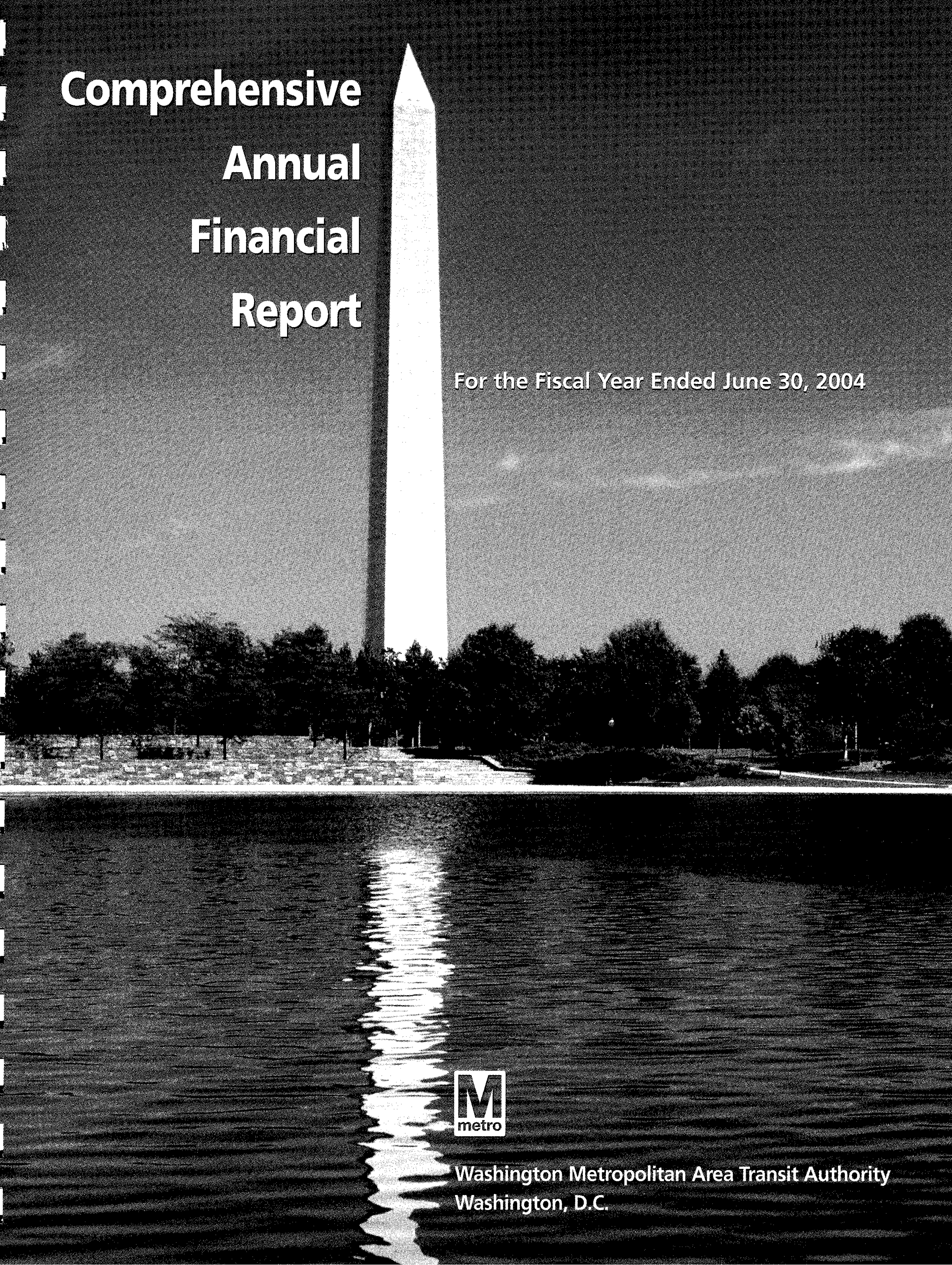

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

metro

Washington Metropolitan Area Transit Authority
Washington, D.C.

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2004

Peter Benjamin
Chief Financial Officer

Prepared By: Office of Accounting
Kathleen V. Smith
Comptroller

WMATA Vision Statement

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

WMATA Mission Statement

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

WMATA Strategic Goals

Service Quality and Ridership Growth

Safety and Security

Business Management

Regional Role

National Relationships

Comprehensive Annual Financial Report
Year Ended June 30, 2004

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SECTION ONE - INTRODUCTORY

Washington
Metropolitan Area
Transit Authority

600 Fifth Street, NW
Washington, DC 20001
202/962-1234

By Metrorail:
Judiciary Square—Red Line
Gallery Place-Chinatown—
Red, Green and
Yellow Lines
By Metrobus:
Routes D1, D3, D6, P6,
70, 71, 80, X2

A District of Columbia,
Maryland and Virginia
Transit Partnership

December 20, 2004

MEMORANDUM FOR: Chairman and Members of the Board of Directors

SUBJECT: Comprehensive Annual Financial Report

Attached is the Comprehensive Annual Financial Report (CAFR) of the Washington Metropolitan Area Transit Authority for the fiscal year ended June 30, 2004.

Richard A. White
Chief Executive Officer

Attachment

December 20, 2004

Richard A. White
Chief Executive Officer/General Manager
Washington Metropolitan Area Transit Authority

I am submitting the Comprehensive Annual Financial Report (CAFR) of the Washington Metropolitan Area Transit Authority (Authority) for the fiscal year ended June 30, 2004 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, management of the Authority 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). Because the cost of internal controls should not outweigh their benefits, 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. Based upon information provided to me by my staff, it is my opinion that this financial report is complete and reliable in all material respects.

The Authority's financial statements have been audited by KPMG LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Authority for the fiscal year ended June 30, 2004 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Authority's financial statements for the fiscal year ended June 30, 2004, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component 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

600 Fifth Street, NW
Washington, DC 20001
202/962-1234

By Metrorail:
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Gallery Place-Chinatown—Red, Green and Yellow Lines
By Metrobus:
Routes D1, D3, D6, P6, 70, 71, 80, X2

A District of Columbia, Maryland and Virginia Transit Partnership

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 report of the independent auditors.

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 2004 Table of Organization 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

On February 20, 1967, the Authority was created by an interstate compact (the Compact) through legislation passed by the District of Columbia, the State of Maryland, the Commonwealth of Virginia and the U.S. Congress. The purpose of the Authority is to plan, build, finance and operate a balanced transportation system in the nation's 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 rail system began in 1969, and later, in 1973, four area bus systems were acquired. The first phase of the rail system began operation in 1976 and the last leg of the original 103-mile rail system was completed on January 13, 2001. MetroAccess, the curb-to-curb service for mobility impaired passengers, began operation in May, 1994.

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.

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 Chief Executive Officer (CEO) is responsible for all activities and functions of the Authority. The CEO directs staff in implementing and carrying out programs and initiatives of the Authority.

The organizational structure for the Authority consisted of seven major departments for Fiscal Year 2004. These departments included: Department of Operations, Department of Finance, Department of Planning and Strategic Programs, Department of System Safety and Risk Protection, Department of Communications, Department of Workforce Development and Diversity Programs and Department of Capital Projects Management. In addition, three offices reported directly to the CEO. These independent offices were General Counsel, Secretary and Chief of Staff, and Metro Transit Police. The Metro Transit Police department is the only tri-jurisdictional police agency in the nation. The officers have jurisdiction and arrest powers throughout the Transit Zone for crimes that occur on or against the Authority's facilities.

For Fiscal 2004, the Authority had an approved budget of $1.24 billion with the largest portion, $909.4 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 financial statements is best understood when it is considered from the broader perspective of the specific environment within which the Authority operates.

Local Economy

During Fiscal 2004, the economy in the nation's capital and the adjacent jurisdictions experienced greater growth than many other urban areas. Local economic indicators suggested that the region's economy may continue to outpace the nation. The overall employment rate in the region improved, while the unemployment rate remained below the national rate. Other positive economic signs were tourism, which returned to its pre-9/11 level and the increase in the number of business and leisure travelers using local airports. Retail sales were up and the housing industry remained strong.

The area's improved economy had a direct effect on ridership of the Authority. Seven of the top ten high ridership weekdays occurred during this fiscal year. Combined Metrobus, Metrorail and MetroAccess services carried more than 337 million riders, which was approximately four million more riders than in the prior year.

In the near term, economic indicators for the area point to a prospering economy, due to sustained growth in the areas of tourism, retail sales, housing and government spending, particularly in the homeland security sector.

Long-term Financial Planning

The Authority and the local jurisdictions developed and executed a formal long-range comprehensive funding agreement for capital improvements. This agreement, commonly known as "Metro Matters," is a $3.3 billion six year program, for the period of Fiscal 2005 – 2010. Metro Matters uses a pay-as-you-go approach funding strategy and has the following six main components:

- Infrastructure Renewal Program: Including deferred rail and bus maintenance rehabilitation, estimated at $2,371.5 million,
- Rail Car Program: Including exercising the option to purchase 120 new rail cars, expanding three yard shops, and upgrading of power and signal systems required for 8-car train operations, estimated at $600.6 million,
- Bus Program: Including purchasing 185 new buses to relieve crowding, building a new maintenance facility; and upgrading customer services and intelligent transportation systems, estimated at $171.5 million
- System Expansion Program: Including planning for future investments, estimated at $3.0 million,
- Security Program: Including providing a continuity of operations, mainly in the form of a backup operations control center for rail operations, estimated at $143.5 million and,
- Credit facility to provide funding, as required.

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 repurchase agreements and U.S government agency issues, which are usually held to maturity. All investments held by the Authority during the year and at June 30, 2004 are classified in the category of lowest credit risk as defined by the Governmental Accounting Standards Board (GASB).

The Authority's investment portfolio had a fair value balance of $706.4 million as of June 30, 2004. The maturities of the investments range from one day to 20 years, with a weighted average maturity of 1.9 years. The weighted average yield on investments was approximately 2.6 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 four defined benefit pension plans covering substantially all of its employees hired prior to January 1, 1999. These pension plans are the Salaried Personnel Plan, 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 four 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 2004, the Authority made contributions to three of the four plans, the Salaried Personnel Plan, Transit Police Plan and Union Local 922 Plan. No contribution was required to 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 $13,000 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 the current fiscal year, there were 3,584 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

Award

Certificate of Achievement for Excellence in Financial Reporting
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting (Certificate) to the Authority for its CAFR for the fiscal year ended June 30, 2003.

The Certificate is the highest form of recognition in the area of government financial reporting and I am pleased to report that the Authority has received this prestigious award for the last seventeen 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. I 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

This is the third year that our CAFR has been prepared under the guidelines of GASB 34 and the other related pronouncements. With each year's CAFR, we recognize again the significant amount of work involved in its preparation and the contributions required of so many to see it to fruition. I would like to express my sincere appreciation to everyone who contributed to the preparation of this year's CAFR. The completion of this report could not have been accomplished without the leadership of the Comptroller and the professional and dedicated staff of the Office of Accounting, especially the members of the GASB Implementation Team. I would also like to thank the Board of Directors and CEO for their continuing support in planning and conducting the financial operations of the Authority in a responsible manner.

Sincerely,

Peter Benjamin
Chief Financial Officer

Board of Directors

As of June 30, 2004

Chairman	Robert J. Smith Maryland
Vice-Chairman	Dana Kauffman Virginia
Second Vice-Chairman	Gladys W. Mack District of Columbia
Directors	Charles Deegan Maryland
	Christopher Zimmerman Virginia
	Jim Graham District of Columbia
Alternate Directors	David A. Catania District of Columbia
	Calvin Nophlin District of Columbia
	Marcell Solomon Maryland
	Gordon Linton Maryland
	William D. Euille Virginia
	Catherine Hudgins Virginia

Officers

As of June 30, 2004

Chief Executive Officer	Richard A. White
Secretary and Chief of Staff	Harold M. Bartlett
Deputy General Manager for Operations	James T. Gallagher
General Counsel	Cheryl Burke
Chief Police Officer for Metro Transit Police Department	Polly Hanson
Chief Financial Officer	Peter Benjamin
Chief Operating Officer for Bus Service	Jack Requa
Chief Operating Officer for Rail Service	Steven Feil
Assistant General Manager for Capital Project Management	P. Takis Salpeas
Assistant General Manager for Communications	Leona Agouridis
Assistant General Manager for Planning and Strategic Programs	Edward L. Thomas
Assistant General Manager for System Safety and Risk Protection	Fred C. Goodine
Assistant General Manager for Workforce Development and Diversity Programs	William F. Scott, II

Table of Organization

As of June 30, 2004

Chief Executive Officer/ General Manager

Secretary and Chief of Staff (SCOS)

- Auditor General
- Property Development & Management
- Intergovernmental Relations
- Procurement & Materials

Operations (OPER)

- Rail Service
- Bus Service
- Chief Engineer
- Facility Services
- ADA Programs
- Metroaccess Service
- Operations Planning & Administrative Support
- Plant Maintenance
- Elevator/Escalator
- Operations Liaison

General Counsel (COUN)

Metro Transit Police Department (MTPD)

Chief Financial Officer (CFO)

- Accounting
- Financial Management
- Treasurer

Planning and Strategic Programs (PLSP)

- Strategic & System Planning
- Business Planning & Project Development
- Capital Programming & Oversight
- Information Technology & Services

System Safety and Risk Protection (SARP)

- Passenger Vehicle & Fire Life Safety
- Industrial, Construction & Environmental Safety
- Loss Control & Workers' Compensation
- Quality Assurance

Communications (.COM)

- Media Relations
- Customer Service
- Strategic Communications & Marketing

Workforce Development and Diversity Programs (WDDP)

- Civil Rights
- Employee & Labor Relations
- Human Resources Management & Planning
- Organizational Development

Capital Projects Management (CAPM)

- Engineering & Architecture Systems
- Major Capital Projects Administration
- Extensions
- Infrastructure Renewal Project Group

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, 2002

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.

President

Executive Director

SECTION TWO - FINANCIAL

KPMG

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, 2004 and 2003, 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 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 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, 2004 and 2003 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2004 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.

KPMG

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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of information. However, we did not audit this 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 subject 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 28, 2004

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 for the years ended June 30, 2004, 2003 and 2002. 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 2004 Financial Highlights

- Capital contributions 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.
- Restricted assets decreased by $241.2 or 29.1 percent, which is mainly attributable to a reduction in advance contributions for rail car procurement and other reimbursable projects.
- Operating expenses increased by $77.8 million or by 6.6 percent primarily due to increased labor costs required for higher levels of service and growing health care, pension and workers' compensation costs.
- Operating revenues increased by $48.9 million or 10.8 percent due to a fare increase and an increase in ridership, as well as fiber optics right of way rental and advertising revenues. Several events that contributed to the increase in ridership included the opening of the new Convention Center, the State Funeral for President Ronald Reagan and the dedication of the World War II Memorial.

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 generally accepted accounting principles (GAAP) in the United States of America 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, riderships, 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 23-27 of this report.

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 28-52 of this report.

Management's Discussion and Analysis

Overview of the Basic Financial Statements (Continued)

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 three-decade old Authority system, as well as its need for increasing operating subsidies and ridership levels. The following table provides an overview of the Authority's financial position for the years ended June 30, 2004, 2003 and 2002:

Table 1
Condensed Statements of Net Assets
June 30, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Current and other assets	$ 2,590,642	$ 2,613,559	$ 2,452,310
Capital assets	7,692,128	7,578,724	7,367,645
Total assets	10,282,770	10,192,283	9,819,955
Current liabilities	421,755	384,907	443,700
Noncurrent liabilities	1,738,776	1,608,946	1,417,212
Total liabilities	2,160,531	1,993,853	1,860,912
Net assets:			
Investment in capital assets, net of related debt	7,533,465	7,368,413	7,148,786
Restricted	588,774	830,017	810,257
Total net assets	$ 8,122,239	$ 8,198,430	$ 7,959,043

Current Year

Net assets decreased by $76.2 million or 0.9 percent during the current fiscal year, which largely reflected a decrease in contributions receivable relating to capital grants and declining investment portfolio balances. Also contributing to the decrease in net assets were increases to liabilities relating to issuance of Series 2003B Transit Bonds and entering into a tax advantage lease agreement.

The largest portion of the Authority's net assets, $7,533.5 million or 92.8 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities, and revenue vehicles), less any related debt used to acquire those assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Management's Discussion and Analysis

Statements of Net Assets (Continued)

Current Year (Continued)

A portion of the Authority's net assets, $588.8 million or 7.2 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 $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 railcar lease agreement and the issuance of Series 2003B Gross Revenue Transit bonds.

Restricted assets decreased by $241.2 or 29.1 percent, which is mainly attributable to a reduction in advance contributions for rail car procurement and other reimbursable projects.

Prior Year

The largest portion of the Authority's net assets, $7,368.4 million or 89.9 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. 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, $830.0 million or 10.1 percent, represented resources that were subject to external restrictions on how they may be used. The restrictions are set by the Authority's governing jurisdictions. The restricted net assets include advance contributions for future construction, reimbursable projects and other targeted programs.

Current and other assets increased by $161.2 million or 6.6 percent during the year primarily as a result of the Authority entering into two new prefunded lease agreements for 42 Breda 3000 series railcars and 36 AAI-CAF 5000 series railcars.

Capital assets increased by $211.1 million or 2.9 percent, largely attributable to transportation vehicle purchases and rail rehabilitation and maintenance facility construction.

Current liabilities decreased by $58.8 million or 13.3 percent during the year primarily as a result of the decrease in the obligations under the lease agreements.

Noncurrent liabilities increased by $191.7 million or 13.5 percent primarily as a result of entering into the two new railcar lease agreements.

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, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Operating Revenues			
Passenger revenue	$ 453,043	$ 404,211	$ 394,153
Charter and contract revenue	3,806	9,597	7,746
Other revenue	43,136	37,297	35,100
Total operating revenues	499,985	451,105	436,999
Nonoperating Revenues			
Investment income	1,450	26,975	19,830
Interest income from leasing transactions	88,562	80,560	78,181
Income from pension plan	-	17,610	53,702
Other	3,277	3,544	1,924
Total nonoperating revenues	93,289	128,689	153,637
Total revenues	593,274	579,794	590,636
Operating Expenses			
Salary and benefits	735,908	676,313	638,441
Services	67,696	62,192	64,140
Materials and supplies	89,586	87,418	76,721
Depreciation and amortization	296,485	294,300	275,896
Other	69,839	61,445	60,091
Total operating expenses	1,259,514	1,181,668	1,115,289
Nonoperating Expenses			
Expense from pension plan	23,808	-	-
Interest expense	101,079	92,266	90,592
Nonoperating expenses	124,887	92,266	90,592
Total expenses	1,384,401	1,273,934	1,205,881
Loss before capital grants/subsidies	(791,127)	(694,140)	(615,245)
Jurisdictional subsidies	494,689	399,840	339,349
Capital grants	220,247	533,687	737,789
Change in net assets	(76,191)	239,387	461,893
Net assets, beginning of year	8,198,430	7,959,043	7,497,150
Net assets, end of year	$ 8,122,239	$ 8,198,430	$ 7,959,043

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 $13.5 million or 2.3 percent. Operating revenues totaled $500.0 million, as described below.

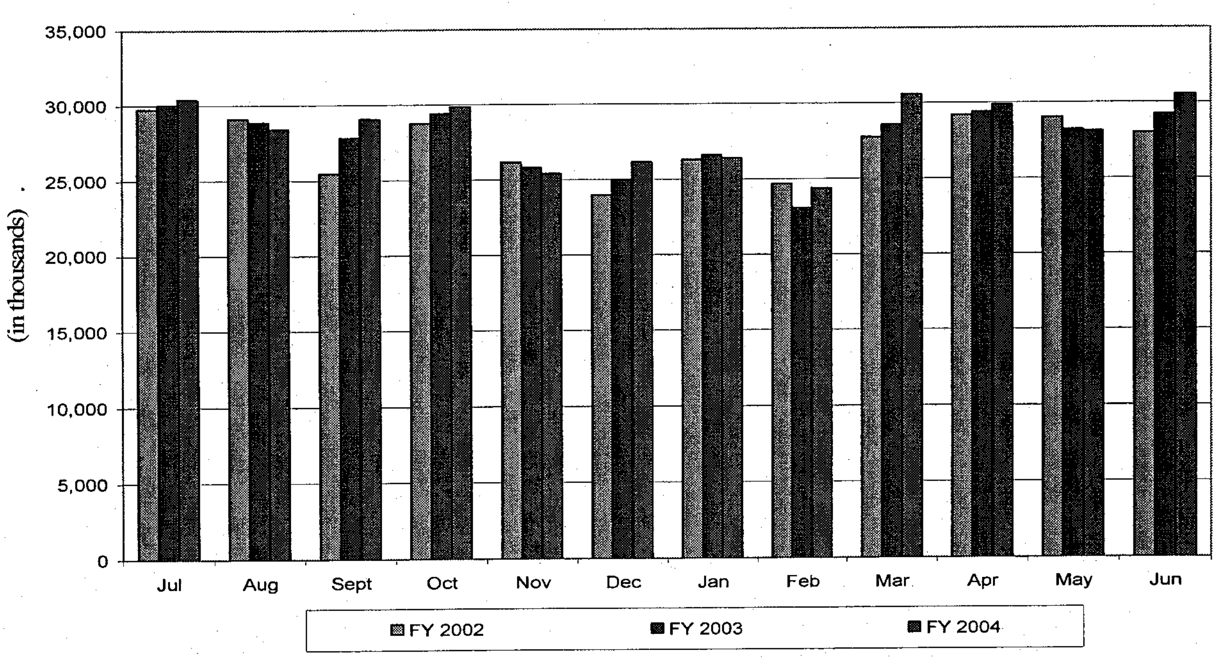
Passenger revenue, a significant portion of the Authority's operating revenues, increased by $48.8 million or 12.1 percent. This increase was due to a combination of factors that included a 10.0 percent fare increase, which was the first fare increase implemented in the last eight years, and a 2.0 percent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

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 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.

Ridership



Management's Discussion and Analysis

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

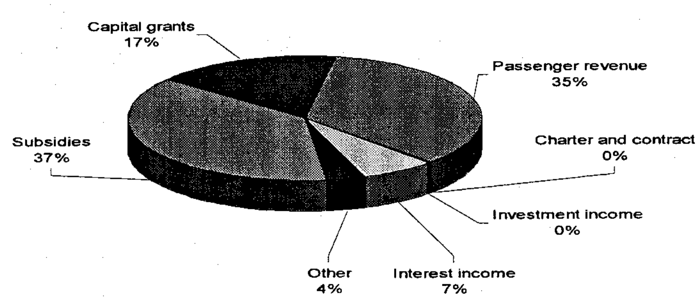
Revenues (Continued)

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.

Fiscal Year 2004 Revenues



<u>**Prior Year**</u>

Total revenues decreased in by $10.8 million or 1.8 percent. Operating revenues for Fiscal Year 2003 totaled $451.1 million, as described below.

Passenger revenue, the Authority's largest revenue source, reflected an increase of $10.1 million or 2.6 percent due primarily to the increase of metrorail ridership of 3.8 million trips or a growth rate of 2.1 percent. In addition, ridership for MetroAccess, which is the Authority's paratransit provider, grew by 31.7 percent.

Nonoperating revenues decreased in by $24.9 million or 16.2 percent. The largest component was $36.1 million or 67.2 percent decrease in the earnings of pension plan investments. This decrease was partially offset by an increase in fair value on other investments of $7.1 million or 36.0 percent.

Capital contributions decreased by $204.1 million or 27.7 percent primarily due to the following: completed construction of the 103-mile metrorail system, a reduction in new bus purchases, and the receipt in the prior year of federal funding for safety and security, which was not repeated in Fiscal Year 2003.

Expenses

<u>**Current Year**</u>

Total expenses increased by $110.5 million or 8.7 percent. Operating expenses totaled $1,259.5 million, as described below.

Management's Discussion and Analysis

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

Expenses (Continued)

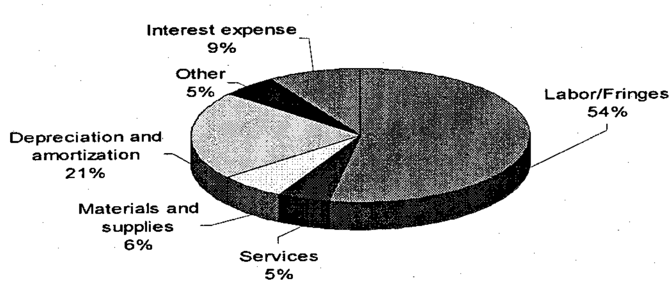
Salaries and benefits increased by $59.6 million or 8.8 percent due to cost incurred to provide additional bus services for events such as the National World War II Memorial Dedication, the Bay Bridge Walk, and the joint military services open house at Andrews Air Force Base. In addition, the Authority 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 2004 Expenses



<u>Prior Year</u>

Total expenses were $1,273.9 million. Operating expenses increased by $66.4 million or 6.0 percent, as described below.

The $37.9 million increase in salaries and benefits cost was principally attributed to wage increases for nonrepresented and represented employees, health care premiums and employer pension contributions. Additionally, vacation payouts for early retirements, the first full year of operating the green line rail expansion to Branch Avenue, safety and security training, and unexpected cost due to inclement weather contributed to the increase in salaries and benefits.

The $10.7 million increase in materials and supplies was largely the result of an increased use of materials and supplies for the railcar overhaul program and rehabilitation and maintenance of escalators, elevators, buses, railcars, mechanical systems and tracks. The increase was also driven by emergency track repairs, placing into service 92 railcars and safety and security measures, (e.g., bomb resistant trashcans, decontamination equipment and chemical sensors).

The $18.4 million increase in depreciation and amortization of capital assets was predominantly due to the Authority's capitalization of buses, railcars, service vehicles, maintenance shop equipment and construction costs associated with the vehicle maintenance shop at Branch Avenue rail yard.

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, 2004, 2003 and 2002
(in thousands)

	2004	2003	2002
Land	$ 431,291	$ 430,268	$ 432,565
Building and improvements	408,331	400,972	344,498
Transit facilities	6,620,890	6,648,171	6,500,596
Revenue vehicles	1,582,224	1,509,719	1,297,029
Other equipment	1,070,335	1,043,295	964,762
Construction in progress	869,762	548,180	550,683
Intangible costs	1,157,217	1,157,217	1,157,217
	12,140,050	11,737,822	11,247,350
Less accumulated depreciation and amortization	4,447,922	4,159,098	3,879,705
Net capital assets	$ 7,692,128	$ 7,578,724	$ 7,367,645

Capital Assets

Current 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 building 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 railcars and 14 buses and the costs associated with the railcar 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 Ave-Florida Ave-Gallaudet U 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.

Additional information on the Authority's capital assets can be found in note 5 on pages 37-38 of this report.

Management's Discussion and Analysis

Capital Assets and Debt Administration (Continued)

Capital Assets (Continued)

<u>Prior Year</u>

The Authority's investment in capital assets was $7,578.7 million (net of accumulated depreciation and amortization) as of June 30, 2003. This investment in capital assets increased by $211.1 million or 2.9 percent.

The $56.5 million increase in buildings and improvements was due to the rehabilitation of maintenance facilities and bus and rail vehicle maintenance shops.

The $147.6 million increase in transit facilities was largely due to construction costs that include communication lines, track work and train control lines.

The $212.7 million increase in revenue vehicles was predominantly a result of placing into service 92 railcars and 17 buses as well as the costs associated with the railcar rehabilitation.

The $78.5 million increase in other equipment was largely attributable to the acquisition of service vehicles, maintenance shop equipment, communications facility equipment and rehabilitation of power distribution facilities.

Future Capital Plans

Metro Matters is a $3.3 billion six-year capital program to rehabilitate the three-decade old system. A substantial portion of the capital funds would be allocated to repair, maintain and replace its aging equipment, which includes trains, buses, escalators, elevators and tracks. Capital funds also would provide for new railcars and buses to alleviate overcrowding and for associated support equipment and facilities to allow for the expanded service.

Transit Bonds

The Authority's total debt increased by $34.7 million due to the issuance of Series 2003B bonds in November 2003 to be paid off by revenues set aside by fare increases. By insuring its transit bonds, the Authority has obtained a AAA rating from Standard & Poor's for existing issuances; it's insured rating is A minus.

Additional information on the Authority's transit bonds can be found in note 6 on pages 39-41 of this report.

Lease Obligations

In August 2003, the Authority entered into a new lease transaction for 48 railcars. This transaction resulted in a net payment to the Authority of approximately $10.0 million, which was recorded as deferred lease revenue, and will be amortized over the life of the lease. Subsequent to the execution of the Fiscal Year 2004 leases, $0.5 million of the proceeds was reserved to cover any potential liabilities.

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

Management's Discussion and Analysis

Economic Factors

Unemployment in the Washington, D.C. metropolitan area was fairly constant throughout the fiscal year. The unemployment rate started at 3.7 percent in July 2003 and ended at 3.2 percent in June 2004. This compares favorably with a national unemployment rate of 5.7 percent at June 30, 2004. The number of employed persons was 2.787 million and 2.849 million at June 30, 2003 and 2004, respectively that resulted in an increase in employment of 2.2 percent. Also, there was a 2.0 percent improvement in the Washington Area Business Cycle Leading Index from June 2003 to June 2004.

Tourism for the Washington, D.C. market has returned to pre-9/11 levels and is making an important contribution to the strengthening area economy. Airport traffic for both business and leisure travel are up by 11.6 percent for the year indicating a recover in this area. The George Mason University Center for Regional Analysis suggests that Washington area tourism should also "help sustain an annual growth rate above the 4 percent level."

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, 2004 and 2003

(in thousands)

	2004	2003
ASSETS		
Current assets:		
Cash and deposits (note 3)	$ 10,733	$ 13,627
Investments (note 3)	706,378	825,756
Contributions receivable (note 4)	51,627	88,280
Accounts receivable and other assets (net of allowance for doubtful accounts of $1,478 in 2004 and $1,530 in 2003)	21,768	14,070
Current portion of prefunded lease commitments (note 10)	102,384	68,989
Materials and supplies inventory (net of allowance of $7,928 in 2004 and $8,256 in 2003)	73,180	67,804
Total current assets	966,070	1,078,526
Noncurrent assets:		
Long-term portion of contributions receivable (note 4)	59,221	37,777
Prepaid pension expense (note 7)	184,224	208,032
Prefunded lease commitments (note 10)	1,381,127	1,289,224
Capital assets (note 5):		
Construction in progress	869,762	548,180
Land	431,291	430,268
Transit facilities and equipment, net	6,391,075	6,600,276
Total noncurrent assets	9,316,700	9,113,757
Total assets	10,282,770	10,192,283

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

Statements of Net Assets (Continued)

June 30, 2004 and 2003

(in thousands)

	2004	2003
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	138,277	138,819
Accrued salaries and benefits	66,008	67,881
Accrued interest payable	6,943	5,761
Deferred revenue	54,910	53,250
Current portion of estimated liability for injury and damage claims (notes 9 and 11)	23,076	23,282
Current portion of retainage on contracts (note 11)	2,797	5,729
Current portion of deferred lease revenue (note 11)	5,470	5,051
Current portion of transit bonds payable (notes 6 and 11)	21,890	16,145
Current portion of obligations under lease agreements (notes 10 and 11)	102,384	68,989
Total current liabilities	421,755	384,907
Noncurrent liabilities:		
Estimated liability for injury and damage claims (notes 9 and 11)	37,271	35,938
Retainage on contracts (note 11)	23,314	20,941
Deferred lease revenue (note 11)	67,823	62,604
Transit bonds payable (notes 6 and 11)	229,241	200,239
Obligations under lease agreements (notes 10 and 11)	1,381,127	1,289,224
Total noncurrent liabilities	1,738,776	1,608,946
Total liabilities	2,160,531	1,993,853
Commitments and contingencies (notes 7, 8, 9 and 10)		
NET ASSETS		
Invested in capital assets, net of related debt	7,533,465	7,368,413
Restricted	588,774	830,017
Total net assets	$ 8,122,239	$ 8,198,430

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

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2004 and 2003

(in thousands)

	2004	2003
OPERATING REVENUES		
Passenger revenue	$ 453,043	$ 404,211
Charter and contract revenue	3,806	9,597
Advertising revenue	26,002	23,001
Rental revenue	15,786	13,101
Other revenue	1,348	1,195
Total operating revenues	499,985	451,105
OPERATING EXPENSES		
Labor	485,124	460,435
Fringe benefits	250,784	215,878
Services	67,696	62,192
Materials and supplies	89,586	87,418
Utilities	52,681	49,758
Casualty and liability costs	12,467	4,871
Leases and rentals	1,913	3,067
Miscellaneous	2,778	3,749
Depreciation and amortization	296,485	294,300
Total operating expenses	1,259,514	1,181,668
Operating loss	(759,529)	(730,563)
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,450	26,975
Interest income from leasing transactions	88,562	80,560
Interest expense from leasing transactions	(88,562)	(80,560)
Interest expense (note 6)	(12,517)	(11,706)
(Expense) income from pension plans	(23,808)	17,610
Other	3,277	3,544
Jurisdiction subsidies:		
Operations	482,172	388,134
Interest	12,517	11,706
Total nonoperating revenues (expenses), net	463,091	436,263
Loss before capital grants and capital subsidies	(296,438)	(294,300)
Revenue from capital grants and capital subsidies	220,247	533,687
Change in net assets	(76,191)	239,387
Total net assets, beginning of year	8,198,430	7,959,043
Total net assets, ending of year	$ 8,122,239	$ 8,198,430

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

Statements of Cash Flows

For the Years Ended June 30, 2004 and 2003

(in thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from operations	$ 493,948	$ 460,615
Cash paid to suppliers	(221,132)	(196,163)
Cash paid to and on behalf of employees	(731,573)	(672,615)
Cash paid for operating claims	(14,763)	(8,790)
Net cash used in operating activities	(473,520)	(416,953)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Cash received from jurisdiction subsidies	485,917	417,450
Net cash provided by noncapital financing activities	485,917	417,450
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from the sale of transit facilities and equipment	369	274
Purchase of transit facilities and equipment	-	(257,537)
Construction of capital assets	(408,089)	(247,089)
Capital grants and subsidies	232,957	510,378
Interest paid on revenue bonds	(11,335)	(12,065)
Principal paid on revenue bonds	(176,470)	(15,415)
Proceeds from Bond Issue	225,270	-
Interest subsidy for revenue bonds	12,517	11,706
Proceeds from leasing transactions	10,374	8,651
Net cash used in capital and related financing activities	(114,407)	(1,097)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale and maturities of investments	431,480	545,503
Purchases of investments	(337,105)	(541,996)
Interest received from operational investments	4,741	2,622
Net cash provided by investing activities	99,116	6,129
Net change in cash and deposits	(2,894)	5,529
Cash and deposits, beginning of year	13,627	8,098
Cash and deposits, end of year	$ 10,733	$ 13,627

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

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2004 and 2003

(in thousands)

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (759,529)	$ (730,563)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	296,485	294,300
(Increase) decrease in accounts receivable (net) and other assets	(7,697)	5,674
(Increase) decrease in materials and supplies inventory	(5,376)	3,691
(Decrease) increase in accounts payable and accrued expenses	(543)	178
(Decrease) increase in accrued salaries and benefits	(1,873)	2,299
Increase (decrease) in estimated liability for injury and damage claims	3,912	(3,919)
Increase in deferred revenue	1,660	5,235
(Decrease) increase in retainage on contracts	(559)	6,152
Total adjustments	286,009	313,610
Net cash used in operating activities	$ (473,520)	$ (416,953)
Noncash investing, capital, and financing activities:		
(Decrease) increase in fair value of investments (see note 3)	$ (23,781)	$ 4,426
Other (expense) income from pension	$ (23,808)	$ 17,610
Interest from leasing transaction	$ 88,562	$ 80,560

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

Notes to Financial Statements

June 30, 2004 and 2003

(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 District 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 generally accepted accounting principles (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 Financial Statements

June 30, 2004 and 2003

(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 (64.7 percent), companies (34.9 percent) and other receivables (0.4 percent).

The major components of the accounts payable balance are payments due to vendors and contactors (59.7 percent), governmental agencies (40.0 percent) and other payables (0.3 percent).

(e) Revenues and Expenses

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

(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.

(g) Materials and Supplies Inventory

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

(1) Summary of Significant Accounting Policies (Continued)

(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 (see note 5). 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 fixed 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.

Resources that cannot be capitalized are included in the statements of revenues, expenses, and changes in net assets when expended.

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.

(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.

Notes to Financial Statements

June 30, 2004 and 2003

(1) Summary of Significant Accounting Policies (Continued)

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 and amounts due to the Authority are included in "Accounts receivable and other assets."

(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 adopted GASB Statement 39 "Determining Whether Certain Organizations Are Component Units: an amendment of GASB Statement No. 14," which clarifies existing accounting guidance and provides greater consistency in accounting for organizations that are closely related to a primary government.

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 Financial Statements

June 30, 2004 and 2003

(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 jurisidictions 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 obligations 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 Financial Statements

June 30, 2004 and 2003

(3) Cash, Deposits and Investments

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 at June 30, 2004 and 2003 are categorized to give an indication of the level of risk assumed by the Authority. Category 1 consists of deposits that are insured or collateralized with securities held by the Authority or by its agents in the Authority's name. Category 2 consists of deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. The Authority has no deposits in this category. Category 3 consists of deposits that are uninsured or uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the Authority's name. Cash and deposits at June 30, 2004 and 2003 are comprised of the following (in thousands):

Cash and Deposits	2004 Carrying Amount	2004 Bank Balance	2003 Carrying Amount	2003 Bank Balance
Category 1				
Deposits insured or collateralized	$ 236	$ 550	$ 804	$ 843
Category 3				
Deposits uninsured or uncollateralized	224	849	5,262	1,661
Total deposits	460	1,399	6,066	2,504
Cash on hand	10,273	-	7,561	-
Total cash and deposits	$ 10,733	$ 1,399	$ 13,627	$ 2,504

(b) Investments

Investments at June 30, 2004 and 2003 are categorized to give an indication of the level of risk assumed by the Authority. Category 1 consists of investments that are insured or registered or for which the securities are held by the Authority or its agent in the Authority's name. Category 2 would consist of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Authority's name. Category 3 would consist of uninsured and unregistered investments for which the securities are held by the counterparty or by its agent but not in the Authority's name.

Notes to Financial Statements

June 30, 2004 and 2003

(3) Cash, Deposits and Investments (Continued)

There are no investments classified in Categories 2 and 3. Investments in Category 1 at June 30, 2004 and 2003 are comprised of the following (in thousands):

	2004	
	Cost	Fair Value
Money market funds	$ 15,096	$ 15,096
Repurchase agreements	105,379	105,379
U.S. government and federal agencies	588,466	582,308
	708,941	702,783
Accrued interest	3,595	3,595
Total investments	$ 712,536	$ 706,378

	2003	
	Cost	Fair Value
Money market funds	$ 9,886	$ 9,886
Repurchase agreements	195,139	195,139
U.S. government and federal agencies	598,291	615,914
	803,316	820,939
Accrued interest	4,817	4,817
Total investments	$ 808,133	$ 825,756

Investments consist primarily of repurchase agreements and U.S. Government Agency issues which are usually held to maturity. Consequently, the Authority does not realize gain or losses from the sale of investments. The net change in the fair value of investments during the years ended June 30, 2004 and 2003 was a decrease of $23,781,000 and an increase of $4,426,000, respectively. This amount takes into account all changes in fair value including purchases and sales that occurred during the year. The unrealized loss or gain on investments held at June 30, 2004 and 2003 was ($6,158,000) and $17,623,000, respectively. The unrealized gain or loss on the portion of investments held for construction purposes is also restricted for construction purposes. The remaining unrealized gain or loss is included in investment income.

Notes to Financial Statements

June 30, 2004 and 2003

(4) Jurisdictional Operating Subsidy

Since its 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 operating loss to be funded by the participating local 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, 2004 and 2003 (in thousands):

	2004	2003
Jurisdictional operating subsidy per financial statements	$ 482,172	$ 388,134
Add (deduct) operating costs (not) requiring current funding:		
Preventive maintenance subsidy	(18,000)	(18,500)
Prepaid pension cost adjustment	(23,808)	19,010
Unrealized (loss) gain from investments	(6,158)	17,623
Agreed-upon funding of employee vacations liability and related taxes	(2,547)	(737)
Agreed-upon funding of claims for injuries and damages	(18,795)	(8,600)
Rail repairable parts	325	390
Increase in prior year obligations and commitments	2,431	2,145
Prior year subsidy adjustment	(3,771)	(25,530)
Maximum fare assistance	4,410	3,572
Operating expenses funded by capital grants	(36,373)	(23,196)
Jurisdictional operating subsidy - funding basis	$ 379,886	$ 354,311

Notes to Financial Statements

June 30, 2004 and 2003

(4) Jurisdictional Operating Subsidy (Continued)

The cumulative effects of the different agreed upon basis are as follow at June 30, 2004 and 2003 (in thousands):

	2004	2003
Agreed upon funding of employee vacation liability and related taxes	$ 38,962	$ 36,313
Agreed upon funding of claims for injuries and damages	20,259	1,464
Total accumulated difference	$ 59,221	$ 37,777

The current portion of contributions receivable relates primarily to federal grants totaling $51,627,000 and $88,280,000 for June 30, 2004 and 2003, respectively.

Notes to Financial Statements

June 30, 2004 and 2003

(5) Capital Assets

Capital assets activity for the years ended June 30, 2004 and 2003, was as follows (in thousands):

	July 1, 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	978,448	409,112	(86,507)	1,301,053
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	10,028	17,012	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
Prerail operations and testing	110,178	-	-	110,178
Total capital assets being depreciated	10,759,374	85,535	(5,912)	10,838,997
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	4,159,098	294,736	(5,912)	4,447,922
Total capital assets being depreciated, net	6,600,276	(209,201)	-	6,391,075
Total capital assets, net	$ 7,578,724	$ 199,911	$ (86,507)	$ 7,692,128

Notes to Financial Statements

June 30, 2004 and 2003

(5) Capital Assets (Continued)

	July 1, 2002	Additions	Reductions	June 30, 2003
Capital assets not being depreciated:				
Land	$ 432,565	$ 2,177	$ (4,474)	$ 430,268
Construction in progress	550,683	247,089	(249,592)	548,180
Total capital assets not being depreciated	983,248	249,266	(254,066)	978,448
Capital assets being depreciated:				
Buildings and improvements	344,498	56,474	-	400,972
Transit facilities	6,500,596	147,575	-	6,648,171
Revenue vehicles	1,297,029	223,537	(10,847)	1,509,719
Other equipment	964,762	81,837	(3,304)	1,043,295
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
Prerail operations and testing	110,178	-	-	110,178
Total capital assets being depreciated	10,264,102	509,423	(14,151)	10,759,374
Less accumulated depreciation and amortization for:				
Buildings and improvements	128,328	12,296	-	140,624
Transit facilities	1,472,432	127,141	-	1,599,573
Revenue vehicles	674,669	62,704	(10,847)	726,526
Other equipment	765,641	53,374	(3,304)	815,711
Intangible costs	838,635	38,029	-	876,664
Total accumulated depreciation and amortization	3,879,705	293,544	(14,151)	4,159,098
Total capital assets being depreciated, net	6,384,397	215,879	-	6,600,276
Total capital assets, net	$ 7,367,645	$ 465,145	$ (254,066)	$ 7,578,724

Notes to Financial Statements

June 30, 2004 and 2003

(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, 2004 and 2003 (in thousands):

	2004			2003
	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	$ 216,384
Series 2003, 4.60% dated October 23, 2003, due semi-annually through July 1, 2014	163,495	8,292	171,787	-
Series 2003B, 4.06% dated November 20, 2003, due semi-annually through July 1, 2010	35,640	2,458	38,098	-
	$ 241,285	$ 9,846	$ 251,131	$ 216,384

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 Financial Statements

June 30, 2004 and 2003

(6) Transit Bonds Payable (Continued)

(a) Debt Service Requirements

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

Fiscal Year	Principal	Interest	Total
2005	$ 21,890	$ 12,294	$ 34,184
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
2010-2014	115,405	14,626	130,031
2015	5,680	142	5,822
	241,285	62,197	303,482
Plus unamortized premium net of issuance cost	9,846	-	9,846
	$ 251,131	$ 62,197	$ 313,328

(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, 2004 and 2003, the unamortized cost of refunding the bonds was $4,305,000 and $2,715,000, 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 Financial Statements

June 30, 2004 and 2003

(6) Transit Bonds Payable (Continued)

(c) Interest Expense

Interest expense on transit bonds for the years ended June 30, 2004 and 2003 was $12,517,000 and $11,706,000, respectively.

(7) Pension Plans

The Authority is the administrator of four defined benefit, single-employer retirement plans covering substantially all of its employees: Salaried Personnel, Transit Police, Union Local 689 and Union Local 922. 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

(a) Plan Descriptions

(i) Salaried Personnel Plan

All full-time regular management and non-union employees and employees represented by Local 2 Office of Professional Employees International Union (O.P.E.I.U.) 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 of those who have completed 10 or more years of credited service. The Authority contributes the total cost of the plan.

Notes to Financial Statements

June 30, 2004 and 2003

(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. For participants retiring after September 30, 1998 but before October 1, 2001, the normal retirement benefit is equal to 2.34 percent of final average earnings multiplied by years of credited service. The resulting benefit paid following the participant's 66^{th} birthday will be reduced by 0.45 percent of final average earnings multiplied by years of credited service up to 35 years. For participants retiring after September 30, 2001, the normal retirement benefit is 2.56 percent of final average earnings multiplied by years of credited service. The resulting benefit paid following the participant's 66^{th} birthday will be reduced by 0.5 percent of the final average earnings multiplied by years of credited service. The pension plan also provides death and disability benefits which vest after five years. Employees are required to contribute 5.317 percent of compensation beginning October 1, 2001, 6.293 percent of compensation beginning October 1, 2002 and 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.

(iii) Union Local 689 Plan

Any regular full-time or part-time employee, who is a member of Union Local 689 of the Amalgamated Transit Union (Local 689), after a 90-day probationary period, and employed by the Authority, 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. Benefits vest after 10 years. 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 to active participants with 15 or more years of continuous service.

Notes to Financial Statements

June 30, 2004 and 2003

(7) Pension Plans (Continued)

(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. Benefits vest after 10 years. 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.

(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 was changed from aggregate entry age to individual entry age normal cost method. As a result of the change in funding method, all previous gain/loss amortization bases were eliminated. The surplus at July 1, 2003 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 Financial Statements

June 30, 2004 and 2003

(7) Pension Plans (Continued)

The information contained in this footnote is based on actuarial assumptions that were agreed upon by the Authority and the Union and incorporated into the May 2001 collective bargaining agreement. At the request of the Authority and the Union, the plan actuary reviewed the actuarial assumptions and recommended changes that are contained in an Actuarial Assumption Study. If the actuarial assumptions were changed to the recommended actuarial assumptions contained in the Actuarial Assumption Study, it would result in an increase of $31,565,000 in the Net Pension Asset.

(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.

Notes to Financial Statements

June 30, 2004 and 2003

(7) Pension Plans (Continued)

(v) 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
Contributions rates:*				
Authority	8.0%	19.3%	0.0%	12.6%
Employees (Plan Members)	0.0%	7.3%	0.0%	0.0%
Annual pension cost	$ 5,384	$ 4,138	$ 23,908	$ 2,539
Contributions made:				
Authority	$ 5,384	$ 4,138	$ -	$ 2,639
Employees	$ -	$ 1,326	$ -	$ -
Actuarial valuation date	7/1/2003	1/1/2003	1/1/2003	1/1/2003
Actuarial cost method	Individual entry age	Aggregate cost	Aggregate entry age	Entry age
Amortization method	Level dollar	N/A	Level dollar	Level dollar
Remaining amortization period	Open	N/A	Closed	Open
Asset valuation method	Market value	Market value	3-yr assumed yield	3-yr weighted average
Actuarial assumptions:				
Investment rate of return	8.0%	8.0%	8.0%	7.0%
Projected salary increases	4.5%	6.2%	4.5%	4.5%
Post-retirement benefit	3.5%	6.0%	4.0%	4.0%
Inflation rate	2.5%	3.5%	3.0%	3.0%

*As a percentage of covered payroll

Notes to Financial Statements

June 30, 2004 and 2003

(7) Pension Plans (Continued)

The Salaried Personnel Plan had assumption changes in the salary rate from 5% to 4.5%, the cost of living adjustment from 3.5% to 2.5%, the social security taxable wage base from 4% to 3.5% and expense assumption from 1.5% of normal cost to a flat $50,000. These assumption changes were effective July 1, 2003 and resulted in a decrease in the Actuarial Accrued Liability of approximately $48,000,000.

There were no significant assumption changes from prior year valuation for the Transit Police Plan, Union Local 689 Plan and Union Local 922 Plan. The significant components of the APC and changes in the net pension obligation (asset) as follows (in thousands):

	Salaried Personnel Plan	Transit Police Plan	Union Local 689 Plan	Union Local 922 Plan
	7/1/2003	1/1/2003	1/1/2003	1/1/2003
Net pension asset beginning of year	$ -	$ -	$ (204,746)	$ (3,286)
Annual required contribution	5,384	4,138	-	2,522
Interest on net pension asset	-	-	(16,380)	(230)
Adjustment to annual required contribution	-	-	40,288	247
Annual pension cost	5,384	4,138	23,908	2,539
Net pension obligations (asset) before contributions	5,384	4,138	(180,838)	(747)
Contributions made	(5,384)	(4,138)	-	(2,639)
Net pension asset end of year	$ -	$ -	$ (180,838)	$ (3,386)
	7/1/2002	1/1/2002	12/31/2001	12/31/2002
Net pension asset beginning of year	$ -	$ -	$ (185,714)	$ (3,308)
Annual required contribution	-	3,390	-	727
Interest on net pension asset	-	-	(14,857)	(232)
Adjustment to annual required contribution	-	-	(4,175)	249
Annual pension cost (income)	-	3,390	(19,032)	744
Net pension obligations (asset) before contributions	-	3,390	(204,746)	(2,564)
Contributions made	-	(3,390)	-	(722)
Net pension asset end of year	$ -	$ -	$ (204,746)	$ (3,286)

Notes to Financial Statements

June 30, 2004 and 2003

(7) **Pension Plans (Continued)**

(c) Trend Information

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

	Year Ending	Annual Pension Cost (Income)	Percentage of APC Contribution	Net Pension Asset
Salaried Personnel Plan	7/1/03	$ 5,384	100%	$ -
	7/1/02	-	-	-
	7/1/01	-	-	-
Transit Police Plan	1/01/03	$ 4,138	100%	$ -
	1/01/02	3,390	100%	-
	12/31/01	1,731	100%	-
Union Local 689	1/01/03	$ 23,908	N/A	$ (180,838)
	12/31/01	(19,032)	N/A	(204,746)
	12/31/00	(54,210)	N/A	(185,714)
Union Local 922	1/01/03	$ 2,539	103.9%	$ (3,386)
	12/31/02	744	97.0%	(3,286)
	12/31/01	768	119.8%	(3,308)

(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 $2,565,000 and $2,010,000 for June 2004 and 2003, respectively.

Notes to Financial Statements

June 30, 2004 and 2003

(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 $13,000 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 except as noted in 7(d).

(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 $103,268,000 and $90,509,000 for June 30, 2004 and 2003, respectively. The cost of providing benefits for 3,584 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 recorded 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 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 reserve as the claim develops. Claims are disclosed at their net present value using a 3 percent discount rate.

Notes to Financial Statements

June 30, 2004 and 2003

(9) Commitments and Contingencies (Continued)

Changes in the estimated liability for the years ended June 30, 2003 and 2004 are as follows (in thousands):

	2004	2003
Estimated liability for injury and damage claims, beginning of year	$ 59,220	$ 63,139
Incurred new claims	19,862	15,628
Changes in estimate for claims of prior periods	4,547	(4,582)
Payments on claims	(23,282)	(14,965)
Estimated liability for injury and damage claims, end of year	$ 60,347	$ 59,220
Due within one year	$ 23,076	$ 23,282

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.

The Authority is currently subject to an environmental investigation in which the extent of the liability is unknown. A study is in process to determine the magnitude and scope of the remediation required.

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, 2004 and 2003 are $666,000 and $628,000, respectively. The Authority's minimum lease payments as of June 30, 2004 are as follows (in thousands):

Fiscal Year	Total
2005	$ 666
2006	686
2007	706
2008	728
2009	749
2010	189
	$ 3,724

Notes to Financial Statements

June 30, 2004 and 2003

(9) Commitments and Contingencies (Continued)

(c) Fuel Price Swap Agreement

The Authority entered into an agreement to fix the price associated with the purchase of fuel for specified periods of time. The Authority entered into this agreement to plan its fuel costs for the year and to protect itself against increases in the market price of fuel. It is possible that the market price before or after the specified measurement date may be lower than the price specified in the agreement. The Authority is also exposed to the failure of the counter party to fulfill the agreement. The agreement includes provisions for recovering damages in the event of default. The swap agreement was executed on November 25, 2002 with quarterly trade dates beginning July 2003 and terminating June 2004. For the years ended June 30, 2004 and 2003, the fuel price swap agreement resulted in a savings of $2,634,000 and $2,600,000, respectively. At June 30, 2004 and 2003, the Authority was due $1,046,000 and $504,000, respectively, under the agreement.

(d) Other

Construction and capital improvement costs are funded by federal grants, local matching funds, and third party agreements. As of June 30, 2004, the Authority is committed to expend approximately $795,400,000 (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.

(10) Leasing Transactions

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

During Fiscal Year 2003, the Authority entered into two additional transactions to lease 78 railcars. 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 railcars. 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 railcars for Fiscal Year 1999 leases had a fair value of approximately $1,200,000,000 and a net book value of approximately $226,300,000. The railcars 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 railcars for Fiscal Year 2004 lease had a fair value of $130,780,000 and a net book value of approximately $78,800,000.

Notes to Financial Statements

June 30, 2004 and 2003

(10) Leasing Transactions (Continued)

As part of the headlease agreements, the Authority received prepayments equivalent to the net present value of the headlease obligations. A portion of these proceeds were transferred 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 lives of the leases.

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

Future minimum payments due:	
2005	$ 102,384
2006	93,139
2007	145,067
2008	132,265
2009	162,925
2010-2014	732,948
2015-2019	830,239
2020-2024	166,671
2025-2029	137,423
2030-2031	32,116
Total future minimum payments	2,535,177
Less imputed interest	1,051,666
Present value of minimum lease payments	$ 1,483,511

Notes to Financial Statements

June 30, 2004 and 2003

(11) Changes in Long-Term Liabilities

Long-term liabilities activity for the years ended June 30, 2004 and 2003, 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, 2002	$ 63,139	$ 20,518	$ 65,055	$ 231,388	$ 1,222,454
Additions	15,628	18,471	7,651	-	156,593
Reductions	(14,965)	(12,319)	(5,051)	(15,004)	-
Contractual changes	(4,582)	-	-	-	(20,834)
Balance June 30, 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	-	-	-	-
Ending balance, June 30, 2004	$ 60,347	$ 26,111	$ 73,293	$ 251,131	$ 1,483,511
Due within one year	$ 23,076	$ 2,797	$ 5,470	$ 21,890	$ 102,384

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	7/1/2003	$ 451,290	$ 448,484	$ (2,805)	100.6%	$ 67,494	(4.2)%
	7/1/2002	508,876	436,468	(72,408)	116.6%	74,272	(97.5)%
	7/1/2001	597,225	426,508	(170,717)	140.0%	76,001	(224.6)%
Union Local 689 Plan	1/1/2003	$ 1,908,497	$ 1,643,638	$ (264,859)	116.1%	$ 412,210	(64.3)%
	12/31/2001	2,007,409	1,478,581	(528,828)	135.8%	366,287	(144.4)%
	12/31/2000	2,000,334	1,274,157	(726,177)	157.0%	345,698	(210.1)%
Union Local 922 Plan	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)%
	1/1/2001	83,980	75,433	(8,547)	111.3%	15,181	(56.3)%

Note: The Transit Police plan was not included in this schedule because it uses the aggregate actuarial cost method.
There were changes in assumptions during the current year that affected the funding trend for the Salaried Personnel Plan and Union Local 689 Plan.
Additional information can be found in the note 7 on pages 41-48 of this report.

SECTION THREE- STATISTICAL

Bus and Rail Combined Revenues by Source
From June 30, 1995 to June 30, 2004

(in thousands)

Passenger revenue	$ 312,110	$ 320,024	$ 322,814	$ 339,748	$ 348,062	$ 358,116	$ 384,868	$ 394,153	$ 404,211	$ 453,043
Charter and contract revenue	2,544	1,614	1,319	1,736	5,915	7,788	8,171	7,746	9,597	3,806
Other	12,615	12,337	13,362	13,566	18,134	26,053	32,656	35,100	37,297	43,136
Total operating revenues	327,269	333,975	337,495	355,050	372,111	391,957	425,695	436,999	451,105	499,985
Other Revenues										
Investment income	5,386	6,617	7,883	11,423	11,319	9,013	6,989	19,830	26,975	1,450
Interest income from leasing	-	-	-	-	38,641	69,561	71,153	78,181	80,560	88,562
Income from pension plans	-	-	-	-	22,199	36,867	48,834	53,702	17,610	-
Other	2,197	2,322	2,946	3,681	5,985	1,346	2,029	1,924	3,544	3,277
Jurisdictional subsidies (2)	331,128	323,253	290,159	297,696	277,875	301,800	341,257	339,349	399,840	494,689
Total nonoperating revenue	338,711	332,192	300,988	312,800	356,019	418,587	470,262	492,986	528,529	587,978
Revenue from capital grants and capital subsidies	587,586	361,141	405,588	446,428	322,455	342,743	434,904	737,789	533,687	220,247
TOTAL REVENUES	$ 1,253,566	$ 1,027,308	$ 1,044,071	$ 1,114,278	$ 1,050,585	$ 1,153,287	$ 1,330,861	$ 1,667,774	$ 1,513,321	$ 1,308,210

(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, 1995 to June 30, 2004

(in thousands)

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Operating Expenses										
Labor	$ 310,249	$ 319,013	$ 310,143	$ 331,599	$ 340,229	$ 372,658	$ 414,491	$ 437,380	$ 460,435	$ 485,124
Fringe benefits	180,233	173,463	165,487	158,435	153,054	170,049	183,602	201,061	215,878	250,784
Services	25,706	26,944	30,684	33,581	48,903	45,397	45,686	64,140	62,192	67,696
Materials and supplies consumed	73,056	64,842	63,202	68,973	75,439	80,518	101,483	76,721	87,418	89,586
Utilities	44,210	43,158	43,163	44,371	45,570	46,296	48,857	46,843	49,758	52,681
Casualty and liability cost	10,227	17,707	5,972	11,552	7,105	5,175	10,170	4,842	4,871	12,467
Leases and rentals	3,324	2,433	2,476	1,854	1,920	4,098	1,558	3,042	3,067	1,913
Miscellaneous	2,662	2,678	1,860	2,468	2,895	3,105	5,887	5,364	3,749	2,778
Depreciation and amortization	241,308	244,587	243,131	248,374	247,696	249,914	258,183	275,896	294,300	296,485
Total operating expenses	890,975	894,825	866,118	901,207	922,811	977,210	1,069,917	1,115,289	1,181,668	1,259,514
Other Expenses										
Interest expenses	16,313	15,929	15,496	15,017	14,374	13,687	13,070	12,411	11,706	12,517
Interest expenses from leasing transactions	-	-	-	-	38,641	83,248	71,153	78,181	80,560	88,562
Pension plans expense	-	-	-	-	-	-	-	-	-	23,808
Total other expenses	16,313	15,929	15,496	15,017	53,015	96,935	84,223	90,592	92,266	124,887
TOTAL EXPENSES	$ 907,288	$ 910,754	$ 881,614	$ 916,224	$ 975,826	$ 1,074,145	$ 1,154,140	$ 1,205,881	$ 1,273,934	$ 1,384,401

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

Revenues and Operating Assistance Trend Data
From June 30, 1995 to June 30, 2004

(Percentage)

Transportation Industry:

	Operating Revenue			Operating Assistance			
Year	Passenger	Other	Total	State and Local	Federal	Total	Total Revenue
1995	37.3	15.4	52.7	42.8	4.5	47.3	100.0
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
2003	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)
2004	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)

N/A - Not Available
P: Preliminary Data
(1) Federal operating assistance, not including debt service.

Source: The American Public Transit Association (APTA), 2004 Transit Fact Book, Table 64
See accompanying independent auditors' report.

Revenues and Operating Assistance Trend Data
From June 30, 1995 to June 30, 2004

(Continued)

(Percentage)

Washington Metropolitan Area Transit Authority:

Year	Passenger	Other (1)	Total	State and Local	Total	Total Revenue
1995	49.2	1.1	50.3	49.7	49.7	100.0
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

(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, 1995 to June 30, 2004

(Percentage)

Transportation Industry:

	1995	71.1	4.8	9.0	3.5	2.9	8.7	100.0
	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
P	2002	70.2	6.2	9.2	3.1	2.5	8.8	100.0
	2003	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)
	2004	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)	(N/A)

P: Preliminary Data

*Excludes depreciation

Source: The American Public Transit Association (APTA), 2004 Transit Fact Book, Table 59
See accompanying independent auditors' report.

Operating Expense Trend Data
From June 30, 1995 to June 30, 2004

(Continued)

(Percentage)

Washington Metropolitan Area Transit Authority:

Year	Labor and Fringes	Services	Materials and Supplies	Utilities	Casualty and Liability Cost	Other	Total Operating Expense *
1995	75.5	4.0	11.2	6.8	1.6	0.9	100.0
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

*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, 1995 to June 30, 2004

Fiscal Year	Revenue (A)	Direct Operating Services (B)	Net Revenue Available for Debt Service	Debt Service Requirement: Principal (C)	Debt Service Requirement: Interest (D)	Debt Service Requirement: Total	Coverage
1995	665,980	649,667	16,313	-	16,313	16,313	1.00
1996	666,167	650,238	15,929	-	15,929	15,929	1.00
1997	638,483	622,987	15,496	-	15,496	15,496	1.00
1998	667,850	652,833	15,017	-	15,017	15,017	1.00
1999	689,489	675,115	14,374	-	14,374	14,374	1.00
2000	740,983	727,296	13,687	-	13,687	13,687	1.00
2001	824,804	811,734	13,070	-	13,070	13,070	1.00
2002	851,804	839,393	12,411	-	12,411	12,411	1.00
2003	899,074	887,368	11,706	-	11,706	11,706	1.00
2004	999,401	986,837	12,564	-	12,517	12,517	1.00

(A) Amount consists of operating revenues, non-operating revenues 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 resulted 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 retire the principal debt are treated as equity contribution and the contributions for the interest payment are treated as revenue.

(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, 2004

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 Carrolton	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	11/20/2004
Blue	To Largo Town Center	2	3.2	12/18/2004
	TOTAL SYSTEM	86	106.1	

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, 2004

Metrobus	
Number of vehicles in total fleet	1,615
Actual vehicle revenue miles	38,901,318
Actual vehicle revenue hours	3,458,658
Unlinked passenger trips	146,010,344
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	281
Actual vehicle revenue miles	11,030,419
Actual vehicle revenue hours	698,401
Unlinked passengers trips	1,112,358

Miscellaneous Data
As of June 30, 2004

(Continued)

Metrorail

Number of vehicles in total fleet	952
Actual vehicle revenue miles	58,205,365
Actual vehicle revenue hours	2,312,490
Unlinked passenger trips	250,659,980
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 some underground stations; video monitoring of stations, elevators and some station parking lots, and digital signs in the stations show next train arrival, system status and time of day.

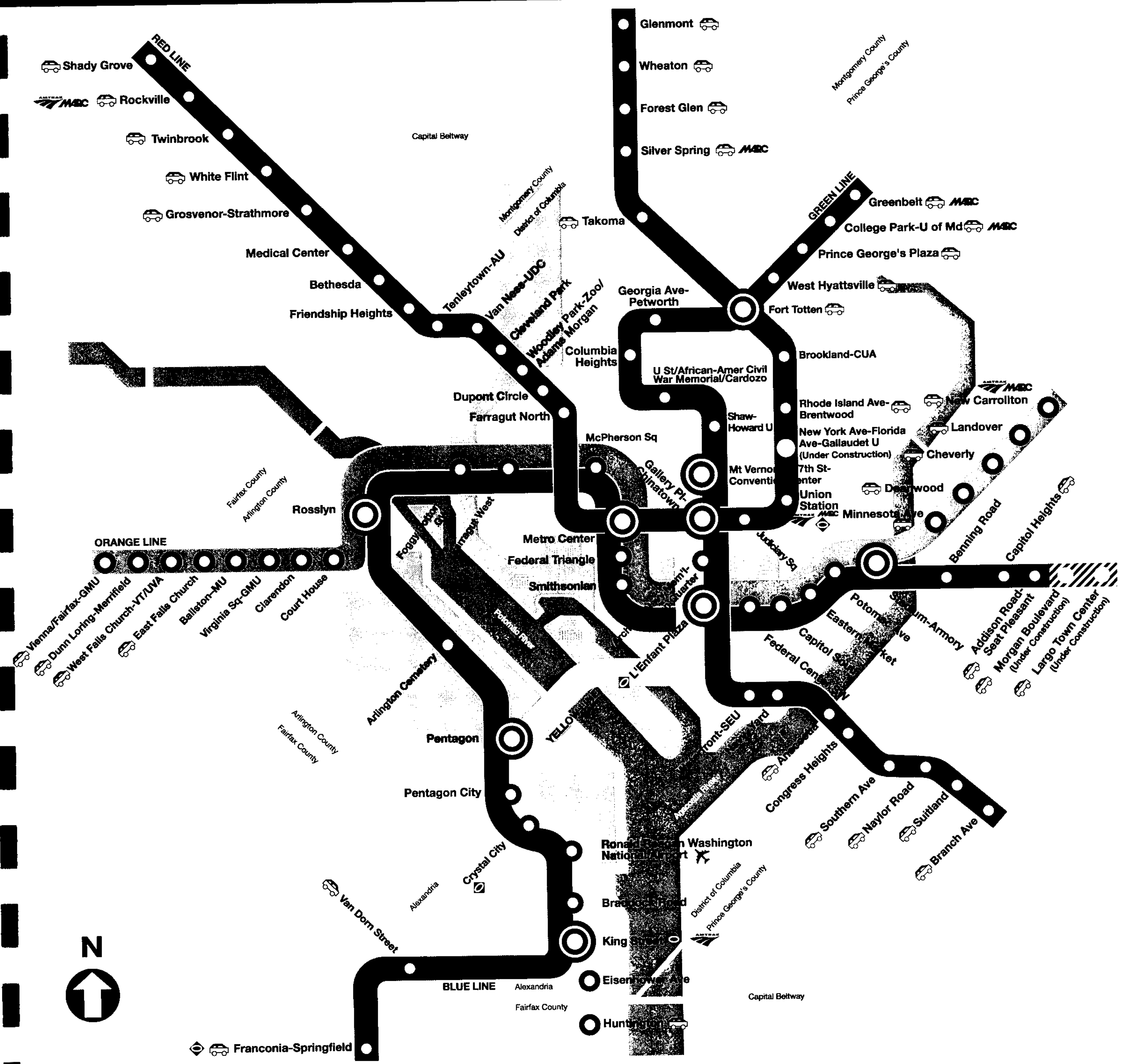
Source: *WMATA Facts* and National Transit Database
See accompanying auditors' report.

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

Station in Service
Planned Station
Transfer Station
Virginia Railway Express
Commuter Rail
Parking



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No Smoking
No Eating or Drinking
No Animals (except service animals)
No Audio or Video Devices (without earphones)
No Litter or Spitting
No Dangerous or Flammable Items

metro opens doors

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