certificates of Participation</b>					
Series 1999A: 4.50% - 5.63%, due through 2029	\$ 212,783	\$ -	\$ -	\$ 4,029	\$ 208,754
Series 2000A: 4.85% - 5.88%, due through 2030	<u>76,952</u>	<u>-</u>	<u>-</u>	<u>2,401</u>	<u>74,551</u>
	<u>289,735</u>	<u>-</u>	<u>-</u>	<u>6,430</u>	<u>283,305</u>
Less: Unamortized discount	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	289,735	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,430</u>	283,305
Payment due in one year	(6,430)				(6,678)
Debt service reserve funds and unexpended proceeds held by affiliates	<u>(57,181)</u>				<u>(15,531)</u>
Total long term	<u>\$ 226,124</u>				<u>\$ 261,096</u>

**New York City Transit Authority**  
**Notes to Consolidated Financial Statements**  
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Future debt service payments including interest, at December 31, 2004 are as follows:

	<u>Interest</u>	<u>Principal</u> <u>(In thousands)</u>	<u>Total</u>
Year ending December 31:			
2005	11,835	6,678	18,513
2006	11,443	8,591	20,034
2007	11,150	6,073	17,223
2008	10,816	6,368	17,184
2009	10,416	8,405	18,821
2010 - 2014	44,922	48,877	93,799
2015 - 2019	33,862	60,662	94,524
2020 - 2024	21,809	73,114	94,923
2025 - 2029	8,683	88,159	96,842
2030	-	4,414	4,414
	<u>\$ 164,936</u>	<u>\$ 311,341</u>	<u>\$ 476,277</u>

Interest paid on the Series 2000A and Series 1999A Certificates of Participation amounted to \$14.1 million in 2004 and \$17.2 million in 2003.

**8. Advertising and Other Income**

Advertising and other income for the years ended December 31, 2004 and 2003 consist of:

	<u>2004</u>	<u>2003</u>
	<u>(In thousands)</u>	
Advertising revenue	\$ 67,518	\$ 59,877
Transit Adjudication Bureau collections	7,019	6,479
Station income	7,476	9,028
Rental income	2,535	2,723
Fare media transaction fees	2,132	1,779
All other	1,764	1,032
	<u>\$ 88,444</u>	<u>\$ 80,918</u>

**New York City Transit Authority**  
**Notes to Consolidated Financial Statements**  
**December 31, 2004 and 2003**

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**9. Other Expenses**

Other expenses for the years ended December 31, 2004 and 2003 consist of:

	<u>2004</u>	<u>2003</u>
	(In thousands)	
Credit and debit card fees for fare media sales	\$ 13,080	\$ 11,258
Fare media sales commissions	9,299	8,463
Training courses and programs	5,999	3,397
Reversal of unfunded WTC charges	4,139	-
Allowance for (recovery) of uncollectible accounts	1,896	6,141
Business travel, meetings and conventions	1,248	1,768
Dues and subscriptions	696	732
Other miscellaneous expenses	4,275	1,837
	<u>\$ 40,632</u>	<u>\$ 33,596</u>

**10. Maintenance and Other Operating Expenses**

Maintenance and other operating expenses for the years ended December 31, 2004 and 2003 consist of:

	<u>2004</u>	<u>2003</u>
	(In thousands)	
Operating maintenance and repair services	\$ 20,608	\$ 22,245
Facility maintenance and repairs	14,035	11,004
2 Broadway operating expenses	13,484	12,782
Security services	8,870	7,558
Refuse and recycling	6,557	6,302
Telephone services	6,907	7,192
Tire and tube rentals	5,160	5,087
Janitorial and custodial services	4,805	4,424
Water and sewage	4,767	3,376
Data communications	4,759	4,726
Other miscellaneous expenses	6,787	4,846
	<u>\$ 96,739</u>	<u>\$ 89,542</u>

**11. Risk Management**

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

The Authority is self-insured up to certain per occurrence limits for liability claims arising from injuries to persons, excluding employees. Claims arising prior to November 1, 1995 are subject to a \$5 million per occurrence limit; claims arising between November 1, 1996 and October 31, 2001 are subject to a \$6 million per occurrence limit; and claims arising after October 31, 2001 are subject to a \$7 million per occurrence limit. The Authority is self-insured for work-related injuries

**New York City Transit Authority**  
**Notes to Consolidated Financial Statements**  
**December 31, 2004 and 2003**

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to employees. The annual cost associated with injuries to persons, other than employees, and damage to third-party property, is reflected as expenses: public liability 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, 2004 and 2003, is as follows:

	<u>2004</u>	<u>2003</u>
	(In thousands)	
<b>Balance at beginning of year</b>	\$ 764,494	\$ 733,603
Activity during the year:		
Current year claims and changes in estimates	162,516	147,864
Claims paid	<u>(93,186)</u>	<u>(116,973)</u>
<b>Balance at end of year</b>	833,824	764,494
Less: Current portion	<u>(118,004)</u>	<u>(108,192)</u>
<b>Long-term liability</b>	<u>\$ 715,820</u>	<u>\$ 656,302</u>

Through October 31, 2003, claims over the applicable per occurrence limits up to the lesser of the assets available for claims or \$50 million were insured by the Excess Loss Fund (ELF) maintained and managed by the MTA on behalf of itself and its affiliates. The ELF covered the Authority and other MTA subsidiaries and affiliated agencies. Contributions to ELF were not required in 2003 or 2002. On October 31, 2003, First Mutual Transportation Assurance Company (“FMTAC”), a subsidiary of MTA, assumed the existing ELF program on both a retrospective and prospective basis. The retrospective portion contains the same insurance agreements, participant retentions and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. The coverage limit will remain \$50 million per occurrence or the proceeds of the program, whichever is less. On a prospective basis, FMTAC will issue insurance policies indemnifying the MTA, its subsidiaries and affiliates above their specifically assigned Self-Insured Retention with a limit of \$50 million per occurrence with \$50 million annual aggregate. On December 12, 2003, the ELF transferred all net assets (\$77.7 million) to FMTAC in order to secure any claims assumed from the ELF, as well as to capitalize the prospective programs and insure current and future claims. FMTAC will charge appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program.

Effective October 31, 2004, an All-Agency Excess Liability Insurance Policy was renewed. This coverage affords the MTA and its subsidiaries and affiliates an additional limit of \$250 million (an increase of \$100 million from the previous policy), for a total limit of \$300 million (\$250 million in excess of \$50 million). In certain circumstances, when FMTAC’s assets are exhausted due to payment of claims, the All-Agency Excess Liability Insurance will assume FMTAC’s coverage position of \$50 million.

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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

In accordance with the terms of the ELF and its successor, FMTAC, the Authority had requested cumulative reimbursement of \$15.0 million for the net losses paid in excess of the per occurrence limits. As of December 31, 2004, this amount has been paid to the Authority.

#### **First Mutual Transportation Assurance Company**

The First Mutual Transportation Assurance Company (FMTAC) was established as a captive insurance company on December 5, 1997 and provides reinsurance coverage for property and primary insurance coverage for station liability and force account liability. FMTAC insured property damages or loss exposures in excess of \$15 million per occurrence, \$30 million annual aggregate, for claims brought by the MTA and its subsidiaries and affiliates until October 30, 2001. From October 31, 2001 to January 31, 2002 coverage limits were \$500 million per occurrence. On February 1, 2002, coverage limits were increased to \$900 million. This policy excludes coverage for acts of terrorism. Effective November 1, 2001, a stand-alone policy was purchased to cover sabotage and terrorism up to \$70 million in excess of a \$30 million self-insured retention.

Effective October 31, 2003, FMTAC insures property damages or loss exposures in excess of \$25 million per occurrence, \$75 million annual aggregate, up to a limit of \$1 billion for claims brought by the MTA and its subsidiaries and affiliates. This policy excludes acts of terrorism. Effective November 1, 2003, a stand-alone policy was purchased to cover sabotage and terrorism up to \$100 million in excess of a \$25 million self-insured retention. On November 26, 2002, with the enactment of the Terrorism Risk Insurance Act ("TRIA") of 2002, any endorsements, excluding certified acts of terrorism, were void if the act of terrorism is covered by TRIA. The stand-alone terrorism policy is structured to provide \$100 million of coverage in excess of the \$25 million self-insured retention for all acts of terrorism or 10 percent of \$1 billion for those acts covered by TRIA. FMTAC reinsures the majority of its property risks above the \$25 million retention.

At December 31, 2004, the Authority has no outstanding claims covered by FMTAC. At December 31, 2004, FMTAC had \$333.9 million of assets to insure current and future claims. The Authority paid premiums of approximately \$11.4 million and \$11.1 million to FMTAC for the policy years November 1, 2004 through October 31, 2005 and November 1, 2003 through October 31, 2004, respectively.

#### **World Trade Center Recoveries**

In April 2004, the MTA settled claims with its property insurance carriers for damage caused as a result of the September 11, 2001 terrorist attack. The Authority's portion of the MTA global settlement was \$347.6 million. The Authority recorded \$244.5 million of the settlement in 2003 for losses related to physical damage of property. The Authority received \$103.1 million relating to claims for lost revenues, increased operating expenses, and other expenses associated with cleanup of its facilities from the MTA in 2004.

# **New York City Transit Authority**

## **Notes to Consolidated Financial Statements**

### **December 31, 2004 and 2003**

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#### **12. Contingencies**

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

The Authority was cited in 1991 by the New York State Department of Environmental Conservation (NYSDEC) for not complying with state requirement for tightness testing of underground storage tanks and for failure to notify NYSDEC of leaking tanks. The Authority is obligated to remediate contaminated soil and groundwater. In 2004 and 2003, the Authority expended \$4.6 million and \$3.7 million, respectively, on such cleanup efforts. Expenditures exclude the cost of capital improvements. An additional \$6.4 million in spills and remediation reserves were accrued in 2004; there were no new incidents requiring accruals during 2003. At December 31, 2004, the Authority believes that its remaining accrued liability of \$26.2 million is sufficient to cover future costs associated with this cleanup.

On March 31, 1995, the MTA Board agreed to a merger of the transit police with the New York City Police Department, in accordance with a memorandum of understanding between the Authority and the City. Pursuant to the terms of the merger, the Authority's operation of the transit police and the City's obligation to reimburse the cost of operating the transit police terminated, effective April 2, 1995. Additionally, the City has assumed the liability for substantially all past and future costs associated with operating the transit police, including, but not limited to all future pension costs. The Authority has asserted a claim of approximately \$92 million against the City relating to reimbursement of costs incurred in the operation of the transit police. The Authority claims that the City underpaid these amounts in the period from 1988 through December 1994. In January 1995, the Authority filed a demand for arbitration pursuant to the lease governing the overall relationship between the Authority and the City to pursue, among other matters, payment of these arrearages. The arbitration matter has been held in abeyance pending a possible resolution of the matter.

#### **13. Subsequent Events**

On December 16, 2004, the MTA Board voted to increase the Authority's Subway and Bus fares effective February 27, 2005. MetroCard seven-day passes increase from \$21 to \$24 and MetroCard thirty-day passes increase from \$70 to \$76. The basic fare, cash or single-ride ticket does not change. It remains at \$2. The estimated increase in passenger revenue from the fare increase is \$104 million for 2005 (partial year, March-December) and \$127 million for 2006.

On January 23, 2005, a fire of unknown origin destroyed the Chambers Street signal relay room. The insurance company has estimated the damage at \$35,000,000 with a \$25,000,000 deductible.

**New York City Transit Authority  
Required Supplementary Information  
Schedule of Funding Progress for the MaBSTOA Pension Plan  
(Unaudited)  
(In millions)**

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

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