

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2006



Washington Metropolitan
Area Transit Authority
Washington, D.C.

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2006



H. Charles Woodruff II
Chief Financial Officer

Prepared By: Office of Accounting
Kathleen V. Smith
Comptroller

WMATA Vision Statement

The vision for WMATA's future is a fully integrated regional system, maintained in a state of good repair that brings high quality, reliable service to customers who benefit from transit access across the region.

WMATA Mission Statement

We are committed to being an integral part of the Washington metropolitan area by ensuring the best in safe, reliable, cost-effective and responsive transit services, by promoting regional mobility and by contributing toward the social, economic and environmental well-being of our community.

WMATA Strategic Goals

Service Quality and Ridership Growth

Safety and Security

Business Management

Regional Role

National Relationships

**Comprehensive Annual Financial Report
Year Ended June 30, 2006**

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(Unaudited)

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SECTION ONE – INTRODUCTORY (Unaudited)

Letter of Transmittal

Board of Directors

Officers

Organizational Chart

Certificate of Achievement for Excellence in Financial Reporting

December 18, 2006



Chairman and Members of the Board of Directors

We are submitting the Comprehensive Annual Financial Report (CAFR) of the Washington Metropolitan Area Transit Authority (Authority) for the fiscal year ended June 30, 2006 prepared by the Authority's Office of Accounting.

This report consists of management's representations concerning the finances of the Authority. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, the Authority's management has established a comprehensive internal control framework that is designed both to protect the Authority's assets from loss, theft, or misuse and to gather sufficient reliable information for the preparation of the Authority's financial statements in conformity with generally accepted accounting principles (GAAP).

The cost of internal controls should not outweigh their benefits, consequently, the Authority's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

The Authority's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants, and have earned an unqualified opinion. The independent auditors' report is located at the front of the financial section of this report.

The Authority's management discussion and analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The Authority's MD&A complement this letter of transmittal and should be read in conjunction with it.

This CAFR is presented in three sections:

Introductory Section, including this letter of transmittal, a listing of the members of the Board of Directors, a listing of Authority Officers, the Authority's fiscal year 2006 Organizational Chart and Certificate of Achievement for Excellence in Financial Reporting.

Financial Section, containing the independent auditors' report, MD&A, financial statements, accompanying notes and required supplementary information.

Statistical Section, including a number of tables of unaudited data depicting the financial and operating history of the Authority for the past ten years, trends and other miscellaneous information.

Washington
Metropolitan Area
Transit Authority

400 Bow Street, NW
Washington, DC 20001
202-637-1334

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Profile of the Authority

On February 20, 1967, the Authority was created by an interstate compact (the Compact) through legislation passed by the District of Columbia, the State of Maryland, the Commonwealth of Virginia and the U.S. Congress. The Authority's purpose is to plan, build, finance and operate a balanced transportation system in the National Capital area. In fulfillment of this goal, the Authority provides the region with three coordinated types of transportation services: rail (Metrorail), bus (Metrobus) and paratransit (MetroAccess).

Construction of the Metrorail system began in December 1969. Later, by February 1973, four area bus companies were acquired forming the basis for the Metrobus system. And in May 1994, MetroAccess, the curb-to-curb service for mobility impaired passengers, began operation.

On January 13, 2001, the Authority completed the original 103-mile Metrorail system with the opening of the 6.5 miles extension of the Green Line from Anacostia to Branch Avenue. And in the second quarter of fiscal year 2005, three Metrorail stations and approximately 3.2 miles of track were added to the Metrorail system resulting in a total of 86 stations and approximately 106.1 miles of track.

The Authority serves a population of approximately 3.4 million within a 1,500-square-mile area. Its transit zone consists of the District of Columbia, the suburban Maryland counties of Montgomery and Prince George's and the Northern Virginia counties of Arlington, Fairfax and Loudoun, as well as the Northern Virginia cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park.

Metrorail ranks second in the U.S. in the number of passengers it carries and Metrobus is the nation's fifth-largest bus system.

Organizational Structure

The Authority is governed by a board of six Directors and six Alternates, composed of two Directors and two Alternates from the states of Maryland and Virginia, and the District of Columbia. The Board of Directors (Board) determines policy for the Authority.

Subject to policy direction and delegations from the Board, the General Manager (GM) is responsible for all activities and functions of the Authority. The GM directs staff in implementing and carrying out programs and initiatives of the Authority.

Budget

The Authority's annual budget serves as the foundation for its financial planning and control. The GM and staff prepare and submit the budget to the Board for approval. The budget is divided in two broad categories: operating and capital costs.

It is the responsibility of each cost center to administer its operation in such a manner to ensure that the use of the funds is consistent with the goals and programs authorized by the Board and that approved spending levels are not exceeded.

For fiscal year 2006, the Authority had an approved budget of \$1.59 billion with the largest portion, \$1.04 billion, including debt service, dedicated to operating the system. The budget contained approximately 10,000 authorized staff positions.

Economic Condition

Local Economy

The Authority is located in the nation's capital and therefore, its operation is influenced by the economic conditions of the surrounding jurisdictions.

For the past several years, the economy of the District of Columbia and the greater economy of the Washington Metropolitan area grew at an uneven pace. Employment growth in the District has matched the national average, although, it lagged substantially behind the Washington metropolitan region.

Prior to the attacks of September 11, 2001, the metro area benefited from a combination of good federal fiscal conditions and the region's high-tech industries that were supported by federal spending, and this combination insulated the area from declines in the technology industry. After the attacks, the transportation and tourism industries in the area weakened considerably from previous years, a consideration further magnified by the anthrax scares and the threat of future attacks on the nation's capital.

As we moved away from September 11, the economy of the District of Columbia fared better than that of suburban Maryland or Virginia. Increased federal government activity, as well as a rebound in tourism drove this turnaround.

Long-term Financial Planning

The Authority is in the third year of its six-year \$3.3 billion Metro Matters capital program. Metro Matters is a partnership between the Authority and the Washington metropolitan area jurisdictions to maintain and improve the three-decade old transit system. The Metro Matters program is comprised of the following initiatives:

- Infrastructure Renewal Program which includes rail and bus maintenance rehabilitation,
- Rail Car Program to purchase new rail cars, the upgrade of power and signal systems required for eight-car train operations and modifications to facilities to create additional maintenance capacity for fleet expansion,
- Bus Program to purchase advanced technology buses to address overcrowding, regional bus stop database, maps and stop improvements, and analysis of future service requirements,
- Security Program to develop a back-up operations control center and initiatives to enhance passenger security,
- System Expansion Program provides for studies for new extensions and capacity enhancements and,
- Credit facility to provide funding as required.

Relevant Financial Policies

For the purposes of determining the current year's operating loss to be funded by the local participating jurisdictions, the Authority calculates the results of transit operations on an agreed-upon basis.

Additional information on the Authority's agreed-upon funding basis can be found in note 4 on pages 34-35.

Major Initiatives

The Authority has established four enhancements that reinforce its most important values and activities for the next several years. These current and long-term priorities of the Authority are in the following areas:

- Safety
 - Intensify track inspection by adding positions to decrease individual coverage responsibility which will result in a closer inspection of interlockings, running rail and third rail.
- Reliability
 - Add staff and material to improve passenger flow in crowded transfer locations at peak demand periods; to reduce the repair backlog of Metrobus destination signs; to ensure rail servicing of all SmartCard vendors, and to improve the visibility of train arrival lighting fixtures.
- Cleanliness
 - Add staff and material to improve end of line rail car cleaning, to keep high volume stations clean, and to provide for more frequent cleaning of special rail station cleaning needs, such as graffiti removal, granite edges and granite entrances.
- Customer Service and Outreach
 - Increase the number of frontline employees in the Customer Relations call center and pair them with front line operational personnel resulting in a direct response to customer issues and identify of service trends.
 - Provide centralized, focused attention to correspondences and inquiries ensuring a quicker response to customer letters and a more personal attention to customer calls.

All of these enhancements are budgeted without a change in fares or fees.

Awards and Acknowledgements

Award

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Certificate) to the Authority for its CAFR for the fiscal year ended June 30, 2005.

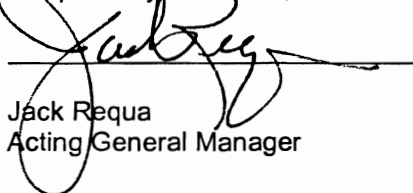
The Certificate is the highest form of recognition in the area of government financial reporting and we are pleased to report that the Authority has received this prestigious award for the last nineteen consecutive years. In order to be awarded a Certificate, a government or a public agency, such as the Authority, must publish an easily readable and efficiently organized CAFR. The content of the CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

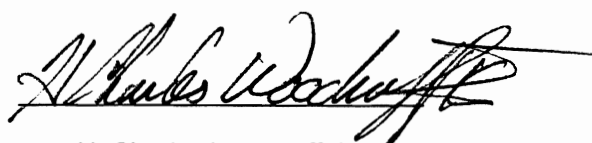
A Certificate of Achievement is valid for only one year. We believe that this current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

Acknowledgement

Production of this report could not have been accomplished without the leadership of the Comptroller and the professional, knowledgeable and dedicated staff of the Office of Accounting, especially the members of the GASB Implementation Team. A note of appreciation is extended to the many employees who gave their time and effort to the presentation of the CAFR. We would also like to thank the Board and the officers of the Authority for their continued support in planning and conducting the financial operations of the Authority in a creditable manner.

Respectfully submitted,


Jack Requa
Acting General Manager


H. Charles Woodruff II
Chief Financial Officer

Board of Directors

As of June 30, 2006

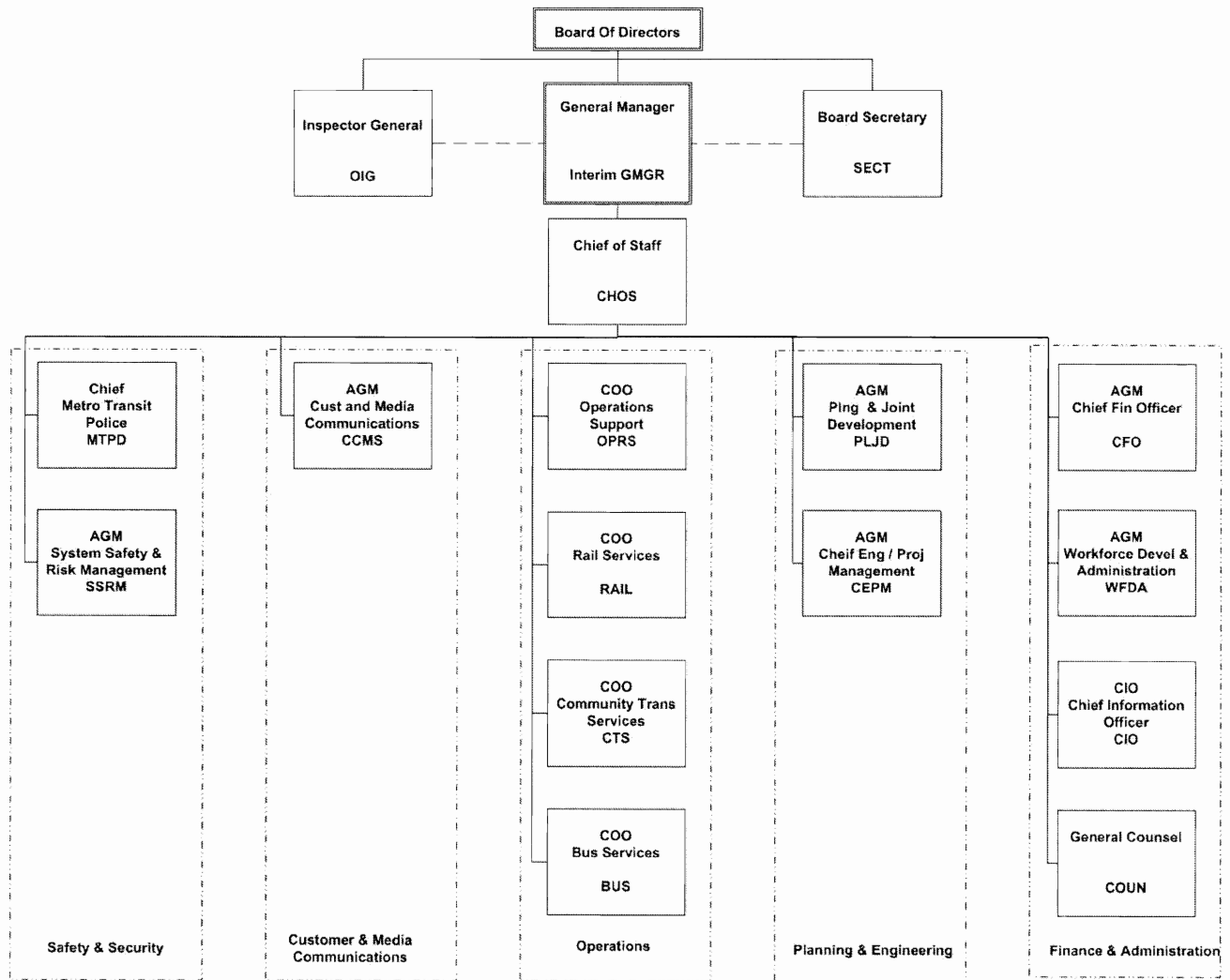
Chairman	Gladys W. Mack District of Columbia
Vice-Chairman	Charles Deegan Maryland
Second Vice-Chairman	Christopher Zimmerman Virginia
Directors	Dana Kauffman. Virginia
	Jim Graham, Jr. District of Columbia
	Raymond Briscuso, Jr. Maryland
Alternate Directors	William D. Euille Virginia
	Marcell Solomon Maryland
	Catherine Hudgins Virginia
	Gordon Linton Maryland
	Marion Barry District of Columbia
	Vacant District of Columbia

Officers

As of June 30, 2006

Interim General Manager	Dan Tangherlini
Inspector General	Vacant
Board Secretary	Debra Johnson
Chief of Staff	Emeka Moneme
Chief Police Officer for Metro Transit Police Department	Polly Hanson
Assistant General Manager for System Safety and Risk Management	Fred Goodine
Assistant General Manager for Customer and Media Communications	Raymond Feldman (acting)
Chief Operating Officer for Operations Support	James Hughes (acting)
Chief Operating Officer for Metrorail	Steven Feil
Chief Operating Officer for Community Transportation Services	Steve Yaffe
Chief Operating Officer for Metrobus	Jack Requa
Assistant General Manager for Planning and Joint Development	Edward Thomas
Assistant General Manager, Chief Engineer/Project Management	James Haggins (acting)
Chief Financial Officer	H. Charles Woodruff
Chief Administrative Officer	Brender Gregory (acting)
Chief Information Officer	J. Rod Burfield
General Counsel	Carol O'Keeffe

Organizational Chart
As of June 30, 2006



Certificate of Achievement for Excellence in Financial Reporting

Presented to

Washington Metropolitan Area Transit Authority District of Columbia

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended June
30, 2005

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Perry

President

Jeffrey R. Emmer

Executive Director

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SECTION TWO - FINANCIAL

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements:

Statement of Net Assets

Statements of Revenues, Expenses, and Changes in
Net Assets

Statements of Cash Flows

Notes to Financial Statements

Required Supplementary Information
Schedules of Funding Progress



KPMG LLP
2001 M Street, NW
Washington, DC 20036

F. S. TAYLOR & ASSOCIATES, P.C.
Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Washington Metropolitan Area Transit Authority:

We have audited the accompanying statements of net assets of the Washington Metropolitan Area Transit Authority (Authority) as of June 30, 2006 and 2005, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2006 and 2005 and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2006 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



The Management's Discussion and Analysis and Required Supplementary Information on pages 3 through 13 and 43 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The accompanying introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

KPMG LLP

J. S. Taylor & Associates, P.C.

September 30, 2006

Management's Discussion and Analysis

As management of the Washington Metropolitan Area Transit Authority (Authority), we offer readers of the basic financial statements this narrative overview and analysis of the financial activities of the Authority as of June 30, 2006, 2005 and 2004 and for the years ended June 30, 2006 and 2005. This discussion and analysis is designed to assist the reader in focusing on significant financial issues and activities and to identify any noteworthy changes in financial position. We encourage readers to consider the information presented here in conjunction with the basic financial statements taken as a whole.

Fiscal Year 2006 Financial Highlights

- Capital contributions to the Authority increased by \$173.8 million or 58.5 percent, primarily due to delayed receipt of prior year federal grants and an increase in jurisdictional billings.
- Restricted net assets decreased by \$193.4 million or 33.8 percent, which is mainly attributable to a reduction in advance contributions for bus procurement and other reimbursable projects.
- Capital assets increased by \$336.3 million or 4.3 percent, largely attributable to bus purchases, facilities enhancements and rail rehabilitation.
- Operating revenues increased by \$34.9 million or 6.1 percent, due to an increase in ridership. Special events such as the immigrants' rights rally, Washington area sporting events, national capital events such as the Independence Day celebration and the Cherry Blossom Festival also contributed to the rise in ridership. Additionally, record gas prices helped drive the increase in ridership.
- Operating expenses increased by \$121.7 million or 9.1 percent, due primarily to increase in overtime cost to cover vacancies and additional safety and security activities. The cost associated with the increase use of the Authority's paratransit service and rising fuel cost also contributed to this increase.

Overview of the Basic Financial Statements

This required annual report consists of three parts: Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The basic financial statements also include notes that provide in more detail some of the information in the basic financial statements.

Basic Financial Statements. The Authority's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to an enterprise using the accrual basis of accounting. Under this basis, revenues are recognized in the period in which they are earned, and expenses are recognized in the period in which they are incurred.

The Authority's basic financial statements are the Statements of Net Assets, the Statements of Revenues, Expenses and Changes in Net Assets and the Statements of Cash Flows.

The Statements of Net Assets report the Authority's net assets. Net assets, the difference between assets and liabilities, are one way to measure the financial position of the Authority. This is only one measure, however, and the reader should consider other indicators, such as the rate of growth of operating subsidies, passenger fare levels, ridership, general economic conditions in the metropolitan area and the age and condition of capital assets used by the Authority.

The Statements of Revenues, Expenses and Changes in Net Assets report all of the revenues earned and expenses incurred during the reporting periods.

The Statements of Cash Flows provide information on cash receipts and cash payments during the reporting periods.

The basic financial statements can be found on pages 22- 26 of this report.

Management's Discussion and Analysis

Overview of the Basic Financial Statements (Continued)

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 27- 50 of this report.

Required Supplementary Information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 51 of this report.

Financial Analysis

Statements of Net Assets

As noted earlier, net assets may serve over time as an indicator of the Authority's financial position. This is only one measure; however, the reader should consider other indicators, such as the age and condition of the Authority's three-decade system, as well as its need for increasing operating subsidies and ridership levels. The following table provides an overview of the Authority's financial position for the years ended June 30, 2006, 2005 and 2004:

Table 1
Condensed Statements of Net Assets
June 30, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$2,351,726	\$ 2,485,329	\$ 2,590,642
Capital assets	8,136,494	7,800,188	7,692,128
Total assets	<u>10,488,220</u>	<u>10,285,517</u>	<u>10,282,770</u>
Current liabilities	552,638	444,055	421,755
Noncurrent liabilities	1,651,760	1,721,722	1,738,776
Total liabilities	<u>2,204,398</u>	<u>2,165,777</u>	<u>2,160,531</u>
Net assets:			
Investment in capital assets, net of related debt	7,904,568	7,547,065	7,414,886
Restricted	379,254	572,675	707,353
Total net assets	<u>\$ 8,283,822</u>	<u>\$ 8,119,740</u>	<u>\$ 8,122,239</u>

Current Year

Net assets increased by \$164.1 million or 2.0 percent during the current fiscal year, due mainly to an increase in capital contributions that were used to fund facility enhancements and rehabilitations, and purchase of transportation vehicles.

The largest portion of the Authority's net assets, \$7.9 billion or 95.4 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those

Management's Discussion and Analysis

Statements of Net Assets (Continued)

Current Year (Continued)

assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Authority's net assets, \$379.3 million or 4.6 percent, represents resources that are subject to external restrictions set by the governing jurisdictions. Restricted net assets include advance contributions for future construction, reimbursable projects and other targeted programs.

Capital assets increased by \$336.3 million or 4.3 percent, largely attributable to bus purchases, facilities enhancements and rail rehabilitation.

Current liabilities increased by \$108.6 million or 24.5 percent, mainly due to increases in account payables for purchases and injury and damage claims.

Noncurrent liabilities decreased by \$70.0 million or 4.1 percent, largely due to transit bond repayments and decreases in outstanding lease agreement obligations.

Restricted net assets decreased by \$193.4 million or 33.8 percent, which is mainly attributable to a reduction in advance contributions for bus procurement and other reimbursable projects.

Prior Year

Net assets decreased by \$2.5 million or 0.03 percent, which largely reflected a decrease in contributions receivable relating to capital grants and declining investment portfolio balances.

The largest portion of the Authority's net assets, \$7.5 billion or 92.9 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Authority's net assets, \$572.7 million or 7.1 percent, represents resources that are subject to external restrictions set by the governing jurisdictions. Restricted net assets include advance contributions for future construction, reimbursable projects and other targeted programs.

Capital assets increased by \$108.1 million or 1.4 percent, largely attributable to the opening of three new metro rail stations at Largo Town Center, Morgan Boulevard and New York Avenue-Florida Avenue-Gallaudet University, rail rehabilitation and facilities enhancements.

Noncurrent liabilities decreased by \$17.1 million or 0.1 percent, largely due to a decrease in outstanding transit bonds.

Restricted net assets decreased by \$134.7 million or 19.0 percent, which is mainly attributable to the use of advance contributions for rail car procurement and other reimbursable projects as programmed.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets

The following financial information was derived from the Statements of Revenues, Expenses, and Changes in Net Assets and reflects how the Authority's net assets changed during the fiscal year:

Table 2
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2006, 2005 and 2004
(in thousands)

	<u>2006</u>	<u>2005</u>	<u>2004</u>
OPERATING REVENUES			
Passenger revenue	\$ 555,262	\$ 522,475	\$ 453,043
Charter and contract revenue	3,909	3,395	3,806
Advertising revenue	30,000	29,000	26,002
Rental revenue	17,108	16,466	15,786
Other revenue	1,199	1,206	1,348
Total operating revenues	<u>607,478</u>	<u>572,542</u>	<u>499,985</u>
NONOPERATING REVENUES			
Investment income	3,981	5,011	1,450
Interest income from leasing transactions	88,548	91,924	88,562
Income from pension plans	-	16,687	-
Other	9,413	3,790	3,277
Total nonoperating revenues	<u>101,942</u>	<u>117,412</u>	<u>93,289</u>
Total revenues	<u>709,420</u>	<u>689,954</u>	<u>593,274</u>
OPERATING EXPENSES			
Labor	536,439	498,865	485,124
Fringe benefits	271,577	272,756	250,784
Services	102,081	77,063	67,696
Materials and supplies	123,439	105,560	89,586
Utilities	67,010	61,517	52,681
Casualty and liability costs	44,688	16,869	12,467
Leases and rentals	3,999	4,096	1,913
Miscellaneous	5,205	3,253	2,778
Depreciation and amortization	306,955	299,707	296,485
Total operating expenses	<u>1,461,393</u>	<u>1,339,686</u>	<u>1,259,514</u>
NONOPERATING EXPENSES			
Expense from pension plan	14,514	-	23,808
Interest expense	98,526	102,535	101,079
Total nonoperating expenses	<u>113,040</u>	<u>102,535</u>	<u>124,887</u>
Total expenses	<u>1,574,433</u>	<u>1,442,221</u>	<u>1,384,401</u>
Loss before capital grants/subsidies	(865,013)	(752,267)	(791,127)
Jurisdictional subsidies:			
Operations	546,132	441,949	482,172
Interest	11,926	10,611	12,517
Capital contributions	471,037	297,208	220,247
Change in net assets	<u>164,082</u>	<u>(2,499)</u>	<u>(76,191)</u>
Net assets, beginning of year	<u>8,119,740</u>	<u>8,122,239</u>	<u>8,198,430</u>
Net assets, ending of year	<u>\$ 8,283,822</u>	<u>\$ 8,119,740</u>	<u>\$ 8,122,239</u>

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Revenues

Current Year

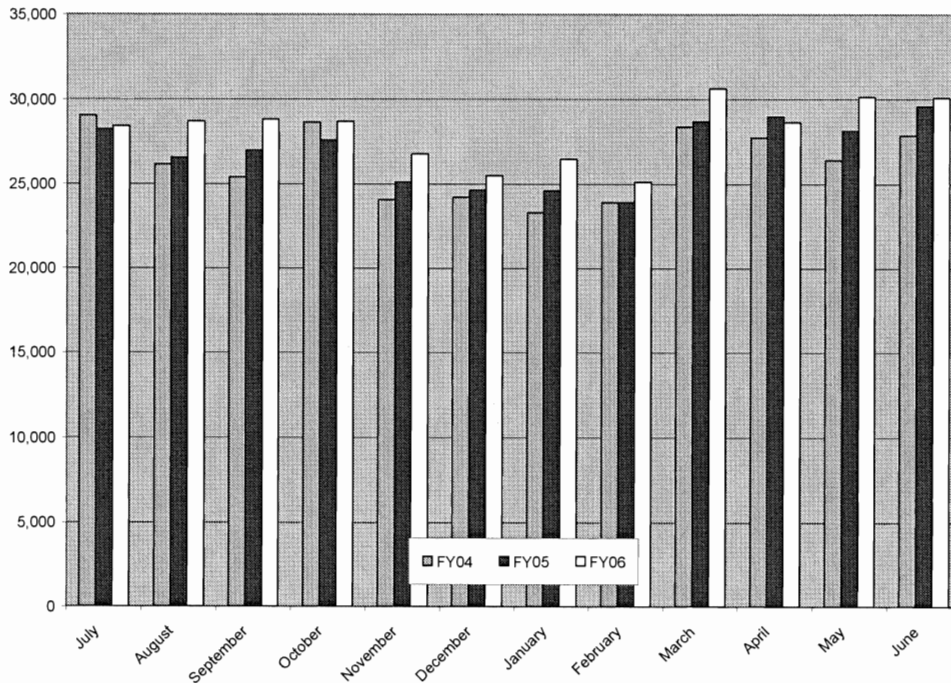
Total revenues, which include passenger revenue, increased by \$19.5 million or 2.8 percent. Operating revenues totaled \$607.5 million, as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$32.8 million or 6.3 percent. This increase can be attributed to higher ridership, Washington National games, and the utilization of parking facilities, including a new garage that opened at the New Carrollton metro station.

Metro rail ridership climbed to a record level of over 206 million annual trips for an increase of 5.3 percent. Metrobus ridership grew to 131 million annual trips resulting in an increase of 2.7 percent. Sporting events, such as the Washington Redskins and the Washington Nationals' home games, and national capital events, such as the Independence Day Celebration and the Cherry Blossom Festival, contributed to the increase in passenger revenue and ridership. Record gas prices also helped drive this increase.

A strong regional economy and the Authority's ability to attract and retain riders contributed to higher transit usage. Passenger trips for the last three years are shown below:

Passenger Trips
(in thousands)



Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

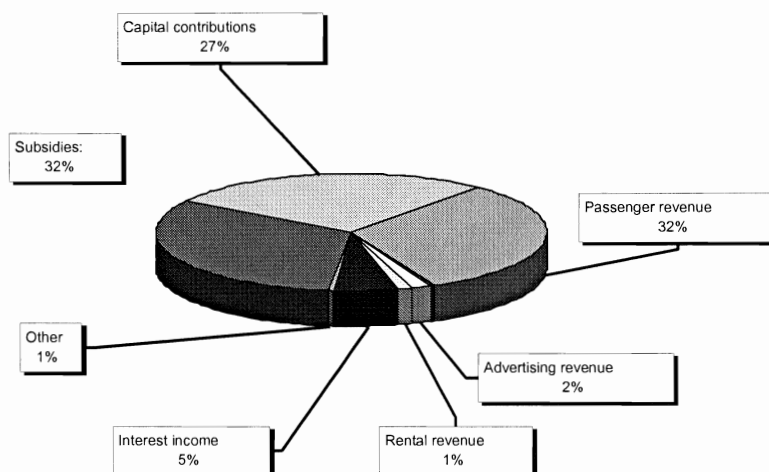
Revenues (Continued)

Charter and contract revenue for bus increased by \$0.5 million or 15.1 percent, primarily due to increases in new and existing contracts and in special service on the College Park – Bethesda and the Lee Highway – Farragut Square bus routes.

Nonoperating revenues decreased by \$15.5 million or 13.2 percent, primarily due to an increase in pension plan expenses.

Capital contributions to the Authority increased by \$173.8 million or 58.5 percent, primarily due to delayed receipt of prior year federal grants and an increase in Metro Matters jurisdictional billings. Metro Matters is a partnership between the Authority and the Washington metropolitan area jurisdictions to maintain and improve the three-decade old transit system.

Fiscal Year 2006 Revenues



Prior Year

Total revenues, which include passenger revenue, increased by \$96.7 million or 16.6 percent. Operating revenues totaled \$572.5 million, as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$69.4 million or 15.3 percent. This increase was due to a combination of factors that included an 8.8 percent fare increase and a 3.8 percent increase in ridership.

Metrorail ridership grew to a record level of over 195 million annual trips for an increase of 2.7 percent, and Metrobus ridership climbed to over 126 million revised annual trips resulting in an increase of 2.1 percent. Special events such as the Presidential Inauguration, the opening of the National Museum of the American Indian and the return of baseball to the nation's capital contributed to the record ridership. Several other factors impacted ridership including the opening of two new parking garages at the Grovesnor-Strathmore and West Falls Church-VT/UVA metro stations and the opening of three new metro stations at Largo Town Center, Morgan Boulevard and New York Avenue-Florida Avenue-Gallaudet University.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Revenues (Continued)

A strong regional economy, new customer service initiatives and the Authority's ability to attract and retain riders contributed to higher transit usage. Charter and contract revenue for bus decreased by \$0.4 million or 10.8 percent, due to the declining demand from out-of-state customers.

Advertising revenues increased by \$3.0 million or 11.5 percent, due to a contract that substantially increased the guaranteed payment to the Authority.

Nonoperating revenues increased by \$24.1 million or 25.9 percent, primarily due to an increase in the fair value of the investments in the pension plans.

Capital contributions to the Authority increased by \$77.0 million or 35.0 percent, primarily due to current receipt of federal grants delayed from the prior year, including grants for rolling stock and infrastructure modernization.

Expenses

Current Year

Total expenses increased by \$132.2 million or 9.2 percent to \$1.6 billion in fiscal year 2006 as compared to \$1.4 billion for fiscal year 2005. A review of significant changes in operating expenses is described below.

Salaries and benefits increased by \$36.4 million or 4.7 percent. Salaries and benefits were driven by increased levels of overtime for bus and rail personnel to cover vacancies. Additional Transit Police were added for general safety and security as well as for Washington sporting events, national capital events and festivals.

Services increased by \$25.0 million or 32.5 percent. Costs were \$102.1 million as compared to fiscal year 2005 with costs of \$77.1 million. The increase in costs was primarily driven by the increased usage of Metro Access and contract services for the DC Circulator bus. The lease buyout of the Authority's former paratransit service contract also contributed to the increase.

Materials and supplies increased by \$17.9 million or 16.9 percent. The steadily increasing cost for fuel accounted for the largest portion of this increase.

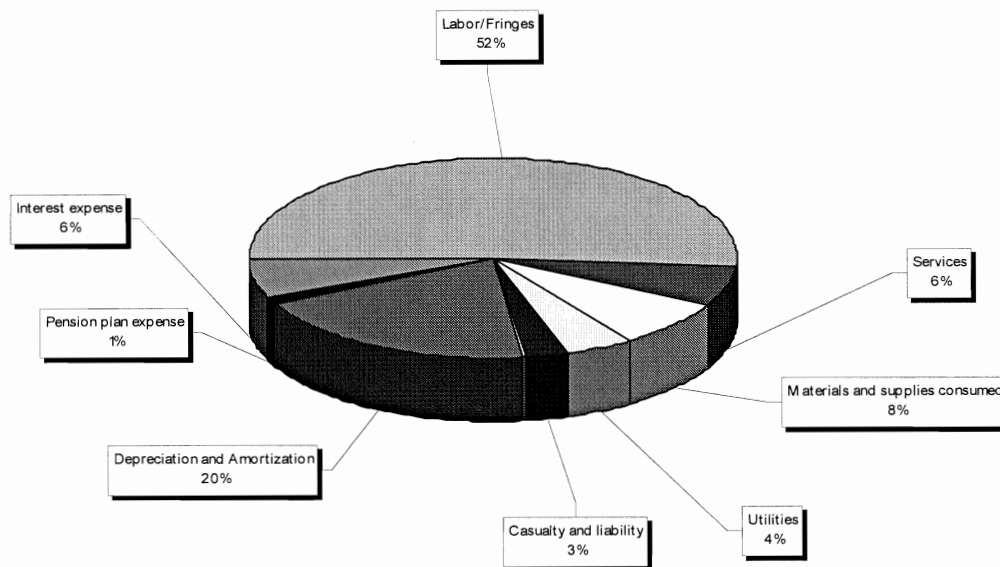
Utilities increased by \$5.5 million or 8.9 percent, due to increased propulsion usage to operate eight-car passenger trains and higher natural gas costs.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Expenses (Continued)

Fiscal Year 2006 Expenses

**Prior Year**

Total expenses increased by \$57.8 million or 4.2 percent to \$1,442.2 million in fiscal year 2005 as compared to \$1,384.4 million for fiscal year 2004. A review of significant changes in operating expenses is described below.

Salaries and benefits increased by \$35.7 million or 4.9 percent in total. Salaries and benefits expenses were driven by contractually negotiated wage increases for bus and rail operating personnel and support staff. In addition, increased levels of overtime for general safety and security in the aftermath of the global terrorist attacks as well as added Transit Police coverage associated with the new Washington National's baseball games and overall increases in ridership, also contributed to the increase in salaries and benefits.

Expenses for services increased by \$9.4 million or 13.8 percent, in fiscal year 2005. Costs were \$77.1 million as compared to fiscal year 2004 with costs of \$67.7 million. The increase in costs for services was primarily driven by an increase in MetroAccess ridership. In an effort to address rapidly increasing costs associated with paratransit service and to provide improved management oversight, the Authority is contracting with a new MetroAccess provider for the coming fiscal year.

Materials and Supplies expense increased to \$105.6 million in fiscal year 2005 from \$89.6 million in fiscal year 2004. Rising costs for diesel fuel accounted for the largest portion of the \$16.0 million or 17.8 percent increase.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets (Continued)

Expenses (Continued)

Prior Year (Continued)

Utilities costs for fiscal year 2005 were \$61.5 million versus \$52.7 million in fiscal year 2004, an increase of 16.8 percent, due primarily to higher rates for electric and propulsion power.

Capital Assets and Debt Administration

The following table shows the capital assets of the Authority:

Table 3
Schedules of Capital Assets
June 30, 2006, 2005 and 2004
(in thousands)

	2006	2005	2004
Land	\$ 431,291	\$ 431,291	\$ 431,291
Buildings and improvements	448,921	436,820	408,331
Transit facilities	7,126,154	7,211,193	6,620,890
Revenue vehicles	1,745,241	1,619,357	1,582,224
Other equipment	1,205,935	1,131,154	1,070,335
Construction in progress	1,033,335	540,618	869,762
Intangible costs	1,157,217	1,157,217	1,157,217
	13,148,094	12,527,650	12,140,050
Less accumulated depreciation and amortization	5,011,600	4,727,462	4,447,922
Net capital assets	\$ 8,136,494	\$ 7,800,188	\$ 7,692,128

Capital Assets

Current Year

Net capital assets increased by \$336.3 million or 4.3 percent, as described below.

Revenue vehicles increased by \$125.9 million or 7.8 percent, as a result of hybrid-electric and clean natural gas transportation vehicle purchases.

Construction in progress increased by \$492.7 million or 91.1 percent, due to facilities enhancements and rehabilitation costs for track and power distribution facilities, railcars, escalators and elevators. Ongoing costs related to transportation vehicle purchases also contributed to the increase.

Additional information on the Authority's capital assets can be found in note 5 on pages 36-37 of this report.

Management's Discussion and Analysis

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Prior Year

Net capital assets increased by \$108.1 million or 1.4 percent, as described below.

Buildings and improvements increased by \$28.5 million or 7.0 percent, as a result of rehabilitation activities.

Transit facilities increased by \$590.3 million or 8.9 percent, as a result of rehabilitation activities, station enhancements, and the completion of the Largo Town Center, Morgan Boulevard and New York Avenue–Florida Avenue–Gallaudet University rail stations.

Revenue vehicles increased by \$37.1 million or 2.3 percent, as a result of placing new rail cars into service and the effects of the railcar rehabilitation.

Construction in progress decreased by \$329.1 million or 37.8 percent, due to the completion of the Largo Town Center extension and New York Avenue-Florida Avenue-Gallaudet University in-fill stations of the rail system.

Future Capital Plans

During fiscal year 2006, approximately 70 percent of the Authority's comprehensive bus program was funded through Metro Matters. All of the 167 replacement buses ordered during fiscal year 2005 have been delivered. In June 2006, the Authority resolved to revise the bus requirements to a new 100-buses-per-year procurement strategy designed to achieve and maintain an average fleet age of 7.5 years. Implementation of this plan will begin in fiscal year 2007. In order to accommodate fleet expansion, the Authority and Fairfax County executed a Joint-Use Lease Agreement for the new West Ox Bus Facility. Construction of the facility will begin in fiscal year 2007. The Authority's share of the capital costs has two funding sources: joint development proceeds and Metro Matters, which the Board is advancing until the former is received.

Transit Bonds

The Authority's total outstanding bond debt as of June 30, 2006 and 2005 was \$203.5 million and \$227.9 million, respectively. By insuring its transit bonds, the Authority has obtained a AAA rating from Standard and Poor's for existing issuances. The transit bonds' uninsured rating is A minus.

Additional information on the Authority's transit bonds can be found in note 6 on pages 36-40 of this report.

Lease Obligations

Information on these transactions can be found in note 10 on pages 48-49 of this report.

Economic Factors

Employment in the Washington, D.C. metropolitan area was fairly constant throughout the fiscal year at a pace well above that of the national average. According to the George Mason University, Center for Regional Analysis, the employed labor force was 2.9 million at June 2006, as compared to 2.8 million at June 2005. This is an increase of 81.0 thousand jobs from period to period, or 2.9 percent. The unemployment rate started at 3.8 percent at June 2005 and ended at 3.3 percent at June 2006. This compares favorably with the national unemployment rate of 4.6 percent at June 2006.

Management's Discussion and Analysis

Subsequent Events

On August 8, 2006, the Authority issued \$55 million of the \$330 million commercial paper authorized by the Board for the purpose of funding Metro Matters.

Requests for Information

This financial report is designed to provide interested readers with a general overview of the Authority's finances. Questions concerning this report or requests for additional financial information should be directed to the Office of Accounting, Washington Metropolitan Area Transit Authority, 600 Fifth St., NW, Washington, D.C. 20001, telephone number (202) 962-1602.

Statements of Net Assets

June 30, 2006, and 2005

(in thousands)

ASSETS	<u>2006</u>	<u>2005</u>
Current assets:		
Cash and deposits (note 3)	\$ 7,462	\$ 7,521
Investments (note 3)	395,126	539,886
Contributions receivable (note 4)	62,896	62,024
Accounts receivable and other assets (net of \$1.4 million in uncollectible accounts)	21,130	30,857
Current portion of prefunded lease commitments (note 10)	145,066	93,139
Materials and supplies inventory (net of allowance of \$8,639 in 2006 and \$8,835 in 2005)	79,746	79,266
Total current assets	<u>711,426</u>	<u>812,693</u>
Noncurrent assets:		
Long-term portion of contributions receivable (note 4)	119,745	85,724
Prepaid pension expense (note 7)	186,397	200,911
Prefunded lease commitments (notes 10 and 11)	1,334,158	1,386,001
Capital assets (note 5):		
Construction in progress	1,033,335	540,618
Land	431,291	431,291
Transit facilities and equipment, net	6,671,868	6,828,279
Total noncurrent assets	<u>9,776,794</u>	<u>9,472,824</u>
Total assets	<u>10,488,220</u>	<u>10,285,517</u>

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

Statements of Net Assets (Continued)

June 30, 2006 and 2005

(in thousands)

	<u>2006</u>	<u>2005</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	203,627	155,408
Accrued salaries and benefits	68,443	70,917
Accrued interest payable	4,896	5,260
Deferred revenue	69,220	69,379
Current portion of estimated liability for injury and damage claims (notes 9 and 11)	29,995	20,719
Current portion of retainage on contracts (note 11)	2,057	724
Current portion of deferred lease revenue (note 11)	5,469	5,469
Current portion of transit bonds payable (notes 6 and 11)	23,865	23,040
Current portion of obligations under lease agreements (notes 10 and 11)	145,066	93,139
Total current liabilities	<u>552,638</u>	<u>444,055</u>
Noncurrent liabilities:		
Estimated liability for injury and damage claims (notes 9 and 11)	55,177	44,240
Retainage on contracts (note 11)	26,388	24,499
Deferred lease revenue (note 11)	56,421	62,122
Transit bonds payable (notes 6 and 11)	179,616	204,860
Obligations under lease agreements (notes 10 and 11)	1,334,158	1,386,001
Total noncurrent liabilities	<u>1,651,760</u>	<u>1,721,722</u>
Total liabilities	<u>2,204,398</u>	<u>2,165,777</u>
Commitments and contingencies (notes 7,8,9 and 10)		
NET ASSETS		
Invested in capital assets, net of related debt	7,904,568	7,547,065
Restricted	379,254	572,675
Total net assets	<u>\$ 8,283,822</u>	<u>\$ 8,119,740</u>

The accompanying notes are an integral part of the basic financial statements.

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2006 and 2005

(in thousands)

	2006	2005
OPERATING REVENUES		
Passenger revenue	\$ 555,262	\$ 522,475
Charter and contract revenue	3,909	3,395
Advertising revenue	30,000	29,000
Rental revenue	17,108	16,466
Other revenue	1,199	1,206
Total operating revenues	<u>607,478</u>	<u>572,542</u>
OPERATING EXPENSES		
Labor	536,439	498,865
Fringe benefits	271,577	272,756
Services	102,081	77,063
Materials and supplies	123,439	105,560
Utilities	67,010	61,517
Casualty and liability costs	44,688	16,869
Leases and rentals	3,999	4,096
Miscellaneous	5,205	3,253
Depreciation and amortization	306,955	299,707
Total operating expenses	<u>1,461,393</u>	<u>1,339,686</u>
Operating loss	<u>(853,915)</u>	<u>(767,144)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	3,981	5,011
Interest income from leasing transactions	88,548	91,924
Interest expense from leasing transactions	(88,548)	(91,924)
Interest expense (note 6)	(9,978)	(10,611)
Income (expense) from pension plans	(14,514)	16,687
Other	9,413	3,790
Jurisdiction subsidies:		
Operations	546,132	441,949
Interest	11,926	10,611
Total nonoperating revenues (expenses), net	<u>546,960</u>	<u>467,437</u>
Loss before capital contributions	<u>(306,955)</u>	<u>(299,707)</u>
Revenue from capital contributions	<u>471,037</u>	<u>297,208</u>
Change in net assets	<u>164,082</u>	<u>(2,499)</u>
Total net assets, beginning of year	<u>8,119,740</u>	<u>8,122,239</u>
Total net assets, ending of year	<u>\$ 8,283,822</u>	<u>\$ 8,119,740</u>

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

Statements of Cash Flows

For the Years Ended June 30, 2006 and 2005

(in thousands)

	<u>2006</u>	<u>2005</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from operations	\$ 617,046	\$ 577,922
Cash paid to suppliers	(250,834)	(241,331)
Cash paid to and on behalf of employees	(810,490)	(766,712)
Cash paid for operating claims	(24,475)	(12,259)
	<u>(468,753)</u>	<u>(442,380)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from jurisdiction subsidies	448,764	434,329
	<u>448,764</u>	<u>434,329</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(536,769)	(409,109)
Capital contributions	420,736	260,308
Interest paid on revenue bonds	(10,340)	(12,294)
Principal paid on revenue bonds	(23,040)	(21,890)
Interest subsidy for revenue bonds	9,978	10,611
	<u>(139,435)</u>	<u>(172,374)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	424,506	408,183
Purchases of investments	(274,898)	(238,440)
Interest received from operational investments	9,757	7,470
	<u>159,365</u>	<u>177,213</u>
Net change in cash and deposits	(59)	(3,212)
Cash and deposits, beginning of year	7,521	10,733
	<u>\$ 7,462</u>	<u>\$ 7,521</u>

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

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2006 and 2005

(in thousands)

	<u>2006</u>	<u>2005</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	<u>\$ (853,915)</u>	<u>\$ (767,144)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	306,955	299,707
Decrease (increase) in accounts receivables (net) and other assets	9,727	(9,089)
Increase in materials and supplies inventory	(480)	(6,086)
Increase in accounts payable and accrued expenses	48,158	17,131
(Decrease) increase in accrued salaries and benefits	(2,474)	4,909
Increase in estimated liability for injury and damage claims	20,213	4,612
(Decrease) increase in deferred revenue	(159)	14,469
Increase (decrease) in retainage on contracts	3,222	(889)
Total adjustments	<u>385,162</u>	<u>324,764</u>
Net cash used in operating activities	<u>\$ (468,753)</u>	<u>\$ (442,380)</u>
Noncash investing, capital, and financing activities:		
Increase (decrease) in fair value of investments	<u>\$ 5,096</u>	<u>\$ (3,490)</u>
Other (expense) income from pension	<u>\$ (14,514)</u>	<u>\$ 16,687</u>
Interest from leasing transaction	<u>\$ 88,548</u>	<u>\$ 91,924</u>

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

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies**(a) Organization**

The Washington Metropolitan Area Transit Authority (Authority) was created, effective February 20, 1967, by the Interstate Compact (Compact) by and between Maryland, Virginia and the District of Columbia, pursuant to Public Law 89-774, approved November 6, 1966. The Authority was created to plan, construct, finance and operate a public transit system serving the Washington Metropolitan Area Transit Zone (Zone). The Zone includes the following participating local jurisdictions: the District of Columbia; the cities of Alexandria, Falls Church, Fairfax, Manassas and Manassas Park; and the counties of Arlington, Fairfax, Loudoun and Prince William in Virginia, and Montgomery, Anne Arundel, Charles and Prince George's in Maryland.

The Authority is governed by a Board of six Directors and six Alternates, composed of two Directors and two Alternates from each signatory to the Compact. The Directors and Alternates for Virginia are appointed by the Northern Virginia Transportation Commission from among its members; for the District of Columbia, by the City Council from among its members and mayoral nominees; and, for Maryland, by the Washington Suburban Transit Commission from among its members.

The Board of Directors (Board) governs and sets policy for the Authority. Subject to policy direction and delegations from the Board, the Chief Executive Officer is responsible for all activities of the Authority. The staff carries out these activities through the approved organizational structure of the Authority.

Based upon the provisions of GAAP, as applicable to government entities in the United States of America, management of the Authority has determined that it is a joint venture of the participating local jurisdictions.

(b) Financial Reporting Entity

In evaluating the Authority as a reporting entity, management has addressed all potential component units which may fall within the Authority's oversight and control and, as such, be included within the Authority's basic financial statements. As defined by GAAP, established by the Governmental Accounting Standards Board (GASB), a legally separate, tax-exempt organization should be reported as a component unit of a reporting entity if all of the following criteria are met:

- 1) The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
- 2) The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- 3) The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to the primary government.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

The relative importance of each criterion must be evaluated in light of specific circumstances. The decision to include or exclude a potential component unit is left to the professional judgment of management. Included within the Authority's financial reporting entity are the planning, development and operation of the transit facilities serving the Washington, D.C. metropolitan area which are funded from the combined resources of the U.S. Government, the State of Maryland, the Commonwealth of Virginia, the District of Columbia, the participating local jurisdictions, and the Authority's operations. The Authority does not report any component units within its financial reporting entity.

(c) Basis of Accounting

The Authority prepares its basic financial statements using the accrual basis of accounting. The activities of the Authority are similar to those of proprietary funds of local jurisdictions and, therefore, are reported in conformity with governmental accounting and financial reporting principles issued by GASB. The Authority has elected to apply all applicable Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins, issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

(d) Receivables and Payables

The major components of the accounts receivable balance are payments due from governmental agencies (81.8 percent), companies (18.0 percent) and other receivables (0.2 percent).

The major components of the accounts payable balance are payments due to vendors and contractors (82.3 percent), governmental agencies (17.4 percent) and other payables (0.3 percent).

(e) Revenues and Expenses

The Authority distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses are those that result from providing services in connection with the Authority's principal ongoing operation. The principal operating revenues of the Authority are charges to customers for transportation which result in passenger revenues. Passenger revenues are recorded as revenue at the time services are performed. Cash received for services that have not been performed are recorded as deferred revenue.

Operating revenues and expenses also include all revenues and expenses not associated with capital and related financing, noncapital financing, or investing activities.

Nonoperating revenues (expenses) include investment income (expense) from the Authority's pension assets which represents the excess (shortage) of contributions over the annual required contributions.

(f) Investments

Investments are stated at fair value, which is based on quoted market prices. Investments consist primarily of advanced contributions and interest earned on such contributions. These advanced contributions are restricted for specific future capital projects.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)**(g) Materials and Supplies Inventory**

Materials and supplies inventory is stated at average cost, net of an allowance for obsolete and excess inventory.

(h) Transit Facilities and Equipment

Transit facilities and equipment are stated at cost, less accumulated depreciation and amortization.

Determinations of the cost of rapid rail assets placed in service are made with the assistance of the Authority's consulting engineers. Such cost determinations are based upon the historical costs of the project provided by the Modular Input Output System (MIOS) reports. Interest expense related to construction and amounts expended in operating and testing each phase of the rail system prior to commencement of revenue-producing operations are capitalized as intangible costs.

Transit facilities and equipment in service are depreciated or amortized using the straight-line method over the estimated useful lives of the assets. The useful lives employed in computing depreciation and amortization on principal classes of transit facilities and equipment are as follow:

Buildings and improvements	20-45 years
Rail transit facilities	10-75 years
Revenue vehicles	12-35 years
Other equipment	2-20 years
Intangible costs	40 years

Capital assets include repairable assets, which are replacement parts with a unit cost of \$500 or more. Other capital assets are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Any donated capital assets are recognized at their fair value on the date of donation.

The Authority's policy is to expense maintenance and repair costs as incurred.

(i) Grants

Capital grants and operating grants, such as jurisdictional, operating and interest subsidies, are recognized as revenue when all applicable eligibility requirements have been met.

The determination of the Authority's jurisdictional subsidies is based on its operating loss and nonoperating revenues, and does not include depreciation expense. As a result, the Authority's change in net assets represents revenues from capital grants and subsidies, less depreciation expense.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)**(j) Investment Income**

Interest income is generated from the following sources: operating funds, construction grant funds and capital improvement grant funds. Interest from these sources is recognized when earned and is included in the Statements of Revenues, Expenses and Changes in Net Assets. Interest earned on construction grant funds is classified as restricted net assets until used for the designated capital projects at which time it is transferred to "Invested in capital assets, net of related debt."

(k) Restricted Net Assets

The Authority separates net assets that are subject to external restrictions based on individual agreements. The restrictions are established by the Authority's governing jurisdictions. These restricted net assets include advance contributions for future construction programs, reimbursable projects and other targeted programs.

(l) Fuel Price Swap Arrangement

The Authority enters into agreements to fix the price associated with the purchase of fuel for specified periods of time. These agreements enable the Authority to plan its fuel costs for the year and to protect itself against increases in the market price of fuel. These agreements are reported at fair value. However, for fiscal year 2006 and 2005, the Authority did not participate in any fuel swap agreements.

(m) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP 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 basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Recent Pronouncements

The Authority, in fiscal year 2006, adopted the following GASB Statements:

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, establishes accounting and financial reporting standards for impairment of capital assets and clarifies and establishes accounting requirements for insurance recoveries. The adoption of this GASB statement had no material effect on the basic financial statements of the Authority.

GASB Statement No. 44, *Economic Condition Reporting: The Statistical Section*, revises the statistical section of the CAFR and requires new disclosures regarding the source of information, methodologies, and assumptions used. The adoption of the GASB statement had no material effect on the basic financial statements of the Authority.

GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*, clarifies the definition of a legally enforceable enabling legislation restriction on net assets. The adoption of this GASB statement had no material effect on the basic financial statements of the Authority.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(1) Summary of Significant Accounting Policies (Continued)

GASB Statement No. 47, *Accounting for Termination Benefits*, provides guidance to employers regarding benefits offered to employees, such as early retirement incentives or severance that are involuntarily terminated. The adoption of this GASB statement had no material effect on the basic financial statements of the Authority.

(o) Tax Status

The Authority is not subject to federal, state, or local income taxes and accordingly, no provision for income taxes is recorded.

(2) Plans of Financing

The planning, development and operation of the transit facilities serving the Washington, D.C. metropolitan area are funded from the combined resources of the U.S. Government, the State of Maryland, the Commonwealth of Virginia, the District of Columbia, the participating local jurisdictions, and the Authority's operations.

The original federal funding for construction of the metrorail system was provided by authority of the National Capital Transportation Act of 1969 (Public Law 91-143). This Act was subsequently amended on January 3, 1980 by Public Law 96-184, "The National Capital Transportation Amendment of 1979" (also known as the Stark-Harris Act) which authorized additional funding and on November 15, 1990 by Public Law 101-551, "The National Capital Transportation Amendments of 1990" which authorized funding for completion of a 103-mile metrorail system. The Authority has also obtained funding under certain agreements to cover debt service on its transit bond obligations as more fully explained in note 6.

The Authority's operations are funded primarily by farebox revenues from passengers and operating subsidy payments from participating jurisdictions. In establishing its budget each year, the Authority makes an estimate of the revenues it expects to receive from operation of the system based on the current or projected fare schedule and ridership. The majority of the balance of the Authority's operating budget is provided through operating subsidy payments from the participating jurisdictions.

Funding of these subsidy payments is authorized by the participating jurisdictions through their budgeting processes. Any subsequent operations funding requirements in excess of the initially budgeted estimates are due two years thereafter and are included in the accompanying basic financial statements as contributions receivable (see note 4). Any excess funding is credited to individual jurisdictional accounts for refund or for use as payment on current or future obligations as determined by the funding jurisdiction.

The Authority's Capital Improvement Program (CIP) consisting of the Infrastructure Renewal Program (IRP), System Access/Capacity Program (SAP) and System Expansion Program (SEP) is based on the results of an extensive needs assessment and the requirement to align resources to rehabilitate the existing systems adequately and to grow ridership. The contributing jurisdictions have approved the Metro Matters program, which funds the IRP, the security program, and adds bus and rail capacity. The Authority's capital budget is funded by grants that use federal funds and substantial local contributions provided by participating jurisdictions, in excess of federal match requirements.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(3) Cash, Deposits and Investments

As provided in the amended Compact, any monies of the Authority may, at the discretion of the Board and subject to any agreement or covenant between the Authority and the holders of its obligations limiting or restricting classes of investments, be invested in the following:

- 1) Direct obligation of, or obligations guaranteed by, the United States;
- 2) Bonds, debentures, notes, or other evidences of indebtedness issued by agencies of the United States;
- 3) Domestic and Eurodollar certificates of deposit;
- 4) Securities that qualify as lawful investments and may be accepted as security for fiduciary, trust and public funds under the control of the United States or any officer or officers thereof or securities eligible as collateral for deposits of monies of the United States; or
- 5) Bonds, debentures, notes or other evidences of indebtedness issued by a domestic corporation provided that such obligations are nonconvertible and at the time of their purchase are rated in the highest rating categories by a nationally recognized bond rating agency.

(a) Cash and Deposits

The Authority's bank balances as of June 30, 2006 and 2005 are grouped to give an indication of the level of custodial risk assumed by the Authority as follows (in thousands):

	2006		2005	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
<u>Cash and Deposits</u>				
Deposits insured or collateralized	\$ 385	\$ 530	\$ 446	\$ 747
Deposits uninsured or uncollateralized	735	764	606	2,289
Total deposits	1,120	1,294	1,052	3,036
Cash on hand	6,342	-	6,469	-
Total cash and deposits	<u>\$ 7,462</u>	<u>\$ 1,294</u>	<u>\$ 7,521</u>	<u>\$ 3,036</u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(3) Cash, Deposits and Investments (Continued)

(b) Investments

As of June 30, 2006, the Authority had the following investments and maturities (in thousands):

Investment Type	Investment Maturities				
	Fair Value	Less than 6 Months	7 Months - 1 Year	1-3 Years	More than 3 Years
Money market funds	\$ 9,577	\$ 9,577	\$ -	\$ -	\$ -
Repurchase agreements	68,802	68,802	-	-	-
United States treasuries	53,781	24,879	21,808	4,928	2,166
United States agencies	260,838	118,283	45,510	75,772	21,273
	<u>392,998</u>	<u>221,541</u>	<u>67,318</u>	<u>80,700</u>	<u>23,439</u>
Accrued interest	2,128	2,128	-	-	-
Total	<u>\$ 395,126</u>	<u>\$ 223,669</u>	<u>\$ 67,318</u>	<u>\$ 80,700</u>	<u>\$ 23,439</u>

As of June 30, 2005, the Authority had the following investments and maturities (in thousands):

Investment Type	Investment Maturities				
	Fair Value	Less than 6 Months	7 Months - 1 Year	1-3 Years	More than 3 Years
Money market funds	\$ 11,447	\$ 11,447	\$ -	\$ -	\$ -
Repurchase agreements	75,378	75,378	-	-	-
United States treasuries	102,808	23,870	26,608	49,893	2,437
United States agencies	347,300	35,144	86,202	185,516	40,438
	<u>536,933</u>	<u>145,839</u>	<u>112,810</u>	<u>235,409</u>	<u>42,875</u>
Accrued interest	2,953	2,953	-	-	-
Total	<u>\$ 539,886</u>	<u>\$ 148,792</u>	<u>\$ 112,810</u>	<u>\$ 235,409</u>	<u>\$ 42,875</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Authority's practice is to structure its investment portfolio maturities to meet cash flow requirements. This results in short term maturities for investments for operations and medium/intermediate maturities for capital projects investments. On average, maturities are less than two years at June 30, 2006 and June 30, 2005.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(3) Cash, Deposits and Investments (Continued)**(b) Investments****Credit Risk**

The Authority's investments in repurchase agreements and issues of governmental agencies, which have the implicit guarantee of the United States government, were, at the time of purchase, awarded the highest rating by one or more of the nationally recognized rating organizations: Standard and Poor's, Moody's Investor Service or Fitch Ratings.

Custodial Credit Risk

In the event of failure of the counterparty, the Authority will be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority is not exposed to custodial risk because all securities are in the Authority's name and held exclusively for the use of the Authority.

(4) Jurisdictional Operating Subsidy

Since inception, the Authority has operated at a loss, which has been fully subsidized each year by the participating jurisdictions. For purposes of determining the current year's operating loss to be funded by the local participating jurisdictions, the Authority calculates the results of transit operations on an agreed-upon basis different from that reflected in the Statements of Revenues, Expenses and Changes in Net Assets, as follows at June 30, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Jurisdictional operating subsidy per financial statements	\$ 546,132	\$ 441,949
Add (deduct) operating costs (not) requiring current funding:		
Preventive maintenance subsidy	(20,700)	(20,700)
Prepaid pension cost adjustment	(14,514)	16,687
Unrealized (loss) gain from investments	(5,096)	(3,300)
Agreed-upon funding of employee vacations liability and related taxes	3,735	(2,522)
Agreed-upon funding of claims for injuries and damages	(38,042)	(23,981)
Rail repairable parts	395	299
Increase in prior year obligations and commitments	1,490	3,748
Maximum fare assistance	4,695	4,497
Operating expenses funded by capital grants	<u>(46,254)</u>	<u>(31,269)</u>
Jurisdictional operating subsidy - funding basis	<u>\$ 431,841</u>	<u>\$ 385,408</u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(4) Jurisdictional Operating Subsidy (Continued)

The cumulative effects of the different agreed-upon basis are as follow at June 30, 2006 and 2005 (in thousands):

	<u>2006</u>	<u>2005</u>
Agreed-upon funding of employee vacation liability and related taxes	\$ 37,463	\$ 41,484
Agreed-upon funding of claims for injuries and damages	<u>82,282</u>	<u>44,240</u>
Total accumulated difference	<u>\$ 119,745</u>	<u>\$ 85,724</u>

The current portion of contributions receivable at June 30, 2006 and 2005 of \$62,896,000 and \$62,024,000, respectively are related primarily to federal grants.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(5) Capital Assets

Capital assets activity for the years ended June 30, 2006 and 2005, was as follows (in thousands):

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2006</u>
Capital assets not being depreciated:				
Land	\$ 431,291	\$ -	\$ -	\$ 431,291
Construction in progress	540,618	515,181	(22,464)	1,033,335
Total capital assets not being depreciated	<u>971,909</u>	<u>515,181</u>	<u>(22,464)</u>	<u>1,464,626</u>
Capital assets being depreciated:				
Buildings and improvements	436,820	12,101	-	448,921
Transit facilities	7,211,193	-	(85,039)	7,126,154
Revenue vehicles	1,619,357	144,809	(18,925)	1,745,241
Other equipment	1,131,154	79,997	(5,216)	1,205,935
Intangible costs:				
Bond interest capitalized	244,358	-	-	244,358
Construction supervision and consulting	480,765	-	-	480,765
Project and executive management	321,916	-	-	321,916
Pre-rail operations and testing	110,178	-	-	110,178
Total capital assets being depreciated	<u>11,555,741</u>	<u>236,907</u>	<u>(109,180)</u>	<u>11,683,468</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	177,919	20,766	-	198,685
Transit facilities	1,869,851	139,571	-	2,009,422
Revenue vehicles	848,986	72,556	(18,925)	902,617
Other equipment	912,211	58,918	(5,160)	965,969
Intangible costs	918,495	16,412	-	934,907
Total accumulated depreciation and amortization of intangible costs	<u>4,727,462</u>	<u>308,223</u>	<u>(24,085)</u>	<u>5,011,600</u>
Total capital assets being depreciated, net	<u>6,828,279</u>	<u>(71,316)</u>	<u>(85,095)</u>	<u>6,671,868</u>
Total capital assets, net	<u>\$ 7,800,188</u>	<u>\$ 443,865</u>	<u>\$ (107,559)</u>	<u>\$ 8,136,494</u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(5) Capital Assets (continued)

	June 30, 2004	Additions	Reductions	June 30, 2005
Capital assets not being depreciated:				
Land	\$ 431,291	\$ -	\$ -	\$ 431,291
Construction in progress	869,762	189,354	(518,498)	540,618
Total capital assets not being depreciated	<u>1,301,053</u>	<u>189,354</u>	<u>(518,498)</u>	<u>971,909</u>
Capital assets being depreciated:				
Buildings and improvements	408,331	28,489	-	436,820
Transit facilities	6,620,890	590,303	-	7,211,193
Revenue vehicles	1,582,224	48,266	(11,133)	1,619,357
Other equipment	1,070,335	71,643	(10,824)	1,131,154
Intangible costs:				
Bond interest capitalized	244,358	-	-	244,358
Construction supervision and consulting	480,765	-	-	480,765
Project and executive management	321,916	-	-	321,916
Pre-rail operations and testing	110,178	-	-	110,178
Total capital assets being depreciated	<u>10,838,997</u>	<u>738,701</u>	<u>(21,957)</u>	<u>11,555,741</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	158,315	19,604	-	177,919
Transit facilities	1,729,086	140,765	-	1,869,851
Revenue vehicles	791,086	69,033	(11,133)	848,986
Other equipment	867,352	55,683	(10,824)	912,211
Intangible costs:	902,083	16,412	-	918,495
Total accumulated depreciation and amortization of intangible costs	<u>4,447,922</u>	<u>301,497</u>	<u>(21,957)</u>	<u>4,727,462</u>
Total capital assets being depreciated, net	<u>6,391,075</u>	<u>437,204</u>	<u>-</u>	<u>6,828,279</u>
Total capital assets, net	<u>\$ 7,692,128</u>	<u>\$ 626,558</u>	<u>\$ (518,498)</u>	<u>\$ 7,800,188</u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(6) Transit Bonds Payable

Pursuant to the Compact and the Transit Bond Resolution of the Authority, the following transit bonds were outstanding at June 30, 2006 and 2005 (in thousands):

	2006		2005	
	Principal	Unamortized Issuance Cost Net of Premium	Net	Net
Series 1993, 5.18% dated November 1, 1993, due semi-annually through July 1, 2010	\$ 42,150	\$ (904)	\$ 41,246	\$ 41,246
Series 2003, 4.60% dated October 23, 2003, due semi-annually through July 1, 2014	128,195	6,320	134,515	153,983
Series 2003B, 4.06% dated November 20, 2003, due semi-annually through July 1, 2010	<u>26,010</u>	<u>1,710</u>	<u>27,720</u>	<u>32,671</u>
	<u>\$196,355</u>	<u>\$ 7,126</u>	<u>\$ 203,481</u>	<u>\$ 227,900</u>

The Authority is required to make semi-annual payments of principal and interest on each Series of Transit Bonds (see note 11). The Authority must comply with certain covenants associated with these outstanding transit bonds; the more significant of which are:

- The Authority must punctually pay principal and interest according to provisions in the bond document.
- Except for certain instances, the Authority cannot sell, mortgage, lease, or otherwise dispose of transit system assets without filing a certification by the General Manager and Treasurer with the Trustee and Bond Insurers that such action will not impede or restrict the operation of the transit system.
- The Authority must at all times maintain certain insurance or self-insurance covering the assets and operations of the transit system.

The Authority is in full compliance with all significant bond covenants.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(6) Transit Bonds Payable (Continued)**(a) Debt Service Requirements**

Debt service requirements for the transit bonds payable are as follows (in thousands):

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 23,865	\$ 9,508	\$ 33,373
2008	25,025	8,325	33,350
2009	26,380	6,960	33,340
2010	27,815	5,520	33,335
2011	29,330	4,000	33,330
2012-2015	63,940	5,247	69,187
	<u>196,355</u>	<u>39,560</u>	<u>235,915</u>
Plus unamortized premium net of issuance cost	7,126	-	7,126
	<u>\$203,481</u>	<u>\$39,560</u>	<u>\$243,041</u>

(b) Refunding of Debt

On November 30, 1993, the Authority issued \$334,015,000 of Series 1993 Gross Revenue Transit Refunding Bonds, with an average interest rate of 5.18 percent, to refund \$332,333,000 of outstanding A, B, C, D, and E Series Transit Bonds. The federal government provided the Authority with the funds necessary to redeem the remaining \$664,667,000 of such bonds. As a result, the outstanding A, B, C, D, and E Series Transit Bonds were retired.

On October 23, 2003, the Authority issued \$163,495,000 of Series 2003 Gross Revenue Transit Refunding Bonds, with an average interest rate of 4.6 percent, to refund \$168,490,000, the callable amount of outstanding Series 1993 Gross Revenue Transit Refunding Bonds.

On November 20, 2003, the Authority issued \$35,640,000 of Series 2003B Gross Revenue Transit Bonds, with an average interest rate of 4.06 percent, to accelerate the Authority's Vertical Transportation Modernization Program and other capital projects.

The Authority refunded the A, B, C, D and E Series Transit Bonds to reduce its total debt service payments over the next 20 years by approximately \$288,000,000 and to obtain an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$4,700,000. The Authority partially refunded the Series 1993 Gross Revenue Transit Refunding Bonds to reduce its total debt service payments over the next 10 years by approximately \$13,000,000 and to obtain an economic gain of approximately \$1,697,000. As of June 30, 2006 and 2005, the unamortized cost of refunding the bonds was \$3,427,000 and \$3,794,000, respectively. This unamortized cost relates primarily to the call premium on the Series E Transit Bond, and the Series 1993 Gross Revenue Transit Refunding Bonds, which are being amortized over the life of the outstanding bonds.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(6) Transit Bonds Payable (Continued)**(c) Interest Expense**

Interest expense on transit bonds for the years ended June 30, 2006 and 2005 was \$9,978,000 and \$10,611,000.

(7) Pension Plans

The Authority is the administrator of five defined benefit, single-employer retirement plans covering substantially all of its employees: Salaried Personnel, Transit Police, Union Local 689, Union Local 922 and Union Local 2. Each plan issues an available financial report which may be obtained by writing or calling the plan.

WMATA Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Transit Employees' Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Transit Police Retirement Plan
c/o WMATA, HRMP, Benefits Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Local 922 Retirement Plan
c/o WMATA, HRMP, Benefit Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

WMATA Local 2 Retirement Plan
c/o WMATA, HRMP, Benefit Branch
600 Fifth Street, N.W.
Washington, D.C. 20001
(202) 962-1076

(a) Plan Descriptions**(i) Salaried Personnel Plan**

All full-time regular management and non-union employees hired prior to January 1, 1999, certain Transit Police Officials and Special Police Officers represented by Teamsters Union Local 639 are eligible to participate in the Salaried Personnel Plan. The plan is governed by the Authority's Board of Directors with consideration of both the applicable union agreements and Authority personnel practices. The normal retirement age is 65, and such retirees are entitled to annual retirement benefits equal to 1.6 percent of final average compensation multiplied by years of credited services, plus 0.9 percent of final average compensation in excess of the Social Security breakpoint multiplied by years of credited service not in excess of 20 years. Unreduced retirement benefits are available upon reaching age 55 and meeting the "Rule of 83" with years of service and age. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability and terminated employment. The Authority contributes the total cost of the plan. The vesting requirement is five years.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Plans (Continued)**(ii) Transit Police Plan**

Transit Police Officers and Transit Police Officials of the Authority are eligible to participate in the Transit Police Plan. The plan is governed by the terms of the employees' collective bargaining agreement. The normal retirement age is upon completing 25 years of credited service, but in no event later than the attainment of age 65. The normal retirement benefit is 2.56 percent of final average earnings multiplied by years of credited service. The pension plan also provides death and disability benefits. Employees are required to contribute 7.27 percent of compensation beginning October 1, 2003. The Authority is responsible for contributions required in excess of the employee contribution level. The Authority may limit the amount of contribution to 17.05 percent of gross earnings in any Plan year. This deferral can be for no more than three consecutive Plan years or for no more than four Plan years out of any consecutive seven years. The benefit provisions and employee contribution obligations are established pursuant to a collective bargaining agreement between the Authority and the Fraternal Order of Police. The vesting requirement is 10 years.

(iii) Union Local 689 Plan

Any regular full-time or part-time Authority employee, who is a member of Union Local 689 of the Amalgamated Transit Union (Local 689), after a 90-day probationary period is eligible to participate in the Union Local 689 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal retirement allowance upon either attainment of age 70; attainment of age 65 and the completion of 10 years of continuous service; upon completion of 27 years of continuous service regardless of age; or after the sum of years of service plus attained age is 83 or more. The normal retirement monthly pension is 1.85 percent of the highest 4-year average monthly total compensation times years of service with a minimum benefit of \$600 monthly. Employees participating in the plan are not required to contribute to the plan. For each fiscal year, the Authority shall contribute that percentage of total covered payroll determined necessary to pay the normal cost of the plan plus an additional amount necessary to amortize the unfunded actuarial accrued liability over 30 years from January 1, 1983, as determined by the Plan Actuary. The pension plan also provides pre-retirement death and disability benefits. The vesting requirement is 10 years.

(iv) Union Local 922 Plan

All regular full-time and part-time employees, who are members of Union Local 922, after a 90-day probationary period, are eligible to participate in the Union Local 922 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal pension benefits after attaining age 65 and 10 years of service; upon completion of 27 years of service regardless of age; or after the sum of years of service plus attained age is not less than 83. The normal retirement monthly pension is the sum of 1.0 percent for years of service prior to May 1, 1973 plus 1.85 percent for years of service after May 1, 1973 of the highest 4-year average earnings with a minimum benefit of \$175 monthly. The pension plan also provides death and disability benefits. The Authority contributes that amount required to fund the normal cost of the plan plus an additional amount necessary to amortize the unfunded actuarial accrued liability as required by the collective bargaining agreement between the Authority and Union Local 922. The vesting requirement is 10 years.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Plans (Continued)**(v) Union Local 2 Plan**

All full-time employees covered by the Local 2 bargaining agreement hired prior to January 1, 1999 are eligible to participate in the Local 2 Plan. The plan is governed by the Authority's Board of Directors with consideration of both the applicable union agreements and Authority personnel practices. The normal retirement age is 65, and such retirees are entitled to annual retirement benefits equal to 1.6 percent of final average compensation multiplied by years of credited services, plus 0.9 percent of final average compensation in excess of the Social Security breakpoint multiplied by years of credited service not in excess of 20 years. Unreduced retirement benefits are available upon reaching age 55 and meeting the "Rule of 83" with years of service and age. The maximum normal retirement benefit is not to exceed 80 percent of final average compensation. The plan provides retired participants annual cost-of-living increases, permits both early and later retirement, and provides for benefits in the event of death, disability, and terminated employment. The Authority contributes the total cost of the plan. The vesting requirement is 5 years.

(b) Funding Status and Annual Pension Cost**(i) Salaried Personnel Plan**

The Salaried Personnel Plan's funding policy, as approved by the Board of Directors, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The actuarial cost method is the individual entry age normal cost method. The surplus at July 1, 2003 is amortized over 15 years. Subsequent gains or losses will also be amortized over 15 years.

(ii) Transit Police Plan

The Transit Police Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the current year's normal cost. The percentage of payroll that the Authority contributes is actuarially determined using the aggregate cost funding method.

(iii) Union Local 689 Plan

The Union Local 689 Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to fund the normal cost of the plan. The actuarial funding method used to compute the contribution requirements is the aggregate entry age normal cost method.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Plans (Continued)

(iv) Union Local 922 Plan

The Union Local 922 Plan's funding policy, as set forth in the collective bargaining agreement, provides for periodic contributions, expressed both in dollar amounts and as a percentage of covered payroll, sufficient to cover normal costs and amortize any unfunded actuarial accrued liability over the 30-year period that began on the valuation date. The actuarial method used to compute the contribution requirements is the entry age normal cost method.

(v) Union Local 2 Plan

The Local 2 Plan's funding policy, as approved by the Board of Directors, provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate assets to pay benefits when due. The actuarial cost method is the individual entry age normal cost method. The surplus at July 1, 2003 is amortized over 15 years. Future gains or losses will also be amortized over 15 years.

(vi) The Authority's annual pension cost (APC) and related assumptions for the current year follows (in thousands):

	Salaried Personnel Plan	Transit Police Plan	Union Local 689 Plan	Union Local 922 Plan	Union Local 2 Plan
Contribution rates:*					
Authority	22.5%	24.7%	0.0%	14.8%	16.3%
Employees (Plan Members)	0.0%	7.3%	0.0%	0.0%	0.0%
Annual pension cost	\$ 9,156	\$ 5,427	\$ 14,483	\$ 3,228	\$ 3,065
Contributions made:					
Authority	\$ 9,156	\$ 5,427	\$ -	\$ 3,197	\$ 3,065
Actuarial valuation date	7/1/2005	1/1/2005	1/1/2006	1/1/2005	7/1/2005
Actuarial cost method	Individual entry age	Aggregate cost	Aggregate entry age	Entry age	Individual entry age
Amortization method	Level dollar	N/A	Level dollar	Level dollar	Level dollar
Remaining amortization period	Open	N/A	Closed	Open	Open
Asset valuation method	Smoothed market value	Smoothed market value	3-yr assumed yield	Smoothed market value	Smoothed market value
Actuarial assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	7.0%	8.0%
Projected salary increases	3.5-8%	4.75-9%	3.5%	4.5%	3.5-8%
Post-retirement benefit	3.5%	6.0%	3.0%	4.0%	3.5%
Inflation rate	2.5%	2.5%	3.0%	3.0%	2.5%

* As a percentage of covered payroll

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Plans (Continued)

The Authority decided to split the Salaried Pension Plan into two pension plans. On September 30, 2003, a separate pension plan was created for Union Local 2 employees. The new plan is a mirror of the first. Contribution requirements after the split were calculated separately for each plan.

The Salaried Pension Plan and the Union Local 2 Plan had a change in the mortality assumption from the GAM83 table to the RP-2000 mortality table projected to 2005. The effect of this change in the mortality assumption was increases in the recommended contributions to the Salaried Pension Plan and Union Local 2 of \$845,720 and \$170,974, respectively.

The Transit Police Plan had changes in the following assumptions: mortality, salary scale, cost-of-living, disability, retirement rate, withdrawal and remarriage. The effect of these changes in actuarial assumptions was an increase of \$13,913,000 in the present value of future benefits and an increase of \$1,082,000 in the recommended contribution (payable mid-year).

There were no significant assumption changes from prior year valuation for the Local 922 Plan.

The significant components of the APC and changes in the net pension obligation (asset) are as follows (in thousands):

	Salaried Personnel Plan <u>7/1/2005</u>	Transit Police Plan <u>1/1/2005</u>	Union Local 689 Plan <u>1/1/2005</u>	Union Local 922 Plan <u>1/1/2005</u>	Union Local 2 Plan <u>7/1/2005</u>
Net pension assets beginning of year	\$ -	\$ -	\$ (198,047)	\$ (2,864)	\$ -
Annual required contribution	9,156	5,427	-	3,213	3,065
Interest on net pension assets	-	-	(15,844)	(201)	-
Adjustment to annual required contribution	-	-	30,327	216	-
Annual pension cost	9,156	5,427	14,483	3,228	3,065
Net pension obligations (assets) before contributions	9,156	5,427	(183,564)	364	3,065
Contributions made	(9,156)	(5,427)	-	(3,197)	(3,065)
Net pension assets end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (183,564)</u>	<u>\$ (2,833)</u>	<u>\$ -</u>
	<u>7/1/2004</u>	<u>1/1/2004</u>	<u>1/1/2004</u>	<u>1/1/2004</u>	<u>7/1/2004</u>
Net pension assets beginning of year	\$ -	\$ -	\$ (180,838)	\$ (3,386)	\$ -
Annual required contribution	8,385	3,900	-	2,857	3,098
Interest on net pension assets	-	-	(16,992)	(211)	-
Adjustment to annual required contribution	-	-	(217)	600	-
Annual pension cost (income)	8,385	3,900	(17,209)	3,246	3,098
Net pension obligations (assets) before contributions	8,385	3,900	(198,047)	(140)	3,098
Contributions made	(8,385)	(3,900)	-	(2,724)	(3,098)
Net pension assets end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (198,047)</u>	<u>\$ (2,864)</u>	<u>\$ -</u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Plans (Continued)**(c) Trend Information**

A summary of trend information for each plan follows (in thousands):

	Year Ending	Annual Pension Cost	Percentage of APC Contribution	Net Pension Asset
Salaried Personnel Plan	7/01/05	\$ 9,156	100.0%	-
	7/01/04	\$ 8,385	100.0%	-
	7/01/03	\$ 5,384	100.0%	-
Transit Police Plan	1/01/05	\$ 5,427	100.0%	-
	1/01/04	\$ 3,900	100.0%	-
	1/01/03	\$ 4,138	100.0%	-
Union Local 689	1/01/05	\$ 14,483	N/A	\$ (183,564)
	1/01/04	\$ (17,209)	N/A	\$ (198,047)
	1/01/03	\$ 23,908	N/A	\$ (180,838)
Union Local 922	1/01/05	\$ 3,228	99.0%	\$ (2,833)
	1/01/04	\$ 3,246	95.3%	\$ (2,864)
	1/01/03	\$ 2,539	103.9%	\$ (3,386)
Union Local 2	7/01/05	\$ 3,065	100.0%	\$ -
	7/01/04	\$ 3,098	100.0%	\$ -

(d) Defined Contribution Retirement Plan

The Authority offers a defined contribution retirement plan, Washington Metropolitan Area Transit Authority Defined Contribution Retirement Plan and Trust, for salaried employees under the terms of the Internal Revenue Code 401(a). The 401(a) plan, adopted on December 10, 1998 for employees hired on or after January 1, 1999, provides for the Authority to contribute an amount equivalent to 4 percent of the employee's base salary into a trust. The employee is not required to make contributions into the 401(a) plan; however, if the employee contributes up to 3 percent of base salary to the 457 Deferred Compensation plan, the Authority will contribute an additional amount of up to 3 percent to the 401(a) plan to equal the employee's contribution to the 457 plan. Employees are 100 percent vested after three years of service. A year of vesting is 1,000 hours of service in a calendar year. There is no interim vesting. Accrued 401(a) benefits will be paid to the employee (or rolled over) upon leaving Authority employment any time after full vesting. The provisions of the plan can be amended by the Board of Directors. This right to amend the plan is subject to the condition that all of the plan assets be used exclusively for the benefit of the participants, retired participants and their beneficiaries under the plan.

The Authority contributed \$2,698,000 and \$2,426,000 for June 2006 and 2005, respectively.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(7) Pension Plans (Continued)**(e) Deferred Compensation**

The Authority offers a deferred compensation plan for salaried employees under the terms of the Internal Revenue Section 457(g). Under the 457 plan, employees are permitted to defer up to 100 percent of salary not to exceed \$15,000 annually on a pre-tax basis. Deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Authority does not match employees' contributions to the 457 plan.

(8) Post-Retirement Benefits

In addition to providing pension benefits, the Authority provides certain health care and life insurance benefits for retired employees, in accordance with labor agreements and Board of Directors' approved policy. Substantially all of the Authority's employees may become eligible for these benefits if they reach retirement age while working for the Authority. These and similar benefits for active employees are provided through insurance companies whose premiums are based on the benefits provided during the year.

The Authority recognizes the cost of providing these benefits by expensing the annual insurance premiums, which were approximately \$118,695,000 and \$106,240,000 for June 30, 2006 and 2005, respectively. The cost of providing benefits for approximately 3,600 retirees and beneficiaries is not separable from the cost of providing benefits for approximately 10,000 active participating employees and cannot be reasonably estimated.

(9) Commitments and Contingencies**(a) Litigation and Claims**

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; and natural disasters. The Authority has a self-insurance program for third-party public liability and property damage up to \$5,000,000 per occurrence. The Authority purchases commercial insurance for liabilities exceeding the self-insurance limits up to a maximum of \$100,000,000 per occurrence. Additionally, the Authority has a wholly self-insured program for workers' compensation. Settled claims have not exceeded this commercial coverage during any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. When a claim is either made against the Authority or when there is a sufficient reason to believe an incident has resulted in bodily injury or property damage for which the Authority may be liable, a dollar amount is reserved for that claim. Management calculates the "potential worth" of each claim and adjusts the reserves as the claim develops. Liabilities include an amount for losses that have been incurred but not reported.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(9) Commitments and Contingencies (Continued)

Changes in the estimated liability for the years ended June 30, 2006 and 2005 are as follows (in thousands):

	<u>2006</u>	<u>2005</u>
Estimated liability for injury and damage claims, beginning of year	\$ 64,959	\$ 60,347
Incurred new claims	30,710	23,895
Changes in estimate for claims of prior periods	16,685	5,261
Payments on claims	<u>(27,182)</u>	<u>(24,544)</u>
Estimated liability for injury and damage claims, end of year	<u>\$ 85,172</u>	<u>\$ 64,959</u>
Due within one year	<u>\$29,995</u>	<u>\$ 20,719</u>

The Authority is a party to a number of claims arising from the construction of the transit system. These matters principally relate to contractor claims for additional compensation in excess of the original contract price. In the opinion of management, including its General Counsel, the ultimate resolution of these matters will not have a material effect on the Authority's financial position and results of operations.

The Authority is a party in various legal actions and claims brought by or against it. At June 30, 2006, the Authority had claims totaling between \$9,900,000 and \$41,900,000 which were reasonably possible that a loss may be incurred.

The Tax Increase Prevention and Reconciliation Act of 2005 established a new excise tax to be imposed on tax-exempt and governmental entities that engage in various transactions classified by the Internal Revenue Service as "listed transactions". WMATA is uncertain whether the tax will apply to it for various reasons, including the absence of implementing regulations from the Internal Revenue Service. Therefore, the financial impact is not determinable at this time.

(b) Leasing Commitment

In September 1999, the Authority entered into a 10-year operating lease for office space. The terms of the lease set forth scheduled rent increases to occur annually. Lease payments for years ended June 30, 2006 and 2005 are \$686,000 and \$666,000, respectively. The Authority's minimum lease payments as of June 30, 2006 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Total</u>
2007	\$ 706
2008	727
2009	749
2010	189
	<u>\$ 2,371</u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(9) Commitments and Contingencies (Continued)**(c) Other**

Construction and capital improvement costs are funded by federal grants, local matching funds, and third party agreements. As of June 30, 2006, the Authority is committed to expend approximately \$155,878,000 (unaudited) on future construction, capital improvement and other miscellaneous projects. The federal funding is subject to audit by the U.S. Government; in the opinion of management, disallowed costs if any, will not have a material effect on the financial position of the Authority.

(10) Leasing Transactions

During fiscal year 1999, the Authority entered into 13 transactions to lease 680 rail cars to 13 equity investors (the "headlease") and simultaneously subleased the rail cars back (the "sublease"). Trusts were created coincident to these transactions to serve as the lessee/sublessor. Under the headlease agreements, the Authority retains the right to use the rail cars and is also responsible for their continued maintenance and insurance.

During fiscal year 2003, the Authority entered into two additional transactions to lease 78 rail cars. These transactions resulted in a net payment to the Authority in fiscal year 2003 of approximately \$8,700,000, which will be amortized over the life of the lease. Subsequent to the execution of the fiscal year 2003 leases, \$1,000,000 of the proceeds was reserved to cover any potential liabilities, in the event that the Authority is required to obtain a new lender.

In August 2003, the Authority entered into a lease transaction for 48 rail cars. This transaction resulted in a net payment to the Authority of approximately \$10,000,000, which was recorded as deferred lease revenue and will be amortized over the life of the lease. Of this amount, \$500,000 was reserved for any contingencies.

The Authority's sublease arrangements have been recorded similar to a capital lease arrangement in that the present value of the future lease payments have been recognized on the Statements of Net Assets as obligations under lease agreements.

At closing, the rail cars for fiscal year 1999 leases had a fair value of approximately \$1,200,000,000 and a net book value of approximately \$226,301,000. The rail cars for fiscal year 2003 leases had a fair value of approximately \$194,100,000 and a net book value of approximately \$66,834,000. The rail cars for the fiscal year 2004 lease had a fair value of \$130,780,000 and a net book value of approximately \$78,800,000.

As part of the headlease agreements, the Authority received prepayments equivalent to the net present value of the headlease obligations. The Authority transferred a portion of these proceeds to third party lenders/undertakers in accordance with the terms of debt and equity payment undertaking agreements. These agreements constitute commitments by the debt and equity payment undertakers to pay the Authority's sublease and buy-out options under the terms of the subleases. The debt and equity payment undertakers' performance under the agreement is guaranteed by their parent company. As the debt and equity payment undertaking agreements have been structured to meet all future obligations under the sublease, the Authority has recorded the amounts held by the payment undertakers as a prefunded lease commitment on the Statements of Net Assets.

Notes to Basic Financial Statements

June 30, 2006 and 2005

(10) Leasing Transactions (Continued)

The obligation under lease agreements and the prefunded lease commitment are adjusted annually to reflect the change in the net present value of the related sublease and buy-out options.

The excess of the prepayments received over the prepayment paid to the lease payment undertakers was recorded as deferred lease revenue and will be recognized by the Authority over the life of the lease.

The following table sets forth the aggregate amounts due under the sublease agreements (in thousands):

Future minimum payments due:	
2007	\$ 145,066
2008	132,264
2009	162,925
2010	127,917
2011	152,778
2012-2016	886,772
2017-2021	467,583
2022-2026	142,830
2027-2030	122,611
Total future minimum payments	<u>2,340,746</u>
Less imputed interest	<u>861,522</u>
Present value of minimum lease payments	<u><u>\$ 1,479,224</u></u>

Notes to Basic Financial Statements

June 30, 2006 and 2005

(11) Changes in Long-Term Liabilities

Long-term liabilities activity for the years ended June 30, 2006 and 2005, was as follows (in thousands):

	Injury & Damage Claims	Retainage on Contracts	Deferred Lease Revenue	Transit Bonds Payable	Obligations Under Lease Agreements
Beginning balance, July 1, 2004	\$ 60,347	\$ 26,111	\$ 73,293	\$ 251,131	\$ 1,483,511
Additions	29,156	9,231			
Reductions	(24,544)	(10,119)	(5,702)	(23,231)	(4,371)
Contractual changes		-	-	-	-
Balance June 30, 2005	64,959	25,223	67,591	227,900	1,479,140
Additions	47,395	13,225	-	-	84
Reductions	(27,182)	(10,003)	(5,701)	(24,419)	-
Contractual changes	-	-	-	-	-
Ending balance, June 30, 2006	<u>\$ 85,172</u>	<u>\$ 28,445</u>	<u>\$ 61,890</u>	<u>\$ 203,481</u>	<u>\$ 1,479,224</u>
Due within one year	<u>\$ 29,995</u>	<u>\$ 2,056</u>	<u>\$ 5,469</u>	<u>\$ 23,865</u>	<u>\$ 145,066</u>
Noncurrent portion	<u>\$ 55,177</u>	<u>\$ 26,389</u>	<u>\$ 56,421</u>	<u>\$ 179,616</u>	<u>\$ 1,334,158</u>

(12) Subsequent Events

On August 8, 2006, the Authority issued \$55,000,000 of the \$330,000,000 commercial paper authorized by the Board for the purpose of funding Metro Matters.

Required Supplementary Information

Historical Trend Information – Pension Plans

Schedules of Funding Progress

(dollars in thousands)

Salaried Personnel Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Liability (AAL)	Unfunded Actuarial Liability (UAAL) (Funding Excess)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll (Funding Excess)
	7/1/2005	\$ 343,657	\$ 395,416	\$ 51,759	86.9%	\$ 40,750	127.0%
	7/1/2004	\$ 330,582	\$ 376,905	\$ 46,323	87.7%	\$ 42,756	108.3%
	7/1/2003	\$ 451,290	\$ 448,484	\$ (2,806)	100.6%	\$ 67,494	(4.2)%
Local 2	7/1/2005	\$ 104,006	\$ 112,051	\$ 8,045	92.8%	\$ 18,754	42.9%
	7/1/2004	\$ 96,727	\$ 105,016	\$ 8,289	92.1%	\$ 20,384	40.7%
Union Local 689 Plan	1/1/2005	\$ 1,977,425	\$ 1,710,543	\$ (266,882)	115.6%	\$ 437,399	(61.0)%
	1/1/2004	\$ 1,877,321	\$ 1,596,968	\$ (280,353)	117.6%	\$ 425,147	(65.9)%
	1/1/2003	\$ 1,908,497	\$ 1,484,930	\$ (423,567)	128.5%	\$ 412,210	(102.8)%
Union Local 922 Plan	1/1/2005	\$ 91,191	\$ 103,395	\$ 12,204	88.2%	\$ 21,085	57.9%
	1/1/2004	\$ 86,317	\$ 95,233	\$ 8,916	90.6%	\$ 19,176	46.5%
	1/1/2003	\$ 84,267	\$ 91,496	\$ 7,229	92.1%	\$ 17,985	40.2%

Notes:

The Transit Police plan was not included in this schedule, because it used the aggregate actuarial cost method.

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SECTION THREE – STATISTICAL (Unaudited)

This part of the Authority's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Authority's overall financial health.

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.	52
Revenue Capacity These schedules contain information to help the reader assess the Authority's most significant local revenue source, passenger revenue.	54
Debt Capacity These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.	56
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader to understand the environment within which the Authority's financial activities take place.	57
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.	58

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.

Changes in Net Assets For Fiscal Year 2002 to Fiscal Year 2006

(amounts expressed in thousands)

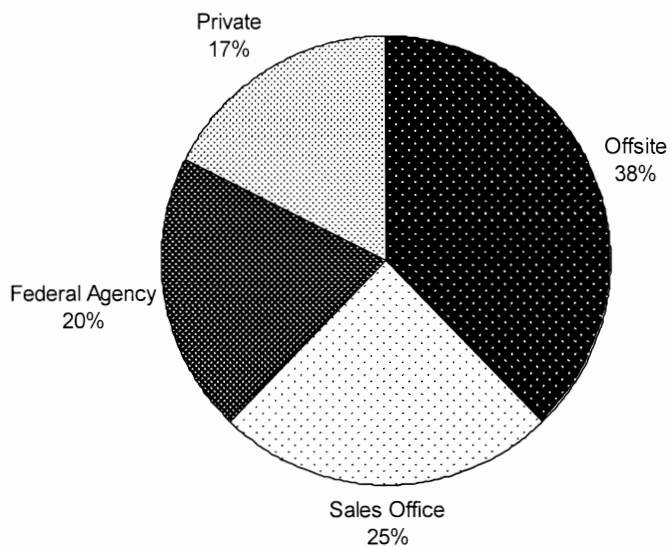
	Fiscal Year				
	2002	2003	2004	2005	2006
Operating Revenues					
Passenger revenue	\$ 394,153	\$ 404,211	\$ 453,043	\$ 522,475	\$ 555,262
Charter and contract revenue	7,746	9,597	3,806	3,395	3,909
Advertising revenue	20,001	23,001	26,002	29,000	30,000
Rental revenue	12,536	13,101	15,786	16,466	17,108
Other revenue	2,563	1,195	1,348	1,206	1,199
Total operating revenues	<u>436,999</u>	<u>451,105</u>	<u>499,985</u>	<u>572,542</u>	<u>607,478</u>
Nonoperating revenues					
Investment income	19,830	26,975	1,450	5,011	3,981
Interest income from leasing transactions	78,181	80,560	88,562	91,924	88,548
Income from pension plans	53,702	17,610	-	16,687	-
Other	1,924	3,544	3,277	3,790	9,413
Total nonoperating revenues	<u>153,637</u>	<u>128,689</u>	<u>93,289</u>	<u>117,412</u>	<u>101,942</u>
Total Revenues	<u>590,636</u>	<u>579,794</u>	<u>593,274</u>	<u>689,954</u>	<u>709,420</u>
Operating expenses					
Labor	437,380	460,435	485,124	498,865	536,439
Fringe benefits	201,061	215,878	250,784	272,756	271,577
Services	64,140	62,192	67,696	77,063	102,081
Materials and supplies	76,721	87,418	89,586	105,560	123,439
Utilities	46,843	49,758	52,681	61,517	67,010
Casualty and liability costs	4,842	4,871	12,467	16,869	44,688
Leases and rentals	3,042	3,067	1,913	4,096	3,999
Miscellaneous	5,364	3,749	2,778	3,253	5,205
Depreciation and amortization	275,896	294,300	296,485	299,707	306,955
Total operating expenses	<u>1,115,289</u>	<u>1,181,668</u>	<u>1,259,514</u>	<u>1,339,686</u>	<u>1,461,393</u>
Nonoperating expenses					
Interest expense from leasing transactions	78,181	80,560	88,562	91,924	88,548
Interest expense	12,411	11,706	12,517	10,611	9,978
Pension plans expense	-	-	23,808	-	14,514
Total nonoperating expenses	<u>90,592</u>	<u>92,266</u>	<u>124,887</u>	<u>102,535</u>	<u>113,040</u>
Total Expenses	<u>1,205,881</u>	<u>1,273,934</u>	<u>1,384,401</u>	<u>1,442,221</u>	<u>1,574,433</u>
Jurisdictional subsidies, capital grants and capital subsidies	1,077,138	933,527	714,936	749,768	1,029,095
Increase in Net Assets	<u>\$ 461,893</u>	<u>\$ 239,387</u>	<u>\$ (76,191)</u>	<u>\$ (2,499)</u>	<u>\$ 164,082</u>

Source: The Authority's Audited Financial Statements.

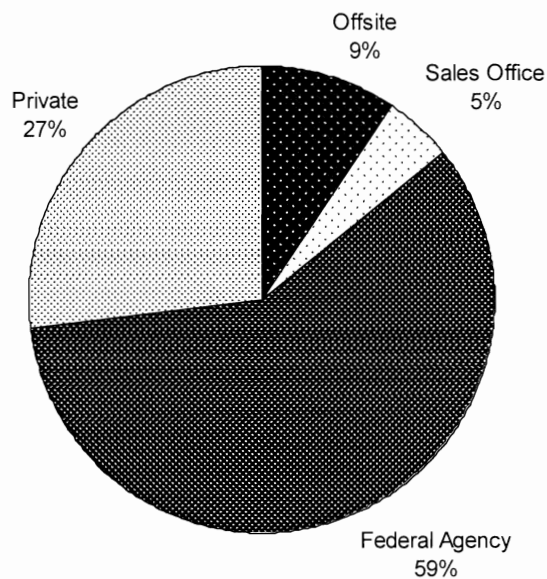
Note: The Authority implemented GASB Statement 34 in FY 2002.

Principal Revenue Pay Categories For Fiscal Year 1997 and Fiscal Year 2006

Fiscal 1997



Fiscal 2006



Federal Agency pay category consists of federal agencies in the Washington Metropolitan area.

Offsite pay category consists of private and county retail sales outlets.

Private pay category consists of private sector employers.

Sales Office pay category consists of Authority owned and operated sales outlets.

Source: The Authority's Office of Customer and Media

Passenger Fare Structure For Fiscal Year 1997 to Fiscal Year 2006

Fiscal Year	Metrobus			Metrorail			
	Peak/Off Peak			Peak		Off Peak	
	DC Base	MD Base	VA Base	Boarding Charge	Each Additional Composite Mile	Boarding Charge	Each Additional Composite Mile
1997	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
1998	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
1999	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2000	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2001	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2002	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2003	\$1.20	\$1.20	\$1.20	\$1.20	\$.21 (3-6miles) \$.185 (6+miles) \$3.60 (Max. fare)	\$1.20 (0-7miles) \$1.70 (7-10miles) \$2.20 (10+ miles)	n/a n/a n/a
2004	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a
2005	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a
2006	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a

*The paratransit (MetroAccess) fare, per Tariff number 23, is \$2.50 or double the regular base fare, if less.

Source: Tariff of The Washington Metropolitan Area Transit Authority

Pledged-Revenue Coverage
For Fiscal Year 1997 to Fiscal Year 2006

(amounts expressed in thousands)

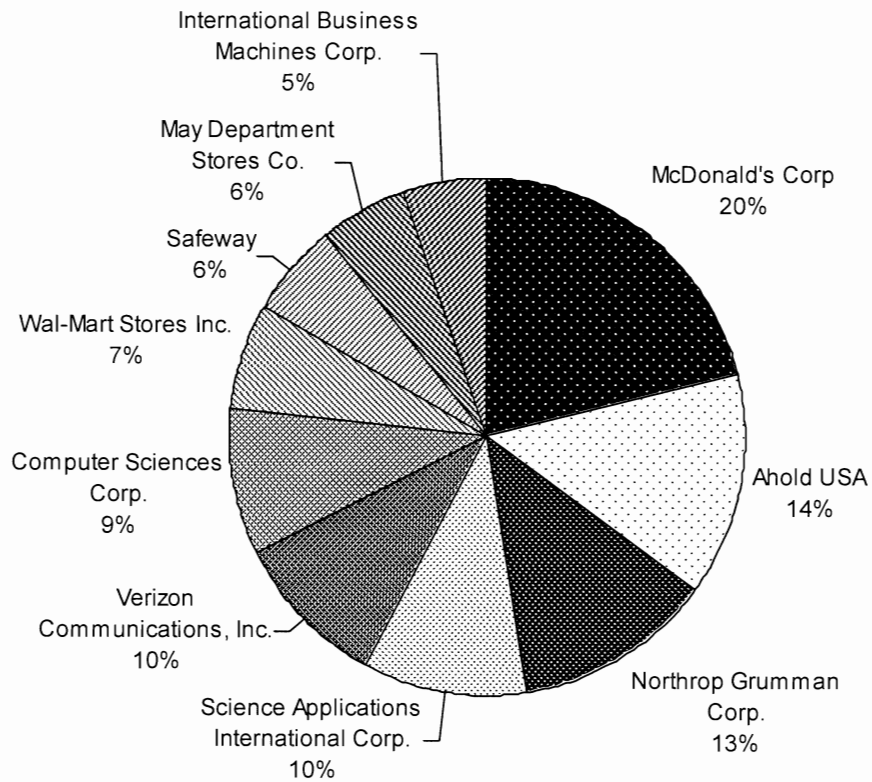
Fiscal Year	Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
1997	\$ 650,472	622,987	\$ 27,485	\$ 11,989	15,496	\$ 27,485	100%
1998	\$ 680,065	652,833	\$ 27,232	\$ 12,215	15,017	\$ 27,232	100%
1999	\$ 702,269	675,115	\$ 27,154	\$ 12,780	14,374	\$ 27,154	100%
2000	\$ 754,423	727,296	\$ 27,127	\$ 13,440	13,687	\$ 27,127	100%
2001	\$ 838,899	811,734	\$ 27,165	\$ 14,095	13,070	\$ 27,165	100%
2002	\$ 866,539	839,393	\$ 27,146	\$ 14,735	12,411	\$ 27,146	100%
2003	\$ 914,489	887,368	\$ 27,121	\$ 15,415	11,706	\$ 27,121	100%
2004	\$ 1,175,871	986,837	\$ 189,034	\$ 176,470	12,517	\$ 188,987	100%
2005	\$ 1,072,480	1,039,979	\$ 32,501	\$ 21,890	10,611	\$ 32,501	100%
2006	\$ 1,201,970	1,168,952	\$ 33,018	\$ 23,040	9,978	\$ 33,018	100%

Revenues consists of operating revenues, non-operating revenues, jurisdictional subsidies and principal paid on revenue bonds. Income from leasing transactions is excluded.

Operating expenses excludes depreciation and amortization, and non-operating expenses, except expenses from pension plans.

Source: The Authority's Audited Financial Statements.

Ten Major Private Employers in the Washington Region Based on the Number of Employees in the Region



Source: Washingtonpost.com—Post 200 Index of Top Employers In Washington Region.

**Authorized Employee Positions
For Fiscal Year 1997 to Fiscal Year 2006**

	Fiscal Year									
	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Non-Union	1,235	1,230	1,266	1,313	1,511	1,525	1,586	1,457	1,540	1,640
AFL-CIO/OPIEU Local - 2	628	640	639	601	622	662	689	739	785	794
FOP Transit Police	240	252	252	257	271	305	305	319	321	336
Teamsters Local - 639	60	65	65	65	65	70	75	90	89	89
AFL-CIO ATU Local - 689	5,862	5,990	6,071	6,310	6,580	7,064	7,133	7,042	7,207	7,237
Teamsters Local - 922	303	317	317	321	370	339	368	368	352	355
Total Authority Positions	<u>8,328</u>	<u>8,494</u>	<u>8,610</u>	<u>8,867</u>	<u>9,419</u>	<u>9,965</u>	<u>10,156</u>	<u>10,015</u>	<u>10,294</u>	<u>10,451</u>

Note: Non-Union positions are salaried positions in the management, administrative, supervisory or clerical work force that have been exempted from union participation.

Source: The Authority's Approved Annual Budgets.

Operating Indicators For Fiscal Year 1997 to Fiscal Year 2006

Fiscal Year	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Trips	Annual Passenger Trips
1997				
Metrobus	33,742,569	3,023,300	125,035,163	419,473,265
Metrorail	37,983,733	1,508,425	198,003,389	1,078,247,281
Metro Access	1,954,267	128,943	169,828	1,482,846
1998				
Metrobus	33,240,586	2,975,646	125,967,257	402,675,692
Metrorail	44,788,104	2,109,821	213,044,900	1,077,145,702
Metro Access	2,394,185	152,414	200,844	1,981,305
1999				
Metrobus	33,168,939	2,979,136	143,240,114	474,556,951
Metrorail	46,166,860	2,165,262	212,620,976	1,044,703,469
Metro Access	2,528,931	173,872	210,078	2,018,976
2000				
Metrobus	34,192,726	3,065,946	129,524,241	452,855,175
Metrorail	48,243,553	2,260,586	218,273,257	1,190,448,841
Metro Access	3,643,119	238,648	246,071	2,498,629
2001				
Metrobus	36,447,570	3,247,015	142,647,640	457,028,244
Metrorail	51,553,445	2,316,049	235,731,726	1,362,866,338
Metro Access	5,569,594	357,000	556,982	5,419,598
2002				
Metrobus	37,934,187	3,349,152	147,771,191	450,768,806
Metrorail	52,192,185	2,269,529	242,794,078	1,438,336,161
Metro Access	8,021,812	505,105	738,284	8,021,812
2003				
Metrobus	38,897,499	3,433,521	147,831,547	447,551,132
Metrorail	56,470,216	2,241,771	243,188,066	1,451,856,563
Metro Access	9,786,953	631,341	972,425	9,786,953
2004				
Metrobus	38,901,318	3,458,658	146,010,344	436,436,653
Metrorail	58,205,365	2,312,490	250,659,980	1,507,072,928
Metro Access	11,030,419	698,401	1,112,358	12,269,308
2005				
Metrobus	38,458,955	3,422,983	153,392,000	453,290,328
Metrorail	62,152,936	2,460,432	259,430,086	1,401,105,158
Metro Access	12,179,777	765,719	1,253,948	13,686,293
2006				
Metrobus	38,364,771	3,557,212	131,339,808	419,809,944
Metrorail	63,577,383	2,513,934	131,339,808	1,577,789,264
Metro Access	12,135,331	1,015,815	1,340,201	14,318,204

Source: National Transit Database



Washington Metropolitan Area Transit Authority
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