



**Budget Committee**

**Fiscal 2008 Budget Review Item V-A1**

**January 11, 2007**

**Requested Budget Analysis: Review of Deferred  
Revenue**

**Washington Metropolitan Area Transportation Authority  
Board Action/Information Summary**

Action  
 Information

MEAD Number:

Resolution:  
 Yes  No

**PURPOSE:**

To provide updated information on the deferred revenue balance and the recognition of unused fare media.

**DESCRIPTION:**

Brief overview of the revenue reporting methodology, the deferred revenue process, and the impact of unused fare media on the Authority.

**FUNDING IMPACT:**

Increase FY08 budgeted passenger revenue by \$12.1 million by increasing the percentage used to calculate the amount that represents unused fare media in the deferred revenue account from 3% of passenger sales to 5% of passenger sales.

**RECOMMENDATION:**

For the Board to be aware of this adjustment to WMATA's accounting procedures.



# Review of Deferred Revenue

*Presented to the Board of Directors:*

**Budget Committee**


January 11, 2007






# Revenue Process

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Cash Received            Goes into Deferred Revenue Account

Ridership Tracked            Revenue Recognized



# Passenger Revenue Reporting Methodology

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- Types of Fare Media
  - Regular Fare Cards
  - Transit Incentive Program
    - Metrochek
    - SmartBenefits
  - SmarTrip™ Cards (Added Values)
  - Passes (Regular or Special Passes)
  - Tokens (Regular or Student)



# WMATA'S Deferred Revenue Process

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Deferred Revenue - payment for services not yet performed as required by GAAP (Generally Accepted Accounting Principles). The services will be performed within a specified period and revenue is recognized accordingly.

- ❖ The Authority's deferred revenue is associated with the sale of fare media, primarily the issuance of Metrocheks and SmartBenefits cards.
- ❖ Patrons typically purchase or add value to the Metrocheks or SmartBenefits cards in large dollar quantities, i.e. \$50, \$100, \$150, etc.



# Unused Fare Media

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- Some sales of fare media, primarily Metrocheks, will never be used
- Currently a best estimate of 3% of passenger sales is used to calculate the amount that represents unused fare media recognized on the income statement each month
- Identifying an actual percentage to recognize unused fare media income each month is currently not feasible due to the following:
  - Metrocheks are not issued with an expiration date
  - Metrochek usage is not tracked after sale to the customer
- External auditors have reviewed and concurred that this revenue recognition process is reasonable



# Historical Unused Fare Media Analysis

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	<b>% Unused Fare Media</b>	<b>Amount of Passenger Revenue Recognized</b>	<b>Unused Passenger Fare Media Revenue</b>	<b>Deferred Revenue Balance</b>	<b>Number of Days Sales</b>
	<i>(Dollars in Millions)</i>				
FY02	1%	\$271.9	\$3.4	\$41.8	50
FY03	1%	\$284.4	\$3.6	\$50.3	51
FY04	2%	\$310.7	\$8.0	\$50.4	45
FY05	2%	\$351.5	\$12.0	\$60.7	44
FY06	3%	\$373.5	\$15.3	\$63.8	44





# Recommendation for FY08

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	<b>% Unused Fare Media</b>	<b>Amount of Passenger Revenue Recognized (Estimated)</b>	<b>Unused Passenger Fare Media (Estimated)</b>	<b>Deferred Revenue Balance (Estimated)</b>	<b>Number of Days Sales (Estimated)</b>
<i>(Dollars in Millions)</i>					
<b>FY07</b>	<b>3%</b>	<b>\$382.8</b>	<b>\$16.0</b>	<b>\$66.8</b>	<b>45</b>
<b>FY08</b>	<b>5%</b>	<b>\$402.0</b>	<b>\$28.1</b>	<b>\$59.2</b>	<b>38</b>
<b>Change</b>			<b>\$12.1</b>	<b>(\$7.6)</b>	<b>(7)</b>

By increasing the Unused Passenger Fare Media percentage to 5%, the amount of passenger revenue recognized for FY08 increases by \$12.1M and the deferred revenue balance decreases by \$7.6M.



# Revenue Recognition

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In future considerations for budget discussions, staff recommends that the Authority increase the current estimate of 3% of passenger sales, used to calculate the amount that represents unused fare media in the deferred revenue account to 5% of passenger sales.