

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2005



Washington Metropolitan Area Transit Authority
Washington, D.C.

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2005



H. Charles Woodruff II
Chief Financial Officer

Prepared By: Office of Accounting
Kathleen V. Smith
Comptroller



Washington Metropolitan Area Transit Authority
Washington, D.C.

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

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(Unaudited)

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(Unaudited)

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SECTION ONE - INTRODUCTORY

Letter of Transmittal

Board of Directors

Officers

Organizational Chart

Certificate of Achievement for Excellence in Financial Reporting



December 21, 2005

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 2005 ended June 30, 2005 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 independent audit of the financial statements of the Authority was part of a broader audit, conducted under the federally mandated Single Audit Act of 1984 and U.S Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Government, and Non-Profit Organizations (Single Audit) designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited Authority's internal controls and legal requirements involving the administration of federal awards. These reports are available in the Authority's separately issued Single Audit Report.

Washington
Metropolitan Area
Transit Authority

50 First Street, NW
Washington, DC 20001
202, 992-1254

By Metrobus
Judith J. Squires - President
Mary Price - Chairman
Ken Green - Vice
Yellow Line
By MetroRail
Routes D1, D3, D6, F0,
70, 71, 80, 81

Board of Directors
Maryland and Virginia
Transit Partners...

GAAP requires that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of the Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Authority's MD&A can be found immediately following the independent auditors' report.

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 2005 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.

Profile of the Authority

The Authority was created on February 20, 1967 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 purpose of the Authority is to plan, build, finance and operate a balanced transportation system in the National Capital area. In order to achieve this goal, the Authority provides the region with three coordinated types of transportation services: bus (Metrobus), rail (Metrorail) and paratransit (MetroAccess).

Construction of the Metrorail system began in December 1969. Later, by February 1973, four area bus systems were acquired forming the basis for the Metrobus system. The first phase of the Metrorail system began operation in March 1976. MetroAccess, the curb-to-curb service for mobility impaired passengers, began operation in May 1994.

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.

Metrorail ranks second in the U.S. in the number of passengers it carries and Metrobus is the nation's fifth-largest bus system. The Authority serves a population of approximately 3.4 million within a 1,500-square-mile area. The 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.

Organizational structure

The Authority is governed by a board of six Directors and six Alternates, composed of two Directors and two Alternates from each state and the District. The Board of Directors (Board) determines policy for the Authority. Subject to policy direction and delegations from the Board, the General Manager and Chief Executive Officer (GM and CEO) is responsible for all activities and functions of the Authority. The GM and CEO directs staff in implementing and carrying out programs and initiatives of the Authority.

In fiscal year 2005, the Authority's organizational structure consisted of four major divisions and eight independent offices. These divisions included: Division of Customer Service and Operations; Division of Planning, Development, Engineering and Construction; Division of Workforce Development and Administration, and, Division of Finance/Chief Financial Officer. The independent offices included: General Manager/Chief Executive Officer; Chief of Staff; Public Affairs and Strategic Program; General Counsel; Policy and Inter-governmental Relations; Board Secretary; Media Relations and Events Planning; Audit and Safety Oversight, and, System Safety and Risk Protection. Additionally, the offices of System Safety and Risk Protection; Procurement and Materials; Civil Rights, and Metro Transit Police function outside the divisional configuration and report directly to the GM and CEO.

For fiscal year 2005, the Authority had an approved budget of \$1.29 billion with the largest portion, \$977.9 million, including debt service, dedicated to operating the system. The budget contained approximately 10,000 authorized staff positions.

Factors Affecting Financial Condition

The information presented in the basic financial statements is best understood when it is considered from the broader perspective of the specific environment within which the Authority operates.

Local Economy

Throughout fiscal year 2005, the Washington area economy continued to grow. A large portion of this growth was initially due to increased federal spending, but increasingly the larger national economic recovery also boosted the regional economy.

Several factors such as the presence of the federal government, combined with a highly educated workforce, solid population trends and the development of technology industries in the region have allowed the Washington area to maintain an above average employment growth while the unemployment rate remained well below the national average.

Tourism and system expansion during fiscal year 2005 produced solid gains in ridership. During June, the Authority added 13 new entries to the list of the top 25 Metrorail ridership days. June's Metrorail average weekday ridership was 735,000 which was the highest average weekday ridership in the history of the rail system.

Economic indicators point to continued regional near-term economy expansion due to the presence of the federal government, a highly educated workforce, combined with encouraging population trends, and the growth and development of technology industries.

Long-term Financial Planning

The Authority has begun the second 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 designed to complete previously deferred system rehabilitation, increase the carrying capacity of the Authority's bus and rail systems, and provide improved security elements. The security improvements are contingent upon receiving 100 percent Federal funding. This initiative also includes transitioning the Authority's existing Infrastructure Renewal Program (IRP) from obligation-based to expenditure-based budgeting.

Metro Matters provides for increasing a 62 rail car procurement program to 184 cars. Expansion of the program allows for eight-car train operations, and addresses current overcrowding and growing

ridership. To support such expansion, improvements to traction power and precision stopping systems have been initiated. Design/Build contracts have been awarded to construct or upgrade three rail yard and maintenance facilities. Construction will be completed in phases beginning in fall of calendar year 2006 and continuing through spring of calendar year 2008.

The Authority has initiated an \$830M comprehensive bus capital improvements program. About 70 percent will be funded through Metro Matters. In September 2005, the Board approved a strategy to accelerate bus replacement procurements. By the end of calendar year 2005, 167 of 458 planned replacement buses will have been ordered. Deliveries will begin arriving in the spring of 2006. Depending on results of a route network evaluation, up to 185 additional buses will be procured to support growing ridership. In order to garage and service fleet expansion, an additional bus facility will be constructed in Virginia.

Cash Management Policies and Practices

The Authority's investment policy is to minimize credit and market risks while seeking a competitive yield on its portfolios. These portfolios primarily consist of U.S. government agency issues and repurchase agreements, which are usually held to maturity. All investments held by the Authority during the year and at June 30, 2005 had minimal or no credit risk.

The Authority's investment portfolio had a fair value balance of \$540.0 million as of June 30, 2005. The maturities of the investments range from one day to 20 years, with a weighted average maturity of 1.5 years. The weighted average yield on investments was approximately 3.1 percent.

Additional information on the Authority's cash management activity can be found in note 3 of the notes to the financial statements.

Risk Management

The Authority has an extensive risk management program that combines self-insurance with insurance policies. The Authority's Metrobus and Metrorail Operations General Liability Coverage Insurance Program provides protection up to \$100 million against third-party claims for injuries and damages with a \$5 million self-insured retention. The Authority is self-insured against workers' compensation claims.

The Authority, through resolution of its Board, established a reserve for operating claims for third-party injuries and workers' compensation claims designed to include a sufficient amount to permit the reserve to pay large claims or foreseeable annual claim variations in any budget year without exceeding the amount available in the reserve.

Additional information on the Authority's risk management activity can be found in note 9 of the notes to the financial statements.

Pension

The Authority has five defined benefit pension plans covering substantially all of its employees hired prior to January 1, 1999. In fiscal year 2005, the Salaried Pension Plan was split in two plans (the Salaried Personnel Plan and the Union Local 2 Plan). The Union Local 2 Plan, which mirrored the Salaried Personnel Plan, was created for the Union Local 2 employees. The other pension plans are the Transit Police Plan, Union Local 689 Plan and Union Local 922 Plan.

The plans' assets are separately maintained with various banks as trustees. The plans are administered by pension plan committees consisting of members appointed by the Authority and by the various pension plan participants. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the Authority must make to the five defined benefit pension plans to ensure that the plans will be able to fully meet their obligations to the retired employees on a timely basis.

During fiscal year 2005, the Authority made contributions to four of the five plans, the Salaried Personnel Plan, Transit Police Plan, Union Local 922 Plan and Union Local 2 Plan. Contributions were not required for the Union Local 689 Plan under the actuarial assumptions used.

The Authority also offers a 457 Deferred Compensation Plan, under the terms of the IRS code section 457(g), for salaried employees. Employees are permitted to defer up to 100 percent of salary not to exceed \$14,000 annually on a pre-tax basis.

Salaried employees hired on or after January 1, 1999 have a defined contribution pension plan under the terms of Internal Revenue Code 401(a). This 401(a) plan provides for the Authority to contribute an amount equal to four percent of the employee's base salary into a trust. If the employee elects to contribute up to three percent of base salary to the 457 Deferred Compensation Plan, the Authority will contribute an additional amount of up to three percent to the 401(a) plan to match the employee's contribution.

Additional information on the Authority's pensions can be found in note 7 of the financial statements.

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 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.

As of fiscal year 2005, there were approximately 3,600 retired employees receiving benefits. The cost of providing these benefits was not separable from the cost of providing benefits for the active employees.

GAAP does not require the Authority to report a liability in the financial statements in connection with the employer's obligation to provide these benefits.

Additional information on the Authority's post-retirement benefits can be found in notes 8 of the note to the financial statements.

Awards and Acknowledgements

Reaccreditation

The Metro Transit Police Department (MTPD) earned reaccreditation through the Commission on Accreditation for Law Enforcement Agencies (CALEA). CALEA is an independent accrediting authority created to improve delivery of law enforcement service by offering a body of standards developed by law enforcement practitioners.

The MTPD earned its first accreditation in fiscal year 2001. Successful completion of the program demonstrates that the MTPD has met professionally recognized criteria for standard operating procedures and service delivery. Reaccreditation status is considered every three years.

Award

Certificate of Achievement for Excellence in Financial Reporting

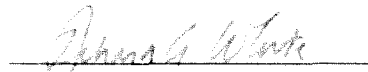
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Certificate) to the Authority for its CAFR for the fiscal year 2004 ended June 30, 2004.

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 eighteen 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.

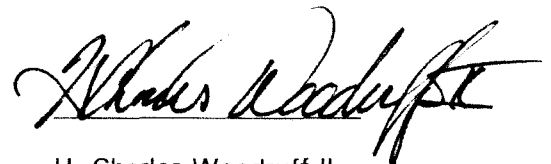
Acknowledgement

Completion of this CAFR would not have been possible without the leadership of the Comptroller and the knowledgeable and dedicated staff of the Office of Accounting, especially the members of the GASB Implementation Team. A note of sincere appreciation is extended to the many diligent employees who have contributed their time and effort to the presentation of the CAFR. We would also like to thank the Board of Directors and the officers of the Authority for their continuing support in planning and conducting the financial operations of the Authority in a responsible manner.

Respectfully submitted,



Richard A. White
General Manager and
Chief Executive Officer



H. Charles Woodruff II
Chief Financial Officer

Board of Directors

As of June 30, 2005

Chairman	Dana Kauffman Virginia
Vice-Chairman	Gladys W. Mack District of Columbia
Second Vice-Chairman	Charles Deegan Maryland
Directors	Robert J. Smith Maryland
	Christopher Zimmerman Virginia
	Jim Graham District of Columbia
Alternate Directors	Marion Barry District of Columbia
	Daniel Tangherlini District of Columbia
	Marcell Solomon Maryland
	Gordon Linton Maryland
	William D. Euille Virginia
	Catherine Hudgins Virginia

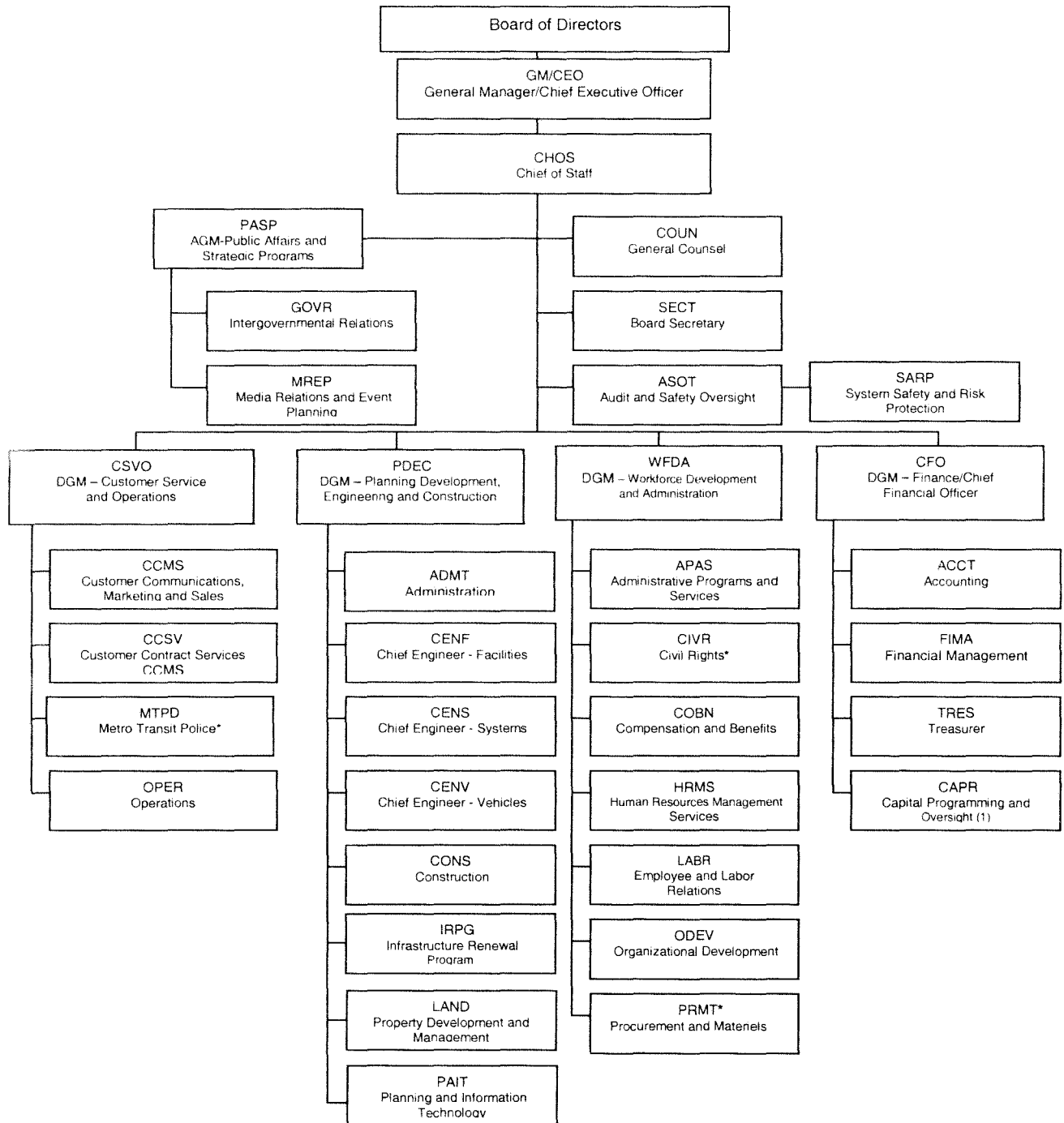
Officers

As of June 30, 2005

General Manager and Chief Executive Officer	Richard A. White
Chief of Staff	Harold M. Bartlett
Secretary to the Board	Harold M. Bartlett (acting)
General Counsel	Carol O'Keeffe
Auditor General	James Stewart
Chief Police Officer for Metro Transit Police Department	Polly Hanson
Deputy General Manager for Customer Service and Operations	Vacant
Deputy General Manager for Planning, Development, Engineering and Construction	P. Takis Salpeas
Deputy General Manager for Workforce Development and Administration	William Scott, II
Deputy General Manager for Finance /Chief Financial Officer	Peter Benjamin
Assistant General Manager for Customer Contract Services	Pamela Wilkins (acting)
Assistant General Manager for Customer, Communications, Marketing and Sales	Leona Agouridis
Assistant General Manager for Planning and Information Technology	Edward L. Thomas
Assistant General Manager for System Safety and Risk Protection	Fred C. Goodine
Assistant General Manager for Public Affairs and Strategic Programs	Ray Feldman (acting)
Assistant General Manager for Operations	James Hughes (acting)
Chief Operating Officer for Bus Service	Jack Requa
Chief Operating Officer for Rail Service	Steven Feil

Organizational Chart

As of June 30, 2005



*Dotted line – reporting to GM/CEO.
 (1) In fiscal year 2005, CAPR was in PDEC, however, the office was scheduled to be transferred by the end of the second quarter of fiscal year 2006 to CFO.

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, 2004

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.



Nancy L. Zields

President

Jeffrey R. Emer

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 statement of net assets of the Washington Metropolitan Area Transit Authority (Authority) as of June 30, 2005 and 2004, 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. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2005 and 2004 and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1 to the financial statements, the Authority has adopted Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*, effective July 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005 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 grants 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 audit.



The Management's Discussion and Analysis and Required Supplementary Information sections are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. 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 financial statements that comprise the Authority's basic financial statements. The accompanying introductory section and statistical tables 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

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

September 30, 2005

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, 2005, 2004 and 2003 and for the years ended June 30, 2005 and 2004. 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 2005 Financial Highlights

- Capital contributions increased by \$77.0 million or 35.0 percent, primarily due to current year receipt of new federal grants and federal grants delayed from the prior year, including grants for rail infrastructure modernization and the Largo Town Center extension.
- Restricted net assets decreased by \$134.7 million or 19.0 percent, which can be attributable to the use of advance contributions for rail car procurement and other reimbursable projects.
- Operating expenses increased by \$80.2 million or 6.4 percent, with the largest portion due to higher labor and fringe benefit costs associated with heightened security in the aftermath of the global terrorists attacks, a flood at the Silver Spring rail station, an accident at Woodley Park rail station and providing enhanced customer service.
- Operating revenues increased by \$72.6 million or 14.5 percent, due to increases in fares, ridership, advertising and parking lot revenues. Special events such as the Presidential Inauguration, the opening of the National Museum of the American Indian and Washington Nationals baseball games also contributed to the growth in operating revenue.

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 fund 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 24-28 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 29-52 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 53 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 old system, as well as its need for increasing operating subsidies and its growing ridership levels. The following table provides an overview of the Authority's financial position for the years ended June 30, 2005, 2004 and 2003:

Table 1
Condensed Statements of Net Assets
June 30, 2005, 2004 and 2003
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Current and other assets	\$ 2,485,329	\$ 2,590,642	\$ 2,613,559
Capital assets	<u>7,800,188</u>	<u>7,692,128</u>	<u>7,578,724</u>
Total assets	<u>10,285,517</u>	<u>10,282,770</u>	<u>10,192,283</u>
Current liabilities	444,055	421,755	384,907
Noncurrent liabilities	<u>1,721,722</u>	<u>1,738,776</u>	<u>1,608,946</u>
Total liabilities	<u>2,165,777</u>	<u>2,160,531</u>	<u>1,993,853</u>
Net assets:			
Investment in capital assets, net of related debt	7,547,065	7,414,886	7,335,670
Restricted	<u>572,675</u>	<u>707,353</u>	<u>862,760</u>
Total net assets	<u>\$ 8,119,740</u>	<u>\$ 8,122,239</u>	<u>\$ 8,198,430</u>

Current Year

Net assets decreased by \$2.5 million or 0.03 percent, during the current fiscal year, 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, \$7,547.1 million 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

Management's Discussion and Analysis

Statements of Net Assets (Continued)

Current Year (Continued)

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.

Prior Year

Net assets decreased by \$76.2 million or 0.9 percent, during the prior fiscal year, 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, \$7,414.9 million or 91.3 percent, reflected 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 from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the Authority's net assets, \$707.4 million or 8.7 percent, represented resources that were 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 \$113.4 million or 1.5 percent, largely attributable to transportation vehicle purchases, installation of new fareboxes on all metrobuses, rail rehabilitation, and facilities enhancements.

Noncurrent liabilities increased by \$129.8 million or 8.1 percent, mostly as a result of entering into a new rail car lease agreement and the issuance of Series 2003B Gross Revenue Transit bonds.

Restricted net assets decreased by \$155.4 million or 18.0 percent, which can be attributed to a reduction in advance contributions for rail car procurement and other reimbursable projects.

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets

The following condensed 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
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2005, 2004 and 2003
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating Revenues			
Passenger revenue	\$ 522,475	\$ 453,043	\$ 404,211
Charter and contract revenue	3,395	3,806	9,597
Other revenue	46,672	43,136	37,297
Total operating revenues	<u>572,542</u>	<u>499,985</u>	<u>451,105</u>
Nonoperating Revenues			
Investment income	5,011	1,450	26,975
Interest income			
from leasing transactions	91,924	88,562	80,560
Income from pension plan	16,687	-	17,610
Other	3,790	3,277	3,544
Total nonoperating revenues	<u>117,412</u>	<u>93,289</u>	<u>128,689</u>
Total revenues	<u>689,954</u>	<u>593,274</u>	<u>579,794</u>
Operating Expenses			
Salary and benefits	771,621	735,908	676,313
Services	77,063	67,696	62,192
Materials and supplies	105,560	89,586	87,418
Depreciation and amortization	299,707	296,485	294,300
Other	85,735	69,839	61,445
Total operating expenses	<u>1,339,686</u>	<u>1,259,514</u>	<u>1,181,668</u>
Nonoperating Expenses			
Expense from pension plan	-	23,808	-
Interest expense	102,535	101,079	92,266
Total nonoperating expenses	<u>102,535</u>	<u>124,887</u>	<u>92,266</u>
Total expenses	<u>1,442,221</u>	<u>1,384,401</u>	<u>1,273,934</u>
Loss before capital grants/subsidies	(752,267)	(791,127)	(694,140)
Jurisdictional subsidies	452,560	494,689	399,840
Capital contributions	297,208	220,247	533,687
Change in net assets	(2,499)	(76,191)	239,387
Net assets, beginning of year	<u>8,122,239</u>	<u>8,198,430</u>	<u>7,959,043</u>
Net assets, end of year	<u>\$ 8,119,740</u>	<u>\$ 8,122,239</u>	<u>\$ 8,198,430</u>

Management's Discussion and Analysis

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

Revenues

Current Year

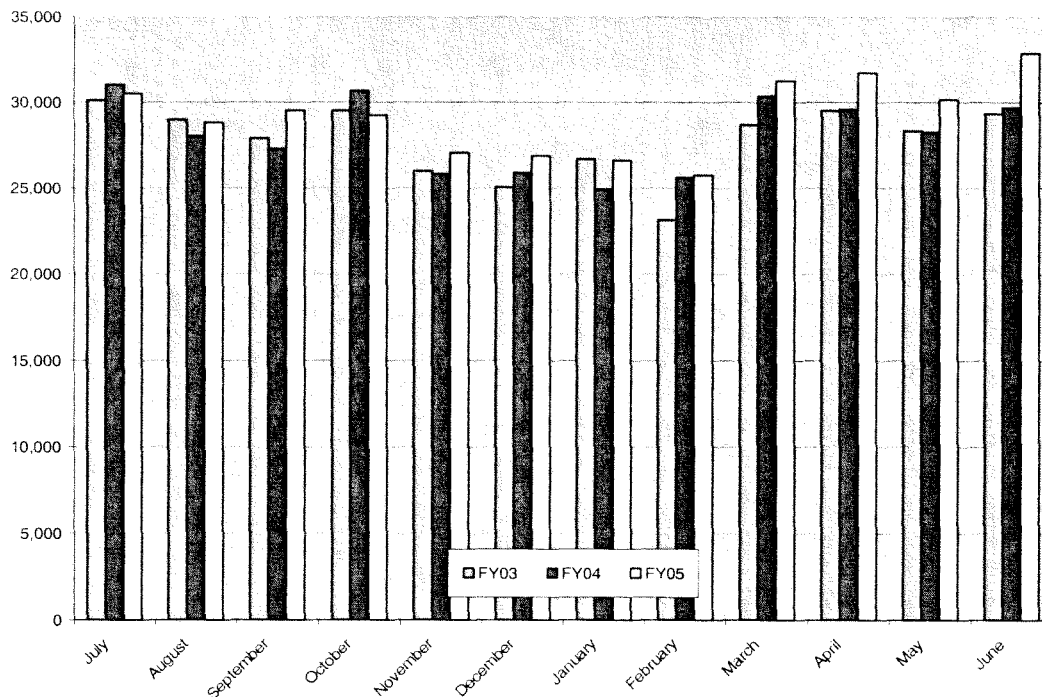
Total revenues, which include passenger revenue, increased by \$96.7 million or 16.6 percent. Operating revenues totaled \$572.5 million, as described below.

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 estimated Metrobus ridership climbed to over 153 million annual trips resulting in an increase of 5.0 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.

A strong regional economy, new customer service initiatives 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)

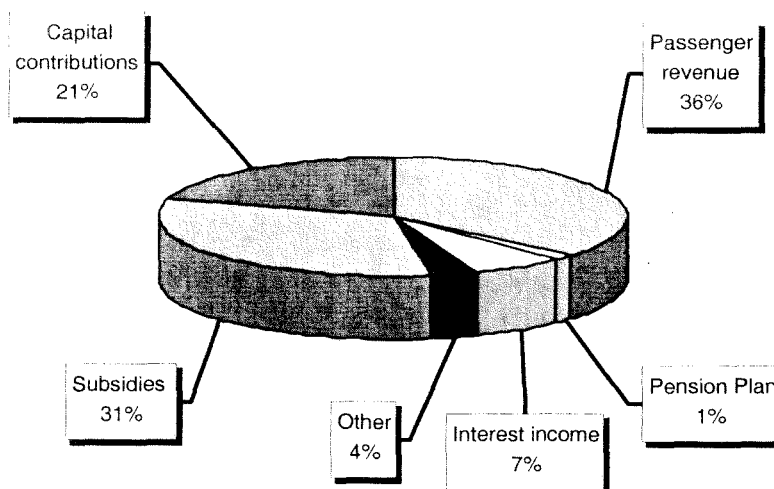
Charter and contract revenue for bus decreased by \$0.4 million or 10.8 percent, due to the declining demand from out-of-state customers.

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.

Fiscal Year 2005 Revenues

Prior Year

Total revenues, which included passenger revenue, increased by \$13.5 million or 2.3 percent. Operating revenues totaled \$500.0 million, as described below.

Passenger revenue, a significant portion of the Authority's operating revenues, increased by \$48.8 million or 12.1 percent. This increase was due to a combination of factors that included a 10.0 percent fare increase, which was the first fare increase implemented in the last eight years, and a 2.0 percent increase in ridership.

This was a record-breaking year for metrorail ridership, which reached almost 190 million annual trips for an increase of 3.0 percent, establishing seven of the top ten ridership weekdays in the Authority's history. Special events such as the opening of the new Convention Center, the State Funeral for President Ronald Reagan, the dedication of the World War II Memorial, the March for Women, and the National Football League's pre-game festivities on the National Mall contributed to the record ridership. Several other factors impacted ridership including high levels of activity within core employment areas, an increase in the rate of area employment, and the return of record numbers of tourists to the metropolitan area.

Management's Discussion and Analysis

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

Revenues (Continued)

MetroAccess, the curb-to-curb transportation service for qualified disabled and elderly patrons, showed an increase in total monthly ridership of 14.4 percent and exceeded 1.1 million annual trips.

Metrobus ridership, with almost 146 million annual trips, decreased 1.3 percent from the prior year. This decrease can be attributed to the major weather events that included several winter storms and Hurricane Isabel that closed down the bus system, as well as federal, state and local government offices in the metropolitan area.

Charter and contract revenue decreased by \$5.8 million or 60.3 percent, due to the expiration of the Potomac Rappahannock Transportation Commission commuter program. There was a similar decrease in expenses associated with this service.

Nonoperating revenues decreased by \$35.4 million or 27.5 percent, primarily due to a decline in the fair value of the pension plans and the Authority's investment portfolios.

Capital contributions to the Authority decreased by \$313.4 million or 58.7 percent, primarily due to a delay in the receipt of federal grants and reduced rail system construction activity.

Expenses

Current 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.

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.

Management's Discussion and Analysis

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

Expenses (Continued)

Prior Year

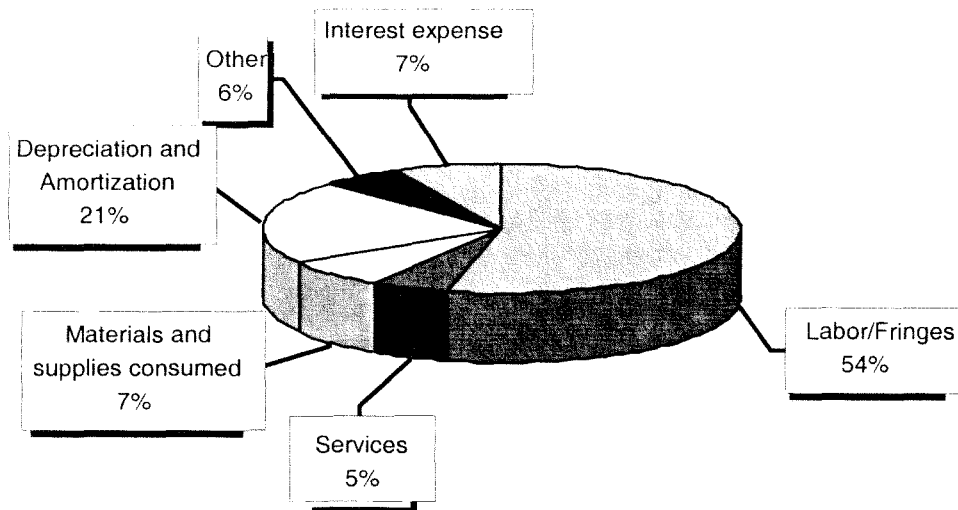
Salaries and benefits increased by \$59.6 million or 8.8 percent, due to cost incurred to provide additional bus services for events such as the National World War II Memorial Dedication, the Bay Bridge Walk, and the joint military services open house at Andrews Air Force Base. In addition, the Authority experienced escalating health care, pension and worker's compensation costs and unexpected cost due to severe weather that included several winter storms and Hurricane Isabel.

Services increased by \$5.5 million or 8.9 percent, due to a greater number of customers utilizing MetroAccess, which experienced increased contract expenses for providing that service.

Other expenses increased by \$8.4 million or 13.7 percent, due to an increase in third party claims and propulsion power associated with the increase in metrorail ridership.

Nonoperating expenses increased by \$32.6 million or 35.4 percent, due to a decline in the fair value of the pension plan investment portfolio.

Fiscal Year 2005 Expenses



Management's Discussion and Analysis

Capital Assets and Debt Administration

The following table shows the capital assets of the Authority:

Table 3
Schedules of Capital Assets
June 30, 2005, 2004 and 2003
(in thousands)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Land	\$ 431,291	\$ 431,291	\$ 430,268
Buildings and improvements	436,820	408,331	400,972
Transit facilities	7,211,193	6,620,890	6,648,171
Revenue vehicles	1,619,357	1,582,224	1,509,719
Other equipment	1,131,154	1,070,335	1,043,295
Construction in progress	540,618	869,762	548,180
Intangible costs	1,157,217	1,157,217	1,157,217
	<u>12,527,650</u>	<u>12,140,050</u>	<u>11,737,822</u>
Less accumulated depreciation and amortization	4,727,462	4,447,922	4,159,098
Net capital assets	<u>\$ 7,800,188</u>	<u>\$ 7,692,128</u>	<u>\$ 7,578,724</u>

Capital Assets**Current 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.

Additional information on the Authority's capital assets can be found in note 5 on pages 38-39 of this report.

Management's Discussion and Analysis

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

Prior Year

Net capital assets increased by \$113.4 million or 1.5 percent, as described below.

Transit facilities decreased by \$27.3 million or 0.4 percent, resulting from the reclassification of assets to buildings and improvements and other equipment from costs associated with the capitalization of the rail maintenance facilities in the prior year.

Revenue vehicles increased by \$72.5 million or 4.8 percent, as a result of placing into service 44 rail cars and 14 buses and the costs associated with the rail car rehabilitation.

Construction in progress increased by \$321.6 million or 58.7 percent, primarily due to the ongoing work on the extension of the rail system to Largo Town Center and the construction of New York Avenue-Florida Avenue-Gallaudet University Metrorail station. Also contributing to the increase was the information technology renewal project, facilities enhancements, and rehabilitation costs for items such as railcars and escalators and elevators.

Future Capital Plans

The Authority has begun the second year of its six-year \$3.3 billion Metro Matters capital program, which is a partnership between the Authority and the Washington metropolitan area jurisdictions to maintain and improve the three-decade old transit system. A substantial portion of this program is dedicated to maintaining and rehabilitating infrastructure elements such as rail cars, buses, escalators, elevators, tracks and maintenance facilities. Another important aspect of the program includes the purchase of new rail cars and buses, and the construction or expansion of related storage and maintenance facilities in order to alleviate over-crowding and meet projected ridership increases.

Transit Bonds

The Authority's total outstanding bond debt as of June 30, 2005 and 2004 was \$227.9 million and \$251.1 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 40-42 of this report.

Lease Obligations

Information on these transactions can be found in note 10 on pages 50-51 of this report.

Management's Discussion and Analysis

Economic Factors

The Washington, D.C. metropolitan area continued its solid economic expansion during fiscal year 2005 by increasing the number of jobs available and expanding its workforce 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 2.79 million at June 30, 2005, as compared to 2.75 million at June 30, 2004. This is an increase of 72,000 jobs from period to period, or 2.6 percent. The unemployment rate for the area rose slightly to 3.8 percent from 3.6 percent at June 30, 2004. In the month of June 2005, job expansion was averaging close to 80,000, on an annualized basis, which leads the nation for the fifth consecutive year. Job growth is up 2.7 percent and crosses all major sectors including, professional, construction and service.

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, 2005, and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current assets:		
Cash and deposits (note 3)	\$ 7,521	\$ 10,733
Investments (note 3)	539,886	706,378
Contributions receivable (note 4)	62,024	51,627
Accounts receivable and other assets (net of allowance for doubtful accounts of \$1,470 in 2005 and \$1,478 in 2004)	30,857	21,768
Current portion of prefunded lease commitments (note 10)	93,139	102,384
Materials and supplies inventory (net of allowance of \$8,835 in 2005 and \$7,928 in 2004)	79,266	73,180
Total current assets	<u>812,693</u>	<u>966,070</u>
Noncurrent assets:		
Long-term portion of contributions receivable (note 4)	85,724	59,221
Prepaid pension expense (note 7)	200,911	184,224
Prefunded lease commitments (note 10)	1,386,001	1,381,127
Capital assets (note 5):		
Construction in progress	540,618	869,762
Land	431,291	431,291
Transit facilities and equipment, net	6,828,279	6,391,075
Total noncurrent assets	<u>9,472,824</u>	<u>9,316,700</u>
Total assets	<u>10,285,517</u>	<u>10,282,770</u>

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

Statements of Net Assets (Continued)

June 30, 2005 and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	155,408	138,277
Accrued salaries and benefits	70,917	66,008
Accrued interest payable	5,260	6,943
Deferred revenue	69,379	54,910
Current portion of estimated liability for injury and damage claims (notes 9 and 11)	20,719	23,076
Current portion of retainage on contracts (note 11)	724	2,797
Current portion of deferred lease revenue (note 11)	5,469	5,470
Current portion of transit bonds payable (notes 6 and 11)	23,040	21,890
Current portion of obligations under lease agreements (notes 10 and 11)	93,139	102,384
Total current liabilities	<u>444,055</u>	<u>421,755</u>
Noncurrent liabilities:		
Estimated liability for injury and damage claims (notes 9 and 11)	44,240	37,271
Retainage on contracts (note 11)	24,499	23,314
Deferred lease revenue (note 11)	62,122	67,823
Transit bonds payable (notes 6 and 11)	204,860	229,241
Obligations under lease agreements (notes 10 and 11)	1,386,001	1,381,127
Total noncurrent liabilities	<u>1,721,722</u>	<u>1,738,776</u>
Total liabilities	<u>2,165,777</u>	<u>2,160,531</u>
Commitments and contingencies (notes 7,8,9 and 10)		
NET ASSETS		
Invested in capital assets, net of related debt	7,547,065	7,414,886
Restricted	572,675	707,353
Total net assets	<u>\$ 8,119,740</u>	<u>\$ 8,122,239</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, 2005 and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES		
Passenger revenue	\$ 522,475	\$ 453,043
Charter and contract revenue	3,395	3,806
Advertising revenue	29,000	26,002
Rental revenue	16,466	15,786
Other revenue	1,206	1,348
Total operating revenues	<u>572,542</u>	<u>499,985</u>
OPERATING EXPENSES		
Labor	498,865	485,124
Fringe benefits	272,756	250,784
Services	77,063	67,696
Materials and supplies	105,560	89,586
Utilities	61,517	52,681
Casualty and liability costs	16,869	12,467
Leases and rentals	4,096	1,913
Miscellaneous	3,253	2,778
Depreciation and amortization	299,707	296,485
Total operating expenses	<u>1,339,686</u>	<u>1,259,514</u>
Operating loss	<u>(767,144)</u>	<u>(759,529)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	5,011	1,450
Interest income from leasing transactions	91,924	88,562
Interest expense from leasing transactions	(91,924)	(88,562)
Interest expense (note 6)	(10,611)	(12,517)
Income (expense) from pension plans	16,687	(23,808)
Other	3,790	3,277
Jurisdiction subsidies:		
Operations	441,949	482,172
Interest	10,611	12,517
Total nonoperating revenues (expenses), net	<u>467,437</u>	<u>463,091</u>
Loss before capital contributions	<u>(299,707)</u>	<u>(296,438)</u>
Revenue from capital contributions	297,208	220,247
Change in net assets	(2,499)	(76,191)
Total net assets, beginning of year	<u>8,122,239</u>	<u>8,198,430</u>
Total net assets, ending of year	<u>\$8,119,740</u>	<u>\$8,122,239</u>

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

Statements of Cash Flows

For the Years Ended June 30, 2005 and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from operations	\$ 577,922	\$ 493,948
Cash paid to suppliers	(241,331)	(221,132)
Cash paid to and on behalf of employees	(766,712)	(731,573)
Cash paid for operating claims	<u>(12,259)</u>	<u>(14,763)</u>
Net cash used in operating activities	<u>(442,380)</u>	<u>(473,520)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from jurisdiction subsidies	<u>434,329</u>	<u>485,917</u>
Net cash provided by noncapital financing activities	<u>434,329</u>	<u>485,917</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(409,109)	(408,089)
Capital contributions	260,308	232,957
Interest paid on revenue bonds	(12,294)	(11,335)
Principal paid on revenue bonds	(21,890)	(176,470)
Proceeds from bond issue	-	225,270
Interest subsidy for revenue bonds	10,611	12,517
Proceeds from leasing transactions	-	10,374
Proceeds from the sale of transit facilities and equipment	-	369
Net cash used in capital and related financing activities	<u>(172,374)</u>	<u>(114,407)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	408,183	431,480
Purchases of investments	(238,440)	(337,105)
Interest received from operational investments	<u>7,470</u>	<u>4,741</u>
Net cash provided by investing activities	<u>177,213</u>	<u>99,116</u>
Net change in cash and deposits	(3,212)	(2,894)
Cash and deposits, beginning of year	<u>10,733</u>	<u>13,627</u>
Cash and deposits, end of year	<u>\$ 7,521</u>	<u>\$ 10,733</u>

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

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2005 and 2004

(in thousands)

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	<u>\$ (767,144)</u>	<u>\$ (759,529)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	299,707	296,485
Increase in accounts receivables (net) and other assets	(9,089)	(7,697)
Increase in materials and supplies inventory	(6,086)	(5,376)
Increase (decrease) in accounts payable and accrued expenses	17,131	(543)
Increase (decrease) in accrued salaries and benefits	4,909	(1,873)
Increase in estimated liability for injury and damage claims	4,612	3,912
Increase in deferred revenue	14,469	1,660
Decrease in retainage on contracts	(889)	(559)
Total adjustments	<u>324,764</u>	<u>286,009</u>
Net cash used in operating activities	<u>\$ (442,380)</u>	<u>\$ (473,520)</u>
Noncash investing, capital, and financing activities:		
Decrease in fair value of investments (see note 3)	<u>\$ (3,490)</u>	<u>\$ (23,781)</u>
Other income (expense) from pension	<u>\$ 16,687</u>	<u>\$ (23,808)</u>
Interest from leasing transaction	<u>\$ 91,924</u>	<u>\$ 88,562</u>

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

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004

(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 (85.0 percent), companies (14.9 percent) and other receivables (0.1 percent).

The major components of the accounts payable balance are payments due to vendors and contractors (64.8 percent), governmental agencies (35.1 percent) and other payables (0.1 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, 2005 and 2004

(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, 2005 and 2004

(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 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 2005, adopted GASB Statement No. 40 "Deposit and Investment Risk Disclosures: an amendment to GASB Statement No. 3," which establishes and modifies disclosure requirements related to custodial credit risk and foreign currency risk. The scope of this Statement is limited to deposits, investments and investment derivatives.

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.

(p) Reclassifications

Certain prior year balances have been reclassified to conform to the current year presentation.

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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 fully funds the IRP, and adds bus and rail capacity. The program funds these needs through fiscal year 2010. 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.

(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;

Notes to Basic Financial Statements

June 30, 2005 and 2004

(3) Cash, Deposits and Investments (Continued)

- 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, 2005 and 2004 are grouped to give an indication of the level of custodial risk assumed by the Authority as follows (in thousands):

	2005		2004	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
<u>Cash and Deposits</u>				
Deposits insured or collateralized	\$ 446	\$ 747	\$ 236	\$ 550
Deposits insured or collateralized	<u>606</u>	<u>2,289</u>	<u>224</u>	<u>849</u>
Total deposits	\$ 1,052	\$ 3,036	\$ 460	\$ 1,399
Cash on hand	<u>6,469</u>	<u>-</u>	<u>10,273</u>	<u>-</u>
Total cash and deposits	<u>\$ 7,521</u>	<u>\$ 3,036</u>	<u>\$ 10,733</u>	<u>\$ 1,399</u>

Notes to Basic Financial Statements

June 30, 2005 and 2004

(3) Cash, Deposits and Investments (Continued)

(b) Investments

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

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>7 Months - 1 Year</u>	<u>1-3 Years</u>	<u>More than 3 Years</u>
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>

As of June 30, 2004, the Authority had the following investments and maturities (in thousands):

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>7 Months - 1 Year</u>	<u>1-3 Years</u>	<u>More than 3 Years</u>
Money market funds	\$ 15,096	\$ 15,096	\$ -	\$ -	\$ -
Repurchase agreements	105,379	105,379	-	-	-
United States treasuries	190,947	82,232	9,835	91,717	7,163
United States agencies	391,361	23,367	43,510	222,310	102,174
	<u>702,783</u>	<u>226,074</u>	<u>53,345</u>	<u>314,027</u>	<u>109,337</u>
Accrued interest	3,595	3,595	-	-	-
Total	<u>\$ 706,378</u>	<u>\$ 229,669</u>	<u>\$ 53,345</u>	<u>\$ 314,027</u>	<u>\$ 109,337</u>

Interest Rate Risk

As a means of limiting its exposure to fair value losses effected by rising interest rates, the Authority structures the investment portfolios 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, 2005.

Notes to Basic Financial Statements

June 30, 2005 and 2004

(3) Cash, Deposits and Investments (Continued)

(b) Investments

Credit Risk

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, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Jurisdictional operating subsidy per financial statements	\$ 441,949	\$ 482,172
Add (deduct) operating costs (not) requiring current funding:		
Preventive maintenance subsidy	(20,700)	(18,000)
Prepaid pension cost adjustment	16,687	(23,808)
Unrealized (loss) gain from investments	(3,300)	(6,158)
Agreed-upon funding of employee vacations liability and related taxes	(2,522)	(2,547)
Agreed-upon funding of claims for injuries and damages	(23,981)	(18,795)
Rail repairable parts	299	325
Increase in prior year obligations and commitments	3,748	2,431
Prior year subsidy adjustment	-	(3,771)
Maximum fare assistance	4,497	4,410
Operating expenses funded by capital grants	<u>(31,269)</u>	<u>(36,373)</u>
Jurisdictional operating subsidy - funding basis	<u>\$ 385,408</u>	<u>\$ 379,886</u>

Notes to Basic Financial Statements

June 30, 2005 and 2004

(4) Jurisdictional Operating Subsidy (Continued)

The cumulative effects of the different agreed-upon basis are as follow at June 30, 2005 and 2004 (in thousands):

	<u>2005</u>	<u>2004</u>
Agreed-upon funding of employee vacation liability and related taxes	\$ 41,484	\$ 38,962
Agreed-upon funding of claims for injuries and damages	<u>44,240</u>	<u>20,259</u>
Total accumulated difference	<u>\$ 85,724</u>	<u>\$ 59,221</u>

The current portion of contributions receivable at June 30, 2005 and 2004 of \$62,024,000 and \$51,627,000, respectively are related primarily to federal grants.

Notes to Basic Financial Statements

June 30, 2005 and 2004

(5) Capital Assets

Capital assets activity for the years ended June 30, 2005 and 2004, was as follows (in thousands):

	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, 2005 and 2004

(5) Capital Assets (continued)

	June 30, 2003	Additions	Reductions	June 30, 2004
Capital assets not being depreciated:				
Land	\$ 430,268	\$ 1,023	\$ -	\$ 431,291
Construction in progress	548,180	408,089	(86,507)	869,762
Total capital assets not being depreciated	<u>978,448</u>	<u>409,112</u>	<u>(86,507)</u>	<u>1,301,053</u>
Capital assets being depreciated:				
Buildings and improvements	400,972	7,359	-	408,331
Transit facilities	6,648,171	-	(27,281)	6,620,890
Revenue vehicles	1,509,719	75,507	(3,002)	1,582,224
Other equipment	1,043,295	27,040	-	1,070,335
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>10,759,374</u>	<u>109,906</u>	<u>(30,283)</u>	<u>10,838,997</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	140,624	17,691	-	158,315
Transit facilities	1,599,573	129,513	-	1,729,086
Revenue vehicles	726,526	67,562	(3,002)	791,086
Other equipment	815,711	54,551	(2,910)	867,352
Intangible costs:	876,664	25,419	-	902,083
Total accumulated depreciation and amortization of intangible costs	<u>4,159,098</u>	<u>294,736</u>	<u>(5,912)</u>	<u>4,447,922</u>
Total capital assets being depreciated, net	<u>6,600,276</u>	<u>(184,830)</u>	<u>(24,371)</u>	<u>6,391,075</u>
Total capital assets, net	<u>\$ 7,578,724</u>	<u>\$ 224,282</u>	<u>\$ (110,878)</u>	<u>\$ 7,692,128</u>

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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, 2005 and 2004 (in thousands):

	2005			2004
	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	146,665	7,318	153,983	171,787
Series 2003B, 4.06% dated November 20, 2003, due semi-annually through July 1, 2010	30,580	2,091	32,671	38,098
	<u>\$219,395</u>	<u>\$ 8,505</u>	<u>\$ 227,900</u>	<u>\$ 251,131</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 Chief Executive Officer 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, 2005 and 2004

(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>
2006	\$ 23,040	\$10,342	\$ 33,382
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
2011-2015	<u>93,270</u>	<u>9,248</u>	<u>102,518</u>
	219,395	49,903	269,298
Plus unamortized premium net of issuance cost	<u>8,505</u>	-	<u>8,505</u>
	<u><u>\$227,900</u></u>	<u><u>\$49,903</u></u>	<u><u>\$277,803</u></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, 2005 and 2004, the unamortized cost of refunding the bonds was \$3,794,000 and \$4,305,000, 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, 2005 and 2004

(6) Transit Bonds Payable (Continued)

(c) Interest Expense

Interest expense on transit bonds for the years ended June 30, 2005 and 2004 was \$10,611,000 and \$12,517,000.

(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, 2005 and 2004

(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 Local Union 639 of the International Brotherhood of Teamsters State, County and Municipal Employees, Law Enforcement Division. 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, 2005 and 2004

(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, 2004 is amortized over 15 years. Future 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 plus amortization of the unfunded actuarial accrued liability. 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, plus the additional amount necessary to amortize the unfunded actuarial accrued liability over 30 years from January 1, 1983 in level dollar payments. 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, 2005 and 2004

(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, 2004 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	19.6%	17.3%	0.0%	14.1%	15.2%
Employees (Plan Members)	0.0%	7.3%	0.0%	0.0%	0.0%
Annual pension cost	\$ 8,385	\$ 3,900	\$(17,209)	\$ 3,246	\$ 3,098
Contributions made:					
Authority	\$ 8,385	\$ 3,900	\$ -	\$ 2,724	\$ 3,098
Actuarial valuation date	7/1/2004	1/1/2004	7/1/2004	1/1/2004	7/1/2004
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	4.5%	6.2%	3.5%	4.5%	4.5%
Post-retirement benefit	3.5%	6.0%	3.0%	4.0%	3.5%
Inflation rate	2.5%	3.0%	3.0%	3.0%	2.5%

*As a percentage of covered payroll

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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 required contribution for the period July 1, 2003 to June 30, 2004 was split as follows: Salaried Personnel Plan (non-local 2): \$3,787,000 and Union Local 2 Plan: \$1,597,000.

The Union Local 689 Plan had assumption changes in the salary rate from 4.5% to 3.5% and the post-retirement benefit from 4.0% to 3.0% effective January 1, 2004. The changes in assumption resulted in an increase in the net pension asset of \$31,565,000.

The Transit Police Plan had an assumption change in the cost of living adjustment from 3.5% to 3.0%. This assumption change was effective January 1, 2004. The effect of this change in actuarial assumptions is a decrease of \$6,313,000 in the present value of future benefits and a decrease of \$704,000 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>7/1/2004</u>	Transit Police Plan <u>1/1/2004</u>	Union Local 689 Plan <u>1/1/2004</u>	Union Local 922 Plan <u>1/1/2004</u>	Union Local 2 Plan <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	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>
	<u>7/1/2003</u>	<u>1/1/2003</u>	<u>1/1/2003</u>	<u>1/1/2003</u>	
Net pension assets beginning of year	\$ -	\$ -	\$ (204,746)	\$ (3,286)	
Annual required contribution	5,384	4,138	-	2,522	
Interest on net pension assets	-	-	(16,380)	(230)	
Adjustment to annual required contribution	-	-	40,288	247	
Annual pension cost (income)	5,384	4,138	23,908	2,539	
Net pension obligations (assets) before contributions	5,384	4,138	(180,838)	(747)	
Contributions made	(5,384)	(4,138)	-	(2,639)	
Net pension assets end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (180,838)</u>	<u>\$ (3,386)</u>	

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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	7/01/04	\$ 8,385	100.0%	\$ -
	7/01/03	5,384	100.0%	-
	7/01/02	-	-	-
Transit Police Plan	1/01/04	\$ 3,900	100.0%	\$ -
	1/01/03	4,138	100.0%	-
	1/01/02	3,390	100.0%	-
Union Local 689	1/01/04	\$ (17,209)	N/A	\$ (198,047)
	1/01/03	23,908	N/A	(180,838)
	12/31/01	(19,032)	N/A	(204,746)
Union Local 922	1/01/04	\$ 3,246	95.3%	\$ (2,864)
	1/01/03	2,539	103.9%	(3,386)
	12/31/02	744	97.0%	(3,286)
Union Local 2	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 \$2,426,000 and \$2,565,000 for June 2005 and 2004, respectively.

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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 \$14,000 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 \$106,240,000 and \$103,268,000 for June 30, 2005 and 2004, respectively. The cost of providing benefits for approximately 3,600 retirees 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, 2005 and 2004

(9) Commitments and Contingencies (Continued)

Changes in the estimated liability for the years ended June 30, 2005 and 2004 are as follows (in thousands):

	<u>2005</u>	<u>2004</u>
Estimated liability for injury and damage claims, beginning of year	\$ 60,347	\$ 59,220
Incurring new claims	23,895	19,862
Changes in estimate for claims of prior periods	5,261	4,547
Payments on claims	<u>(24,544)</u>	<u>(23,282)</u>
Estimated liability for injury and damage claims, end of year	<u>\$ 64,959</u>	<u>\$ 60,347</u>
Due within one year	<u>\$ 20,719</u>	<u>\$ 23,076</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.

(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, 2005 and 2004 were \$666,000 for both years. The Authority's minimum lease payments as of June 30, 2005 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Total</u>
2006	\$ 686
2007	706
2008	727
2009	749
2010	189
	<u>\$ 3,057</u>

(c) Other

Construction and capital improvement costs are funded by federal grants, local matching funds, and third party agreements. As of June 30, 2005, the Authority is committed to expend approximately \$645,400,000 (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.

Notes to Basic Financial Statements

June 30, 2005 and 2004

(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.

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.

Notes to Basic Financial Statements

June 30, 2005 and 2004

(10) Leasing Transactions (Continued)

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

Future minimum payments due:	
2006	\$ 93,139
2007	145,067
2008	132,265
2009	162,925
2010	127,917
2011-2015	931,551
2016-2020	540,261
2021-2025	154,139
2026-2030	130,562
2031	<u>16,058</u>
Total future minimum payments	<u>2,433,884</u>
Less imputed interest	<u>954,744</u>
Present value of minimum lease payments	<u><u>\$ 1,479,140</u></u>

Notes to Basic Financial Statements

June 30, 2005 and 2004

(11) Changes in Long-Term Liabilities

Long-term liabilities activity for the years ended June 30, 2005 and 2004, 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, 2003	\$ 59,220	\$ 26,670	\$ 67,655	\$ 216,384	\$ 1,358,213
Additions	19,862	14,497	11,339	213,910	125,298
Reductions	(23,282)	(15,056)	(5,701)	(179,163)	-
Contractual changes	4,547	-	-	-	-
Balance June 30, 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	-	-	-	-	-
Ending balance, June 30, 2005	<u>\$ 64,959</u>	<u>\$ 25,223</u>	<u>\$ 67,591</u>	<u>\$ 227,900</u>	<u>\$ 1,479,140</u>
Due within one year	<u>\$ 20,719</u>	<u>\$ 724</u>	<u>\$ 5,469</u>	<u>\$ 23,040</u>	<u>\$ 93,139</u>
Noncurrent portion	<u>\$ 44,240</u>	<u>\$ 24,499</u>	<u>\$ 62,122</u>	<u>\$ 204,860</u>	<u>\$ 1,386,001</u>

Required Supplementary Information

Historical Trend Information – Pension Plans

Schedules of Funding Progress

(dollars in thousands)

	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (Funding Excess)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll (Funding Excess)
Salaried Personnel Plan	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)%
	7/1/2002	508,876	436,468	(72,408)	116.6%	74,272	(97.5)%
Local 2	7/1/2004	\$ 96,727	\$ 105,016	\$ 8,289	92.1%	\$ 20,384	40.7%
Union Local 689 Plan	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)%
	12/31/2001	2,007,409	1,478,581	(528,828)	135.8%	366,287	(144.4)%
Union Local 922 Plan	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%
	1/1/2002	86,658	77,401	(9,257)	112.0%	15,256	(60.7)%

Notes:

* 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.

** There were changes in assumptions during the current year that affected the funding trend for the Union Local 689 plan.

*** 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

Bus and Rail Combined Revenues by Source

Bus and rail Combined Expenses by Object

Revenues and Operating Assistance Trend Data

Operating Expense Trend Data

Long-Term Debt Coverage

Sequence of Metrorail Openings

Miscellaneous Data

Metrorail System Map

**Bus and Rail Combined Revenues by Source
From June 30, 1996 to June 30, 2005**

(in thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Revenues										
Passenger revenue	\$ 320,024	\$ 322,814	\$ 339,748	\$ 348,062	\$ 358,116	\$ 384,868	\$ 394,153	\$ 404,211	\$ 453,043	\$ 522,475
Charter and contract revenue	1,614	1,319	1,736	5,915	7,788	8,171	7,746	9,597	3,806	3,395
Other	12,337	13,362	13,566	18,134	26,053	32,656	35,100	37,297	43,136	46,672
Total operating revenues	<u>333,975</u>	<u>337,495</u>	<u>355,050</u>	<u>372,111</u>	<u>391,957</u>	<u>425,695</u>	<u>436,999</u>	<u>451,105</u>	<u>499,985</u>	<u>572,542</u>
Other Revenues										
Investment income	6,617	7,883	11,423	11,319	9,013	6,989	19,830	26,975	1,450	5,011
Interest income from leasing	-	-	-	38,641	69,561	71,153	78,181	80,560	88,562	91,924
Income from pension plans	-	-	-	22,199	36,867	48,834	53,702	17,610	-	16,687
Other	2,322	2,946	3,681	5,985	1,346	2,029	1,924	3,544	3,277	3,790
Jurisdictional subsidies (2)	323,253	290,159	297,696	277,875	301,800	341,257	339,349	399,840	494,689	452,560
Revenue from capital grants and capital subsidies	<u>361,141</u>	<u>405,588</u>	<u>446,428</u>	<u>322,455</u>	<u>342,743</u>	<u>434,904</u>	<u>737,789</u>	<u>533,687</u>	<u>220,247</u>	<u>297,208</u>
Total other revenues	<u>693,333</u>	<u>706,576</u>	<u>759,228</u>	<u>678,474</u>	<u>761,330</u>	<u>905,166</u>	<u>1,230,775</u>	<u>1,062,216</u>	<u>808,225</u>	<u>867,180</u>
TOTAL REVENUES	<u>\$ 1,027,308</u>	<u>\$ 1,044,071</u>	<u>\$ 1,114,278</u>	<u>\$ 1,050,585</u>	<u>\$ 1,153,287</u>	<u>\$ 1,330,861</u>	<u>\$ 1,667,774</u>	<u>\$ 1,513,321</u>	<u>\$ 1,308,210</u>	<u>\$ 1,439,722</u>

(1) Restatement due to GASB 33 implementation

(2) Includes federal operating assistance received on behalf of the jurisdictions for 1994, 1995, 1996 and 1997 in the amounts of \$16,070,000, \$14,947,000, \$7,828,000 and \$7,826,000, respectively.

Source: The Authority's Audited Financial Statements. See accompanying independent auditors' report.

**Bus and Rail Combined Expenses by Object
From June 30, 1996 to June 30, 2005**

(in thousands)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Expenses										
Labor	\$ 319,013	\$ 310,143	\$ 331,599	\$ 340,229	\$ 372,658	\$ 414,491	\$ 437,380	\$ 460,435	\$ 485,124	\$ 498,865
Fringe Benefits	173,463	165,487	158,435	153,054	170,049	183,602	201,061	215,878	250,784	272,756
Services	26,944	30,684	33,581	48,903	45,397	45,686	64,140	62,192	67,696	77,063
Materials and supplies										
consumed	64,842	63,202	68,973	75,439	80,518	101,483	76,721	87,418	89,586	105,560
Utilities	43,158	43,163	44,371	45,570	46,296	48,857	46,843	49,758	52,681	61,517
Casualty and liability cost	17,707	5,972	11,552	7,105	5,175	10,170	4,842	4,871	12,467	16,869
Leases and rentals	2,433	2,476	1,854	1,920	4,098	1,558	3,042	3,067	1,913	4,096
Miscellaneous	2,678	1,860	2,468	2,895	3,105	5,887	5,364	3,749	2,778	3,253
Depreciation and										
amortization	244,587	243,131	248,374	247,696	249,914	258,183	275,896	294,300	296,485	299,707
Total operating expenses	<u>894,825</u>	<u>866,118</u>	<u>901,207</u>	<u>922,811</u>	<u>977,210</u>	<u>1,069,917</u>	<u>1,115,289</u>	<u>1,181,668</u>	<u>1,259,514</u>	<u>1,339,686</u>
Other Expenses										
Interest expenses	15,929	15,496	15,017	14,374	13,687	13,070	12,411	11,706	12,517	10,611
Interest expenses from										
leasing transactions	-	-	-	38,641	83,248	71,153	78,181	80,560	88,562	91,924
Pension plans expense	-	-	-	-	-	-	-	-	23,808	-
Total other expenses	<u>15,929</u>	<u>15,496</u>	<u>15,017</u>	<u>53,015</u>	<u>96,935</u>	<u>84,223</u>	<u>90,592</u>	<u>92,266</u>	<u>124,887</u>	<u>102,535</u>
TOTAL EXPENSES	<u>\$ 910,754</u>	<u>\$ 881,614</u>	<u>\$ 916,224</u>	<u>\$ 975,826</u>	<u>\$ 1,074,145</u>	<u>\$ 1,154,140</u>	<u>\$ 1,205,881</u>	<u>\$ 1,273,934</u>	<u>\$ 1,384,401</u>	<u>\$ 1,442,221</u>

Source: The Authority Audited Financial Statements. See accompanying independent auditor's report.

**Revenues and Operating Assistance Trend Data
From June 30, 1996 to June 30, 2005**

(in percentages)

Transportation Industry:

<u>Fiscal Year</u>	<u>Passenger</u>	<u>Other</u>	<u>Total</u>	<u>State and Local</u>	<u>Federal</u>	<u>Total</u>	<u>Total Revenue</u>
1996	38.7	15.3	54.0	42.9	3.1	46.0	100.0
1997	38.7	16.9	55.6	41.1	3.3	44.4	100.0
1998	37.8	17.5	55.3	41.1	3.6	44.7	100.0
1999	37.3	16.4	53.7	42.4	3.9	46.3	100.0
2000	36.1	17.4	53.5	42.4	4.1	46.5	100.0
2001	35.2	14.1	49.3	46.2	4.5	50.7	100.0
2002	32.5	17.3	49.8	45.2	5.0	50.2	100.0
P 2003	32.6	18.1	50.7	43.6	5.8	49.3	100.0
2004	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)
2005	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)

P: Preliminary Data

N/A: Not Available

Source: The American Public Transit Association (APTA), 2005 Transit Fact Book, Table 66
See accompanying independent auditors' report.

**Revenues and Operating Assistance Trend Data
From June 1996 to June 30, 2005**

(Continued)

(in percentages)

Washington Metropolitan Area Transit Authority:

<u>Fiscal Year</u>	<u>Passenger</u>	<u>Other (1)</u>	<u>Total</u>	<u>State and Local</u>	<u>Total</u>	<u>Total Revenue</u>
1996	48.3	3.2	51.5	48.5	48.5	100.0
1997	50.8	3.8	54.6	45.4	45.4	100.0
1998	51.1	4.3	55.4	44.6	44.6	100.0
1999	47.0	14.8	61.8	38.2	38.2	100.0
2000	43.5	19.3	62.8	37.2	37.2	100.0
2001	42.2	19.7	61.9	38.1	38.1	100.0
2002	41.7	21.8	63.5	36.5	36.5	100.0
2003	41.3	17.9	59.2	40.8	40.8	100.0
2004	41.6	12.9	54.5	45.5	45.5	100.0
2005	45.7	14.7	60.4	39.6	39.6	100.0

(1) Includes investment income.

Source: The above data was computed using the Authority's Audited Financial Statements. See accompanying independent auditors' report.

**Operating Expense Trend Data
From June 30, 1996 to June 30, 2005**

(in percentages)

Transportation Industry:

Fiscal Year	<u>Labor and Fringes</u>	<u>Services</u>	<u>Materials and Supplies</u>	<u>Utilities</u>	<u>Casualty and Liability Cost</u>	<u>Other</u>	<u>Total Operating Expense *</u>
1996	70.0	5.0	9.1	3.6	2.7	9.6	100.0
1997	72.2	5.6	9.4	3.7	2.7	6.4	100.0
1998	71.2	5.9	9.4	3.3	2.4	7.8	100.0
1999	70.9	5.9	9.2	3.3	2.2	8.5	100.0
2000	69.8	5.7	10.0	3.2	2.2	9.1	100.0
2001	69.5	5.9	10.0	3.3	2.1	9.2	100.0
2002	70.2	6.2	9.2	3.1	2.5	8.8	100.0
P 2003	69.1	6.0	9.0	3.0	2.6	10.3	100.0
2004	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)
2005	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)

*Excludes depreciation

P: Preliminary Data

N/A: Not Available

Source: The American Public Transit Association (APTA), 2005 Transit Fact Book, Table 62

See accompanying independent auditors' report.

**Operating Expense Trend Data
From June 30, 1996 to June 30, 2005**

(Continued)

(in percentages)

Washington Metropolitan Area Transit Authority:

<u>Fiscal Year</u>	<u>Labor and Fringes</u>	<u>Services</u>	<u>Materials and Supplies</u>	<u>Utilities</u>	<u>Casualty and Liability Cost</u>	<u>Other</u>	<u>Total Operating Expense *</u>
1996	73.9	4.0	9.7	6.5	2.7	3.2	100.0
1997	76.3	4.9	10.2	6.9	1.0	0.7	100.0
1998	75.1	5.1	10.6	6.8	1.8	0.6	100.0
1999	73.1	7.2	11.2	6.7	1.1	0.7	100.0
2000	74.6	6.2	11.1	6.4	0.7	1.0	100.0
2001	73.7	5.6	12.5	6.0	1.3	0.9	100.0
2002	76.1	7.6	9.1	5.6	0.6	1.0	100.0
2003	76.2	7.0	9.9	5.6	0.5	0.8	100.0
2004	76.4	7.0	9.3	5.5	1.3	0.5	100.0
2005	74.2	7.4	10.2	5.9	1.6	0.7	100.0

*Excludes depreciation

Source: The above data was computed using the Authority's Audited Financial Statements. See accompanying independent auditors' report.

Long-Term Debt Coverage
From June 30, 1996 to June 30, 2005

(dollars in thousands)

Washington Metropolitan Area Transit Authority:

<u>Fiscal Year</u>	<u>Revenue (A)</u>	<u>Direct Operating Services (B)</u>	<u>Net Revenue Available for Debt Service</u>	<u>Debt Service Requirement</u>			<u>Coverage</u>
				<u>Principal (C)</u>	<u>Interest (D)</u>	<u>Total</u>	
1996	666,167	650,238	15,929	-	15,929	15,929	100.0%
1997	638,483	622,987	15,496	-	15,496	15,496	100.0%
1998	667,850	652,833	15,017	-	15,017	15,017	100.0%
1999	689,489	675,115	14,374	-	14,374	14,374	100.0%
2000	740,983	727,296	13,687	-	13,687	13,687	100.0%
2001	824,804	811,734	13,070	-	13,070	13,070	100.0%
2002	851,804	839,393	12,411	-	12,411	12,411	100.0%
2003	899,074	887,368	11,706	-	11,706	11,706	100.0%
2004	999,401	986,837	12,564	-	12,517	12,517	100.0%
2005	1,050,590	1,039,979	10,611	-	10,611	10,611	100.0%

(A) Amount consists of operating revenue, non-operating revenue and jurisdictional subsidies, excluding income from leasing transactions.

(B) Amount excludes depreciation and amortization and non-operating expenses, except expense from pension plan in FY 04 of \$ 23,808,000.

(C) The defeasance of the Series A to E bonds results in the issue of Series 93 bonds with a face value of \$334,015,000. The debenture of the Series 93 offering require the local jurisdictions to fully retire the outstanding debt and pay interest at six - month intervals. For accounting purposes, the jurisdictional contributions to ret

(D) Does not include interest on leases.

Source: The Authority's Audited Financial Statements. See accompanying independent auditors' report.

**Sequence of Metrorail Openings
As of June 30, 2005**

Line	Segment	Stations	Miles	Date
Red	Farragut North to Rhode Island Ave.	5	4.6	03/29/76
Red	Gallery Place-Chinatown	1	0.0	12/15/76
Red	To Dupont Circle	1	1.1	01/17/77
Blue/Orange	National Airport to Stadium-Armory	17	11.8	07/01/77
Red	To Silver Spring	4	5.7	02/06/78
Orange	To New Carrollton	5	7.4	11/20/78
Orange	To Ballston-MU	4	3.0	12/01/79
Blue	To Addison Road	3	3.6	11/22/80
Red	To Van Ness-UDC	3	2.1	12/05/81
Yellow	Gallery Place-Chinatown to Pentagon	1	3.3	04/30/83
Yellow	To Huntington	4	4.2	12/17/83
Red	To Grosvenor	5	6.8	08/25/84
Red	To Shady Grove	4	7.0	12/15/84
Orange	To Vienna/Fairfax-GMU	4	9.1	06/07/86
Red	To Wheaton	2	3.2	09/22/90
Green	To U Street/African Amer Civil War Memorial/Cardozo	3	1.7	05/11/91
Blue	To Van Dorn Street	1	3.9	06/15/91
Green	To Anacostia	3	2.9	12/28/91
Green	To Greenbelt	4	7.0	12/11/93
Blue	To Franconia-Springfield	1	3.3	06/29/97
Red	To Glenmont	1	1.4	07/25/98
Green	Columbia Heights to Fort Totten	2	2.9	09/18/99
Green	To Branch Avenue	5	6.5	01/13/01
Red	New York Avenue in-fill station	1	0.0	11/20/04
Blue	To Largo Town Center	2	3.2	12/18/04
	TOTAL SYSTEM	<u>86</u>	<u>106.1</u>	

Source: *WMATA Facts*

Note: The sum of miles does not equal the total due to rounding.
See accompanying independent auditors' report.

**Miscellaneous Data
As of June 30, 2005**

Metrobus

Number of vehicles in total fleet	1,597
Actual vehicle revenue miles	38,458,955
Actual vehicle revenue hours	3,422,983
Unlinked passenger trips	153,392,034
Bus stops	12,435
Bus routes	350
Communications/security features	Two-way radio links operator to control center; emergency radio silent alarm; automatic vehicle locators, and cameras on some buses.

MetroAccess

Number of vehicles in total fleet	345
Actual vehicle revenue miles	12,179,777
Actual vehicle revenue hours	765,719
Unlinked passengers trips	1,253,948

Source: *WMATA Facts* and National Transit Database

**Miscellaneous Data
As of June 30, 2005****(Continued)****Metrorail**

Number of vehicles in total fleet	954
Actual vehicle revenue miles	62,152,900
Actual vehicle revenue hours	2,460,443
Unlinked passenger trips	259,430,086
Number of lines	5; Blue, Green, Orange, Red, and Yellow
Rail station escalators:	588 escalators; the longest escalator in the Western Hemisphere, 230 feet from mezzanine to platform level, is at the Wheaton station.
Elevators:	237 elevators in stations and an additional 23 in support shops and facilities.
Dimension of rail cars	All rail cars are 75 feet long and 10 feet wide
Operating speed of rail cars	59 mph maximum, 33 mph average including stops
Communications/security features	Includes: Two-way radio between train operator and central control; chemical sensors in underground stations; digital signs in the stations showing alerts for the next train, system status and time of day, and, video monitoring of stations, elevators and some station parking lots.

Source: *WMATA Facts* and National Transit Database

M System Map

Legend

- Red Line • Glenmont to Shady Grove
- Orange Line • New Carrollton to Vienna/Fairfax-GMU
- Blue Line • Franconia-Springfield to Largo Town Center
- Green Line • Branch Avenue to Greenbelt
- Yellow Line • Huntington to Mt Vernon Sq/7th St-Convention Center



- No Smoking
- No Eating or Drinking
- No Animals (except service animals)
- No Audio or Video Devices (cellular use permitted)
- No Litter or Spitting
- No Dangerous or Flammable Items



Washington Metropolitan Area Transit Authority
600 Fifth Street NW ♦ Washington, D.C. 20001