Metropolitan Transportation Authority

(A Component Unit of the State of New York)

Independent Accountants' Review Report

Consolidated Financial Statements as of and for the Period Ended September 30, 2011

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have reviewed the accompanying consolidated interim balance sheet of the Metropolitan Transportation Authority (the "Authority"), a component unit of the State of New York, as of September 30, 2011, and the related consolidated interim statements of revenues, expenses and changes in net assets, and cash flows for the nine-month periods ended September 30, 2011 and 2010. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Authority's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

Management is responsible for the preparation and fair presentation of the consolidated interim financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the consolidated interim financial statements.

Our responsibility is to conduct the review in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. Those standards require us to perform procedures to obtain limited assurance that there are no material modifications that should be made to the consolidated interim financial statements. We believe that the results of our procedures provide a reasonable basis for our report.

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

As discussed in the notes to the consolidated interim financial statements, the MTA is a component unit of the State of New York. The MTA requires significant subsidies from and has material transactions with The City of New York and the State of New York and depends on certain tax revenues that are economically sensitive.

The Management's Discussion and Analysis on pages 3 through 20, the Schedule of Pension Funding Progress on page 98 and the Schedule of Funding Progress for the MTA Postemployment Benefit Plan on page 99 are not a required part of the basic consolidated interim financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the MTA's management. Such schedules were not audited or reviewed by us and, accordingly we do not express an opinion or any other form of assurance on them.

Our review was made for the purpose of expressing the limited assurance described in the preceding paragraph concerning the consolidated interim financial statements taken as a whole. The additional information in the Schedule of Financial Plan to Financial Statements Reconciliation on page 100, Schedule of Consolidated Reconciliation Between Financial Plan and Financial Statements on page 101, and Schedule of Consolidated Subsidy Accrual Reconciliation Between Financial Plan and Financial Statements on page 102 are presented for the purpose of additional analysis and are not a required part of the basic consolidated interim financial statements. This additional information is the responsibility of the Authority's management. Such information has been subjected to the analytical procedures and inquiry applied in the review of the basic consolidated interim financial statements and we are not aware of any material modifications that should be made thereto in order for such information to be in conformity with accounting principles generally accepted in the United States of America when considered in relation to the basic consolidated interim financial statements taken as a whole.

The consolidated financial statements for the year ended December 31, 2010 were audited by us, and we expressed an unqualified opinion on them in our report dated April 21, 2011, which contains an explanatory paragraph regarding the adopting of Governmental Accounting Standards Board ("GASB") Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. We also applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation to the 2010 Management's Discussion and Analysis and other supplementary information required by the Governmental Accounting Standards Board and such report expressed no opinion on the information. We have not performed any auditing procedures since the date of such report.

Deloitte & Touche LLP

January 23, 2012

1. OVERVIEW OF THE CONSOLIDATED FINANCIAL STATEMENTS

Introduction

This report consists of five parts: Management's Discussion and Analysis ("MD&A"), Consolidated Financial Statements, Notes to the Consolidated Financial Statements, Required Supplementary Information, and Supplementary Information.

Management's Discussion and Analysis

This MD&A provides a narrative overview and analysis of the financial activities of the MTA Group for the periods ended September 30, 2011 and 2010. This management discussion and analysis is intended to serve as an introduction to the MTA Group's consolidated financial statements. It provides an assessment of how the MTA Group's position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the MTA Group's overall financial position. It may contain opinions, assumptions, or conclusions by the MTA Group's management that must be read in conjunction with, and should not be considered a replacement for, the consolidated financial statements.

The Consolidated Financial Statements

Consolidated Balance Sheets, which provide information about the nature and amounts of investments in resources (assets) and the obligations to Metropolitan Transportation Authority and its consolidated subsidiaries and affiliates (the "MTA Group") creditors (liabilities), with the difference between the two reported as net assets.

Consolidated Statements of Revenues, Expenses, and Changes in Net Assets, which provide information about the MTA's changes in net assets for the period then ended and accounts for all of the period's revenues and expenses, measures the success of the MTA Group's operations during the period, and can be used to determine how the MTA has funded its costs.

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

Notes to the Consolidated Financial Statements

The notes provide information that is essential to understanding the consolidated financial statements, such as the MTA Group's accounting methods and policies, details of cash and investments, employee benefits, long-term debt, lease transactions, future commitments and contingencies of the MTA Group, and information about other events or developing situations that could materially affect the MTA Group's financial position.

Required Supplementary Information

The required supplementary information provides information concerning the MTA Group's progress in funding its obligation to provide pension benefits and postemployment benefits to its employees.

Supplementary Information

The supplementary information provides a series of reconciliations between the MTA Group financial plan and the consolidated interim financial statements.

2. FINANCIAL REPORTING ENTITY

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

MTA Related Groups

- Headquarters ("MTAHQ") provides general oversight, planning and administration, including budget, cash management, finance, legal, real estate, treasury, risk management, and other functions to the related groups listed below.

- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City and Long Island.

- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between New York City and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in New York State and New Haven and Fairfield counties in Connecticut.

- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger rail transportation on Staten Island.

- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public bus service in Nassau and Queens counties.

- First Mutual Transportation Assurance Company ("FMTAC") operates as a captive insurance company to provide insurance coverage for property and primary liability.

- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") provide subway and public bus service within the five boroughs of New York City.

- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage.

- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design, and construction of current and future major MTA system expansion projects.

- MTA Bus Company (“MTA Bus”) operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

3. CONDENSED FINANCIAL INFORMATION

The following sections discuss the significant changes in the MTA Group’s financial position as of and for the nine month period ended September 30, 2011. An analysis of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, the information contained within the summaries of the consolidated financial statements and the various exhibits presented were derived from the MTA Group’s consolidated financial statements. All dollar amounts (except where otherwise expressly noted) are in millions.

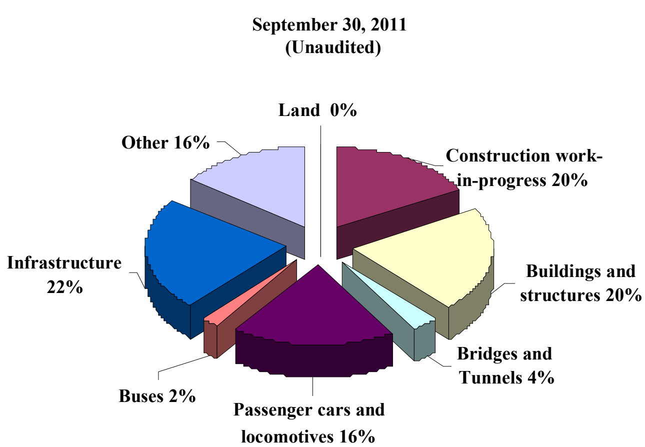
Total Assets, Distinguished Between Capital Assets, Net and Other Assets

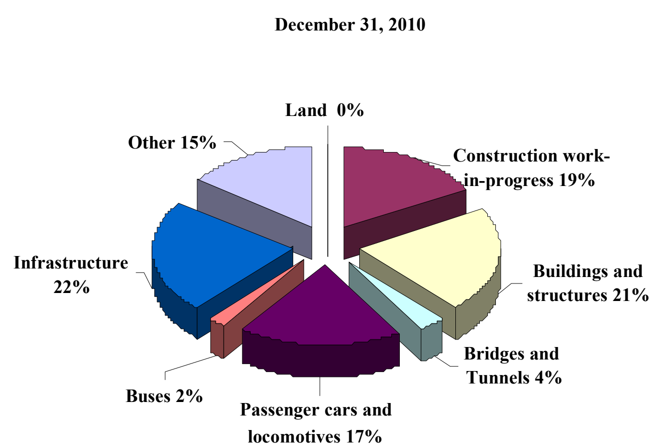
Capital assets include, but are not limited to: bridges, structures, tunnels, construction of buildings and the acquisition of busses, equipment, passenger cars, and locomotives.

Other Assets include, but is not limited to: cash, restricted and unrestricted investments, State and regional mass transit taxes, and receivables from New York State.

(In millions)	September 2011 (Unaudited)	December 2010	December 2009	Increase/(Decrease) 2011 - 2010	Increase/(Decrease) 2010 - 2009
Capital assets — net (see Note 6)	$ 51,144	$ 50,133	$ 47,229	$ 1,011	$ 2,904
Other assets	11,707	10,082	9,012	1,625	1,070
Total assets	$ 62,851	$ 60,215	$ 56,241	$ 2,636	$ 3,974

Capital Assets, Net





Significant Changes in Assets Include:

September 30, 2011 versus December 31, 2010

- Net capital assets increased at September 30, 2011 by $1,011. The major increase of $607 is related to construction work-in-progress, while assets related to building and structures, infrastructure, buses and other capital assets decreased by $1,154. These decreases were offset by a net decrease in of accumulated depreciation of $1,558 (See Note 6).

- Some of the more significant projects contributing to the net increase included:

  - Station improvements with concentration on the Elevator Replacement Program. Major improvement occurred at Jamaica, Penn and Moynihan Stations.

  - Station improvements – American Disability Act (“ADA”) – platform edge, street ceiling on the 7th Avenue line, canopy replacement on 62nd Street and brick repair at 168th, 181st, Jay and Lawrence Streets and ventilation facilities at Jackson Avenue in Queens.

  - Signal and communication systems improvement with replacement of antenna cable, modernization of the data network and ventilation facilities on tunnels.

  - Various signal and communication projects incurred by the MTA Long Island Rail Road and related Centralized Traffic Control System and Positive Train Control System.

  - Rehabilitation of line structures and subway tunnels including the Parkchester/Pellham, Far Rockaway, White Plains lines.

  - Purchase of 328 articulated buses, 90 standard diesel buses – Nova T – drive pilot and 382 B division subway cars.

  - Modernization of the Commuter Rail fleet by Metro North, including the New Haven Line, purchase of the M8 cars, GCT Facilities Rehabilitation and Tarrytown Station Improvement.

  - Continued progress on East Side Access, Second Avenue Subway and Number 7 Extension Project.

- Other assets increased by $1,625. The items contributing to this change include, but are not limited to:

  - Net increase in receivables in the amount of $1,301 due to:

    - State and regional mass transit tax and State and local operating assistance receivable increased by $876 due to the recording of current year subsidies approved in the State budget on March 28, 2011 net of any payments received. Other subsidy receivables decreased by $51 due to the collection of funds.

    - Capital receivables increased by $384. This increase was derived mainly from New York State in the amount of $286, New York City in the amount of $79 and the Federal Government in the amount of $22.

- Other receivables increased by $91. This increase was derived mainly from MTA New York City Transit, MTA Bridges and Tunnels, MTAHQ, MTA Long Island Railroad and MTA Bus with increases of $12, $16, $46 and $15, respectively.

- Decrease in current and noncurrent investments and investments held under capital leases of $46 due to:

  - A decrease in current and noncurrent restricted and unrestricted investments of $123, derived mainly from the usage of available funds by MTAHQ in the amount of $256 and partially offset by an increase in funds at FMTAC of $11 and MTA Bridges and Tunnels of $122. The MTAHQ's decrease is derived mainly from the usage of operating funds for agency transit operations of $338 and for capital expenditures and redemption of bonds of $787. These decreases were partially offset by an increase in the Payroll Mobility Tax funds of $422. Investments in the debt service funds increased by $472 due to bond issuances in 2011 and late 2010.

  - An increase in investments under capital lease obligations of $77 due to adjustments on the debt service requirement accounts.

- Increase in other noncurrent assets of $146, derived mainly from MTAHQ. Un-requisitioned funds for MTA New York City Transit and MTA Bus capital expenditures were higher at the end of September 30, 2011 due to increased requisition processing during the current year.

- Increase in deferred outflows from derivative instruments of $283 at September 30, 2011. The implementation of GASB Statement No. 53 require hedges be classified as either effective or non-effective following one of the methods proposed by the statement (See Note 2). Period to period changes in the fair market value of effective hedges are reported as deferred derivative inflows/outflows (See Note 7).

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

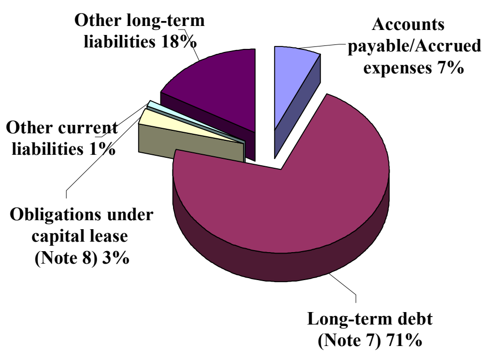
Current liabilities include: accounts payable, interest payable, salary, wages, vacation, payroll taxes and other employee benefits payable. The current portion of long-term debt and deferred revenues are also included in current liabilities.

Long-term liabilities consist of retirement and death benefits payable, accruals for liabilities arising from injuries to persons, post-employment benefits payable, obligations under capital leases and the non-current portion of long-term debt.

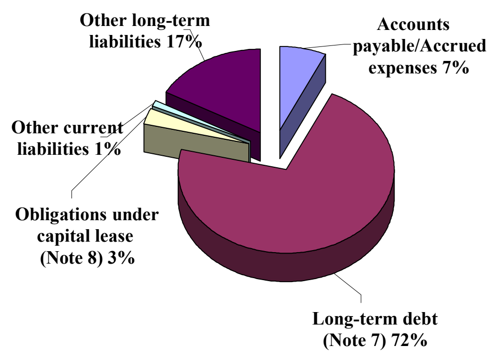
(In millions)	September 2011 (Unaudited)	December 2010	December 2009	Increase/(Decrease) 2011 - 2010	2010 - 2009
Current liabilities	$ 4,588	$ 3,962	$ 4,427	$ 626	$ (465)
Long-term liabilities	41,126	39,377	34,373	1,749	5,004
Total liabilities	$ 45,714	$ 43,339	$ 38,800	$ 2,375	$ 4,539

Total Liabilities

September 30, 2011
(Unaudited)



December 31, 2010



Significant Changes in Liabilities Include:

September 30, 2011 versus December 31, 2010

Current liabilities increased by $626 due to:

- An increase in accounts payable of $230 due to timing.
- An increase in accrued expenses of $387 due to:
  - An increase of $185 in the current portion of retirement and death benefits due to 9 months of accrual by MTA New York City Transit at September 30, 2011 compared to a six month accrual at December 31, 2010.
  - An increase in interest payable of $282. This increase is due to the issuance of bonds in late 2010 and 2011 by both the MTAHQ and MTA Bridges and Tunnels.
- An increase in other current liabilities of $9 due to:
  - An increase in Deferred revenues of $72 due to an increase of unredeemed fare cards sold by MTA New York City Transit.
  - A decrease in the current portion of long-term debt of $74. The decrease was a result of debt service payments on November 15, 2011.
  - An increase in the derivative fuel hedge liability of $6. The increase resulted from a new fuel hedge agreement signed in 2011.

- Noncurrent liabilities increased by $1,749 due to:

  – An increase in postemployment benefits other than pensions ("OPEB") of $939. This increase represents the annual OPEB cost per the interim actuarial estimates provided in March 2011 for the year 2010.

  – An increase in long-term debt of $454. This increase is derived from the July 2011 issuance of Transportation Revenue Bond Series 2011A in the amount of $469 offset by a $16 decrease in MTA Bridges and Tunnels debt.

  – A decrease in obligations under capital leases of $9 due to principal and interest payments in 2011 and lower lease payment requirements compared with the same period in 2010.

  – An increase in the noncurrent portion of estimated liabilities arising from injuries to persons of $45 as a result of 2010 actuarial calculations.

  – An increase in other long-term liabilities of $17 primarily due to additional collateral fund requirements.

  – An increase in derivative liabilities of $302. GASB Statement No. 53 requires state and local government entities to disclose the fair value of derivative instruments including hedges (See Notes 2 and 7).

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

(In millions)	September 2011 (Unaudited)	December 2010	December 2009	Increase/(Decrease) 2011 - 2010	Increase/(Decrease) 2010 - 2009
Invested in capital assets, net of related debt	$ 19,643	$ 19,264	$ 18,779	$ 379	$ 485
Restricted for debt service	1,937	1,279	1,161	658	118
Restricted for claims	159	146	127	13	19
Unrestricted	(4,602)	(3,813)	(2,626)	(789)	(1,187)
Total Net Assets	$ 17,137	$ 16,876	$ 17,441	$ 261	$ (565)

Significant Changes in Net Assets Include:

September 30, 2011 versus December 31, 2010

At September 30, 2011, total net assets increased by $261 when compared with December 31, 2010. This change includes net non-operating revenues of $3,368 and appropriations, grants and other receipts externally restricted for capital projects of $1,402. The increase is offset by operating losses of $4,509.

The investment in capital assets, net of related debt, increased by $379. Funds restricted for debt service and claims increased by $671 while unrestricted net assets decreased by $789.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In millions)	September 30, 2011 (Unaudited)	September 30, 2010 (Unaudited)	September 30, 2009 (Unaudited)	Increase/(Decrease) 2011 - 2010	Increase/(Decrease) 2010 - 2009
Operating revenues					
Passenger and tolls	$ 4,839	$ 4,476	$ 4,190	$ 363	$ 286
Other	320	292	291	28	1
Total operating revenues	5,159	4,768	4,481	391	287
Nonoperating revenues					
Grants, appropriations and taxes	4,114	3,839	2,695	275	1,144
Change in fair value of derivative financial instruments (Note 7)	(29)	(61)	-	32	(61)
Other	371	411	377	(40)	34
Total nonoperating revenues	4,456	4,189	3,072	267	1,117
Total revenues	9,615	8,957	7,553	658	1,404
Operating expenses					
Salaries and wages	3,535	3,431	3,464	104	(33)
Retirement and other employee benefits	1,536	1,573	1,502	(37)	71
Postemployment benefits other than pensions	1,194	1,145	1,317	49	(172)
Depreciation and amortization	1,492	1,471	1,438	21	33
Other expenses	1,911	1,873	1,863	38	10
Total operating expense	9,668	9,493	9,584	175	(91)
Nonoperating Expense					
Interest on long-term debt	1,084	964	930	120	34
Other nonoperating expense	4	4	8	-	(4)
Total nonoperating expense	1,088	968	938	120	30
Total expenses	10,756	10,461	10,522	295	(61)
Appropriations, grants and other receipts externally restricted for capital projects	1,402	1,421	1,315	(19)	106
Change in net assets	261	(83)	(1,654)	344	1,571
Net assets, beginning of period	16,876	17,441	18,334	(565)	(893)
Net assets, end of period	$ 17,137	$ 17,358	$ 16,680	$ (221)	$ 678

Revenues and Expenses, by Major Source:

Period ended September 30, 2011 versus September 30, 2010

- Total operating revenues for the period ended September 30, 2011 were $391 higher than for the period ended September 30, 2010.

  - Fare revenue increased by $304. The increase was due mainly to the fare increases that took effect on December 30, 2010, partially offset by lower ridership because of a relatively weak local economy. Toll revenues increased by $59 principally due to the toll increase which also became effective on December 30, 2010.

  - Other operating revenues increased by $28. This increase derived from MTA New York City Transit is due primarily to student and paratransit reimbursements of expenses expected from New York State and New York City.

- Total non-operating revenue increased by $267

  - Total grants, appropriations, and taxes were higher by $275 for the period ended September 30, 2011. The increase was derived mainly from an increase in both Urban and Mobility Tax subsidies in the amounts of $140 and $54, respectively. During the current period subsidies relating to CDOT increased by $11, while New York City operating subsidies recoverable for MTA Bus decreased by $27.

- Total operating expenses for the period ended September 30, 2011 were higher than the period ended September 30, 2010 by $175. This increase reflects an increase in labor costs of $116 and an increase in non-labor expenses of $59.

  - The labor costs, including retirement and other employee benefits, increase relates to the following:

    - Salaries and wages increased by $104. The increased costs are derived mainly from overtime expenses incurred by several agencies, primarily MTAHQ and MTA New York City Transit.

    - Retirement and employee benefits decreased by $37. This favorable variance was due to an decrease in pension costs of $82 while health and welfare increased by $32 primarily due to higher health insurance rates. Reimbursable overhead decreased by $11.

    - Postemployment benefits other than pensions costs increased by $49. A revised 2010 actuarial annual health cost trend assumption in March 2011 is responsible for the increase reported.

  - Non-labor operating costs were higher by $59. Major increases include fuel and propulsion power by $43, maintenance and other operating costs with an increase of $29 and depreciation costs by $21 due to additional facilities coming on line. Favorable variances are reflected primarily in paratransit and other service contracts by $23 and professional service contracts by $17. Materials and supplies increased by $4,while other expenses decreased by $4.

- Total non-operating expenses increased by $120 derived entirely from interest expense on long-term debt as a result of new bonds issued in 2010 and 2011.

- Appropriations and grants decreased by $19. The Federal government budgetary problems have resulted in fewer grants available for capital expenditure. The use of internal bond proceeds to fund fixed assets also contributed to the decline in the above category.

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

Economic Conditions

Metropolitan New York is the most transit-intensive region in the United States. A financially sound and reliable transportation system is critical to the region's economic well-being. The MTA's business consists of urban subway and bus systems, suburban rail and bus systems, and bridge and tunnel facilities, all of which are affected by many different economic forces. In order to achieve maximum efficiency and success in its operations, the MTA must identify economic trends and continually implement strategies to adapt to changing economic conditions.

Year-to-date September, MTA system-wide utilization was 0.4% lower (8.6 million fewer trips) than ridership through September 2010, while vehicle-crossing levels at MTA Bridges and Tunnels facilities declined by 3.2%. The volume of bridge and tunnel crossings was adversely affected by steady increases in gasoline prices that occurred throughout 2010 and continued into the second quarter of 2011. System-wide utilization was also adversely affected in the third quarter by Tropical Storm Irene, which resulted in the suspension of MTA subway and bus operations during the last weekend of August.

At the end of the third quarter of 2011, seasonally adjusted non-agricultural employment in New York City showed an increase of 45.8 thousand jobs (up 1.2% compared with the same quarter of 2010). Much of this increase in employment occurred in the last quarter of 2010, when 24,100 jobs were added. All three quarters of 2011 have also shown job growth, but at a slower pace: the first quarter of 2011 showed a gain of 7,700 jobs over the prior quarter; and employment improved in the second and third quarters by 4,200 and 9,800 jobs, respectively. Taking a broader perspective, New York City had, by the end of the third quarter, regained 77,000 of the 135,000 jobs that were lost between the third quarter of 2008 and the final quarter of 2009.

The employment gains for New York City in the third quarter indicate continuing economic expansion relative to 2010, consistent with what was happening to the national economy. Real Gross Domestic Product ("RGDP") improved in each quarter of 2011, at rather slow rates in the first half of the year, but resuming a slightly higher pace in the third quarter. Following the second quarter of 2009 – the last quarter in which RGDP contracted – the U.S. economy has now experienced nine consecutive quarters of real GDP growth. RGDP grew in the third and fourth quarters of 2009 by 1.7% and 3.8%, respectively; and the recovery continued in each quarter of 2010 at annualized RGDP growth rates of 3.9%, 3.8%, 2.5% and 2.3%. By comparison, RGDP growth in the first and second quarters of 2011 slowed to 0.4% and 1.3%, respectively, and accelerated to 2.5% in the third quarter.

New York City Metropolitan Area's price inflation was lower than the national average in the third quarter of 2011: while the CPI for the New York City Metropolitan Area grew at 3.5%, the average for all U.S. metropolitan areas was 3.8%. Energy was a main driver of overall price inflation in the metropolitan area, rising much faster than the general price level. While the CPI exclusive of energy was only 2.4% higher in the third quarter of 2011 than in the third quarter of 2010, energy inflation was 17.4% over that period. The New York Harbor spot price for conventional gasoline increased more dramatically than energy prices, rising 44.9% between the third quarters of 2010 and 2011, from an average price of $1.984 to an average of $2.875 per gallon. Between September 2010 and April 2011, the price per gallon rose continuously, producing three consecutive quarters of price rises in excess of 15%. After April, by contrast, gasoline prices trended downward, and third quarter gasoline prices contracted 4.6% compared with the prior quarter.

While noting a rise in commodities prices in August and September, the Federal Reserve Bank elected to keep the Federal Funds rate targeted to between 0.0% and 0.25%, the same targeted rate that prevailed throughout all of 2010. From the first signs of the impending economic downturn more than two years ago, the intention of the Federal Reserve Bank has been first to forestall a recession and, having failed that, to mitigate its consequences by loosening the tight credit conditions that resulted from the national mortgage crisis. Consequently, the Federal Reserve Bank's expansionary interventions since the third quarter of 2007 have contrasted sharply with the measures it took to keep inflation under control as the economy emerged from the recession of 2001-2003. In the third quarter of 2007, the Federal Reserve Board elected to lower the Federal Funds Rate by a half point, from 5.25% to 4.75%, the first rate reduction since the end of June 2003. Confronting a deepening contraction in housing markets and mounting insecurity in financial markets, the bank further subjected the Federal Funds Rate to a series of downward adjustments throughout 2008, resulting ultimately in a targeted rate between zero and one quarter percent. There obviously remained little opportunity for the Bank to lower the rate through further open market operations, and it currently remains in the zero to one-quarter percent range. In August and September of 2011, indicators of slower than anticipated economic growth influenced the Federal Reserve Bank's decision to keep the Federal Funds Rate targeted at its current rate. The Federal Open Market Committee cited unfavorable conditions in labor markets, persistent weakness in non-residential investment and in housing markets, and a flattening of household purchases; at the same time, the committee believed long-term inflation expectations to be stable, again reassured by a return of moderate energy prices.

The influence of Federal Reserve monetary policy on the mortgage market is a matter of interest to the MTA, since variability of mortgage rates can affect the number of real estate transactions and can thereby impact receipts from the Mortgage Recording Tax and Urban Tax, two important sources of MTA revenue. Between the third quarter of 2010 and the third quarter of 2011, Mortgage Recording Tax collections followed a slight trend upwards, showing modest signs of improvement. Consequently, MRT revenues of $70.0 in the third quarter were 9.4% higher than the $61.2 of one year ago. Monthly receipts have nevertheless shown a remarkable consistency over the same period, exceeding $23 only once since January of 2010. In fact, the receipt of $24.8 this September was the MTA's highest MRT collection since November of 2008. Without the inclusion of September, the upward trend in MRT is far less pronounced. The protraction of the MRT recovery appears vivid in light of the revenues received prior to the recession: the average monthly MRT revenue collected in 2007 was $58.6, and it was $34.9 in 2008.

MTA's receipts of Urban Taxes – those based on commercial activity within New York City – have demonstrated a more dramatic rise than MRT receipts since the beginning of 2010, increasing in each quarter of 2010 and through the first quarter of 2011. The MTA benefited in the first quarter from the purchase of 111 Eighth Avenue, an extraordinarily large real estate transaction that, by itself, generated $15.9 in Real Property Transfer Tax revenue. Urban Taxes fell from $78.7 in the first quarter to $66.8 in the second, but they remained substantially higher than in any quarter of 2010. In the third quarter, receipts of Urban Taxes rose to $131.9, exceeding even those collected in the first quarter; in fact, Urban Tax receipts of $52.1 in July were the highest since August of 2008.

Results of Operations

For the first nine months ended September 30, 2011, MTA Bridges and Tunnels' operating revenues increased by $58.5 compared to the first nine months ended September 30, 2010. Toll revenue increased by $58.9 principally due to the toll increase effective December 30, 2010.

The E-ZPass electronic toll collection system experienced year-to-year increases in market share. Total average market share as of September 30, 2011 was 79.1% compared with 75.4% in 2010. The average weekday market shares were 81.0% and 77.5% for the first nine months of 2011 and 2010.

MTA New York City Transit's total operating revenues for the first nine months ended September 30, 2011 exceeded the prior-year period by $266.7 or 10.0%. Fare revenues were higher by $236.6 or 9.60%, primarily due to the December 30, 2010 fare increase.

The MTA Long Island Rail Road operating revenue during the first nine months of 2011 increased by $31.0 or 7.9% compared with the first nine months of 2010. The increase revenue is attributable to the fare increase implemented by the Authority on December 30, 2010.

MTA Metro-North Railroad's operating revenue during the first nine months of 2011 increased by $28.2 or 6.6% compared to the first nine months in 2010. Year-to-date 2011 fare revenue and ridership increased by 7.2% and 1.0%, respectively, compared to the same period in 2010. The increases in revenue occurred on the Hudson, Harlem and New Haven Lines for monthly and weekly commutation as well as non-commutation ridership. The MTA approved fare increases for the MTA Metro-North Railroad which took effect on December 30, 2010. These fare changes are expected to yield a 7.5% increase in fare revenue.

The MTA receives the equivalent of four quarters of Metropolitan Mass Transportation Operating Assistance ("MMTOA") receipts each year, with the state advancing the first quarter of each succeeding calendar year's receipts in the fourth quarter of the current year. This results in little or no Metropolitan Mass Transportation Operating Assistance receipts being received during the first quarter of each calendar year. The MTA has made other provisions to provide for cash liquidity during this period. During the first quarter of 2010, the state did not advance any payments of MMTOA assistance to the MTA from MTA's 2009 appropriation. There has been no change in the timing of the state's payment of, or MTA's receipt of, Dedicated Mass Transportation Trust Fund ("MTTF") receipts, which MTA anticipates will be sufficient to make monthly principal and interest deposits into the Debt Service Fund for the Dedicated Tax Fund Bonds.

Over the last few years, the mortgage recording taxes payable to the MTA generally exceeded expectations, due primarily to the high level of home buying and refinancing encouraged by historically low interest rates. In the last quarter of 2007, however, the national downturn in housing markets began to impact the frequency of local real estate transactions, and the collection of mortgage recording taxes fell. In spite of the Federal Reserve Bank's determination to forestall a recession by successively lowering interest rates, the total amount collected in 2008 compared to 2007 was reduced by 42.4% from $686.9 to $395.5. In 2009, mortgage-recording taxes continue to decline at an even higher rate. The total amount collected for the year ended December 31, 2009 was reduced by 38.0% from $395.5 to $244.6. The total MRT collected as at December 31, 2010 declined by 3.5% compared to December 2009 from $244.6 to $236.1. However, the total MRT collected in the first nine months of 2011 increased by 4.6% compared to September 2010 from $187.4 to $179.2.

Capital Programs

At September 30, 2011, $4,003 had been committed and $919 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program, and $22,376 had been committed and $16,865 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program, and $21,444 had been committed and $20,290 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

The MTA Group has ongoing capital programs, which except for MTA Bridges and Tunnels and MTA Long Island Bus are subject to the approval of the Metropolitan Transportation Authority Capital Program Review Board ("CPRB"), and are designed to improve public transportation in the New York Metropolitan area.

2010-2014 Capital Program — Capital programs covering the years 2010-2014 were originally approved by the MTA Board in September 2009. The capital programs for the Transit and Commuter systems were subsequently submitted to the CPRB in October 2009 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2010–2014 Commuter Capital Program"), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, the MTA Bus Company, and the rail system operated by MTA Staten Island Railway (the "2010–2014 Transit Capital Program"). This plan was disapproved by the CPRB in December 2009. A revised 2010-2014 Capital Program was approved by the CPRB in June 2010. The capital program for the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2010–2014 MTA Bridges and Tunnels Capital Program") was approved by the MTA Board in September 2009.

As approved by the CPRB in June 2010, the 2010–2014 MTA Capital Programs and the 2010–2014 MTA Bridges and Tunnels Capital Program provided for $26,265 in capital expenditures. Since the plan approval, the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program decreased by $50 and now provide for $26,215 in capital expenditures, of which $12,788 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; $4,248 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; $5,741 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; $335 relates to a multi-faceted security program including MTA Police Department; $325 relates to MTA Interagency; $325 relates to MTA Bus Company initiatives; and $2,453 relates to the ongoing repairs of, and replacements to, MTA Bridges and Tunnels facilities.

The combined funding sources for the MTA Board-approved 2010–2014 MTA Capital Programs and 2010–2014 MTA Bridges and Tunnels Capital Program include $6,070 in MTA Bonds, $2,453 in MTA Bridges and Tunnels dedicated funds, $7,075 in Federal Funds, $210 in MTA Bus Federal and City Match, $500 from City Capital Funds, $343 from other sources, and $9,564 from future State and local funding.

At September 30, 2011, $4,003 had been committed and $919 had been expended for the combined 2010-2014 MTA Capital Programs and the 2010-2014 MTA Bridges and Tunnels Capital Program.

2005-2009 Capital Program — Capital programs covering the years 2005-2009 were originally approved by the MTA Board in April 2005 and subsequently by the CPRB in July 2005 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2005–2009 Commuter Capital Program"), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the "2005–2009 Transit Capital Program"), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the "2005–2009 MTA Bridges and Tunnels Capital Program"). The 2005–2009 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2005. The 2005–2009 amended Commuter Capital Program and the 2005–2009 Transit Capital program (collectively, the "2005–2009 MTA Capital Programs") were last amended by the MTA Board in July 2008. This latest 2005-2009 MTA Capital Program amendment was resubmitted to the CPRB for approval in July 2008, and was approved in August 2009.

As last amended by the MTA Board, the 2005–2009 MTA Capital Programs and the 2005–2009 MTA Bridges and Tunnels Capital Program, provide for $23,717 in capital expenditures. At March 31, 2011, the 2005-2009 MTA Capital Programs budget increased by $666, primarily due to the receipt of new American Recovery and Reinvestment Act ("ARRA") funds and additional City Capital funds for MTA Capital Construction work still underway. At September 30, 2011 the 2005-2009 MTA Capital Programs budget decreased by $13 due to transfer of CPRB reserve funds to the 2010-2014 Capital Program. Of the $24,370 now provided in capital expenditures, $11,597 relates to ongoing repairs of, and replacements to, the transit system operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; $3,776 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; $495 relates to a security program throughout the transit, commuter and bridge and tunnel network; $186 relates to certain interagency projects; $6,943 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and #7 subway line); $1,221 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels; and $152 relates to capital projects for the MTA Bus.

The combined funding sources for the MTA Board-approved 2005–2009 MTA Capital Programs and 2005–2009 MTA Bridges and Tunnels Capital Program include $9,583 in MTA and MTA Bridges and Tunnels Bonds (including funds for LaGuardia Airport initiative), $1,450 in New York State general obligation bonds approved by the voters in the November 2005 election, $9,603 in Federal Funds, $2,577 in City Capital Funds, and $1,157 from other sources.

At September 30, 2011, $22,376 had been committed and $16,865 had been expended for the combined 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program.

2000-2004 Capital Program — Capital programs covering the years 2000-2004 were originally approved by the MTA Board in April 2000 and subsequently by the CPRB in May 2000 for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the "2000-2004 Commuter Capital Program"), (2) the transit system operated by the MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by MTA Staten Island Railway (the "2000-2004 Transit Capital Program"), and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the 2000-2004 MTA Bridges and Tunnels Capital Program"). The 2000-2004 MTA Bridges and Tunnels Capital Program was effective upon adoption by the MTA Board in April 2000. The 2000-2004 amended Commuter Capital Program and the

2000-2004 amended Transit Capital Program (collectively, the "2000-2004 MTA Capital Programs") were most recently amended by the MTA Board in December 2006. This latest 2000-2004 MTA Capital Program amendment was submitted to the CPRB for approval in April 2007, but was subsequently vetoed.

As last amended by the MTA Board, the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program, provide for $21,147 in capital expenditures. By March 31, 2011, the 2000-2004 MTA Capital Programs budget increased by $610, primarily due to the receipt of ARRA funds, transfers from the 2005-2009 Capital Program, and MTA operating sources required to fund cost increases for work still underway. At September 30, 2011, the budget decreased by $28, mostly due to transfer of CPRB reserve funds to the 2010-2014 Capital Program. This revised budget now provides $21,729 in capital expenditures, of which $10,447 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; $3,990 relates to ongoing repairs of, and replacements to, the Commuter System operated by MTA Long Island Rail Road and MTA Metro-North Railroad; $5,360 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by MTA Capital Construction; $204 relates to planning and design and customer service projects; $244 relates to World Trade Center repair projects; $982 relates to the ongoing repairs and replacements to MTA Bridges and Tunnels facilities; and $502 relates to MTA Bus.

The combined funding sources for the MTA Board-approved 2000–2004 MTA Capital Programs and 2000–2004 MTA Bridges and Tunnels Capital Program (with revisions through the July 2008) include $7,897 in bonds, $6,940 in Federal funds, $4,575 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002, and $2,317 from other sources.

At September 30, 2011, $21,444 had been committed and $20,290 had been expended for the combined 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program.

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

5. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

During the first nine months of 2011, deteriorated credit quality of bond insurers continued to put pressure on the auction segments of the MTA's variable rate portfolio. Auctions for all of the $558.3 of auction rate bonds outstanding (the interest rate for such bonds is determined based on a multiple of the London Interbank Offered Rate) as of the end of September 30, 2011, had been failing. MTA continues to closely monitor the performance of its auction rate bonds, insured variable rate demand bonds and variable rate demand bonds for which liquidity is provided by the lower rated banks.

The July Financial Plan

General. The 2011 Mid-Year Forecast, 2012 Preliminary Budget and July Financial Plan 2012-2015 (collectively, the July Plan or the Plan) was presented to the MTA Board for review at its July 27, 2011 meeting. The July Plan continues cost cutting initiatives begun in 2010. When implemented, the Plan is expected to achieve fiscal stability without reducing service. Copies of the July Plan and the presentation are available on the MTA website under the caption “MTA Home–About MTA–Financial Information–Budget”.

Objectives of the July Plan. The July Plan continues a strategy adopted last year when the MTA began a complete overhaul of the way it conducts business. The Plan builds upon the $525 in recurring MTA efficiency measures put in place in 2010. Each year of the Plan incorporates added efficiencies without further service reductions. By 2015, the added planned efficiencies grow to $266 annually. The July Plan also controls wage and salary growth. The Plan continues to rely upon regular biennial fare and toll increases established in the 2009 legislative funding package for the MTA.

As 2011 unfolded, the MTA was immediately impacted by a series of events,which put stress on its balanced budget.

- Severe winter weather reduced toll and passenger revenue and increased costs for overtime and materials to remove snow and repair damaged equipment. The combined revenue and expense effect was approximately $40

- The State announced a reduction in MMTOA subsidies to the MTA based on a faltering economy that, on a net basis, would result in a $100 loss to the MTA in 2011.

- Rising oil prices had a dual impact on MTA: an increase in fuel costs to provide service and a reduction in vehicular volume at MTA Bridges and Tunnels facilities beyond the losses from the weather. Also impacting toll revenue is a lower yield from a greater than anticipated usage of E-Z Pass, which offers a discount from cash tolls.

- Projections of health and welfare costs in 2012 and beyond are likely to increase more than previously projected.

In response to these developments, the MTA established its 2011 Budget Reduction Program (2011 BRP) which, when combined with 2010 savings, resulted in an improvement to the 2011 projected year-end cash balance of $90 , with recurring savings of approximately $20 per year thereafter.

Actions to Build Financial Stability. In the final 2011-2014 Financial Plan released in February 2011 (the February Plan), the MTA introduced new efficiencies to improve business operations, better manage its intellectual technology functions, reduce inventory, consolidate operations and implement a strategic sourcing strategy – the practice of selecting capable and qualified vendors that satisfy requirements at the lowest cost. In the July Plan, additional MTA efficiencies have been proposed. These new initiatives, together with the existing program, increase the total targeted savings to $80 in 2011, $139 in 2012, $216 in 2013, $241 in 2014 and $266 in 2015.

While striving to control expenses, the July Plan continues to address important issues of reliability and service quality. MTA New York City Transit is adding staff to improve signals maintenance and repairs and the reliability and safety of its escalators and elevators. It is also adding resources to extend the useful life of its R-32 subway car fleet until replacements are delivered in 2017 and is reinstating its Work Experience Program, to enhance station and car cleanliness. MTA Metro-North Railroad will rehabilitate its Harlem River Lift Bridge, which was severely damaged by fire in 2010, and will be purchasing equipment to improve its response to heavy snowfall and icing conditions. It will also overhaul two West of Hudson locomotives, extending their reliability through 2020, and complete its door modification program for its M-3 fleet. MTA Long Island Rail Road is rolling out systems to provide accurate service and schedule status information to its customers during major service disruptions.

With approximately 60% of MTA's expenses driven by labor costs, it is essential that growth in this area reflect economic realities of the MTA service area and the State. The February Plan incorporated a two year wage freeze initiative for all MTA employees. The labor environment is continuing to change as reflected in the tentative contract agreements reached by the State and its two largest unions, the Civil Service Employees Association, Inc. and Public Employees Federation. Recognizing this change, the July Plan adds a third year of zero wage growth for both represented and non-represented employees, resulting in projected savings of $33 in 2011, growing to $127 by 2015.

Finally, consistent with the 2009 legislative funding package for the MTA, the July Plan includes 7.5% revenue yield increases in 2013 and 2015 from fares and tolls.

Projected Effects of the July Plan. The February Plan projected a $3 ending cash balance for 2011 and deficits of $247 $37 and $482 for 2012, 2013 and 2014, respectively, largely due to the impact of growth in certain costs, including costs for pensions, health and welfare and paratransit services.

The July Plan projects an improved picture. A more favorable 2010 closing cash balance, due mainly to spending restrictions, helped to improve 2011. BRPs, additional MTA efficiencies, additional labor savings initiatives, improving revenues, debt service savings, and release of one-half of the 2011 general reserve resulted in a projected closing cash balance for 2011 of $170 A $4 closing balance is projected for 2012, after rolling forward the 2011 cash balance. Thereafter, the July Plan projects a closing balance of $125 in 2013 and deficits of $54 in 2014 and $178 in 2015.

Risks to the July Plan. The July Plan assumes that State budget actions will reflect full remittance to MTA of all resources collected on MTA's behalf. The regional economy remains weak, and should a recovery not emerge, the MTA has limited financial reserves to offset lower-than-expected operating revenues and taxes and subsidies. The Plan also assumes that labor settlements will include three years of zero wage growth. There are also longer-term vulnerabilities, including limited working capital and rapidly rising employee and retiree healthcare costs and pensions.

A significant risk to the July Plan is the successful funding of the remaining three years of the 2010 - 2014 Capital Program. Funding the remaining three years of the program is critical for MTA to meet its obligations under the Federal Full Funding Agreements for the Second Avenue Subway and East Side Access projects. In addition, such funding is necessary to continue the investment to achieve a state of good repair and maintain normal replacement cycles for its capital assets and maintain MTA's financial rating.

Proposed Capital Program Funding Strategy. The 2010-2014 Capital Program (the Program) for the Transit and Commuter Systems, which was deemed approved by the CPRB on June 1, 2010, totaled approximately $23,800. At the time of approval, the Program included a substantial funding gap. A revised Capital Program Funding Strategy (the Proposed Strategy) was presented to the MTA Board at its July 27, 2011 meeting. The Proposed Strategy recognizes both the current difficult economic environment and the need to complete the funding of the critical safety and reliability infrastructure projects and the elements of the East Side Access and Second Avenue Subway projects already underway. As part of the Proposed Strategy, the MTA would reduce the size of the Program to approximately $22,200 representing a reduction in the costs of accomplishing the Program rather than the elimination or reduction in scope of any projects, while also adopting a revised financing strategy and funding sources to fully fund such reduced Program. If the Proposed Strategy or a modification thereof is presented to and is approved by the MTA Board, the next step would be to submit proposed amendments to the Program that reflect this change in funding strategy to the Capital Program Review Board for its review and approval. MTA's Proposed Strategy is anticipated to be accomplished without new taxes or fare or toll increases beyond the regular biennial fare increases while at the same time maintaining a responsible financial position.

MTA anticipates accomplishing the reduction in the Program size by finding ways to deliver benefits more efficiently including an overhaul of business practices that is projected to result in reduced costs of train and bus purchases, partnering with contractors and labor to reduce costs, lowering the cost of work along the right-of-way, and the elimination of 15% of capital program administrative staff.

Proposed funding sources added to the Program to close the remaining funding gap after giving effect to the proposed reduction in size of the Program include $2,200 in loan proceeds for future East Side Access costs that MTA has applied to receive from the Federal Railroad Administration in the form of a Railroad Rehabilitation and Improvement Financing Program loan (the RRIF loan). The RRIF loan would allow MTA to take advantage of longer maturity bonds at a low interest rate. MTA's application to the Federal Railroad Administration also includes $800 to refund more costly existing East Side Access borrowing.

MTA also anticipates issuing $4,700 of additional MTA debt to help close the funding gap. Money already set aside for pay-as-you-go funding of capital projects and reflected in the Plan is proposed to be used to make debt service payments on the new obligations. MTA will repay $6,200 in existing debt over the Program period through normal amortization thereby maintaining a growing, but manageable debt level.

Other sources that are anticipated to be available to close the funding gap include: monies from New York State and New York City, amounting to a total of $1,700; pay-as-you-go funding in the amount of $64 and MTA real estate sales proceeds in the amount of $25.

Developments Affecting MTA Long Island Bus. Earlier this year, Nassau County announced that it would be proceeding with an award of a contract to privatize bus and paratransit services in the County and that the bus and paratransit services currently furnished by MTA Long Island Bus are to be furnished by a private operator by January 1, 2012. In June, 2011, the County Executive announced its selection of a private operator.

The MTA Board in April 2011 approved a resolution authorizing actions to facilitate Nassau County's transition to provision of bus and paratransit services by a private operator on or before January 1, 2012. Consistent with the Board's authorization, MTA Long Island Bus has given notice of the termination of the existing Lease & Operating Agreement between Nassau County and MTA Long Island Bus effective as of December 31, 2011. The MTA has agreed to continue existing levels of service through 2011 due to additional one-time financial assistance that has been provided by the State Senate.

Consistent with these developments, the July Plan assumes the cessation of MTA Long Island Bus operations on December 31, 2011. For 2012 and beyond, it assumes the exclusion of MTA Long Island Bus as a separate operating entity from all budget forecasts for revenue, expenses, cash, subsidies, and headcount. Under the Lease & Operating Agreement, expenses that may be incurred post-December 31, 2011, in connection with the wind down of MTA Long Island Bus will primarily be the financial responsibility of Nassau County.

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METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
($ In millions)

	September 30, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash (Note 3)	$ 185	$ 200
Unrestricted investments (Note 3)	1,172	1,431
Restricted investment (Note 3)	1,688	1,663
Restricted investments held under capital lease obligations (Notes 3 and 8)	88	85
Receivables:		
Station maintenance, operation, and use assessments	77	112
State and regional mass transit taxes	876	116
Mortgage Recording Tax receivable	20	20
State and local operating assistance	137	21
Other subsidies	69	75
Connecticut Department of Transportation	21	9
Due from Build America Bonds	4	5
New York City	33	54
Capital project receivable from federal and state government and other	573	189
Other	288	197
Less allowance for doubtful accounts	(16)	(17)
Total receivables — net	2,082	781
Materials and supplies	429	429
Advance to defined benefit pension trust — MaBSTOA	41	41
Advance to defined benefit pension trust	20	21
Prepaid expenses and other current assets (Note 2)	134	139
Total current assets	5,839	4,790
NONCURRENT ASSETS:		
Capital assets — net (Note 6)	51,144	50,133
Unrestricted investments (Note 3)	15	69
Restricted investments (Note 3)	614	449
Restricted investment held under capital lease obligations (Notes 3 and 8)	1,112	1,038
Receivable from New York State	2,006	2,035
Deferred outflows from derivative instruments	643	360
Derivative assets	5	14
Other noncurrent assets	1,473	1,327
Total noncurrent assets	57,012	55,425
TOTAL ASSETS	$ 62,851	$ 60,215

See Independent Accountants' Review Report and notes to the consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2011 AND DECEMBER 31, 2010
($ In millions)

	September 30, 2011 (Unaudited)	December 31, 2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 581	$ 351
Accrued expenses:		
Interest	525	243
Salaries, wages and payroll taxes	250	273
Vacation and sick pay benefits	776	753
Current portion — retirement and death benefits	481	296
Current portion — estimated liability from injuries to persons (Note 9)	257	255
Other	639	721
Total accrued expenses	2,928	2,541
Current portion — long-term debt (Note 7)	528	602
Current portion — obligations under capital lease (Note 8)	17	16
Current portion — pollution remediation projects (Note 11)	21	17
Deferred revenue	507	435
Derivative fuel hedge liability	6	-
Total current liabilities	4,588	3,962
NONCURRENT LIABILITIES:		
Retirement and death benefits	39	39
Estimated liability arising from injuries to persons (Note 9)	1,490	1,445
Post employment benefits other than pensions (Note 5)	5,842	4,903
Long-term debt (Note 7)	31,257	30,803
Obligations under capital leases (Note 8)	1,161	1,170
Pollution remediation projects (Note 12)	77	75
Contract retainage payable	238	239
Derivative liabilities	675	373
Derivative liabilities-off market elements	42	42
Other long-term liabilities	305	288
Total noncurrent liabilities	41,126	39,377
Total liabilities	45,714	43,339
NET ASSETS:		
Invested in capital assets — net of related debt	19,643	19,264
Restricted for debt service	1,937	1,279
Restricted for claims	159	146
Unrestricted	(4,602)	(3,813)
Total net assets	17,137	16,876
TOTAL LIABILITIES AND NET ASSETS	$ 62,851	$ 60,215

See Independent Accountants' Review Report and notes to the consolidated financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS PERIODS ENDED SEPTEMBER 30, 2011 AND 2010 ($ In millions)

	September 30, 2011	September 30, 2010
	(Unaudited)	
OPERATING REVENUES:		
Fare revenue	$ 3,714	$ 3,410
Vehicle toll revenue	1,125	1,066
Rents, freight, and other revenue	320	292
Total operating revenues	5,159	4,768
OPERATING EXPENSES:		
Salaries and wages	3,535	3,431
Retirement and other employee benefits	1,536	1,573
Postemployment benefits other than pensions (Note 5)	1,194	1,145
Traction and propulsion power	252	248
Fuel for buses and trains	186	143
Claims	244	239
Paratransit service contracts	264	287
Maintenance and other operating contracts	424	395
Professional service contracts	125	142
Pollution remediation projects (Note 12)	7	10
Materials and supplies	380	376
Depreciation	1,492	1,471
Other	29	33
Total operating expenses	9,668	9,493
OPERATING LOSS	(4,509)	(4,725)
NON-OPERATING REVENUES (EXPENSES):		
Grants, appropriations, and taxes:		
Tax-supported subsidies — NYS	1,842	1,840
Tax-supported subsidies — NYC and local	457	306
Operating subsidies — NYS	273	194
Operating subsidies — NYC and local	190	191
Build America Bond subsidy	48	58
Mobility Tax	1,304	1,250
Total grants, appropriations, and taxes	$ 4,114	$ 3,839

See Independent Accountants' Review Report and notes to the consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PERIODS ENDED SEPTEMBER 30, 2011 AND 2010
($ In millions)

	September 30, 2011	September 30, 2010
	(Unaudited)	
NON-OPERATING REVENUES (EXPENSES):		
Connecticut Department of Transportation	$ 70	$ 59
Subsidies paid to Dutchess, Orange, and Rockland Counties	(4)	(4)
Interest on long-term debt	(1,084)	(964)
Station maintenance, operation and use assessments	118	115
Operating subsidies recoverable from NYC for MTA Bus	207	234
Other non-operating (expense) revenue	(24)	3
Change in fair value of derivative financial instruments (Note 7)	(29)	(61)
Net non operating revenues	3,368	3,221
LOSS BEFORE APPROPRIATIONS	(1,141)	(1,504)
APPROPRIATIONS, GRANTS, AND OTHER RECEIPTS EXTERNALLY RESTRICTED FOR CAPITAL PROJECTS	1,402	1,421
CHANGE IN NET ASSETS	261	(83)
NET ASSETS — Beginning of period	16,876	17,441
NET ASSETS — End of period	$ 17,137	$ 17,358

See Independent Accountants' Review Report and notes to the consolidated financial statements.

(Concluded)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS
PERIODS ENDED SEPTEMBER 30, 2011 AND 2010
($ In millions)

	September 30, 2011	September 30, 2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Passenger receipts/tolls	$ 5,001	$ 4,636
Rents and other receipts	211	243
Payroll and related fringe benefits	(5,131)	(5,120)
Other operating expenses	(1,962)	(1,728)
Net cash used by operating activities	(1,881)	(1,969)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Grants, appropriations, and taxes	3,349	2,840
Operating subsidies from CDOT	67	60
Subsidies paid to Dutchess, Orange, and Rockland counties	(6)	(7)
MTA revenue anticipation notes	-	581
Net cash provided by noncapital financing activities	3,410	3,474
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
MTA bond proceeds	1,543	2,045
MTA Bridges and Tunnels bond proceeds	-	161
MTA bonds reissued	(1,028)	-
TBTA bonds refunded	-	(150)
MTA anticipation notes proceeds	1,687	-
MTA anticipation notes redeemed	(1,634)	-
Capital lease receipts	-	10
Capital lease payments	(4)	(4)
Grants and appropriations	1,511	1,716
Payment for capital assets	(2,920)	(3,689)
Debt service payments	(976)	(897)
Net cash used by capital and related financing activities	(1,821)	(808)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of long-term securities	(3,240)	(3,757)
Sales or maturities of long-term securities	2,152	2,103
Sales of short term securities	1,341	744
Earnings on investments	24	27
Net cash provided/(used) by investing activities	277	(883)
NET DECREASE IN CASH	(15)	(186)
CASH — Beginning of period	200	348
CASH — End of period	$ 185	$ 162

See Independent Accountants' Review Report and notes to the consolidated financial statements.

(Continued)

METROPOLITAN TRANSPORTATION AUTHORITY

(A Component Unit of the State of New York)

CONSOLIDATED STATEMENTS OF CASH FLOWS
PERIODS ENDED SEPTEMBER 30, 2011 AND 2010
($ In millions)

	September 30, 2011	September 30, 2010
	(Unaudited)	
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (4,509)	$ (4,725)
Adjustments to reconcile to net cash used in operating activities:		
Depreciation and amortization	1,492	1,471
Net increase in payables, accrued expenses, and other liabilities	1,247	1,104
Net (increase)/decrease in receivables	(199)	115
Net decrease in materials and supplies and prepaid expenses	88	66
NET CASH USED BY OPERATING ACTIVITIES	$ (1,881)	$ (1,969)

See Independent Accountants' Review Report and notes to the consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTATION

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

These consolidated financial statements are of the Metropolitan Transportation Authority ("MTA"), including its related groups (collectively, the "MTA Group") as follows:

Metropolitan Transportation Authority and Related Groups

- Metropolitan Transportation Authority Headquarters ("MTAHQ") provides support in budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services to the related groups listed below.

- The Long Island Rail Road Company ("MTA Long Island Rail Road") provides passenger transportation between New York City ("NYC") and Long Island.

- Metro-North Commuter Railroad Company ("MTA Metro-North Railroad") provides passenger transportation between NYC and the suburban communities in Westchester, Dutchess, Putnam, Orange, and Rockland counties in NYS and New Haven and Fairfield counties in Connecticut.

- Staten Island Rapid Transit Operating Authority ("MTA Staten Island Railway") provides passenger transportation on Staten Island.

- Metropolitan Suburban Bus Authority ("MTA Long Island Bus") provides public bus service in NYC and Nassau County, New York.

- First Mutual Transportation Assurance Company ("FMTAC") provides primary insurance coverage for certain losses, some of which are reinsured, and assumes reinsurance coverage for certain other losses.

- MTA Capital Construction Company ("MTA Capital Construction") provides oversight for the planning, design and construction of current and future major MTA system-wide expansion projects.

- MTA Bus Company ("MTA Bus") operates certain bus routes in areas previously served by private bus operators pursuant to franchises granted by the City of New York.

- MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Capital Construction, and MTA Bus, collectively are referred to herein as MTA. MTA Long Island Rail Road and MTA Metro-North Railroad are referred to collectively as the Commuter Railroads.

- New York City Transit Authority ("MTA New York City Transit") and its subsidiary, Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA"), provide subway and public bus service within the five boroughs of New York City.

- Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") operates seven toll bridges, two tunnels, and the Battery Parking Garage, all within the five boroughs of New York City.

MTA New York City Transit and MTA Bridges and Tunnels are operationally and legally independent of the MTA. These related groups enjoy certain rights typically associated with separate legal status including, in some cases, the ability to issue debt. However, they are included in the MTA's consolidated financial statements because of the MTA's financial accountability for these entities and they are under the direction of the MTA Board (a reference to "MTA Board" means the board of MTAHQ and/or the boards of the other MTA Group entities that apply in the specific context, all of which are comprised of the same persons). Under accounting principles generally accepted in the United States of America ("GAAP"), the MTA is required to include these related groups in its financial statements. While certain units are separate legal entities, they do have legal capital requirements and the revenues of all of the related groups of the MTA are used to support the organization as a whole. The components do not constitute a separate accounting entity (fund) since there is no legal requirement to account for the activities of the components as discrete accounting entities. Therefore, the MTA financial statements are presented on a consolidated basis with segment disclosure for each distinct operating activity.

Although the MTA Group collect fares for the transit and commuter service they provide and receive revenues from other sources such as the leasing out of real property assets and the licensing of advertising, such revenues, including forecast increased revenues from fare increases, are not sufficient to cover all operating expenses associated with such service. Therefore, to maintain a balanced budget, the members of the MTA Group providing transit and commuter service rely on operating surpluses transferred from MTA Bridges and Tunnels, operating subsidies provided by NYS and certain local governmental entities in the MTA commuter district, and service reimbursements from certain local governmental entities in the MTA commuter district and from the State of Connecticut. Operating subsidies to the MTA Group for transit and commuter service in the current period totaled $2.8 billion.

2. SIGNIFICANT ACCOUNTING POLICIES

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

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

New Accounting Standards — The MTA has completed the process of evaluating GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes accounting and financial reporting standards for all governments that report governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The MTA has determined that GASB No. 54 had no impact on its financial position, results of operations, and cash flows and therefore it is not applicable to its operation.

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

The MTA has completed the process of evaluating the impact that will result from implementing GASB Statement No. 59, *Financial Instruments Omnibus*. The Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. The MTA has determined that GASB No. 59 had no impact on its financial position, results of operations, and cash flows and therefore it is not applicable to its operation at the present time.

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

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

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

The MTA has not completed the process of evaluating the impact of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* The Statement objective is to provide a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The Statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This Statement is effective for financial statements for periods beginning after December 15, 2011.

The MTA has not completed the process of evaluating the impact of GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The Statement will improve financial reporting by state and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The Statement clarifies that when certain conditions are met, the use of hedge accounting should not be terminated. Those conditions are: (1) the collectability of swap payments is considered to be probable, (2) the replacement of the counterparty or credit support provider meets the criteria of an assignment or in-substance assignment as described in the Statement, and (3) the counterparty or counterparty credit support provider (and not the government) has committed the act of default or termination event. When all of these conditions exist, the GASB believes that the hedging relationship continues and hedge accounting should continue to be applied. This Statement is effective for financial statements for periods beginning after June 15, 2011.

Use of Management 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates.

Principles of Consolidation — The consolidated financial statements consist of MTAHQ, MTA Long Island Rail Road, MTA Metro-North Railroad, MTA Staten Island Railway, MTA Long Island Bus, FMTAC, MTA Bus, MTA Capital Construction, MTA New York City Transit (including its subsidiary MaBSTOA), and MTA Bridges and Tunnels. All related group transactions have been eliminated for consolidation purposes.

Investments — The MTA Group's investment policies comply with the New York State Comptroller's guidelines for such operating and capital policies. Those policies permit investments in, among others, obligations of the U.S. Treasury, its agencies and instrumentalities, and repurchase agreements secured by such obligations. FMTAC's investment policies comply with New York State Comptroller guidelines and New York State Department of Insurance guidelines.

Investments expected to be utilized within a year of September 30 and December 31 have been classified as current assets in the financial statements.

All investments are recorded on the balance sheets at fair value and all investment income, including changes in the fair value of investments, is reported as revenue on the statement of revenues, expenses and changes in net assets. Fair values have been determined using quoted market values at September 30, 2011 and December 31, 2010.

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

Prepaid Expenses and Other Current Assets — Prepaid expenses and other current assets reflect advance payment of insurance premiums as well as farecard media related with ticket machines, WebTickets and AirTrain tickets.

Capital Assets — Properties and equipment are carried at cost and are depreciated on a straight-line basis over estimated useful lives. Expenditures for maintenance and repairs are charged to operations as incurred. Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than $25 thousand. Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease. Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less.

Pollution remediation projects — Effective January 1, 2008, pollution remediation costs are being expensed in accordance with the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* (see Note 12). An operating expense provision and corresponding liability measured at current value using the expected cash flow method has been recognized for certain pollution remediation obligations, which previously may not have been required to be recognized, have been recognized earlier than in the past or are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations occur when any one of the following obligating events takes place: the Authority is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Authority is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Authority voluntarily commences or legally obligates itself to commence remediation efforts; or the Authority is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities.

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

Non-operating Revenues

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

Mortgage Recording Taxes ("MRT") — Under NYS law, the MTA receives capital and operating assistance through a Mortgage Recording Tax ("MRT-1"), which is collected by NYC and the seven other counties within the MTA's service area, at the rate of .25 of one percent of the debt secured by certain real estate mortgages. Effective September 2005, the rate was increased from 25 cents per 100 dollars of recorded mortgage to 30 cents per 100 dollars of recorded mortgage. The MTA also receives an additional Mortgage Recording Tax ("MRT-2") of .25 of one percent of certain mortgages secured by real estate improved or to be improved by structures containing one to nine dwelling units in the MTA's service area. MRT-1 and MRT-2 taxes are recognized as revenue based upon reported amounts of taxes collected.

- MRT-1 proceeds are initially used to pay MTAHQ's operating expenses. Remaining funds, if any, are allocated 55% to certain transit operations and 45% to the commuter railroads operations. The commuter railroad portion is first used to fund the NYS Suburban Highway Transportation Fund in an amount not to exceed $20 annually (subject to the moneys being returned under the conditions set forth in the governing statute if the Commuter Railroads are operating at a deficit). As of September 30, 2011 and September 30, 2010, the amount allocated to NYS Suburban Highway Transportation Fund was $0 and $0 respectively. Of the MTA New York City Transit portion, the MTA distributed $0 and $0 as of September 30, 2011 and September 30, 2010, respectively.

- The first $5 of the MRT-2 proceeds is transferred to the MTA Dutchess, Orange, and Rockland ("DOR") Fund ($1.5 each for Dutchess and Orange Counties and $2 for Rockland County). Additionally, the MTA must transfer to each County's fund an amount equal to the product of (i) the percentage by which each respective County's mortgage recording tax payments (both MRT-1 and MRT-2) to the MTA increased over such payments in 1989 and (ii) the base amount received by each county as described above. The counties do not receive any portion of the September 1, 2005 increase in MRT-1 from 25 cents per $100 of recorded mortgage to 30 cents. As of September 30, 2011, the MTA paid to Dutchess, Orange and Rockland Counties the 2010 excess amounts of MRT-1 and MRT-2 totaling $2.1.

- In addition, MTA New York City Transit receives operating assistance directly from NYC through a mortgage recording tax at the rate of .625 of one percent of the debt secured by certain real estate mortgages and through a property transfer tax at the rate of one percent of the assessed value (collectively referred to as "Urban Tax Subsidies") of certain properties.

Mobility tax — In June of 2009, chapter 25 of the NYS Laws of 2009 added article 23, which establishes the Metropolitan Commuter Transportation Mobility Tax ("MCTMT"). The proceeds of this tax, administered by the New York State Tax Department, are to be distributed to the Metropolitan Transportation Authority. This tax is imposed on certain employers and self-employed individuals engaging in business within the metropolitan commuter transportation district which includes New York City, and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester. This Tax imposed on certain employers that have payroll expenses within the Metropolitan Commuter Transportation District, to pay at a rate of 0.34% of an employer's payroll expenses for all covered employees for each calendar quarter. The employer is prohibited to deduct from wages or compensation of an employee any amount that represents all or any portion of the MCTMT. The effective date of this tax was March 1, 2009 for employers other than public school district; September 1, 2009 for Public school districts and January 1, 2009 for individuals.

Supplemental Aid — Also in 2009 several amendments to the existing tax law provided the MTA supplemental revenues to be deposited into the AID Trust Account of the Metropolitan Transportation Authority Financial Assistance Fund established pursuant to section 92 of the State Finance law. These supplemental revenues relates to: 1) supplemental learner permit/license fee in the Metropolitan Commuter Transportation District 2) Supplemental Registration fee 3) Supplemental tax on every taxicab owner per taxicab ride on every ride that originated in the city and terminates anywhere within the territorial boundaries of the Metropolitan Commuter Transportation District 4) Supplemental tax on passenger car rental. This Supplemental Aid Tax is provided to the MTA in conjunction with the Mobility Tax.

Dedicated Taxes — Under NYS law, subject to annual appropriation, the MTA receives operating assistance through a portion of the Dedicated Mass Transportation Trust Fund ("MTTF") and Metropolitan Mass Transportation Operating Assistance Fund ("MMTOA"). The MTTF receipts consist of a portion of the revenues derived from certain business privilege taxes imposed by the State on petroleum businesses, a portion of the motor fuel tax on gasoline and diesel fuel, and a portion of certain motor vehicle fees, including registration and nonregistration fees. Effective October 1, 2005, the State increased the amount of motor vehicle fees deposited into the MTTF for the benefit of the MTA. MTTF receipts are applied first to meet certain debt service requirements or obligations and second to pay operating and capital costs. The MMTOA receipts are comprised of .375 of one percent regional sales tax (which was increased effective June 1, 2005 from .25 of one percent), a temporary regional franchise tax surcharge, a portion of taxes on certain transportation and transmission companies, and an additional portion of the business privilege tax imposed on petroleum businesses. MMTOA receipts, to the extent that MTTF receipts are not sufficient to meet debt service requirements, will also be applied to certain debt service obligations, and secondly to operating and capital costs of the Transit System, and the Commuter Railroads.

The State Legislature enacts in an annual budget bill for each state fiscal year an appropriation to the MTA Dedicated Tax Fund for the then-current state fiscal year and an appropriation of the amounts projected by the Director of the Budget of the State to be deposited in the MTA Dedicated Tax Fund for the next succeeding state fiscal year. The assistance deposited into the MTTF is required by law to be allocated, after provision for debt service on Dedicated Tax Fund Bonds (see Note 7), 85% to certain transit operations (not including MTA Bus) and 15% to the commuter railroads operations. Revenues from this funding source are recognized based upon amounts of tax reported collected by NYS, to the extent of the appropriation.

Build America Bond Subsidy — The Authority is receiving cash subsidy payments from the United States Treasury equal to 35% of the interest payable on the Series of Bonds issued as “Build America Bonds” and authorized by the Recovery Act. The Internal Revenue Code of 1986 imposes requirements that MTA must meet and continue to meet after the issuance in order to receive the cash subsidy payments. The interest on these bonds is fully subject to Federal income taxation. As of September 30, 2011, the Authority did not issue any “Build America Bonds”.

Operating Subsidies Recoverable from Connecticut Department of Transportation (“CDOT”) — A portion of the deficit from operations relating to MTA Metro-North Railroad’s New Haven line is recoverable from CDOT. Under the terms of a renewed Service Agreement, which began on January 1, 2000, and the 1998 resolution of an arbitration proceeding initiated by the State of Connecticut, CDOT pays 100.0% of the net operating deficit of MTA Metro-North Railroad’s branch lines in Connecticut (New Canaan, Danbury, and Waterbury), 65.0% of the New Haven mainline operating deficit, and a fixed fee for the New Haven line’s share of the net operating deficit of Grand Central Terminal (“GCT”) calculated using several years as a base, with annual increases for inflation and a one-time increase for the cost of operating GCT’s North End Access beginning in 1999. The Service Agreement also provides that CDOT pay 100% of the cost of non-movable capital assets located in Connecticut, 100% of movable capital assets to be used primarily on the branch lines and 65.0% of the cost of other movable capital assets allocated to the New Haven line. Remaining funding for New Haven line capital assets is provided by the MTA. The Service Agreement provides for automatic five-year renewals unless a notice of termination has been provided. The Service Agreement has been automatically extended for an additional five years beginning January 1, 2010 subject to the right of CDOT or MTA to terminate the agreement on eighteen month’s written notice. Capital assets completely funded by CDOT are not reflected in these financial statements, as ownership is retained by CDOT. The Service Agreement provides that final billings for each year be subject to audit by CDOT. Years 2000-2009 have been audited and are final.

Reimbursement of Expenses — The cost of operating and maintaining the passenger stations of the Commuter Railroads in NYS is assessable by the MTA to NYC and the other counties in which such stations are located for each NYS fiscal year ending September 30, under provisions of the NYS Public Authorities Law. This funding is recognized as revenue based upon an amount, fixed by statute, for the costs to operate and maintain passenger stations and is revised annually by the increase or decrease of the regional Consumer Price Index.

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

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

Policing of the transit system is carried out by the NYC Police Department at NYC's expense. The MTA, however, continues to be responsible for certain capital costs and support services related to such police activities, a portion of which is reimbursed by NYC. The Authority received approximately $1.2 in the nine months ended September 30, 2011, and $4.9 in the nine months ended September 30, 2010 from the City for the reimbursement of transit police costs.

Federal law and regulations require a paratransit system for passengers who are not able to ride the buses and trains because of their disabilities. Pursuant to an agreement between NYC and the MTA, MTA New York City Transit had assumed operating responsibility for all paratransit service required in NYC by the Americans with Disabilities Act of 1990. The services are provided by private vendors under contract with MTA New York City Transit. NYC reimburses the MTA for the lesser of 33.0% of net paratransit operating expenses defined as labor, transportation, and administrative costs less fare revenues and 6.0% of gross Urban Tax Subsidies, or an amount that is 20.0% greater than the amount paid by the NYC for the preceding calendar year. Fare revenues and the City reimbursement aggregated approximately $94.6 in the nine months ended September 30, 2011, and $75.5 in the nine months ended September 30, 2010.

Grants and Appropriations — Grants and appropriations for capital projects are recorded when requests are submitted to the funding agencies for reimbursement of capital expenditures and beginning in 2001 were recorded as nonoperating revenues in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. These amounts are reported separately after Total Nonoperating Revenues in the Statements of Revenues, Expenses, and Changes in Net Assets.

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

Liability Insurance — FMTAC, an insurance captive subsidiary of MTA, operates a liability insurance program ("ELF") that insures certain claims in excess of the self-insured retention limits of the agencies on both a retrospective (claims arising from incidents that occurred before October 31, 2003) and prospective (claims arising from incidents that occurred on or after October 31, 2003) basis. For claims arising from incidents that occurred on or after November 1, 2006, but before November 1, 2009, the self-insured retention limits are: $8 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road, and MTA Metro-North Railroad; $2.3 for MTA Long Island Bus and MTA Staten Island Railway; and $1.6 for MTAHQ and MTA Bridges and Tunnels. Effective November 1, 2009, the self-insured retention limits for ELF were increased to the following amounts: $9 for MTA New York City Transit, MaBSTOA, MTA Bus, MTA Long Island Rail Road and MTA Metro-North Railroad; $2.6 for MTA Long Island Bus and MTA Staten Island Railway; and $1.9 for MTAHQ and MTA Bridges and Tunnels. The maximum amount of claims arising out of any one occurrence is the total assets of the program available for claims, but in no event greater than $50. The retrospective portion contains the same insurance agreements, participant retentions, and limits as existed under the ELF program for occurrences happening on or before October 30, 2003. On a prospective basis, FMTAC issues insurance policies indemnifying the other MTA Group entities above their specifically assigned self-insured retention with a limit of $50 per occurrence with a $50 annual aggregate. FMTAC charges appropriate annual premiums based on loss experience and exposure analysis to maintain the fiscal viability of the program. As of September 30, 2011, the balance of the assets in this program was $62.6.

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

On March 1, 2011, the "nonrevenue fleet" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA Group with the exception of MTA New York City Transit and MTA Bridges and Tunnels. The policy provides $9 per occurrence limit with a $0.5 per occurrence deductible for MTA Long Island Rail Road, MTA Staten Island Rapid Transit Operating Authority, MTA Police and MTA Metro-North Railroad; $2.6 per occurrence limit with a $0.5 per occurrence deductible for MTA Long Island Bus, Office of the MTA Inspector General and MTA Headquarters. FMTAC renewed its deductible buy back policy, where it assumes the liability of the agencies for their deductible.

On March 1, 2011, the "Access-A-Ride" automobile liability policy program was renewed. This program provides third-party auto liability insurance protection for the MTA New York City Transit's Access-A-Ride program, including the contracted operators. This policy provides a $3 per occurrence limit with a $1 per occurrence deductible.

On December 15, 2010, FMTAC renewed the primary coverage on the Station Liability and Force Account liability policies $9 per occurrence loss for MTA Metro-North Railroad and MTA Long Island Rail Road.

Property Insurance — Effective May 1, 2011, FMTAC renewed the all-agency property insurance program. For the period May 1, 2011 to May 1, 2012 at 12:00 AM, FMTAC directly insures property damage claims of the other MTA Group entities in excess of a $25 per occurrence self-insured retention ("SIR"), subject to an annual $75 aggregate. Losses occurring after the retention aggregate is exceeded are subject to a deductible of $7.5 per occurrence. The total program limit has been maintained at $1.075 billion per occurrence covering property of the related entities collectively. With the exception of acts of terrorism (both domestic and foreign), FMTAC is reinsured in the domestic, Asian, London, European and Bermuda marketplaces for this coverage.

The property insurance policy provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverage.

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

To supplement the reinsurance to FMTAC through the 2007 Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") program, the MTA obtained an additional commercial reinsurance policy with various reinsurance carriers in the domestic, London and European marketplaces. That policy provides coverage for (1) 15% of any "certified" act of terrorism — up to a maximum recovery of $161.25 for any one occurrence and in the annual aggregate, (2) the TRIPRA FMTAC captive deductible (per occurrence and on an aggregated basis) that applies when recovering under the 15%“certified” acts of terrorism insurance or (3) 100% of any “certified” terrorism loss which exceeds $5 and less than the $100 TRIPRA trigger — up to a maximum recovery of $100 for any occurrence and in the annual aggregate. This coverage expires at midnight on May 1, 2012. Recovery under this policy is subject to a retention of $25 per occurrence and $75 in the annual aggregate — in the event of multiple losses during the policy year. Should the MTA Group’s retention in any one year exceed $75 future losses in that policy year are subject to a retention of just $7.5.

Pension Plans — In November 1994, GASB issued Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers,* which establishes standards for measurement, recognition, and display of pension expense and the related accounting for assets, liabilities, disclosures, and required supplementary information, if applicable. The Authority has adopted this standard for its pension plans. Pension cost is required to be measured and disclosed using the accrual basis of accounting. Annual pension cost should be equal to the annual required contributions (“ARC”) to the pension plan, calculated in accordance with certain parameters.

Postemployment Benefits Other Than Pensions — In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (“RSI”) in the financial reports of state and local governmental employers. In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. This statement establishes accounting standards for termination benefits. For termination benefits provided through an existing defined benefit OPEB plan, the provisions of this Statement should be implemented simultaneously with the requirements of Statement 45. The Authority has adopted these standards for its Postemployment Benefits Other Than Pensions.

3. CASH AND INVESTMENTS

The Bank balances are insured up to $250 thousand in the aggregate by the Federal Deposit Insurance Corporation (“FDIC”) for each bank in which funds are deposited. Cash, including deposits in transit, consists of the following at September 30, 2011 and December 31, 2010 (in millions):

	September 2011		December 2010	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
	(Unaudited)			
FDIC insured or collateralized deposits	$ 108	$ 125	$ 132	$ 145
Uninsured and not collateralized	77	36	68	48
	$ 185	$ 161	$ 200	$ 193

All collateralized deposits are held by the MTA or its agent in the MTA’s name.

The MTA, on behalf of the Transit operations, MTA Bridges and Tunnels, MTA Long Island Bus, and MTA Bus operations, invests funds which are not immediately required for the MTA’s operations in securities permitted by the New York State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes, and U.S. Treasury zero coupon bonds.

The MTA’s uninsured and uncollateralized deposits are primarily held by commercial banks in the metropolitan New York area and are subject to the credit risks of those institutions.

MTA holds most of its investments at a custodian bank. The custodian must meet certain banking institution criteria enumerated in MTA's Investment Guidelines. The Investment Guidelines also require the Treasury Division to hold at least $100 of its portfolio with a separate emergency custodian bank. The purpose of this deposit is in the event that the MTA's main custodian cannot execute transactions due to an emergency outside of the custodian's control, the MTA has an immediate alternate source of liquidity.

Investments, at fair value, consist of the following at September 30, 2011 and December 31, 2010 (in millions):

	September 2011 (Unaudited)		December 2010	
Repurchase agreements		$ 470		$ 730
Commercial paper		457		250
Federal Agencies due 2011-2012		908		843
U.S. Treasuries due 2011–2022		1,292		1,424
Investments restricted for capital lease obligations:				
US Treasury Notes due 2011-2033	186		165	
Short-Term Investment Fund	77		77	
Federal Agencies due 2013-2034	173		117	
Other Agencies due 2030	764		764	
Sub-total		1,200		1,123
Other Agencies due 2011-2030		131		135
Asset & Mortgage Back Securities*		25		14
Commercial Mortgage Backed Securities*		42		39
Corporate Bonds*		124		130
Foreign Bonds*		29		31
Equities*		11		16
Total	$ 1,200	$ 4,689	$ 1,123	$ 4,735

*These securities are only included in the FMTAC portfolio

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

In connection with certain lease transactions described in Note 8, the MTA has purchased securities or entered into payment undertaking, letter of credit, or similar type agreements or instruments (guaranteed investment contracts) with financial institutions, which generate sufficient proceeds to make basic rent and purchase option payments under the terms of the leases. If the obligors do not perform, the MTA may have an obligation to make the related rent payments.

All investments, other than the investments restricted for capital lease obligations, are either insured or registered and held by the MTA or its agent in the MTA's name. Investments restricted for capital lease obligations are either held by MTA or its agent in the MTA's name or held by a custodian as collateral for MTA's obligation to make rent payments under capital lease obligation. Investments had weighted average yields of 0.51% and 0.50% for the nine months ended September 30, 2011 and for the year ended December 31, 2010, respectively.

Of the above cash and investments, amounts designated for internal purposes by management were as follows at September 30, 2011 and December 31, 2010 (in millions):

	September 2011 (Unaudited)	December 2010
Construction or acquisition of capital assets	$ 986	$ 1,847
Funds received from affiliated agencies for investment	324	331
Debt service	1,078	441
Payment of claims	467	457
Restricted for capital leases	1,200	1,125
Other	605	568
Total	$ 4,660	$ 4,769

Credit Risk — At September 30, 2011 and December 31, 2010, the following credit quality rating has been assigned to MTA investments by a nationally recognized rating organization (in millions):

Quality Rating Moody's	September 30, 2011 (Unaudited)	Percent of Portfolio	December 31, 2010	Percent of Portfolio
A-1+	$ 935	23.55 %	$ 849	21.16 %
A-1	222	5.60	-	0.00
AAA	67	1.69	582	14.51
AA+	493	12.42	-	0.00
AA	40	1.01	44	1.10
A	85	2.14	87	2.17
BB	2	0.05	2	0.05
BBB	37	0.93	39	0.97
Not rated	581	14.63	744	18.54
Government	1,508	37.98	1,665	41.50
Total	3,970	100.00 %	4,012	100.00 %
Capital leases	719		723	
Total investment	$ 4,689		$ 4,735	

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Duration is a measure of interest rate risk. The greater the duration of a bond or portfolio of bonds, the greater its price volatility will be in response to a change in interest rate risk and vice versa. Duration is an indicator of bond price's sensitivity to a 100 basis point change in interest rates.

(In millions) Securities	September 2011 (Unaudited) Fair Value	Duration	December 2010 Fair Value	Duration
U.S. Treasuries	$ 1,292	0.92	$ 1,424	0.42
Federal Agencies	908	0.43	843	0.29
Other Agencies	131	1.73	135	1.44
Tax Benefits Lease Investments	481	14.57	400	13.76
Repurchase Agreement	470	-	730	-
Commercial Paper	457	-	250	-
Asset-Backed Securities [1]	25	1.70	14	2.02
Commercial Mortgage-Backed Securities [1]	42	2.48	39	2.89
Foreign Bonds [1]	29	3.37	31	3.64
Corporates [1]	124	3.93	130	4.30
Total fair value	3,959		3,996	
Modified duration		2.41		1.84
Equities [1]	11		16	
Total	3,970		4,012	
Investments with no duration reported	719		723	
Total investments	$ 4,689		$ 4,735	

[1] These securities are only included in the FMTAC portfolio

MTA is a public benefit corporation established under the New York Public Authorities Law. MTA's Treasury Division is responsible for the investment management of the funds of the Related Entities. The investment activity covers all operating and capital funds, including bond proceeds, and the activity is governed by State statutes, bond resolutions and the Board-adopted investment guidelines (the "Investment Guidelines"). The MTA Act currently permits the Related Entities to invest in the following general types of obligations:

- obligations of the State or the United States Government;
- obligations the principal and interest of which are guaranteed by the State or the United States government;
- obligations issued or guaranteed by certain Federal agencies;

- repurchase agreements fully collateralized by the obligations of the foregoing United States Government and Federal agencies;
- certain certificates of deposit of banks or trust companies in the State;
- certain banker's acceptances with a maturity of 90 days or less;
- certain commercial paper;
- certain municipal obligations; and
- certain mutual funds up to $10 in the aggregate.

The MTA adopted NYS Statutory Requirements with respect to credit risk of its investments, which include, but not limited to the following sections:

i) Public authorities Law Sections 1265(4) (MTA), 1204(19) (Transit Authority) and 553(21) (TBTA);

ii) Public Authorities Law Section 2925 Investment of funds by public authorities and public benefit corporations; general provisions

iii) State Finance Law Article 15 – EXCELSIOR LINKED DEPOSIT ACT

MTA Investment Guidelines limit the dollar amount invested in banker acceptances, commercial paper, and obligations issued or guaranteed by certain Federal agencies to $250 at cost. There are no dollar limits on the purchase of obligations of the United States government, the State or obligations the principal and interest of which are guaranteed by the State or the United States government. Investments in collateralized repurchase agreements are limited by dealer or bank's capital. MTA can invest no greater than $300 with a bank or dealer rated in Tier 1 (i.e. $1 billion or more of capital).

FMTAC is created as a MTA subsidiary and is licensed as a captive direct insurer and reinsurer by the New York State Department of Insurance. As such, FMTAC is responsible for the investment management of its funds. The investment activity is governed by State statutes and the FMTAC Board adopted investment guidelines. The minimum surplus to policyholders and reserve instruments are invested in the following investments:

- obligations of the United States or any agency thereof provided such agency obligations are guaranteed as to principal and interest by the United States;
- direct obligations of the State or of any county, district or municipality thereof;
- any state, territory, possession or any other governmental unit of the United States;
- certain bonds of agencies or instrumentalities of any state, territory, possession or any other governmental unit of the United States;
- the obligations of a solvent American institution which are rated investment grade or higher (or the equivalent thereto) by a securities rating agency; and
- certain mortgage backed securities in amounts no greater than five percent of FMTAC's admitted assets.

FMTAC may also invest nonreserve instruments in a broader range of investments including the following general types of obligations:

- certain equities; and
- certain mutual funds.

FMTAC is prohibited from making the following investments:

- Investment in an insolvent entity;
- Any investment as a general partner; and
- Any investment found to be against public policy.

FMTAC investment guidelines do include other investments, but FMTAC has limited itself to the above permissible investments at this time.

4. EMPLOYEE BENEFITS

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

Pension Plans — The MTA Group entities sponsor and participate in a number of pension plans for their employees. These plans are not component units of the MTA and are not included in the combined financial statements.

Defined Benefit Pension Plans

Single-Employer Pension Plans

MTA Long Island Rail Road Plan for Additional Pensions

Plan Description — The Long Island Rail Road Plan for Additional Pensions ("the LIRR Plan") is a single-employer defined benefit pension plan that provides retirement, disability and death benefits to plan members and beneficiaries. Members include employees hired prior to January 1, 1988. The LIRR Plan is administered by the MTA Defined Benefit Pension Plan Board of Managers of Pensions. The LIRR Board has the authority to establish or amend obligations to the LIRR Plan. The LIRR Plan is a governmental plan and accordingly, is not subject to the funding and other requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"). The pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to, Long Island Rail Road, Comptroller, 92-02 Sutphin Boulevard, Jamaica, New York 11435.

Funding Policy — The LIRR Plan has both non-contributory and contributory requirements. Participants who entered qualifying service before July 1, 1978 are not required to contribute. Participants who entered qualifying service on or after July 1, 1978 contribute 3% of their wages. The MTA Long Island Rail Road contributes additional amounts based on actuarially determined amounts that are designed to accumulate sufficient assets to pay benefits when due. The current rate is 123.98% of annual covered payroll.

The funded status of the LIRR Plan as of January 1, 2010 the most recent actuarial valuation date is as follows (in millions):

	2010	2009
Annual required contribution ("ARC")	$ 107.3	$ 108.7
Interest on net pension obligation	3.1	3.2
Adjustment to ARC	(3.8)	(3.8)
Annual pension cost	106.6	108.1
Actual contributions made	(119.6)	(96.7)
(Decrease)/increase in net pension obligation	(13.0)	11.4
Net pension obligation beginning of year	51.5	40.1
Net pension obligation end of year	$ 38.5	$ 51.5

Three-Year Trend Information

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Actuarial Accrued Liability "UAAL"	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
1/1/2010	$503.4	$1,583.6	$1,080.2	31.79 %	$ 65.2	1656.80 %
1/1/2009	483.9	1,590.5	1,106.5	30.43	72.7	1,521.67
1/1/2008	537.6	1,560.1	1,022.5	34.46	80.9	1,263.53

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Obligation
12/31/2010	$106.6	$ 107.2	$ 119.6	164.50 %	112.17%	38.60 %
12/31/2009	108.1	108.7	96.7	149.45	89.44	51.50
12/31/2008	99.7	100.3	100.0	123.98	100.23	40.10

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2010, the most recent actuarial valuation date, the LIRR Plan was 31.8% funded. The actuarial accrued liability for benefits was $1,583.6, and the actuarial value of assets was $503.4, resulting in an unfunded actuarial accrued liability ("UAAL") of $1,080.2. The covered payroll (annual payroll of active employees covered by the LIRR plan) was $65.2, and the ratio of the UAAL to the covered payroll was 1,656.8%.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The significant actuarial methods and assumptions used in the

LIRR Plan actuarial valuation at January 1, 2010 and 2009 were not changed from those used for the LIRR Plan at January 1, 2008 with the exception of the mortality assumption which was revised to reflect the RP-2000 Disabled Annuitant mortality table for males and females and used beginning with the January 1, 2007 Valuation. The significant actuarial methods and assumptions used in the LIRR Plan at January 1, 2010 were as follows: the actuarial cost method and amortization method used was the entry age normal cost for all periods. For January 1, 2007 the amortization period for unfunded accrued liability was 26 years, with payments a level dollar amount. The asset valuation method utilized was a 5-year smoothing method for all periods. The investment rate of return assumption was 8.0% for all periods. Investments and administrative expenses are paid from plan assets of the LIRR Plan. The remaining amortization period at December 31, 2010 was 23 years.

Metro North Cash Balance Plan

Plan Description — The Metro-North Commuter Railroad Company Cash Balance Plan (the "MNR Cash Balance Plan" is a single employer, defined benefit pension plan. The MNR Plan covers non-collectively bargained employees, formerly employed by Conrail, who joined MTA Metro-North Railroad as management employees between January 1 and September 30, 1983, and were still employed as of December 31, 1988. Effective January 1, 1989, these employees were covered under the Metro-North Commuter Railroad Defined Contribution Plan for Management Employees (the "Management Plan") and the MNR Cash Balance Plan was closed to new participants. The assets of the Management Plan have been merged with the Metropolitan Transportation Authority Defined Benefit Plan for Non-Represented Employees as of the asset transfer date of July 14, 1995. The MNR Cash Balance Plan is designed to satisfy the applicable requirements for governmental plans under Section 401(a) and 501(a) of the Internal Revenue Code. Accordingly, the MNR Cash Balance Plan is tax-exempt and is not subject to the provisions of the Employee Retirement Income Security Act ("ERISA") of 1974. This plan provides retirement and death benefits to plan members and beneficiaries.

Funding Policy — Funding for the MNR Cash Balance Plan is provided by MTA Metro-North Railroad which is a public benefit corporation that receives funding for its operations and capital needs from the MTA and the Connecticut Department of Transportation ("CDOT"). Certain funding by MTA is made to MTA Metro-North Railroad on a discretionary basis. The continuance of funding for the MNR Cash Balance Plan has been, and will continue to be, dependent upon the receipt of adequate funds.

MTA Metro-North Railroad's funding policy with respect to the MNR Cash Balance Plan was to contribute the full amount of the pension benefit obligation ("PBO") of approximately $2.9 to the trust fund in 1989. As participants retire, distributions from the MNR Cash Balance Plan have been made by the Trustee. MTA Metro-North Railroad anticipated that no further payments would be made to the MNR Cash Balance Plan. However, over several subsequent years, actuarial valuations resulted in unfunded accrued liabilities, which were paid to the Plan. The January 1, 2009, actuarial valuation resulted in an unfunded accrued liability of $.002 and the $.0003 annual required contribution was paid to the Plan in 2009. The January 1, 2010, actuarial valuation resulted in an unfunded accrued liability of $.012 and the $.012 was paid to the Plan in 2010. The market value of net assets available for benefits in the trust fund at December 31, 2010, was $1.008, which is less than the current PBO of $1.061 and therefore MTA Metro-North Railroad has accrued $0.053 for this unfunded liability.

The funded status of the MNR Cash Balance Plan as of January 1, 2010, the most recent actuarial valuation date is as follows (in thousands):

	2010	2009
Annual required contribution	$ 1.8	$ 0.3
Interest on net pension obligation	(3.2)	(3.6)
Adjust to annual required contribution	10.1	10.1
Annual pension cost	8.7	6.8
Actual contributions	(11.9)	(0.3)
(Decrease) Increase in net pension obligation	(3.2)	6.5
Net pension asset beginning of year	(65.5)	(72.0)
Net pension asset end of year	$ (68.7)	$ (65.5)

Three-Year Trend Information

(In thousands) Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability "AAL"	Unfunded Actuarial Accrued Liability "UAAL"	Funded Ratio	Covered Payroll	UAAL as % of Covered Payroll
1/1/2010	$ 1,074.9	$ 1,086.7	$ 11.9	98.91	$ 4,496.1	0.26 %
1/1/2009	1,238.8	1,241.2	2.3	99.81	5,936.3	0.04
1/1/2008	1,336.4	1,401.5	65.1	95.35	6,798.4	0.96

Year Ended	Annual Pension Cost "APC"	Annual Required Contribution "ARC"	Annual Contribution	ARC as a % of Covered Payroll	% of APC Contributed	Net Pension Obligation
12/31/2010	$ 8.7	$ 1.8	$ 11.9	0.04 %	136.78 %	$ (68.7)
12/31/2009	6.8	0.3	0.3	0.01	4.41	(65.5)
12/31/2008	20.0	14.0	14.0	0.20	68.73	(72.0)

The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Funded Status and Funding Progress — As of January 1, 2010, the most recent actuarial valuation date, the MNR Cash Balance Plan was 98.9% funded. The actuarial accrued liability for benefits was $1.087, and the actuarial value of assets was $1.075, resulting in an unfunded actuarial accrued liability (UAAL) of $0.012. The covered payroll (annual payroll of active employees covered by the plan) was $4.5, and the ratio of the UAAL to the covered payroll was 0.26%.

Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Chief Financial Officer, 347 Madison Avenue, New York, New York 10017-3739.

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

The significant actuarial methods and assumptions used in January 1, 2010 valuation were the projected unit credit cost method and an investment rate of return of 5.63% per year. The accrued benefit for the unit credit cost method is defined by the plan and is usually used when the annual benefit accrual is a flat dollar amount or a constant percentage of the participant's current annual salary. The asset valuation method utilized was the market value per the Trustee. There was no projected salary increase assumptions used in the January 1, 2010 valuation as the participants of the Plan were covered under the management Plan effective January 1, 1989. For participants of the Plan eligible for additional benefits, the additional benefits were not valued as the potential liability for this benefit is de minimus.

Manhattan and Bronx Surface Transit Operating Authority

Plan Description — MTA New York City Transit contributes to the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA") Plan (the "MaBSTOA Plan"), a single employer governmental retirement plan. The MaBSTOA Plan provides retirement, disability, and death benefits to plan members and beneficiaries which are similar to those benefits provided by the New York City Employees' Retirement System to similarly situated MTA New York City Transit employees. The 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 MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 15th Floor, New York, NY 10004.

Funding Policy — MaBSTOA's funding policy requires periodic employer contributions which are 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. 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 and others are required to contribute 2%. Also, certain post–July 27, 1976 employees contribute 1.85% in addition to their 3% contributions, if required. Effective 2000, certain post-July 27, 1976 employees who have been members for 10 years or have 10 years of credited service are no longer required to make the 3% contributions. MaBSTOA's contribution rate is 35.9% of annual covered payroll. MTA New York City Transit's contributions to the MaBSTOA Plan for the years ended December 31, 2010, 2009 and 2008 were $200.6, $204.2 and $201.9, respectively, equal to the annual required contributions for each year.

The funded status of the MaBSTOA Plan as of January 1, 2010, the most recent actuarial valuation date is as follows (in millions):

	2010	2009
Annual required contribution	$ 200.6	$ 204.3
Interest on net pension asset	(3.4)	(3.6)
Adjust to annual required contribution	5.1	5.2
Annual pension cost	202.3	205.9
Actual contributions	(200.6)	(204.2)
Decrease in net pension asset	1.7	1.7
Net pension asset beginning of year	(42.9)	(44.6)
Net pension asset end of year	$ (41.2)	$ (42.9)

Three-Year Trend Information

Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Asset
	(In thousands)		
12/31/2010	$ 202.3	99.2 %	$ (41.2)
12/31/2009	205.9	99.2	(42.9)
12/31/2008	203.3	99.3	(44.6)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued 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)
			(In millions)			
1/1/2010	$ 1,396.9	$ 2,133.9	$ 737.0	65.50 %	$ 591.1	124.7 %
1/1/2009	1,190.0	1,977.4	787.4	60.20	569.4	138.3
1/1/2008	1,190.8	2,045.0	854.1	58.22	562.2	151.9

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

Funded Status and Funding Progress — As of January 1, 2010, the most recent actuarial valuation date, the MaBSTOA Plan was 65.5% funded. The actuarial accrued liability for benefits was $2,133.9 and the actuarial value of assets $1,396.9, resulting in an unfunded actuarial accrued liability (UAAL) of $737.0. The covered payroll (annual payroll of active employees covered by the MaBSTOA Plan) was $591.1, and the ratio of the UAAL to the covered payroll was 124.7%.

Actuarial Methods and Assumptions — Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The January 1, 2010 valuation reflects the actuarial assumptions adopted by the MTA New York City Transit based on the January 1, 2007 Experience Study effective with the valuation. These changes increased the life expectancy for members included in the valuation, incorporated future anticipated mortality improvements, decreased rates of turnover and modified rates of retirement, so fewer retirements are expected for members with less than 20 years of service and more retirements are expected for members with at least 20 years of service. These changes increased the unfunded accrued liability by $135.5, which is being amortized over 10 years, and increased the total employer contribution by $24.4 per year.

The assumptions included an 8.0% investment rate of return and assumed general wage increases of 3.5% to 18.0% for operating employees and 4.5% and 7.0% for non-operating employees per year, depending on years of service. This also includes an inflation component of 2.5% per year.

Annual pension costs and related information about each of the above plans follows:

	Single-Employer Plans		
	LIRR	MaBSTOA	MNR Cash Balance Plan
Date of valuation	1/1/2010	1/1/2010	1/1/2010
Required contribution rates:	($ in millions)		($ in thousands)
Plan members			
Employer:	variable actuarially determined	variable actuarially determined	variable actuarially determined
Employer contributions made in 2010	$ 119.6	$ 200.6	$ 11.9
Three-year trend information:			
Annual Required Contribution			
2010	$ 107.3	$ 200.6	$ 1.8
2009	108.7	204.3	0.3
2008	100.3	201.9	14.0
Percentage of ARC contributed:			
2010	112.0 %	100.0 %	661.0 %
2009	89.0	100	100
2008	100	100	100
Annual Pension Cost (APC):			
2010	$ 106.6	$ 202.3	$ 8.7
2009	108.1	205.9	6.8
2008	99.7	203.3	20.0
Net Pension Obligation (NPO) (asset) at end of year:			
2010	$ 38.5	$ (41.2)	$ (68.7)
2009	51.5	(42.9)	(65.5)
2008	40.1	(44.6)	(72.0)
Percentage of APC contributed:			
2010	112 %	99 %	137 %
2009	89	99	4
2008	100	99	69
Components of APC			
Annual required contribution (ARC)	$ 107.3	$ 200.6	$ 1.8
Interest on NPO	3.1	(3.4)	(3.2)
Adjustment of ARC	(3.8)	5.1	10.1
APC	106.6	202.3	8.7
Contributions made	(119.6)	(200.6)	(11.9)
Change in NPO (asset)	(13.0)	1.7	(3.2)
NPO (asset) beginning of year	51.5	(42.9)	(65.5)
NPO (asset) end of year	$ 38.5	$ (41.2)	$ (68.7)

	Single-Employer Plans		
	LIRR	**MaBSTOA**	**MNR Cash Balance Plan**
Actuarial project unit cost method	Entry age normal	Entry age normal frozen initial liability	Entry age normal frozen initial liability
Method to determine actuarial value of plan assets	5-year smoothing	5-year smoothing	5-year smoothing
Investment return	8.00 %	8.00 %	5.00 %
Projected salary increases	3.50 %	3.5%–18.0%	N/A
Consumer price inflation	2.50 %	2.50 %	2.50 %
Amortization method and period	level dollar/ 23 years	level dollar/ 16 years	level dollar/ 8 years
Period closed or open	closed	closed	closed

Cost-Sharing Multiple-Employer Plans

MTA Defined Benefit Plan

Plan Description — The MTA Defined Benefit Pension Plan ("MTA Plan") is a cost sharing multiple-employer pension plan. The Plan includes certain MTA Long Island Rail Road non-represented employees hired after December 31, 1987, MTA Metro-North Railroad non-represented employees, certain MTA Long Island Bus employees hired prior to January 23, 1983, MTA Police, MTA Long Island Rail Road represented employees hired after December 31, 1987, certain MTA Metro-North Railroad represented employees, MTA Long Island Rail Road represented employees hired after December 31, 1988, employees of MTA Staten Island Railway and certain employees of the MTA Bus Company ("MTA Bus"). MTA Long Island Rail Road, MTA Metro-North Railroad, MTA, MTA Staten Island Railway and MTA Bus contribute to the MTA Plan, which offers distinct retirement, disability, and death benefits for their covered employees. Annual pension costs and related information about this plan are presented in the following table for all years presented as if the plan was a single-employer plan at the MTA level. The MTA Plan may be amended by action of the MTA Board.

A stand-alone financial report may be obtained by writing to the MTA Comptroller, 347 Madison Avenue, New York, New York, 10017.

Funding policy — Employer contributions are actuarially determined on an annual basis and are recognized when due. Employee contributions to the Plan are recognized in the period in which the contributions are due. There are no contributions required for the MTA Long Island Bus Employees' Pension Plan. The current funded ratio of actuarial accrued assets over actuarial accrued liability is 87.8% of annual covered payroll. The contribution requirements of the plan members and the MTA are established and may be amended by the MTA Board. The MTA's contributions to the Plan for the years ending December 31, 2010, 2009 and 2008 were $ 155.3, $146.2, and $107.8, respectively, equal to the required contributions for each year.

The following summarizes the types of employee contributions made to the Plan:

Effective January 1, 1995, covered MTA Metro-North Railroad and MTA Long Island Rail Road non-represented employees are required to contribute to the Plan to the extent that their Railroad Retirement Tier II employee contribution is less than the pre-tax cost of the 3% employee contributions. Effective October 1, 2000, employee contributions, if any, were eliminated after ten years of making contributions to the Plan. MTA Metro-North Railroad employees may purchase prior service from January 1, 1983 through December 31, 1995 and MTA Long Island Rail Road employees may purchase prior service from January 1, 1988 through December 31, 1995 by paying the contributions that would have been required of that employee for the years in question, calculated as described in the first sentence, had the Plan been in effect for those years. Police Officers who become participants of the MTA Police Program prior to January 1, 2010 contribute to that program at various rates. Police Officers who become participants on or after January 1, 2010 contribute 3% up to the completion of 30 years of service, the maximum amount of service credit allowed.

Covered MTA Metro-North Railroad represented employees and MTA Long Island Rail Road represented employees who first became eligible to be Plan participants prior to January 30, 2008 and MTA Staten Island Railway employees contribute 3% of salary. MTA Long Island Rail Road represented employees who became participants after January 30, 2008 contribute 4% of salary. For the MTA Staten Island Railway employees, contributions are not required after the completion of ten years of credited service**.** MTA Long Island Rail Road represented employees are required to make the employee contributions for ten years. Certain Metro-North represented employees are required to make the employee contributions until January 1, 2017 and others until June 30, 2017.

Covered MTA Bus employees are required to contribute a fixed dollar amount, which varies, by depot. Currently, non-represented employees at Yonkers Depot and non-represented employees hired after June 30, 2007 at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia, and Spring Creek Depots, contribute $21.50 per week. Non-represented employees at Eastchester hired prior to 2007 contribute $25 per week. Represented employees at Baisley Park, College Point, Eastchester, Far Rockaway, JFK, LaGuardia and Yonkers Depots contribute $29.06 per week; Spring Creek represented employees contribute $32.00 per week. Certain limited number of represented employees promoted prior to the resolution of a bargaining impasse continue to participate in the plan that was in effect before their promotion. Certain remaining non-represented employees at Baisley Park, Far Rockaway, JFK, LaGuardia and Spring Creek Depots in the pension program covering only such employees make no contributions to those programs. (Note: the dollar figures in this paragraph are in dollars, not millions of dollars).

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

Plan Description — MTA New York City Transit and MTA Bridges and Tunnels contribute to NYCERS, a cost-sharing multiple-employer retirement system for employees of NYC and certain other governmental units. NYCERS combines features of a defined-benefit pension plan with those of a defined-contribution pension plan. NYCERS provides pension benefits to retired employees based on salary and length of service. In addition, NYCERS provides disability benefits, cost-of-living adjustments, and death benefits subject to satisfaction of certain service requirements and other provisions. The NYCERS plan functions in accordance with existing NYS statutes and NYC laws and may be amended by action of the State Legislature. NYCERS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York City Employees' Retirement System, 340 Jay Street, Brooklyn, New York 11201.

Funding Policy — NYCERS is a contributory plan, except for certain employees who entered prior to July 27, 1976 who make no contribution. Most employees who entered qualifying service after July 1976 contribute 3% of their salary. Certain MTA New York City Transit employees contribute 2%. Also, certain post-July 27, 1976 employees contribute 1.85% in addition to their 3% contributions, if required, and a small group of such employees contribute 3.83% in addition to the 3% contributions, if required. The State Legislature passed legislation in 2000 that suspended the 3% contribution for most employees who have been members for 10 or more years. MTA New York City Transit and MTA Bridges and Tunnels are required to contribute at an actuarially determined rate. The rates are 19.5% and 18.8%, respectively, of covered payroll. The contribution requirements of plan members and MTA New York City Transit and MTA Bridges and Tunnels are established and amended by law. MTA New York City Transit's required contributions for NYCERS fiscal years ended June 30, 2011, 2010 and 2009 were $563.8, $532.8, and $515.0, respectively. MTA Bridges and Tunnels' contributions to NYCERS for the years ended December 31, 2010**,** 2009 and 2008 were $25.5, $24.8, and $20.4.respectively. All contributions were equal to or in excess of the actuary's recommendation, plus interest.

New York State and Local Employees' Retirement System ("NYSLERS")

Plan Description — MTAHQ and MTA Long Island Bus employees who were hired after January 23, 1983, are members of NYSLERS. In addition, employees of the Capital Company who are on its payroll are also members of NYSLERS. NYSLERS is a cost-sharing multiple-employer plan and offers a broad spectrum of benefits, including retirement, death and disability benefits, and cost of living adjustments. Further information about the plan is more fully described in the publicly available statement of NYSLERS and may be obtained by writing to New York State and Local Retirement System, Office of the State Comptroller, 110 State Street, Albany, New York, 12244-0001.

Funding Policy — Employees who became members prior to July 27, 1976 make no contributions. Employees who became members after that date contribute 3% of salary. Since 2000, the 3% contribution is suspended for employees who have 10 years or more of membership. Employees who become members on or after January 1, 2010 are required to contribute for all their years of service. MTAHQ, which included the Capital Company, and MTA Long Island Bus are required to contribute at an actuarially determined rate. The current actuarial rate of annual covered payroll for MTAHQ and MTA Long Island Bus respectively is 11.4% and 11.3%. The MTAHQ NYSLERS contributions for the years ended December 31, 2009,2008 and 2007 was approximately 7.1%, 5.7%, and 5.5%, respectively. The MTA Long Island Bus NYSLERS contributions for the years ended December 31, 2010, 2009 and 2008 were approximately $7.1, $4.1 and $5.2, respectively.

Defined Contribution Plans

Single-Employer — The Long Island Rail Road Company Money Purchase Plan (the "Money Purchase Plan") is a defined contribution plan that covers certain represented employees who began service with MTA Long Island Rail Road after December 31, 1987. Beginning January 1, 2004, employees who were participants in the Money Purchase Plan have become participants in a New Program in the MTA Plan (the "New Program") and have similar benefits as those applicable to non-represented employees of MTA Long Island Rail Road in the MTA Plan. The MTA Board has voted to terminate the Money Purchase Plan and the Money Purchase Plan was terminated effective March 31, 2008. The Money Purchase Plan made final distributions of all participant accounts on or about January 6, 2010.

The Metro-North Commuter Railroad Company Defined Contribution Pension Plan for Agreement Employees (the "Agreement Plan"), established January 1, 1988, covers represented employees in accordance with applicable collective bargaining agreements. Under this plan, MTA Metro-North Railroad contributed an amount equal to 4% of each eligible employee's gross compensation to the Agreement Plan on that employee's behalf. For employees who have 19 or more years of service, MTA

Metro-North Railroad contributes 7%. In addition, employees may voluntarily contribute up to the amount of MTA Metro-North Railroad's contribution to the Agreement Plan, on an after-tax basis. The Agreement Plan is administered by MTA Metro-North Railroad and the Agreement Plan's Board of Managers of Pension. Effective January 1, 2004, certain employees who were participants of the Agreement Plan became participants in the New Program in the MTA Plan and have similar benefits as those applicable to non-represented employees of MTA Metro-North Railroad in the MTA Plan. In 2007, the remaining represented employees also became participants in the New Program, unless they opted-out of the New Program. The "opt-out" employees became participants of the MTA 401(k) plan with the same employer contributions as the Agreement Plan. The MTA Board has voted to terminate this Agreement Plan and the Agreement Plan was terminated effective December 16, 2008.

Effective December 16, 2008, the MTA Board voted to terminate the Agreement. The Defined Contribution Plan and its assets were transferred. Due to the need to receive specific transfer instructions from the individual participants, the transfers continued into 2009 and consisted of $13.7 in payments directly to the participants, $0.7 to MTA Defined Benefit Pension Plan for the Agreement employees who chose to participate in that plan, $0.02 to MTA 401(k) Plan for the Agreement employees who opted not to participate in the MTA Defined Benefit Pension Plan and $0.7 to the MTA Master Trust. The transfer deductions totaled $15.1.

Deferred Compensation Plans — As permitted by Internal Revenue Code Section 457, the MTA 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 MTA's combined balance sheets.

Certain MTA Group employees are also eligible to participate in a second deferred compensation plan established in accordance with Internal Revenue Code Section 401(k) (the "401(k) Plan"). Participation in the 401(k) Plan is available to most represented and non-represented employees. MTA Bus on behalf of certain MTA Bus employees and MTA Metro-North Railroad on behalf of those employees who opted-out of participation in the MTA Plan make contributions to the 401(k) Plan. The rate for the employer contribution varies. All amounts of compensation deferred under the 401(k) Plan, and all income attributable to such compensation, are in trust for the exclusive use of the participants and their beneficiaries. Accordingly, the 401(k) Plan is not reflected in the accompanying combined balance sheets.

5. OTHER POSTEMPLOYMENT BENEFITS

The MTA has implemented GASB Statement No. 45, "Accounting and Financial Reporting for Employers for Postemployment Benefits Other Than Pensions" ("GASB 45"). This Statement establishes the standards for the measurement, recognition, and display of Other Postemployment Benefits ("OPEB") expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information ("RSI") in the financial reports of state and local governmental employers.

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

The MTA elected not to record the entire amount of the Unfunded Actuarial Accrued Liability ("UAAL") in the year ended December 31, 2010, and record the net annual OPEB obligation. The MTA also elected not to fund the UAAL more rapidly than on a pay-as-you-go basis. The UAAL relating to post-employment benefits decreased from $13.6 billion at the end of 2007 to $13.2 billion at the end of

2008 and remained the same for 2009 and 2010. The end of the year liability equals the amount as of the beginning of the year plus interest at 4.2% less amortization amount included in the Annual Required Contribution for the prior year less or plus assumption changes and plan changes.

Plan Description — The benefits provided by the MTA Group include medical, pharmacy, dental, vision, and life insurance, plus monthly supplements for Medicare Part B or Medicare supplemental plan reimbursements and welfare fund contributions. The different types of benefits provided vary by agency and employee type (represented employees versus management). All benefits are provided upon retirement as stated in the applicable pension plan, although some agencies provide benefits to some members if terminated within 5 years of attaining retirement eligibility. Employees of the MTA Group are members of the following pension plans: the MTA Plan, the LIRR Plan, the MNR Plan, the MaBSTOA Plan, NYCERS and NYSLERS.

The MTA Group participates in the New York State Health Insurance Program ("NYSHIP") to provide medical and prescription drug benefits, including Medicare Part B reimbursements to many of its members. NYSHIP provides a PPO plan and several HMO plans. Represented MTA New York City Transit, other MTA New York City Transit employees who retired prior to January 1, 1996 or January 1, 2001, and MTA Bus retirees do not participate in NYSHIP. These benefits are provided either through a self-insured health plan, a fully insured or an HMO.

GASB Statement No. 45 requires employers to perform periodic actuarial valuations to determine annual accounting costs, and to keep a running tally of the extent to which these amounts are over or under funded. The valuation must be performed at least biennially. The most recent biennial valuation was performed for the year ended December 31, 2009 and was performed with a valuation date of January 1, 2008. The total number of plan participants as of December 31, 2009 receiving retirement benefits was 39 thousand.

The MTA is a participating employer in NYSHIP. The NYSHIP financial report can be obtained by writing to NYS Department of Civil Service, Employee Benefits Division, Alfred E. Smith Office Building, 805 Swan Street, Albany, NY 12239.

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

For determining the ARC, the MTA has chosen to use Frozen Initial Liability (the "FIL Cost Method") cost method, one of the cost methods in accordance with the parameters of GASB Statement No. 45. The initial liability is amortized over a 22-year period. The remaining amortization period at December 31, 2010 is 19 years.

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

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

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

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

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

The OPEB-specific actuarial assumptions used in the most recent biennial valuation are as follows:

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

* In general, all coverages are paid for by the MTA. The exceptions are for Bridges and Tunnels, where surviving spouses pay a portion of the premium (10% for single coverage, 25% for dependent coverage) and MTA Headquarters where members retired prior to 1997 pay a portion of the premium, depending on the year they retired.

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

Per Capita Claim Costs — For members of NYSHIP and certain MTA Staten Island Railway and MTA New York City Transit members who retired prior to NYSHIP availability, unadjusted premiums were used.

For (1) some of the self-insured benefits provided to pre-NYSHIP MTA New York City Transit members, (2) TWU Local 100, ATU 1056, and ATU 726 represented employees, and (3) MTA Bus employees, per capita claim costs adjusted by age were used. A sample of these claim costs are shown below:

Age	TWU Local 100 GHI Medical	TWU Local 100 Pharmacy	Pre-NYSHIP Group 1 Hospital	Pre-NYSHIP Retirees Pharmacy	Pre-NYSHIP Group 2 Hospital
Male Employees					
30–34	168.4	45.6	103.6	56.6	84.5
35–39	200.7	65.0	129.0	80.6	105.2
40–44	253.3	82.9	171.4	102.8	139.7
45–49	326.8	110.8	233.1	137.5	190.0
50–54	407.4	133.4	306.5	165.4	249.8
55–59	464.0	139.2	362.9	172.7	295.8
60–64	601.7	164.3	486.9	203.8	396.9
Female Employees					
30–34	330.7	76.7	227.2	95.2	185.2
35–39	327.2	91.0	218.3	112.9	178.0
40–44	332.3	111.9	211.9	138.8	172.7
45–49	374.6	140.9	237.5	174.8	193.6
50–54	420.7	166.0	274.7	205.9	223.9
55–59	448.6	181.1	304.7	224.6	248.4
60–64	549.9	199.5	398.0	247.5	324.5

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

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

For NYC Transit and MTA Bus Company, this trend was combined further with an assumed medical trend for other medical and pharmacy benefits not covered by NYSHIP. The combination was based on an estimated liability basis.

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

Health Care Cost Trend Rates

Fiscal Year	NYSHIP	Non-NYSHIP	Transit	MTA Bus
2008	0.0 %	7.5	5.0 %	6.2
2009	4.3	7.0	6.2	6.6
2010	7.0	6.6	6.9	6.7
2011	6.6	6.2	6.4	6.2
2012	6.2	5.7	6.0	5.8
2017	6.1	5.6	5.9	5.7
2022	6.0	5.5	5.7	5.6
2027	5.9	5.4	5.7	5.5
2032	5.8	5.3	5.6	5.4
2037	5.5	4.9	5.2	5.0
2042	5.3	4.8	5.1	4.9
2047	5.2	4.7	5.0	4.8

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

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

Dependent Coverage — For members that participate in NYSHIP, 100% of eligible members, including current retirees and surviving spouses, are assumed to elect the Empire PPO Plan. For groups that do not participate in NYSHIP, details on coverage election rates can be found in NYC Transit and MTA Bus Company Sections IV.

Spouses are assumed to be the same age as the employee/retiree. 85% of male and 55% of female eligible members are assumed to elect family coverage upon retirement. No children are assumed. Actual family coverage elections for current retirees are used. If a current retiree's only dependent is a child, eligibility is assumed for an additional 7 years of dependent coverage if the member participates in NYSHIP (otherwise, 5 years) from the valuation date was assumed.

Demographic Assumptions:

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

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

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

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

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

Group	Pension Plan
Transit – OA	MaBSTOA
Transit – TA	NYCERS – TA
TBTA	NYCERS – TBTA
LIRR Pre-1988	LIRR Plan
LIRR Post-1987	MTA DB Plan
Metro North Mgrs/Unions in DB Plan	MTA DB Plan
Metro North Other Unions	DC Plan–used same as DB Plan Union
MTA Police	MTA DB Plan
Headquarters Mgrs and IBT	NYSLERS
Long Island Bus Pre-1983	MTA DB Plan
Long Island Bus Post-1982	NYSLERS
Staten Island	MTA DB Plan
MTA Bus Companies	MTA DB Plan
College Point Depot – Non Rep	DC Plan-used same as MTA DB Non Rep

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

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

The following table shows the elements of the MTA's annual OPEB cost for the year, the amount actually paid, and changes in the MTA's net OPEB obligation to the plan for the period ended September 30, 2011 and December 2010. The portion of this actuarial present value allocated to a valuation year is called the Normal Cost. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing costs between the employer and plan members to that point. Calculations reflect a long-term perspective.

(In millions)	September 30, 2011 (Unaudited)	December 31, 2010
Annual required contribution ("ARC")	$ 1,415.8	$ 1,764.9
Interest on net OPEB obligation	145.3	156.7
Adjustment to ARC	(367.3)	(392.9)
OPEB cost	1,193.8	1,528.7
Payments made	(254.7)	(359.0)
Increase in net OPEB obligation	939.1	1,169.7
Net OPEB obligation — beginning of period/year	4,902.7	3,733.0
Net OPEB obligation — end of period/year	$ 5,841.8	$ 4,902.7

The MTA's annual OPEB cost, the percentage of annual OPEB cost contributed to, and the net OPEB obligation for the year ended December 31, 2010 is as follows (in millions):

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost	Net OPEB Obligation
(In Millions)			
December 31, 2010	$ 1,528.7	23.8 %	$ 4,902.7
December 31, 2009	1,442.3	24.1	3,733.0
December 31, 2008	1,668.7	19.2	2,638.2

The Authorities funded status of the Plan is as follows (in millions):

Year Ended (In millions)	Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability (AAL) {b}	Unfunded Actuarial Accrued Liability (UAAL) {c}={b}-{a}	Funded Ratio {a}/{c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c}/{d}
December 31, 2010	January 1, 2008	-	$ 13,165	$ 13,165	-	$ 4,212.0	312.6 %

The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

6. CAPITAL ASSETS

Capital assets and improvements include all land, buildings, equipment, and infrastructure of the MTA having a minimum useful life of two years and having a cost of more than $25 thousand.

Capital assets are stated at historical cost, or at estimated historical cost based on appraisals, or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives of 25 to 50 years for buildings, 2 to 40 years for equipment, and 25 to 100 years for infrastructure. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the asset whichever is less. Capital assets consist of the following at December 31, 2009, December 31, 2010 and September 30, 2011 (in millions):

	Balance December 31, 2009	Additions	Deletions	Balance December 31, 2010	Additions	Deletions	Balance September 30, 2011 (Unaudited)
Capital assets — not being depreciated:							
Land	$ 156	$ 14	$ -	$ 170	$ -	$ -	$ 170
Construction work-in-progress	7,894	2,966	1,354	9,506	1,007	400	10,113
Total capital assets — not being depreciated	8,050	2,980	1,354	9,676	1,007	400	10,283
Capital assets, being depreciated:							
Buildings and structures	14,464	987	244	15,207	197	734	14,670
Bridges and tunnels	1,975	276	-	2,251	-	-	2,251
Equipment:							
Passenger cars and locomotives	12,800	474	49	13,225	-	1	13,224
Buses	2,846	163	-	3,009	45	1,091	1,963
Infrastructure	15,683	926	92	16,517	461	262	16,716
Other	11,868	727	59	12,536	1,482	1,251	12,767
Total capital assets — being depreciated	59,636	3,553	444	62,745	2,185	3,339	61,591
Less accumulated depreciation:							
Buildings and structures	4,644	302	40	4,906	299	734	4,471
Bridges and tunnels	418	19	-	437	16	-	453
Equipment:							
Passenger cars and locomotives	4,166	428	1	4,593	286	1	4,878
Buses	1,778	163	-	1,941	120	1,087	974
Infrastructure	4,952	613	76	5,489	393	262	5,620
Other	4,499	475	52	4,922	378	966	4,334
Total accumulated depreciation	20,457	2,000	169	22,288	1,492	3,050	20,730
Total capital assets — being depreciated — net	39,179	1,553	275	40,457	693	289	40,861
Capital assets — net	$47,229	$4,533	$ 1,629	$ 50,133	$1,700	$ 689	$ 51,144

Interest capitalized in conjunction with the construction of capital assets for the nine month period ended September 30, 2011, and for the twelve month period ended December 31, 2010 was $20.8 and $55.5, respectively.

Capital assets acquired prior to April 1982 for MTA New York City Transit were funded primarily by NYC with capital grants made available to MTA New York City Transit. NYC has title to a substantial portion of such assets and, accordingly, these assets are not recorded on the books of the MTA. Subsequent acquisitions, which are part of the MTA Capital Program, are recorded at cost by MTA New York City Transit. In certain instances, title to MTA Bridges and Tunnels' real property may revert to NYC in the event the MTA determines such property is unnecessary for its corporate purpose.

For certain construction projects, the MTA holds in a trust account marketable securities pledged by third-party contractors in lieu of cash retainages. At September 30, 2011 and December 31, 2010, these securities totaled $195.8 and $170.9, respectively, and had a market value of $192.6 and $178.4, respectively, and are not included in these financial statements.

7. LONG-TERM DEBT

(In millions)	Original Issuance	December 31, 2010	Issued	Retired	Refunded	September 30, 2011 (Unaudited)
MTA:						
Transportation Revenue Bonds						
2.00%–7.13% due through 2040	$16,039	$ 14,273	$ 500	$ -	$ -	$ 14,773
Revenue Anticipation Notes						
2.0% due through 2010	-	-	-	-	-	-
Transportation Revenue Bond Anticipation Notes						
Commercial Paper 1	-	-	-	-	-	-
Transportation Revenue Bond Anticipation Notes						
Commercial Paper 2	650	650	54	-	-	704
State Service Contract Bonds						
4.125%–5.70% due through 2031	2,395	2,090	-	56	-	2,034
Dedicated Tax Fund Bonds						
3.00%–7.34% due through 2041	6,587	5,513	127	-	137	5,503
Certificates of Participation						
5.30%–5.625% due through 2030	807	385	-	11	-	374
	$26,478	22,911	681	67	137	23,388
Less net unamortized bond discount and premium		(450)	19	56	3	(490)
		22,461	700	123	140	22,898
TBTA:						
General Revenue Bonds						
4.00%–5.77% due through 2038	$ 6,259	6,749	-	16	3	6,730
Subordinate Revenue Bonds						
4.00%–5.77% due through 2032	2,198	2,061	-	26	-	2,035
	$ 8,457	8,810	-	42	3	8,765
Less net unamortized bond discount and premium		134	-	12	-	122
		8,944	-	54	3	8,887
Total		$ 31,405	$ 700	$ 177	$ 143	$ 31,785
Current portion		(602)				(528)
Long-term portion		$ 30,803				$ 31,257

MTA Transportation Revenue Bonds — Prior to 2011, MTA issued thirty one Series of Transportation Revenue Bonds secured under its General Resolution Authorizing Transportation Revenue Obligations adopted on March 26, 2002 in the aggregate principal amount of $16,758.33. The Transportation Revenue Bonds are MTA's special obligations payable solely from transit and commuter systems revenues and certain state and local operating subsidies.

On May 25, 2011, MTA executed a Continuing Covenants Agreement with Wells Fargo Bank N.A. to replace the expiring Dexia Credit Local, New York Branch irrevocable direct-pay letter of credit for $200 of Transportation Revenue Refunding Bonds, Subseries 2002D-2.

On July 20, 2011 the MTA issued Transportation Revenue Bonds, Series 2011A in the amount of $400.440. The Series 2011A bonds were issued as long-term fixed rate tax-exempt bonds, with serial bonds maturing in years 2012 thru 2031 and term bonds maturing in years 2036, 2037, 2038, 2041, and 2046. Proceeds of the issuance will be used to finance existing approved transit and commuter projects.

On September 8, 2011, Fitch Ratings acted to lower the credit rating on $14.3 billion of Transportation Revenue Bonds by one notch, from “A+” to “A”, Fitch also changed the outlook from Negative to Stable. Fitch cited increasing costs and concerns about the Authority’s financial projections as the reasons for taking the rating action. The “A” rating is the agency’s sixth-highest investment grade rating.

On September 14, 2011, the MTA issued Transportation Revenue Variable Rate Bonds, Series 2011B in the amount of $99.560. The bonds are backed by a direct-pay letter of credit from Bank of America. The proceeds of the issuance will be used to finance existing approved transit and commuter projects.

On September 27, MTA extended the Bank of Nova Scotia’s direct pay letter of credit related to Transportation Revenue Variable Rate Refunding Bonds, Series 2002G-1 until October 7, 2013.

MTA Bond Anticipation Notes (commercial paper program) — From time to time, MTA issues Transportation Revenue Bond Anticipation Notes in accordance with the terms and provisions of the General Resolution described above in the form of commercial paper to fund its transit and commuter capital needs. The interest rate payable on the notes depends on the maturity and market conditions at the time of issuance. Payment of principal and interest on the notes are additionally secured by letters of credit issued by TD Bank, N.A., Barclays Bank, Royal Bank of Canada and Citibank, N.A. As of September 30, 2011, MTA had $703.5 of commercial paper notes outstanding. The MTA Act requires MTAHQ to periodically (at least each five years) refund its commercial paper notes with bonds.

MTA State Service Contract Bonds — Prior to 2011, MTA issued two Series of State Service Contract Bonds secured under its State Service Contract Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of $2,395. The State Service Contract Bonds are MTA’s special obligations payable solely from certain payments from the State of New York under a service contract.

MTA Dedicated Tax Fund Bonds — Prior to 2011, MTA issued seventeen Series of Dedicated Tax Fund Bonds secured under its Dedicated Tax Fund Obligation Resolution adopted on March 26, 2002, in the aggregate principal amount of $7,656.8. The Dedicated Tax Fund Bonds are MTA’s special obligations payable solely from monies held in the Pledged Amounts Account of the MTA Dedicated Tax Fund. State law requires that the MTTF revenues and MMTOA revenues (described above in footnote 2 under “Nonoperating Revenues”) be deposited, subject to appropriation by the State Legislature, into the MTA Dedicated Tax Fund.

On March 31, 2011, MTA issued $127.4 Dedicated Tax Fund Refunding Bonds, Series 2011A. Proceeds of the issuance were used to refund $132.08 of Dedicated Tax Fund Bonds, Series 2001A.

MTA tendered for and converted from an auction rate mode into a fixed rate mode $294.5 of Dedicated Tax Fund Bonds, Subseries 2004-B1, B2 and B4 on April 26, April 27 and April 28 of 2011, respectively. In connection with this remarketing, MTA also terminated the existing financial guaranty insurance policy for the Subseries 2004B-1 and Subseries 2004B-4 Bonds provided by Ambac Assurance Corporation and the existing insurance policy for the Subseries 2004B-2 Bonds provided by MBIA.

On June 22, 2011, MTA substituted the original standby bond purchase agreement for the Dedicated Tax Fund Bonds, Series 2008A Bonds issued by Dexia Credit Local, New York Branch with an irrevocable direct-pay letter of credit issued by Morgan Stanley, N. A. for the $173.8 Subseries 2008A-1 Bonds, and with an irrevocable direct-pay letter of credit issued by the Bank of Tokyo-Mitsubishi UFJ, Limited, acting through its New York Branch, for the $173.8 Subseries 2008A-2 Bonds. As part of the substitution process, MTA also terminated the existing financial guaranty insurance policy for the Series 2008A Bonds provided by Financial Security Assurance Inc. (now known as Assured Guaranty Municipal Corp.).

On August 2, 2011, the MTA extended the stated expiration date of the irrevocable direct-pay letter of credit issued by the Bank of Nova Scotia, acting through its New York Agency, related to Dedicated Tax Fund Bonds, Series 2008B-1 from August 5, 2011 to August 15, 2013.

On August 3, 2011, $245.175 Dedicated Tax Fund Bonds, Series 2008B were subject to mandatory tender, as the letters of credit related to the Subseries 2008B-2 Bonds, Subseries 2008B-3 Bonds and Subseries 2008B-4 Bonds were to expire by their terms. The MTA decreased the principal amount of the Subseries 2008B-2 Bonds to $10.965 and also converted them from a weekly mode into a fixed rate mode. The MTA redesignated and increased the principal amount of the Subseries 2008B-3 Bonds to $35.0 Subseries 2008B-3a, $54.47 Subseries 2008B-3b, and $44.74 Subseries 2008B-3c. All of the redesignated Subseries 2008B-3 Bonds were also converted from a weekly mode to a term mode. . The MTA increased the principal amount of the Subseries 2008B-4 Bonds to $100.00 with an irrevocable direct-pay letter of credit from KBC Bank, N.V., New York Branch expiring on August 15, 2014.

MTA Certificates of Participation — Prior to 2011, MTA (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad), MTA New York City Transit and MTA Bridges and Tunnels executed and delivered three Series of Certificates of Participation in the aggregate principal amount of $807.3 to finance certain building and leasehold improvements to an office building at Two Broadway in Manhattan occupied principally by MTA New York City Transit, MTA Bridges and Tunnels, MTA Capital Construction, and MTAHQ. The aggregate principal amount of $807.3 includes approximately $357.9 of refunding bonds. The Certificates of Participation represent proportionate interests in the principal and interest components of Base Rent paid severally, but not jointly, in their respective proportionate shares by MTA New York City Transit, MTA, and MTA Bridges and Tunnels, pursuant to a Leasehold Improvement Sublease Agreement.

MTA Bridges and Tunnels General Revenue Bonds — Prior to 2011, MTA Bridges and Tunnels issued eighteen Series of General Revenue Bonds secured under its General Resolution Authorizing General Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of $8,547.26. The General Revenue Bonds are MTA Bridges and Tunnels' general obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels.

On September 8, 2011, Fitch lowered its rating on $6.9 billion of Triborough Bridge and Tunnel General Revenue debt to "AA-" from "AA".

On September 20, 2011, the direct pay letter of credit related to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2001B from the State Street Bank and Trust was extended for three years from September 30, 2011 to September 30, 2014.

MTA Bridges and Tunnels Subordinate Revenue Bonds — Prior to 2011, MTA Bridges and Tunnels issued ten Series of Subordinate Revenue Bonds secured under its 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations adopted on March 26, 2002, in the aggregate principal amount of $2,903. The Subordinate Revenue Bonds are MTA Bridges and Tunnels' special obligations payable generally from the net revenues collected on the bridges and tunnels operated by MTA Bridges and Tunnels after the payment of debt service on the MTA Bridges and Tunnels General Revenue Bonds described in the preceding paragraph.

On September 8, 2011, in addition to taking actions with respect to MTA Transportation Revenue credit and Triborough Bridge and Tunnel General Revenue credit as described above, Fitch lowered its rating on $1.9 billion of Triborough Bridge and Tunnel Subordinate Revenue debt from "AA-" to "A+".

Debt Limitation — The New York State Legislature has imposed limitations on the aggregate amount of debt that the MTA and MTA Bridges and Tunnels can issue to fund the approved transit and commuter capital programs. The current aggregate ceiling, subject to certain exclusions, is $34,877 compared with issuances totaling approximately $23,579. The MTA expects that the current statutory ceiling will allow it to fulfill the bonding requirements of the approved Capital Programs.

Bond Refundings — From time to time, the MTA and MTA Bridges and Tunnels issue refunding bonds to achieve debt service savings or other benefits. The proceeds of refunding bonds are generally used to purchase U.S. Treasury obligations that are placed in irrevocable trusts. The principal and interest within the trusts will be used to repay the refunded debt. The trust account assets and the refunded debt are excluded from the consolidated balance sheets.

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

At September 30, 2011 and December 31, 2010, the following amounts of MTA bonds, which have been refunded, remain valid debt instruments and are secured solely by and payable solely from their respective irrevocable trusts.

(In Millions)	September 30, 2011 (Unaudited)	December 31, 2010
MTA Transit and Commuter Facilities:		
Transit Facilities Revenue Bonds	$ 648	$ 706
Commuter Facilities Revenue Bonds	447	685
Commuter Facilities Subordinate Revenue Bonds	4	7
Transit and Commuter Facilities Service Contract Bonds	588	651
Dedicated Tax Fund Bonds	891	792
MTA Transportation Revenue Bonds	156	156
MTA New York City Transit — Transit Facilities Revenue Bonds (Livingston Plaza Project)	69	80
MTA Bridges and Tunnels:		
General Purpose Revenue Bonds	1,494	1,728
Special Obligation Subordinate Bonds	182	191
Mortgage Recording Tax Bonds	140	161
Total	$ 4,619	$ 5,157

Debt Service Payments — Principal and interest debt service payments at September 30, 2011 are as follows (in millions):

	MTA		MTA BRIDGES AND TUNNELS Senior Revenue		MTA BRIDGES AND TUNNELS Subordinate Revenue		Debt Service	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
			(Unaudited)					
2011	$ 379	$ 932	$ 130	$ 140	$ 21	$ 40	$ 530	$ 1,112
2012	491	1,096	152	323	50	96	693	1,515
2013	508	1,080	159	316	51	94	718	1,490
2014	545	1,059	177	306	55	91	777	1,456
2015	574	1,053	187	296	57	88	818	1,437
2016-2020	3,291	5,066	1,075	1,321	383	385	4,749	6,772
2021-2025	4,172	3,735	1,267	1,039	376	274	5,815	5,048
2026-2030	5,536	2,716	1,654	708	446	148	7,636	3,572
2031-2035	4,480	1,486	1,304	340	446	16	6,230	1,842
2036-2040	2,619	563	775	84	-	-	3,394	647
Thereafter	90	13	-	-	-	-	90	13
	$ 22,685	$ 18,799	$ 6,880	$ 4,873	$ 1,885	$ 1,232	$ 31,450	$ 24,904

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

- *Transportation Revenue Refunding Bonds, Series 2002B* — 4.00% per annum
- *Transportation Revenue Refunding Bonds, Series 2002D* — 4.00% per annum on SubSeries 2002D-1 and 4.45% per annum on SubSeries 2002D-2 taking into account the interest rate swap
- *Transportation Revenue Refunding Bonds, Series 2002G* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2005D* — 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005E* — 3.561% per annum taking into account the interest rate swaps
- *Transportation Revenue Bonds, Series 2005G* — 4.00% per annum
- *Transportation Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date
- *Dedicated Tax Fund Bonds, Series 2002B* — 4.06% per annum until September 1, 2013 based on the interest rate swap and 4.00% per annum thereafter
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A* — 3.3156% per annum on the hedged portion related to the interest rate swaps, and 4.00% per annum on the unhedged portion
- *Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008B* — 4.00% per annum
- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000AB* — 6.08% per annum taking into account the interest rate swap

- *MTA Bridges and Tunnels Subordinate Refunding Bonds, Series 2000CD* — 6.07% per annum taking into account the interest rate swap

- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2001B and Series 2001C* — 5.777% per annum taking into account the interest rate swap and 4.00% per annum on portions not covered by the interest rate swap

- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2002F* — 5.404% and 3.076% per annum taking into account the interest rate swaps and 4% per annum on portions not covered by the interest rate swaps

- *MTA Bridges and Tunnels General Revenue Bonds, Series 2003B* — 3.076% and 6.07% per annum taking into account the interest rate swaps and 4.00% per annum on portions not covered by the interest rate swaps

- *MTA Bridges and Tunnels General Revenue Bonds, Series 2005A* — 4.00% per annum except from November 1, 2027 through November 1, 2030, 3.076% per annum taking into account the interest rate swap

- *MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2005B* — 3.513% per annum based on the Basis Risk Interest Rate Swap through January 1, 2012 and 3.076% per annum based on the Initial Interest Rate Swaps thereafter.

- *MTA Bridges and Tunnels General Revenue Bonds, Series 2008B* — 4.00% per annum, after the mandatory tender date

- *Certificates of Participation, Series 2004A* — 3.542% per annum taking into account the interest rate swaps

Tax Rebate Liability — Under the Internal Revenue Code of 1986, the MTA accrues a liability for an amount of rebateable arbitrage resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. The arbitrage liability is payable to the federal government every five years. No payments were made during the period ended September 30, 2011 and for the year ended December 31, 2010.

Liquidity Facility - MTA and MTA Bridges and Tunnels have entered into several Standby Bond Purchase Agreements ("SBPA") and Letter of Credit Agreements ("LOC") as listed on the table below:

Resolution	Series	Swap	Provider (Insurer)	Type of Type of Facility	Exp. Date
Transportation Revenue	2002D-1	N	West LB (Assured)	SBPA	5/9/2012
Transportation Revenue	2002G-1	N	Bank of Nova Scotia	LOC	10/7/2013
Transportation Revenue	2005D-1	Y	Helaba	LOC	11/7/2011
Transportation Revenue	2005D-2	Y	Helaba	LOC	11/10/2012
Transportation Revenue	2005E	Y	BNP Paribas	LOC	10/9/2012
Transportation Revenue	2011B	N	Bank of America	LOC	9/12/2014
Transportation Revenue	CP-2 (A)	N	TD Bank, N.A.	LOC	9/12/2013
Transportation Revenue	CP-2 (B)	N	Barclays Bank	LOC	9/12/2013
Transportation Revenue	CP-2 (C)	N	Royal Bank of Canada	LOC	9/14/2012
Transportation Revenue	CP-2 (D)	N	Citibank, N.A.	LOC	9/12/2013
Dedicated Tax Fund	2002B	Y	Dexia (Assured)	SBPA	5/7/2014
Dedicated Tax Fund	2008A-1	Y	Morgan Stanley, N.A.	LOC	6/20/2014
Dedicated Tax Fund	2008A-2	Y	Bank of Tokto-Mitsubishi	LOC	6/20/2014
Dedicated Tax Fund	2008B-1	N	Bank of Nova Scotia	LOC	8/5/2013
Dedicated Tax Fund	2008B-4	N	KBC Bank N.V.	LOC	8/5/2014
MTA Bridges and Tunnels Subordinate	2000AB	Y	JPMorgan (Assured)	SBPA	10/7/2014
MTA Bridges and Tunnels Subordinate	2000CD	Y	Lloyds TSB Bank (NY) (Assured)	SBPA	10/7/2014
MTA Bridges and Tunnels General Revenue	2001B	Y	State Street	LOC	9/30/2014
MTA Bridges and Tunnels General Revenue	2001C	Y	JP Morgan Chase Bank, N.A.	SBPA	9/29/2015
MTA Bridges and Tunnels General Revenue	2002F	Y	ABN AMRO	SBPA	11/8/2012
MTA Bridges and Tunnels General Revenue	2003B	Y	Dexia	SBPA	7/7/2012
MTA Bridges and Tunnels General Revenue	2005A	N	Dexia	SBPA	5/9/2012
MTA Bridges and Tunnels General Revenue	2005B-2	Y	Dexia	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-3	Y	Bank of America	SBPA	7/6/2012
MTA Bridges and Tunnels General Revenue	2005B-4	Y	Landesbank Baden-Wurttemberg (NY)	SBPA	12/29/2015

Derivative Instruments
GASB Statement No. 53- Accounting and Financial Reporting for Derivative Instruments
Summary Information at September 30, 2011

	Bond Resolution	Series	Type of Derivative	Cash Flow or Fair Value Hedge	Effective Methodology	Trade/Entered Date	Notional Amount as of 9/30/11 (Unaudited) (in millions)	Fair Values as of 9/30/11 (Unaudited) (in millions)
Investment Swaps	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Basis Swaps	N/a	N/a	6/29/2005	$ 196.400	$ (0.373)
	2 Broadway Certificate of Participation	2004A	Pay-Fixed Swaps	N/a	N/a	8/10/2004	347.800	(69.305)
Hedging Swaps	MTA Transportation Revenue Bonds	2002D-2	Pay-Fixed Swaps	Cash Flow	Regression Analysis	7/11/2002	200.000	(87.384)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Basis Swaps	Cash Flow	Regression Analysis	6/29/2005	589.200	(1.118)
	MTA Transportation Revenue Bonds	2012B	Forward Starting Swaps	Cash Flow	Expected Regression Analysis	12/12/2007	359.450	(94.359)
	MTA Dedicated Tax Fund Bonds	2002B	Pay-Fixed Swaps	Cash Flow	Regression Analysis	7/19/2002	440.000	(31.800)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (Citi 2005B)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	6/2/2005	182.200	(37.637)
	MTA Bridges & Tunnels Senior Revenue Bonds	2002F (old 2002C)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	2/24/1999	40.700	(1.398)
	MTA Bridges & Tunnels Senior Revenue Bonds	2003B (CFP 2000CD)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	8/12/1998	45.350	(9.269)
	MTA Bridges & Tunnels Senior Revenue Bonds	2003B (Citi 2005B)	Pay-Fixed Swaps	Cash Flow	Regression Analysis	6/2/2005	14.200	(2.933)
	MTA Bridges & Tunnels Senior Revenue Bonds	2005B	Pay-Fixed Swaps	Cash Flow	Regression Analysis	6/2/2005	589.200	(121.712)
	MTA Transportation Revenue Bonds	2005D & 2005E	Pay-Fixed Swaps	Cash Flow	Regression Analysis	9/10/2004	400.000	(104.957)
	MTA Dedicated Tax Fund Bonds	2008A	Pay-Fixed Swaps	Cash Flow	Regression Analysis	3/8/2005	340.250	(73.460)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000AB	Swaption	Cash Flow	Consistent Critical Terms	8/12/1998	146.200	(29.076)
	MTA Bridges & Tunnels Subordinate Revenue Bonds	2000CD	Swaption	Cash Flow	Regression Analysis	8/12/1998	100.850	(20.613)
	MTA Bridges & Tunnels Senior Revenue Bonds	2001B	Swaption	Cash Flow	Consistent Critical Terms	2/24/1999	88.600	(14.211)
	MTA Bridges & Tunnels Senior Revenue Bonds	2001C	Swaption	Cash Flow	Consistent Critical Terms	2/24/1999	88.700	(14.661)

The fair value balances and notional amounts of derivative instruments outstanding at September 30, 2011, classified by type, and the changes in fair value of such derivative instruments from the year ended December 31, 2010 are as follows:

	Changes In Fair Value		Fair Value at September 30, 2011		
	Classification	Amount (Unaudited) (in millions)	Classification	Amount (Unaudited) (in millions)	Notional (Unaudited) (in millions)
Government activities					
Cash Flow hedges:					
Pay-fixed interest rate swaps	Deferred outflow of resources	($229.090)	Debt	($470.550)	$2,251.900
Forward starting swaps	Deferred outflow of resources	(64.881)	Debt	(94.359)	359.450
Basis swaps	Deferred outflow of resources	1.535	Debt	(1.118)	589.200
Swaption	Deferred outflow of resources	7.479	Debt	(78.561)	424.350
Investment hedges:					
Basis swaps	Investment Expense	$0.511	Debt	($0.373)	$196.400
Pay-fixed interest rate swaps	Investment Expense	(29.140)	Debt	(69.305)	347.800

For the period ended September 30, 2011, the MTA recorded $29 as a loss related to the change in fair market value of certain investment swaps that are not accounted for as hedging activities.

For the period ended September 30, 2011, there were no derivative instruments reclassified from a hedging derivative instrument to an investment derivative instrument.

The summary above reflects a total number of seventeen (17) Swap transactions reviewed for GASB Statement No. 53 Hedge Accounting treatment. Of the total number of Swaps, fifteen (15) hedges were evaluated as effective related to the methodology of Consistent Critical Terms and Quantitative Methods and two (2) were evaluated as ineffective.

In regard to the Consistent Critical Terms method, if the critical terms of the potential hedging derivative instrument and the terms of the item it is hedging are the same, then the ending date of an interest rate swap is the same as the maturity date of the bonds. Since both are based on the Security Industry and Financial Market Association (SIFMA) Swap Index, then the potential hedging derivative instrument is presumed to be effective. Under such circumstances, any changes in the cash flows or fair value of the item being hedged is offset by changes in the cash flows or fair value of the potential hedging derivative. The MTA has employed this methodology and a total of three (3) such hedges were evaluated as effective.

For the remaining twelve (12) hedges, the Quantitative Method was utilized. Of the Quantitative methods specifically identified as: Synthetic Instrument Method; Dollar Offset Method; and Regression Analysis, the Regression Analysis was utilized to provide the effectiveness test.

The three methods measure the degree to which the changes in the fair value or cash flow of the potential hedging derivative instrument offset those of the item being hedged. GASB Statement No. 53 also allows for other acceptable quantitative methods that exert certain criteria. A potential hedging derivative that is not determined to be effective using one of the quantitative methods may be reevaluated using another method.

Therefore, the Quantitative Method related to Regression Analysis provided the hedge effective evaluation since these hedges reflect the statistical relationship between changes in the fair values or cash flow of a hedge item and its associated potential hedging derivative. For a potential hedging derivative instrument evaluation using regression analysis to be considered effective for financial reporting purposes, the analysis produced:

- an R-squared of a range at least 0.80;
- an F-statistic that indicates statistical significance at the 95% confidence level; and
- a regression coefficient for the slope between -1.25 and -0.80

These criteria have been met by the ten (10) remaining hedges and therefore been deemed effective for hedge accounting treatment.

In accordance with GASB Statement No. 53, four of the hedging swaps are classified as swaptions for which premiums were received by MTA Bridges and Tunnel at contracts inception as shown in the Table below. MTA Bridges and Tunnel have followed the relevant accounting required treatment and are amortizing the premiums over the life of the swap agreement.

Bond Resolution	**Series**	**Premuim**	**Date of the Swaption Contract**	**Premium Payment Date**
MTA Bridges & Tunnels-Senior	2001B & 2001C	$19,204,000	2/24/1999	3/10/1999
MTA Bridges & Tunnels-Senior	2002F (old 2002C)	$8,400,000	2/24/1999	3/10/1999
MTA Bridges & Tunnels-Subordinate	2000AB	$22,740,000	8/12/1998	8/25/1998
MTA Bridges & Tunnels-Subordinate	2000CD	$22,740,000	8/12/1998	8/25/1998
Total		**$73,084,000**		

Swap Agreements Relating to Synthetic Fixed Rate Debt

Board-adopted Guidelines — The Related Entities adopted guidelines governing the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, credit ratings of the counterparties, collateralization requirements and reporting requirements.

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

Fair Value — Relevant market interest rates on the valuation date (September 30, 2011) of the swaps reflected in the following charts in all cases were higher than market interest rates on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values. A negative fair value means that MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA, MTA Bridges and Tunnels and/or MTA New York City Transit would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be positive.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. See "*Termination Risk*" below.

Terms and Fair Values — The terms, fair values and counterparties of the outstanding swaps of MTA and MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA swaps are reflected in separate tables for the Transportation Revenue Bonds and Dedicated Tax Fund Bonds. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

MTA TRANSPORTATION REVENUE BONDS							
Associated Bond Issue	**Notional Amounts as of 9/30/11 (Unaudited) (in millions)**	**Effective Date**	**Fixed Rate Paid**	**Variable Rate Received**	**Fair Values as of 9/30/11 (Unaudited) (in millions)**	**Swap Termination Date**	**Counterparty**
Series 2002D-2	200.000	01/01/07	4.450 %	69% of one-month LIBOR(1)	$ (87.384)	11/01/32	JPMorgan Chase, NA
Series 2005D and Series 2005E	400.000	11/02/05	3.561	67% of one-month LIBOR(1)	(104.957)	11/01/35	75% – UBS AG 25% – AIG Financial Products Corp.
Series 2012(2)	359.450	11/15/12	3.563	67% of one-month LIBOR(1)	(94.359)	11/01/32	JPMorgan Chase Bank, NA
Total	$959.450				$ (286.700)		

(1) London Interbank Offered Rate.

(2) Under the Series 2012 swaps, JPMorgan Chase Bank, NA has an option to cancel the swaps on June 15, 2012 prior to the effective date listed above. In the event the swap is canceled, JPMorgan Chase Bank, NA is required to make monthly cancellation payments to the MTA commencing on December 1, 2012 and ending on November 1, 2032.

MTA DEDICATED TAX FUND BONDS							
Associated Bond Issue	**Notional Amounts as of 9/30/11 (Unaudited) (in millions)**	**Effective Date**	**Fixed Rate Paid**	**Variable Rate Received**	**Fair Values as of 9/30/11 (Unaudited) (in millions)**	**Swap Termination Date**	**Counterparty**
Series 2002B	$440.000	09/05/02	4.060 %	Actual bond rate until 04/30/10, and thereafter, SIFMA[3]	$ (31.800)	09/01/13	Morgan Stanley Capital Services Inc.
Series 2008A[4]	340.250	03/24/05	3.316	67% of one-month LIBOR[1]	(73.460)	11/01/31	Citigroup Financial Products Inc.
Total	$780.250				$ (105.260)		

[3] Securities Industry and Financial Markets Association Municipal Swap Index

[4] On June 25, 2008, the Confirmation dated as of March 8, 2005 between the Counterparty and MTA was amended to define Related Bonds as MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A. On June 26, 2008, MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2005A associated with the swap prior to the amendment described above, were refunded.

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	**Notional Amounts as of 9/30/11 (Unaudited) (in millions)**	**Effective Date**	**Fixed Rate Paid**	**Variable Rate Received**	**Fair Values as of 9/30/11 (Unaudited) (in millions)**	**Swap Termination Date**	**Counterparty**
Series 2001B[5]	$88.600	01/01/02	5.777%	Actual bond rate	$ (14.211)	01/01/19	Citigroup Financial Products Inc.
Series 2001C[5]	88.700	01/01/02	5.777	SIFMA[3] minus 15 Basis points[10]	(14.661)	01/01/19	Citigroup Financial Products Inc.
Series 2002F [6]	40.700	01/01/00	5.404	Actual bond rate	(1.398)	01/01/13	Ambac Financial Services, L.P.
Series 2002F[7]	182.200	07/07/05	3.076	67% of one-month LIBOR[1]	(37.637)	01/01/32	Citibank, N.A.
Series 2003B[7]	14.200	07/07/05	3.076	67% of one-month LIBOR[1]	(2.933)	01/01/32	Citibank, N.A.
Series 2003B[8]	45.350	01/01/01	6.070	SIFMA[3] minus 15 basis points[13]	(9.269)	01/01/19	Citigroup Financial Products Inc.
Series 2005B[7]	589.200	07/07/05	3.076	67% of one-month LIBOR[1]	(121.712)	01/01/32	33% each –, JPMorgan Chase Bank, NA, BNP Paribas North America, Inc. and UBS AG
Series 2005B	785.600	07/07/05	67% of one-month LIBOR plus 43.7 basis points[9]	SIFMA[3] minus 10 basis points	(1.491)	01/01/12	UBS AG
Total	$1,834.550				$ (203.312)		

(5) In accordance with a swaption entered into on February 24, 1999, the Counterparty paid to MTA Bridges and Tunnels a premium of $19,204,000.

(6) In accordance with a swaption entered into on February 24, 1999, the Counterparty paid to MTA Bridges and Tunnels a premium of $8,400,000.

(7) On February 19, 2009, MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B-1 associated with the swap in connection with Series 2005B Bonds, were refunded. Notional amounts from the Series 2005B-1 swap were reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F, MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B and from November 1, 2027 through November 1, 2030, to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2005A.

(8) On April 9, 2009, $50 million of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000CD has been refunded. A portion of the swap associated with the aforementioned bonds has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B.

(9) For the purpose of mitigating the basis risk during the escrow period with respect to the $797.2 million notional amount swaps entered into in connection with the Series 2005B Bonds, MTA Bridges and Tunnels will pay 67% of one-month LIBOR plus 43.7 basis points to the UBS AG and receive a variable rate equal to the SIFMA Index minus 10 basis points.

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	**Notional Amounts as of 9/30/2011 (Unaudited) (in millions)**	**Effective Date**	**Fixed Rate Paid**	**Variable Rate Received**	**Fair Values as of 9/30/2011 (Unaudited) (in millions)**	**Swap Termination Date**	**Counterparty**
Series 2000AB[11]	$146.200	01/01/01	6.080 %	Actual bond rate	$ (29.076)	01/01/19	JPMorgan Chase Bank, NA
Series 2000CD[12]	100.850	01/01/01	6.070	SIFMA[3] minus 15 basis points[13]	(20.613)	01/01/19	Citigroup Financial Products Inc.
Total	$247.050				$ (49.689)		

(10) In accordance with a swaption entered into on February 24, 1999 with each Counterparty, and then amended and restated as of October 1, 2008, Citigroup Financial declared that an Alternative Floating Rate Event occurred on December 1, 2008 and as a result, the calculation for the Variable rate MTA Bridges and Tunnels to received was changed from the Actual Bond Rate to SIFMA Municipal Swap Index minus 15 basis points.

(11) In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of $22,740,000.

(12) On April 9, 2009, $50 of MTA Bridges and Tunnels Subordinate Revenue Bonds, Series 2000CD has been refunded. A portion of the swap associated with the aforementioned bonds has been reassigned to MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B.

(13) In accordance with the swaption entered into on August 12, 1998, Citigroup Financial declared that an Alternative Floating Rate Event occurred on November 5, 2008 and as a result, the calculation for the Variable Rate MTA Bridges and Tunnels is to receive was changed from the Actual Bond Rate to SIFMA Municipal Swap Index minus 15 basis points. The Alternate Floating Rate Event was triggered due to the purchase without resale of Series 2000CD bonds by the liquidity provider, Lloyds TSB.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, MTA New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the $357.925 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of $347.800 outstanding as of September 30, 2011, MTA New York City Transit is responsible for $238.925 aggregate notional amount of the swaps, MTA for $73.025 aggregate notional amount, and MTA Bridges and Tunnels for $35.850 aggregate notional amount. As of September 30, 2011, the unaudited aggregate fair value of the swaps was ($69.305).

Counterparty Ratings

The current ratings of the counterparties are as follows as of September 30, 2011:

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
AIG Financial Products Corp.	A-	Baa1	BBB
Ambac Financial Services, L.P.	NR	WR	NR
BNP Paribas North America, Inc.	AA	Aa2	AA-
Citibank, N.A.	A+	A1	A+
Citigroup Financial Products Inc.	A	A3	A+
JPMorgan Chase Bank, NA	AA-	Aa1	AA-
Morgan Stanley Capital Services Inc.	A	A2	A
UBS AG	A+	Aa3	A+

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amount and the outstanding principal amount as of September 30, 2011 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions) (Unaudited)	Notional Amount (in millions) (Unaudited)
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	$274.340	$177.300
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B	$212.450	$59.550
MTA Dedicated Tax Fund Variable Rate Refunding Bonds, Series 2008A	$347.665	$340.250
MTA Transportation Revenue Variable Rate Bonds, Series 2005E	$250,000	$150,000

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

Risks Associated with the Swap Agreements

From MTA's, MTA Bridges and Tunnels' and MTA New York City Transit's perspective, the following risks are generally associated with swap agreements:

- Credit Risk – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or MTA/MTA Bridges and Tunnels/MTA New York City Transit, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "*Collateralization*" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "Termination Risk" below.

- Basis Risk – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA, MTA Bridges and Tunnels or MTA New York City Transit on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA, MTA Bridges and Tunnels or MTA New York City Transit for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA, MTA Bridges and Tunnels or MTA New York City Transit.

- Termination Risk – The swap agreement will be terminated and MTA, MTA Bridges and Tunnels or MTA New York City Transit will be required to make a termination payment to the counterparty and, in the case of a swap agreement which was entered into for the purpose of creating a synthetic fixed rate for an advance refunding transaction may also be required to take action to protect the tax exempt status of the related refunding bonds.

- Rollover Risk – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance, and MTA, MTA Bridges and Tunnels or MTA New York City Transit may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of September 30, 2011, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA and/or MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below include all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in thousands) (Unaudited)	% of Total Notional Amount (Unaudited)
UBS AG	$1,629,800	39.09%
JPMorgan Chase Bank, NA	902,050	21.64
Citigroup Financial Products Inc.	663,750	15.92
Morgan Stanley Capital Services Inc.	440,000	10.55
Citibank, N.A.	196,400	4.71
BNP Paribas North America, Inc.	196,400	4.71
AIG Financial Products Corp.	100,000	2.40
Ambac Financial Services, L.P.	40,700	0.98
Total	$4,169,000	100.00%

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

- JPMorgan Chase Bank, NA with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000AB,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000CD,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C, and
- Ambac Financial Services, L.P. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (currently only one transaction outstanding under that Master Agreement),
- JPMorgan Chase Bank, NA with respect to the MTA Transportation Revenue Variable Rate Refunding Bonds, Series 2002D-2 and Series 2012.

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

The fair market value of MTA's interest rate swaps changes daily primarily as a result of capital markets changes. Factors that influence LIBOR are local interest rates, banks expectations of future rate movements, liquidity in the capital markets or changes in the value of the dollar. The relative financial health of MTA's counterparties, but do not directly impact the fair market value of the transaction.

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

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA, MTA Bridges and Tunnels or MTA New York City Transit, as the case may be, and the counterparty for each swap agreement. In most cases, the Counterparty does not have a Fitch rating on its long-term unsecured debt, so that criteria would not be applicable in determining if the Counterparty is required to post collateral.

MTA Transportation Revenue Bonds		
Associated Bond Issue	**If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to**	**Then the downgraded party must post collateral if its estimated termination payments are in excess of**
Series 2002D-2	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$10,000,000
Series 2005D and Series 2005E	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – below BBB+, Moody's – below Baa1, or S&P – below BBB+	$10,000,000
Series 2012	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$10,000,000

MTA Dedicated Tax Fund Bonds		
Associated Bond Issue	**If the highest rating of the related MTA bonds or the counterparty's long-term unsecured debt falls to**	**Then the downgraded party must post collateral if its estimated termination payments are in excess of**
Series 2002B	Fitch – BBB+, or S&P – BBB+ Fitch – BBB and below or unrated, or S&P – BBB and below or unrated	$10,000,000
Series 2008A [Note: for this swap, MTA is not required to post collateral under any circumstances.]	Fitch – A-, or Moody's – A3, or S&P – A- Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below	$10,000,000

2 Broadway Certificates of Participation		
Associated Bond Issue	**If the highest rating of the MTA Transportation Revenue Bonds falls to**	**Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of**
Series 2004A	Fitch – BBB+, Moody's – Baa1, or S&P – BBB+ Fitch – BBB and below or unrated, Moody's – Baa2 and below or unrated by S&P & Moody's, or S&P – BBB and below or unrated	$25,000,000
	If the highest rating of the Counterparty's long-term unsecured debt falls to	**Then the Counterparty must post collateral if its estimated termination payments are in excess of**
Series 2004A	Moody's – Baa1 or lower, or S&P – BBB+ or lower	$ -

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
Associated Bond Issue	**If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to**	**Then the downgraded party must post collateral if its estimated termination payments are in excess of**
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
Series 2002F (swap with Ambac Financial Services, L.P.)	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
Series 2005B interest rate swap and basis risk swap, Series 2002 F (swap with Citibank, N.A.) and Series 2003 B (swap with Citibank, N.A.)	For counterparty, Fitch – A-, or Moody's – A3, or S&P – A- For MTA, Fitch – BBB+, or Moody's – Baa1, or S&P – BBB+ For MTA, Fitch – BBB, or Moody's – Baa2, or S&P – BBB For counterparty, Fitch – BBB+ and below, or Moody's – Baa1 and below, or S&P – BBB+ and below For MTA, Fitch – BBB- and below, or Moody's – Baa3 and below, or S&P – BBB- and below	$10,000,000 $30,000,000 $15,000,000 $ - $ -

MTA Bridges and Tunnels Subordinate Revenue Bonds		
Associated Bond Issue	**If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to**	**Then the downgraded party must post collateral if its estimated termination payments are in excess of**
Series 2000AB	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of $1,000,000.	
Series 2000CD and Series 2003B(1) (swap with Citigroup Financial Products Inc.)	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of $1,000,000.	

(1) MTA Bridges and Tunnels Senior Lien bond.

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

Under each MTA and MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA and MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA or MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

The payments relating to debt service on the 2 Broadway swaps are parity obligations with respect to the sublease payments under the 2 Broadway Certificates of Participation, payable solely from available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds. All other payments, including the termination payments, are payable from substantially the same pool of available transportation revenues after the payment of the MTA's transportation revenue bonds and additional parity and subordinate bonds.

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

The following table sets forth, for each swap, the additional termination events for the following associated bond issues. In certain swaps, where the counterparty has a guarantor of its obligations, the ratings criteria apply to the guarantor and not to the counterparty.

MTA Transportation Revenue	
Associated Bond Issue	**Additional Termination Event(s)**
Series 2002D-2, Series 2005D and Series 2005E	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.
Series 2012	The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.

MTA Dedicated Tax Fund	
Associated Bond Issue	**Additional Termination Event(s)**
Series 2002B	The ratings by S&P and Fitch of the Counterparty or the MTA Dedicated Tax Fund Bonds fall below "BBB-" or are withdrawn.
Series 2008A	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Fitch with respect to the MTA Dedicated Tax Fund Bonds falls below "BBB" or, in either case the ratings are withdrawn.

2 Broadway Certificates of Participation		
Associated Bond Issue	**Counterparty**	**Additional Termination Event(s)**
Series 2004A	UBS AG	Negative financial events relating to the swap insurer, Ambac Assurance Corporation.

MTA Bridges and Tunnels Senior and Subordinate Revenue	
Associated Bond Issue	**Additional Termination Events**
Senior Lien Revenue Bonds	
Series 2001B and 2001C and Series 2002F (swap with Ambac Financial Services, L.P.)	1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation in case of the swap associated with Series 2002F only.
Series 2005B interest rate swap and basis risk swap, Series 2002 F (swap with Citibank, N.A.) and Series 2003 B (swap with Citibank, N.A.)	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn.
Subordinate Revenue Bonds	
Series 2000AB and 2000CD and Series 2003B[1] (swap with Citigroup Financial Products Inc.)	1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, or MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments. 2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.

(1)MTA Bridges and Tunnels Senior Lien bond.

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

Associated Bond Issue	**Bond Maturity Date**	**Swap Termination Date**
MTA Dedicated Tax Fund Variable Rate Bonds, Series 2002B	November 1, 2022	September 1, 2013
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	January 1, 2032	January 1, 2019
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Ambac Financial Services, L.P.)	November 1, 2032	January 1, 2013
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002F (swap with Citibank, N.A.)	November 1, 2032	January 1, 2032
MTA Bridges and Tunnels General Revenue Variable Rate Bonds, Series 2003B (swap with Citibank, N.A.)	January 1, 2033	January 1, 2032

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

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

MTA (in millions) (Unaudited)				
Year Ended/Ending March 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2011	$ 2.0	$ 59.5	$ (2.9)	$ 58.5
2012	2.0	59.4	(2.9)	58.5
2013	2.1	59.3	(3.0)	58.5
2014	43.1	59.0	(3.1)	98.9
2015-2019	325.6	263.8	(15.2)	574.3
2020-2024	373.4	186.2	(11.7)	547.8
2025-2029	299.9	124.6	(5.4)	419.1
2030-2034	403.5	45.8	(1.0)	448.2
2035	36.2	1.2	(0.1)	37.2

MTA Bridges and Tunnels (in millions) (Unaudited)				
Year Ended/Ending March 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2011	$ 49.5	$ 65.6	$ 2.5	117.7
2012	51.7	63.6	1.6	116.9
2013	54.5	61.4	(0.3)	115.6
2014	58.1	59.1	(2.0)	115.2
2015-2019	325.9	256.3	(25.7)	556.6
2020-2024	231.5	206.0	(34.1)	403.5
2025-2029	369.7	151.0	(36.4)	484.3
2030-2034	541.3	25.4	(5.1)	561.6

8. LEASE TRANSACTIONS

Leveraged Lease Transactions: Subway Cars — During 1995, MTA Bridges and Tunnels entered into a sale/leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by MTA New York City Transit, for net proceeds of $84.2. These cars were subsequently leased back by MTA Bridges and Tunnels under a capital lease. The deferred credit of $34.2 was netted against the carrying value of the leased assets, and the assets were recontributed to the MTA New York City Transit. MTA Bridges and Tunnels transferred $5.5 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds, equal to the net present value of the lease obligation, of which $71.3 was placed in an irrevocable deposit account at ABN AMRO Bank N.V. and $7.5 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all of the regularly scheduled obligations under the lease as they become due, including the purchase option, if exercised. The capital lease obligation is included in other long-term liabilities. At the end of the lease term MTA Bridges and Tunnels has the option to purchase the subway cars for approximately $106, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately $89.

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

Under the terms of the lease/leaseback agreement, the MTA initially received $314, which was utilized as follows. The MTA paid $266 to Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A. (Rabobank Nederland), an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The MTA used $21 to purchase Treasury securities, which are pledged as collateral to the third party. The value at maturity of these Treasury securities, together with the proceeds from the aforementioned obligation of Coöperatieve Centrale Raiffeisen-Boerenleenbank B.A., is sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the 22-year sublease period, if the related purchase option is exercised. A further $0.6 was used to pay for legal and other costs of the transaction, and $3 was used to pay the first rental payment under the sublease. A further $23 is the MTA's net benefit from the transaction, representing consideration for the tax benefits. MTA Bridges and Tunnels has entered into a guarantee with the third party that the sublease payments will be made. At September 30, 2011, the MTA has recorded a long-term capital obligation and capital asset of $264 arising from the transaction.

Leveraged Lease Transactions: Subway and Rail Cars — On December 12, 1997, the MTA entered into two lease/leaseback transactions whereby the MTA leased certain of MTA Metro-North Railroad's rail cars to a third party and MTA New York City Transit leased certain subway maintenance cars to the same third party. MTA exercised the purchase option on the first tranche of the lease related to MTA Metro-North Railroad assets. The final installment of the purchase price was paid in December 2009.

The remaining lease tranches related to MTA Metro-North Railroad assets expire in 2013 and 2014, depending on the asset, and the lease for MTA New York City Transit's subway maintenance cars expires in 2013.

The third party has the right to renew the lease for an additional period of 12 years for MTA Metro-North Railroad cars, and a further 12 years for MTA New York City Transit's subway maintenance cars. The cars were subsequently subleased back to the MTA as a capital lease, and sub-subleased by the MTA to MTA Metro-North Railroad and MTA New York City Transit, respectively.

Under the terms of these lease/leaseback agreements, the MTA initially received $76.6, which was utilized as follows: The MTA paid $59.8 to an affiliate of the third party's lender, which has the obligation to pay to the MTA an amount equal to the rent obligations under the sublease attributable to the debt service on the loan from the third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. The MTA used $12.5 to purchase a Letter of Credit from an affiliate of the third party's lender, guaranteed by American International Group, Inc. The payments to the MTA under the Letter of Credit, together with the aforementioned payments from the affiliate of the third party's lender, are sufficient to pay all of the regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. At September 30, 2011, the MTA has recorded a long-term capital obligation and capital asset of $30 arising from the transaction.

As a result of the downgrade of American International Group, Inc., the guarantor of the Letter of Credit, the provider of the Letter of Credit was required to pledge, and has pledged, collateral in the form of securities issued or guaranteed by the U.S. Government, including U.S. Treasury obligations and any other obligations the timely payment of principal of, and interest on, which are guaranteed by the U.S. Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America which are rated AAA by Standard & Poor's, which collateral has a market value in excess of the accreted value of its obligations. In the event of a failure of the obligor under the Letter of Credit and American International Group, Inc., as guarantor of such obligations, to perform, the transaction documents are structured to provide recourse to the securities that have been pledged as collateral for such obligations.

MTA has pledged additional collateral in the amount of $3 to cover the difference between the market value of the collateral provided by American International Group, Inc. and the nominal amount of the sum of MTA's rent payments plus the optional purchase option payments. As American International Group, Inc. increases the value of its collateral during the period through the remaining purchase option dates in 2013 and 2014, the MTA collateral can be released to MTA in an equivalent amount until MTA has no further collateralization obligation.

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

Under the terms of the sale/leaseback agreements, the MTA initially received $1,514.9, which was utilized as follows: The MTA paid $1,058.6 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to the MTA an amount equal to the rent obligations under the leases attributable to the debt service on the related loans. The obligations of the affiliate of the third parties' lenders are guaranteed by Financial Security Assurance, Inc. The MTA also purchased Freddie Mac, FNMA, and U.S. Treasury debt securities in amounts and with maturities, which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of one of the four leases, MTAHQ also purchased Freddie Mac debt securities, the value of which at maturity, together with the aforementioned payment from the affiliate of the third party lender and the value at maturity of the Freddie Mac securities that were purchased to provide sufficient funds to make the lease rent payments equal to the debt service on the loan from the other lender to the third party, are sufficient to pay all regularly scheduled rent obligations, including the cost of purchasing the third party's remaining rights at the end of the sublease period if the related purchase options are exercised. In the case of the other three leases, the MTA entered into Equity Payment Agreements with FSA Capital Markets Services LLC (which are guaranteed by Financial Security Assurance, Inc.) whereby that entity has the obligation to provide to the MTA the amounts necessary, together with the aforementioned payments from the affiliate of the third parties' lender and the value at maturity of the Freddie Mac, FNMA, and U.S. Treasury debt securities that were purchased to provide sufficient funds to make the lease rent payments equal to the debt service on the loan from the other lenders to the third parties, are sufficient to pay all regularly scheduled rent obligations, including the cost of exercising the respective fixed price purchase options, if such purchase options are exercised. In two of the three leases in which FSA Capital Markets Services LLC is the obligor under the Equity Payment Agreements, FSA Capital Markets Services LLC is required to pledge, and has pledged, collateral in the form of securities issued or guaranteed by the United States Government, including United States Treasury obligations, publicly traded U.S. Treasury Strips, Government National Mortgage Association obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government, and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Federal National Mortgage Association, Federal Home Loan Mortgage Corporation or any agency or instrumentality of the United States of America, which collateral has a market value in excess of the accreted value of its obligations.

In the event of a failure to perform by FSA Capital Markets Services LLC as obligor under the Equity Payment Agreements in the three leases, and Financial Security Assurance, Inc., as guarantor of such obligations, the transaction documents for the two leases in which such obligations are collateralized are structured to provide recourse to the securities that have been pledged as collateral for such obligations. The accreted value of the Equity Payment Agreement in the transaction in which the obligation of FSA Capital Markets Services LLC, as obligor, and Financial Security Assurance, Inc., as guarantor, is uncollateralized was $10.85 at September 30, 2011.

The amount remaining after payment of transaction expenses, $96.2, was the MTA's net benefit from these four transactions.

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

Under the terms of the sale/leaseback agreements the MTA initially received $507.4, which was utilized as follows: The MTA paid $316.2 to affiliates of certain of the lenders to the third parties, which affiliates have the obligation to pay to MTA an amount equal to the rent obligations under the leases attributable to the debt service on the loan from certain of the third parties' lenders. The MTA also purchased FNMA and U.S. Treasury debt securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lenders to the third parties. In the case of three of the four leases, the MTA also purchased U.S. Treasury debt securities in amounts and with maturities, which are expected to be sufficient to pay the remainder of the regularly scheduled lease rent payments under those leases and the purchase price due upon exercise by the MTA of the related purchase options if exercised. In the case of the other lease, the MTA entered into an Equity Payment Undertaking Agreement with XL Insurance (Bermuda) Ltd. (which was guaranteed by XL Financial Assurance Ltd.) whereby that entity had the obligation to provide to the MTA the amounts necessary to make the remainder of the equity portion of the basic lease rent payments under that lease and to pay the equity portion of the purchase price due upon exercise by the MTA of the purchase option if exercised. The amount remaining after payment of transaction expenses, $57.6, was the MTA's net benefit from these four transactions. As consideration for the cooperation of the City of New York in these transactions, including the transfer of any property interests held by the City on such equipment to MTA New York City Transit and the MTA, the MTA is obligated to pay to the City 24.11% of the net benefit received from these four QTE transactions. At September 30, 2011, the MTA had paid the City of New York $13.7.

On February 7, 2008, the MTA learned that XL Insurance (Bermuda) Ltd. was downgraded to a level that under the applicable transaction documents required the MTA to replace the Equity Payment Undertaking Agreement with other permitted collateral. On May 2, 2008, the MTA entered into a termination agreement that terminated the QTE transaction in which the XL Insurance (Bermuda) Ltd. Equity Payment Undertaking Agreement served as equity collateral. In connection with such termination, the MTA transferred to the lessor in that transaction U.S. Treasury debt obligations, having a cost of approximately $75, which obligations were substantially similar in amount and payment terms to the XL Insurance (Bermuda) Ltd. Equity Payment Undertaking Agreement. The MTA subsequently entered into an agreement with XL Insurance (Bermuda) Ltd. to terminate the XL Insurance (Bermuda) Ltd. Equity Payment Undertaking Agreement and XL Insurance (Bermuda) Ltd. paid the MTA $61.

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the transaction documents for two of the remaining three QTE leases required the MTA to replace the applicable Equity Credit Default Option Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. MTA terminated those two leases in January, 2009 pursuant to early termination agreements with the equity investor. The MTA achieved a net gain of approximately $3 as a result of such terminations.

Leveraged Lease Transaction: Subway Cars — On September 3, 2003, the MTA entered into a sale/leaseback transaction whereby MTA New York City Transit transferred ownership of certain MTA

New York City Transit subway cars to the MTA, the MTA sold those cars to a third party, and the MTA leased those cars back from such third party. The MTA subleased the cars to MTA New York City Transit. The lease expires in 2033. At the lease expiration, the MTA has the option of either exercising a fixed-price purchase option for the cars or returning the cars to the third-party owner.

Under the terms of the sale/leaseback agreement, the MTA initially received $168.1, which was utilized as follows: The MTA paid $126.3 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on such loan from such third party's lender. The obligations of the affiliate of the third party's lender are guaranteed by American International Group, Inc. The MTA also purchased FNMA and U.S. Treasury securities in amounts and with maturities which are sufficient to make the lease rent payments equal to the debt service on the loans from the other lender to the third party and to pay the remainder of the regularly scheduled rent due under that lease and the purchase price due upon exercise by the MTA of the fixed price purchase option if exercised. The amount remaining after payment of transaction expenses, $7.4, was the MTA's benefit from the transaction.

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

Under the terms of the sale/leaseback agreements, the MTA initially received $294, which was utilized as follows: In the case of one of the leases, the MTA paid $97 to an affiliate of one of the lenders to the third party, which affiliate has the obligation to pay to the MTA an amount equal to the rent obligations under the lease attributable to the debt service on the loan from such third party's lender. The obligations of the affiliate of such third party's lender are guaranteed by American International Group, Inc. In the case of the other lease, the MTA purchased U.S. Treasury debt securities in amounts and with maturities, which are sufficient for the MTA to make the lease rent payments equal to the debt service on the loan from the lender to that third party. In the case of both of the leases, the MTA also purchased Resolution Funding Corporation (REFCO) debt securities that mature in 2030. Under an agreement with AIG Matched Funding Corp. (guaranteed by American International Group, Inc.), AIG Matched Funding Corp. receives the proceeds from the REFCO debt securities at maturity and is obligated to pay to the MTA amounts sufficient for the MTA to pay the remainder of the regularly scheduled lease rent payments under those leases and the purchase price due upon exercise by the MTA of the purchase options if exercised. The amount remaining after payment of transaction expenses, $24, was the MTA's net benefit from these two transactions.

On September 16, 2008, the MTA learned that American International Group, Inc. was downgraded to a level that under the terms of the transaction documents for the sale/leaseback transaction that closed on September 29, 2003, the MTA is required to replace or restructure the applicable Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. On December 17, 2008, MTA terminated the Equity Payment Undertaking Agreement provided by AIG Financial Products Corp. and guaranteed by American International Group, Inc. and provided replacement collateral in the form of U.S. Treasury strips. The Resolution Funding Corporation (REFCO) debt security that was being held in pledge was released to MTA. On November 6, 2008, the MTA learned that Ambac Assurance Corp., the provider of the credit enhancement that insures the MTA's contingent obligation to pay a portion of the termination values upon an early termination in both the September 25, 2003 and September 29, 2003 transactions, was downgraded to a level that required the provision of new credit enhancement facilities for each lease by December 21, 2008.

On December 17, 2008, MTA terminated the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 25, 2003 and provided a short-term U.S. Treasury debt obligation as replacement collateral. The cost of the replacement collateral was $32. As a result of a mark-to-market of the securities provided as collateral as of January 31, 2009, $8 of such $32 in collateral value was released back to MTA in February 2009. In January 2010, additional replacement collateral was required to be added such that the total market value of the securities being held as replacement collateral, U.S. Treasury bills, was $32.5. In January 2011, additional collateral was remitted for $1.7 and as September 30, 2011, the market value of total collateral funds was $34.4.

On January 12, 2009, MTA provided a short-term U.S. Treasury debt obligation as additional collateral in addition to the Ambac Assurance Corp. surety bond for the lease transaction that closed on September 29, 2003. In January 2010, additional collateral was required to be added such that the total market value of the securities being held as additional collateral, U.S. Treasury bills, was $39.2. In January 2011, additional collateral was added for a total amount of $2.7. As of September 30, 2011, the market value of total collateral funds was $42.1.

Other Lease Transactions — On July 29, 1998, the MTA, (solely on behalf of MTA Long Island Rail Road and MTA Metro-North Railroad, MTA New York City Transit, and MTA Bridges & Tunnels entered into a lease and related agreements whereby each agency, as subleasee, will rent, for an initial stated term of approximately 50 years, an office building at Two Broadway in lower Manhattan. The lease term expires on July 30, 2048, and, pursuant to certain provisions, is renewable for two additional 15-year terms. The lease comprises both operating (for the lease of land) and capital (for the lease of the building) elements. The total annual rental payments over the initial lease term are $1,602 with rent being abated from the commencement date through June 30, 1999. During 2010, the MTA made rent payments of $43. In connection with the renovation of the building and for tenant improvements, the MTA issued $121 and $328 in 2000 and 1999, respectively, of certificates of participation. In 2004, it issued approximately $358 of certificates of participation that partially refunded the two previously issued certificates. As of September 30, 2011, there was $385 in certificates of participation outstanding. (see Note 7). The office building is principally occupied by MTA New York City Transit and MTA Bridges & Tunnels.

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

In August 1988, the MTA entered into a 99-year lease agreement with Amtrak for Pennsylvania Station. This agreement, with an option to renew, is for rights to the lower concourse level and certain platforms. The $45 paid to Amtrak by the MTA under this agreement is included in other assets. This amount is being amortized over 30 years. In addition to the 99-year lease, MTA Long Island Rail Road entered into an agreement with Amtrak to share equally the cost of the design and construction of certain facilities at Pennsylvania Station. Under this agreement, the MTA may be required to contribute up to $60 for its share of the cost. As of December 31, 2000, the project was closed and $50 was included in property and equipment.

Total rent expense under operating leases approximated $36.5 and $34.8 for the periods ended September 30, 2011 and 2010 respectively.

At September 30, 2011, the future minimum lease payments under non-cancelable leases are as follows (in millions):

	Operating	Capital
	(Unaudited)	
2011	$ 19	$ 34
2012	51	170
2013	51	72
2014	53	77
2015	49	58
2016–2020	200	408
2021–2025	228	378
2026–2030	245	205
2031–2035	261	1,615
2036–2040	444	187
Thereafter	360	421
	$ 1,961	3,625
Amount representing interest		(2,447)
Total present value of capital lease obligations		1,178
Less current present value of capital lease obligations		17
Noncurrent present value of capital lease obligations		$ 1,161

9. FUTURE OPTION

In 2009, MTA and LIRR entered into an Air Space Parcel Purchase and Sale Agreement ("Agreement") with Atlantic Yards Development Company, LLC ("AADC") pursuant to which AADC has agreed to purchase fee title to six parcels of air space above the LIRR's Atlantic Yard in Brooklyn, New York. Initial annual payments of $2 (covering all six parcels) commence on June 1, 2012 and are due on the following three anniversaries of that date. Starting on June 1, 2016 and continuing on each anniversary thereof through and including June 1, 2031, an annual option payment in the amount of $11.03 is due. The Agreement provides that all such payments are (i) fully earned by MTA as of the date due in consideration of the continuing grant to Developer of the rights to purchase the air space parcels, (ii) are non-refundable and (iii) shall be deemed to be payments on account of successive annual options granted to AADC.

After AADC and its affiliates have completed the new yard and transit improvements to be constructed by them at and in the vicinity of the site, AADC has the right from time to time until June 1, 2031 to close on the purchase of any or all of the six air rights parcels. The purchase price for the six parcels is an amount, when discounted at 6.5% per annum from the date of payment that equals a present value of $80 as of January 1, 2010. The purchase price of any particular air space parcel is equal to a net present value as of January 1, 2010 of the product of that parcel's percentage of the total gross square footage of permissible development on all six air space parcels multiplied by $80.

10. ESTIMATED LIABILITY ARISING FROM INJURIES TO PERSONS

A summary of activity in estimated liability as computed by actuaries arising from injuries to persons, including employees, and damage to third-party property, for the years ended September 30, 2011 and December 31, 2010 is presented below (in millions):

	September 30, 2011 (Unaudited)	December 31, 2010
Balance — beginning of period/year	$ 1,700	$ 1,485
Activity during the period/year:		
Current period/year claims and changes in estimates	244	455
Claims paid	(197)	(240)
Balance — end of period/year	1,747	1,700
Less current portion	(257)	(255)
Long-term liability	$ 1,490	$ 1,445

11. COMMITMENTS AND CONTINGENCIES

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

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

12. POLLUTION REMEDIATION COST

Effective 2008, pollution remediation costs are being charged in accordance with the provision of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The Statement establishes standards for determining when expected pollution remediation outlays should be accrued as a liability or, if appropriate, capitalized. An operating expense and corresponding liability, measured at its current value using the expected cash flow method, have been recognized for certain pollution remediation obligations that are no longer able to be capitalized as a component of a capital project. Pollution remediation obligations, which are estimates and subject to changes resulting from price increases or reductions, technology, or changes in applicable laws or regulations, occur when any one of the following obligating events takes place:

- An imminent threat to public health due to pollution exists
- MTA is in violation of a pollution prevention-related permit or license
- MTA is named by a regulator as a responsible or potentially responsible party to participate in remediation

- MTA is named or there is evidence to indicate that it will be named in a lawsuit that compels participation in remediation activities, or

- MTA voluntarily commences or legally obligates itself to commence remediation efforts

Operating expense provision and corresponding liability measured at its current value using the expected cash flow method have been recognized for certain pollution remediation obligation that previously may not have been required to be recognized, or are no longer able to be capitalized as a component of a capital project. As of September 30, 2011, the MTA has recognized a total cost of $7 and a pollution remediation liability of $98.

13. FUEL HEDGE

MTA partially hedges its fuel cost exposure using financial hedges. All MTA fuel hedges provide for 12 monthly settlements. The table below summarizes five active ultra-low sulfur diesel ("ULSD") hedges:

Counterparty	Deutsche Bank AG	Deutsche Bank AG	Deutsche Bank AG	J. Aron & Company	Bank of America Merrill Lynch
Trade Date	3/2/2011	3/8/2011	5/5/2011	5/12/2011	6/24/2011
Effective Date	3/1/2011	4/1/2011	6/1/2011	6/1/2011	7/1/2011
Termination Date	2/29/2012	3/31/2012	5/31/2012	5/31/2012	6/30/2012
Price/Gal	$3.16	$3.12	$3.05	$2.98	$2.85
Notional Qnty (Gal)	6,329,112	6,417,456	6,557,376	6,711,408	3,506,311

In addition, on March 2, 2011, MTA executed a natural gas hedge with Deutsche Bank AG for 2,829,180 MMBtus of natural gas at a fixed price of $4.2415/MMBtu. The natural gas hedge runs from April 1, 2011 until March 31, 2012. The monthly settlements are based on the daily prices of the respective commodities whereby MTA will either receive a payment, or make a payment to the various counterparties depending on the average monthly price of the commodities in relation to the contract prices. As at September 30, 2011, the total notional value of the ULSD contracts was 17,321,447 gallons with a fair market value of a negative $4.48 and the total notional value of the natural gas contract was 1,414,590 MMBtu with a fair market value of a negative $0.40.

Pursuant to GASB Statement No. 53 MTA, all MTA fuel hedges are considered to be effective cash flow hedges using the Dollar Offset Method.

14. OPERATING ACTIVITY INFORMATION

(In millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
September 30, 2011 (Unaudited)						
Operating revenue	$ 226	$ 900	$ 2,926	$ 1,136	$ (29)	$ 5,159
Depreciation and amortization	68	387	974	63	-	1,492
Subsidies and grants	2,935	-	1,152	7	(914)	3,180
Tax revenue	669	-	416	-	(151)	934
Interagency subsidy	408	-	127	(408)	(127)	-
Operating (deficit) surplus	(700)	(1,158)	(3,416)	765		(4,509)
Net surplus (deficit)	1,920	(1,088)	(667)	75	21	261
Payment for capital assets	(2,917)	(154)	(640)	(111)	902	(2,920)
September 30, 2011 (Unaudited)						
Total assets	14,185	10,575	33,840	5,412	(1,161)	62,851
Net working capital	2,999	66	(1,416)	(274)	(124)	1,251
Long-term debt — (including current portion)	22,898	-	-	8,926	(39)	31,785
Net assets	(13,278)	9,088	26,033	(4,704)	(2)	17,137
September 30, 2011 (Unaudited)						
Net cash (used in)/provided by operating activities	(577)	(652)	(1,548)	880	16	(1,881)
Net cash provided by/(used in) noncapital financing activities	3,054	697	1,737	(382)	(1,696)	3,410
Net cash (used in)/provided by capital and related financing activities	(2,546)	(43)	(538)	(405)	1,711	(1,821)
Net cash provided by/(used in) investing activities	74	(9)	335	(92)	(31)	277
Cash at beginning of year	120	21	49	10	-	200
Cash at end of period	125	14	35	11	-	185

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

(Continued)

(In Millions)	MTA	Commuters	Transit	Bridges and Tunnels	Eliminations	Consolidated Total
September 30, 2010 (Unaudited)						
Operating revenue	$ 219	$ 842	$ 2,660	$ 1,077	$ (30)	$ 4,768
Depreciation and amortization	57	395	962	57	-	1,471
Subsidies and grants	2,925	-	1,075	3	(916)	3,087
Tax revenue	675	-	262	-	(185)	752
Interagency subsidy	337	-	98	(337)	(98)	-
Operating (deficit) surplus	(623)	(1,177)	(3,613)	688		(4,725)
Net (deficit) surplus	916	(1,119)	(285)	78	327	(83)
Capital expenditures	(3,757)	(174)	(680)	(203)	1,125	(3,689)
September 30, 2010 (Unaudited)						
Total assets	13,012	10,567	32,729	5,163	(772)	60,699
Net working capital	2,444	14	(1,964)	(380)	212	326
Long-term debt — (including current portion)	21,992	-	-	8,925	(40)	30,877
Net assets	(12,890)	9,202	25,536	(4,816)	326	17,358
September 30, 2010 (Unaudited)						
Net cash (used in)/provided by operating activities	(392)	(686)	(1,741)	800	50	(1,969)
Net cash provided by/(used in) noncapital financing activities	2,836	694	1,784	(302)	(1,538)	3,474
Net cash (used in)/provided by capital and related financing activities	(1,357)	(15)	(465)	(488)	1,517	(808)
Net cash provided by/(used in) investing activities	(1,271)	5	421	(11)	(27)	(883)
Cash at beginning of year	285	21	33	11	(2)	348
Cash at end of period	101	19	32	10		162

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

15. SUBSEQUENT EVENTS

On October 13, 2011, the MTA issued MTA Bridges and Tunnels General Revenue Refunding Bonds, Series 2011A in the amount of $609.43. Proceeds from the sale were used to currently refund certain outstanding maturities of fixed-rate MTA Bridges and Tunnels General Purpose Revenue Bonds, Series 2001A and Series 2002A.

On October 20, 2011, Governor Cuomo nominated Joseph J. Lhota to serve as Chairman and Chief Executive Officer (CEO) of the MTA. The Governor's appointment is subject to the advice and consent of the New York State Senate. Mr. Lhota joined the MTA as MTA Executive Director on November 14, 2011, and his nomination to serve as Chairman/CEO was approved by the New York State Senate on January 9, 2012.

On October 21, 2011, the MTA extended for an additional 2 years the Letter of Credit and Reimbursement Agreement with Landesbank Hessen-Thüringen Girozentrale, acting through its NY Branch (Helaba Bank) supporting the Transportation Revenue Variable Rate Bonds, Subseries 2005D-1 from November 7, 2011 to November 7, 2013.

On October 27, 2011 the outstanding swap associated with DTF 2008A bonds was novated from counterparty Citigroup Financial Products, Inc. (A/A3/A+) to The Bank of New York Mellon (Aaa/AA/AA). All other terms of the swap remain unchanged.

On November 10, 2011 the MTA issued Transportation Revenue Refunding Bonds, Series 2011C in the amount of $197.95. This refunding of existing fixed-rate Transportation Revenue Bonds will make available debt service account monies to pay for a tender for 2 Broadway Certificates of Participation (COPs), Series 2004A and a refunding of approximately $15 of fixed rate COPs, Series 1999A and 2000A. On November 28, $230.7 of outstanding 2 Broadway Series 2004A were tendered to MTA at a price of $970 per $1,000 certificates.

On November 15, 2011, the MTA remarketed $93.5 Transportation Revenue Bonds, Series 2008B-1 from a Term Rate Mode into a Fixed Rate Mode.

On November 18, 2011, Moody's Investor Service acted to lower the credit rating on $250 Transportation Revenue Variable Rate Bonds, Series 2005D-1 and 2005D-2 from Aa1 to Aa2 in connection with the downgrade of the letter of credit provider, Landesbank Hessen-Thüringen Girozentrale. The downgrade did not reflect a change in Moody's opinion of the credit quality of the MTA.

On December 7, 2011, the MTA issued Transportation Revenue Refunding Bonds, Series 2011D in the amount of $480.165. Proceeds from the sale will be used to finance transit and commuter projects set forth in the approved MTA Capital Program.

On December 9, 2011, Governor Cuomo signed into law legislation (the "December Act") that makes significant changes to the payroll mobility tax. The provisions eliminate or reduce the payroll mobility tax imposed within the MTA Commuter Transportation District for certain taxpayers. As a result of the changes to the payroll mobility tax in the December Act, the Governor's Memorandum in Support of the December Act projects a reduction in revenues collected from the payroll mobility tax of $310 annually. The December Act further expressly provides that any reductions in transit aid attributable to these reductions in the payroll mobility tax "shall be offset through alternative sources that will be included in the state budget." There can be no assurance however, that legislation or appropriations to fully compensate the MTA for the estimated annual losses in payroll mobility tax revenues will be enacted into law as required by the December Act.

On December 22, 2011, a financial hedge for Ultra Low Sulfur Diesel fuel for the revenue fleet was executed through competitive bidding. The $58 million hedge was awarded to Bank of America Merrill Lynch as low bidder with an all-in cost of $2.889/gallon. Cover bids were received from Goldman Sachs at $2.89/gallon and Deutsche Bank submitted a bid of $2.8925/gallon.

The hedge is structured as an 18-month contract covering the period of January 2012 through and including June 2013. The hedge compares favorably to the budgeted amount for the commodity (net of spread for delivery, blending and handling) of $2.994/gallon in 2012 and $3.11/gallon in 2013.

The MTA Board approved the 2012 budget at its meeting last Wednesday, December 21, 2011. A copy of the budget is posted on the MTA website. In addition, the Board approved an amendment to the 2010-2014 Capital Program that outlines how the final three years of the program are to be funded. The funding plan, announced in July and updated last month, must be approved by the MTA Capital Program Review Board in Albany. The amendment is posted on the MTA website. The 2012 budget is largely similar to the Final Proposed Budget presented to the Board in November. Based on updated economic forecasts, it reflects an $87 million reduction to the amount of revenue projected to be raised through Metropolitan Mass Transportation Operating Assistance, a collection of taxes dedicated to support public transportation. As a result, the MTA projects an operating deficit of $68 million in 2012. The MTA intends to make up this deficit through management actions to reduce internal expenses by $35 million and releasing $33 million in general reserves funds. That Capital Program funding plan calls for using revenues already committed to capital in the budget to fund new bonds, and it has three key benefits: it requires no new revenues; it protects the benefits of a Capital program that delivers safety and reliability to the transit system; and it delivers results including jobs and stability in the MTA's Capital Program.

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METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULES OF PENSION FUNDING PROGRESS

($ in millions)

		January 1, 2010	January 1, 2009	January 1, 2008
	LIRR [1]:			
a.	Actuarial value of plan assets	$ 503.4	$ 483.9	$ 537.6
b.	Actuarial accrued liability (AAL)	1,583.6	1,590.5	1,560.1
c.	Total unfunded AAL (UAAL) [b-a]	1,080.2	1,106.5	1,022.5
d.	Funded ratio [a/b]	31.8 %	30.4 %	34.5 %
e.	Covered payroll	$ 65.2	$ 72.7	$ 80.9
f.	UAAL as a percentage of covered payroll [c/e]	1656.8 %	1522.0 %	1263.5 %
	MaBSTOA [2]:			
a.	Actuarial value of plan assets	$ 1,396.9	$ 1,190.0	$ 1,190.8
b.	Actuarial accrued liability (AAL)	2,133.9	1,977.4	2,045.0
c.	Total unfunded AAL (UAAL) [b-a]	737.0	787.4	854.1
d.	Funded ratio [a/b]	65.5 %	60.2 %	58.2 %
e.	Covered payroll	$ 591.1	$ 569.4	$ 562.2
f.	UAAL as a percentage of covered payroll [c/e]	124.7 %	138.3 %	151.9 %
	MNR Cash Balance Plan [3]:			
a.	Actuarial value of plan assets	$ 1.075	$ 1.238	$ 1.3
b.	Actuarial accrued liability (AAL)	1.087	1.241	1.4
c.	Total unfunded AAL (UAAL) [b-a]	0.012	0.003	0.1
d.	Funded ratio [a/b]	98.9 %	99.8 %	95.4 %
e.	Covered payroll	$ 4.5	$ 5.9	$ 6.8
f.	UAAL as a percentage of covered payroll [c/e]	0.26 %	0.04 %	1.0 %

[1] The LIRR pension plan has a separately issued financial statement that is publicly available and contains required descriptions and supplemental information regarding the employee benefit plan. The statements may be obtained by writing to Metropolitan Transportation Authority, comptroller, 345 Madison Avenue, New York, New York 10017-3739.

[2] MaBSTOA issues a publicly available financial report that includes financial statements and required supplementary information for the MaBSTOA Plan. That report may be obtained by writing to MaBSTOA Pension Plan, New York City Transit Authority, Operations Accounting, 2 Broadway, 15th Floor, New York, NY 10004.

[3] Further information about the MNR Plan is more fully described in the separately issued financial statements which can be obtained by writing to the MTA Metro-North Railroad Chief Financial Officer, 347 Madison Avenue, New York, New York 10017-3739.

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULES OF FUNDING PROGRESS FOR THE MTA POSTEMPLOYMENT BENEFIT PLAN

($ in millions)

Year Ended	Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrual Liability (AAL) {b}	Unfunded Actuarial Accrual Liability (UAAL) {c} = {b} - {a}	Funded Ratio {a} / {c}	Covered Payroll {d}	Ratio of UAAL to Covered Payroll {c} / {d}
December 31, 2010	January 1, 2008	$ -	$ 13,165	$ 13,165	$ -	$ 4,212.0	312.6 %
December 31, 2009	January 1, 2008	-	13,165	13,165	-	4,212.0	312.6
December 31, 2008	January 1, 2006	-	13,241	13,241	-	4,557.0	290.6

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF FINANCIAL PLAN TO FINANCIAL STATEMENTS RECONCILIATION
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

($ in millions)

FINANCIAL PLAN ACTUAL — Operating loss	$ (4,603.8)
Reconciling items:	
The Financial Statement was adjusted after Financial Plan closed	92.0
Projection of OPEB cost by the Financial Plan was higher than actuary cost	15.2
The Financial Plan excluded Capital Construction and East Side Access	(8.4)
The Financial Plan includes TBTA capital transfer to agencies	(4.4)
FINANCIAL STATEMENT — Operating loss	$ (4,509.4)

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

($ in millions)

Category	Financial Plan Actual	Statement GAAP Actual	Variance
REVENUE:			
Farebox revenue	$ 3,714.6	$ 3,713.6	$ (1.0)
Vehicle toll revenue	1,124.6	1,124.6	-
Other operating revenue	371.3	320.0	(51.3)
Total revenue	5,210.5	5,158.2	(52.3)
EXPENSES:			
Labor:			
Payroll	3,125.4	3,139.6	14.2
Overtime	399.6	395.5	(4.1)
Health and welfare	583.3	611.2	27.9
Pensions	963.9	816.8	(147.1)
Other fringe benefits	368.4	318.5	(49.9)
Postemployment benefits	1,209.0	1,193.8	(15.2)
Reimbursable overhead	(238.9)	(209.8)	29.1
Total labor expenses	6,410.7	6,265.6	(145.1)
Non-labor:			
Traction and propulsion power	252.9	252.2	(0.7)
Fuel for buses and trains	184.0	185.7	1.7
Insurance	8.1	-	(8.1)
Claims	164.6	244.1	79.5
Paratransit service contracts	264.1	264.1	-
Maintenance and other	421.3	424.1	2.8
Professional service contract	122.1	124.6	2.5
Pollution remediation project costs	6.9	6.8	(0.1)
Materials and supplies	369.9	379.8	9.9
Other business expenses	122.5	29.0	(93.5)
	1,916.4	1,910.4	(6.0)
Other expenses adjustments:			
TBTA transfer	-	-	-
GASB general reserve	-	-	-
Interagency subsidy	(4.4)	-	4.4
Total other expense adjustments	(4.4)	-	4.4
Total expenses before depreciation	8,322.7	8,176.0	(146.7)
Depreciation	1,491.6	1,491.6	-
Total expenses	9,814.3	9,667.6	(146.7)
NET OPERATING SURPLUS/(DEFICIT)	$ (4,603.8)	$ (4,509.4)	$ 94.4

METROPOLITAN TRANSPORTATION AUTHORITY
(A Component Unit of the State of New York)

SUPPLEMENTARY INFORMATION (UNAUDITED)
CONSOLIDATED SUBSIDY ACCRUAL RECONCILIATION BETWEEN FINANCIAL PLAN AND FINANCIAL STATEMENTS
FOR THE PERIOD ENDED SEPTEMBER 30, 2011

($ in millions)

Accrued Subsidies	Financial Plan Actual	Financial Statement GAAP Actual	Variance	
Mass transportation operating assistance	$ 1,306.6	$ 1,306.6	$ -	{1}
Petroleum business tax	465.1	481.6	16.5	
Mortgage recording tax 1 and 2	187.5	187.4	-	
MRT transfer	-	(3.8)	(3.8)	{1}
Urban tax	260.1	264.8	4.7	{1}
State and local operating assistance	378.4	457.7	79.3	
Additional mass transportation assistance program	5.6	5.6	-	
Nassau county subsidy to long island bus	4.6	4.5	-	
Station maintenance	117.9	117.9	-	
Connecticut department of transportation (CDOT)	69.0	70.0	1.0	{1}
Subsidy from New York City for MTA Bus	179.7	207.5	27.8	{1}
NYS Grant for debt service	82.5	54.2	(28.3)	{2}
Build American Bonds Subsidy	46.1	48.4	2.3	{1}
Change in fair value of derivative financial instruments	-	(28.6)	(28.6)	
Mobility tax	1,303.6	1,303.6	-	
Investment income	-	(24.3)	(24.3)	
Total accrued subsidies	4,406.7	4,453.1	46.4	
Net operating (deficit)/surplus excluding accrued subsidies and debt service	(4,603.8)	(4,509.4)	94.4	
Total net operating (deficit)/surplus	$ (197.1)	$ (56.3)	$ 140.8	
Interest on long-term debt	$ -	$ (1,084.2)	$ (1,084.2)	
Debt service	$ 1,361.3	$ -	$ (1,361.3)	

{1} The Financial Plan records on a cash basis while the Financial Statement records on an accrual basis.
{2} In the Financial Statement, funds received from the Federal Government NY State to cover debt service payments are included in the subsidies. The Financial Plan does not include either the funds received or disbursed.