

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2007



Washington Metropolitan Area Transit Authority ■ Washington, D.C.

Comprehensive Annual Financial Report

For the Fiscal Year Ended
June 30, 2007



H. Charles Woodruff II
Chief Financial Officer

Prepared By: Office of Accounting
Kathleen V. Smith
Comptroller



Vision

The Best Ride in the Nation

Mission

**Authority provides the nation's best transit service
to our customers and
improves the quality of life in
the Washington metropolitan area**

Values

**Safety and Security
Professionalism
Integrity
Continuous Improvement
Respect for All**

Goals

**Retain and Attract the Best and Brightest
Create a Safety Culture
Deliver Quality Service
Use Every Resource Wisely
Maintain and Enhance Authority's Image**

**Comprehensive Annual Financial Report
Year Ended June 30, 2007**

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(Unaudited)

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(Unaudited)

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SECTION ONE – INTRODUCTORY (Unaudited)

Letter of Transmittal

Board of Directors

Agency Oversight

Organizational Chart and Officers

Certificate of Achievement for Excellence in Financial Reporting

December 21, 2007



Chairman and Members of the Board of Directors:

We are submitting the Comprehensive Annual Financial Report (CAFR) of the Washington Metropolitan Area Transit Authority (Authority) for the fiscal year ended June 30, 2007 prepared by the Authority's Office of Accounting.

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

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

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

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

**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

Profile of the Authority

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

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

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

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

Metrorail carries the second largest number of passengers and Metrobus carries the fifth largest number of passengers in the nation.

Change in Mission

After 40 years, the Authority mission has changed. The Authority will focus on operating the best transit system in the nation and the building will be done by others to the Authority's specifications.

Organizational Structure

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

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

Budget

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

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

For fiscal year 2007, the Authority had an approved budget of \$1.89 billion with the largest portion, \$1.13 billion, including debt service, dedicated to operating the system. The budget contained approximately 11,000 authorized staff positions.

Economic Condition

Local Economy

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

The economy of the District of Columbia and the greater economy of the Washington Metropolitan area, for the past several years, grew at an uneven pace. The District of Columbia's economy is now growing at a below average pace, reflecting the slowdown in government spending that began over a year ago. From the late 1999 through the middle of 2003, the District outperformed the nation as federal government activity shielded the economy from the worst of the national slowdown. Of late, it has gotten less of a boost as government spending started to slow. In the past year, government payrolls, which make up one-third of all employment in the District, was the largest impediment on growth, because a slowdown in government spending drove a slow-down in government payrolls.

Employment growth in the District has matched the national average, although, it lagged substantially behind the Washington metropolitan region. Although only a tiny segment of the economy, the District continues to loose manufacturing jobs, and recent months has seen a slowdown in construction jobs, a likely result of the slowdown in the residential real estate market.

Although, the unemployment rate in the District remains well above the national average, it has been on a strong downward trend for nearly three years. Private service-producing payrolls are the main engine of growth in the District. Also, the new DC Convention Center has been a key factor in the recovery of the leisure and hospitality industry in the District since 2005, as well, as the redefining of downtown District's entertainment and office areas.

Long-term Financial Planning

The Authority and the local jurisdictions developed and executed a formal long-range comprehensive funding agreement for capital improvements, commonly called known as "Metro Matters". This is the four year of the six-year \$4.3 billion Metro Matter program. Metro Matters uses a pay-as-you-go funding strategy and has the following six main components:

- Infrastructure Renewal Program: including Metrorail and Metrobus maintenance and rehabilitation,
- Rail Car Program: including purchase of new rail cars, the upgrade of power and signal systems required for eight-car train operations and modifications to facilities to create additional maintenance capacity for fleet expansion,
- Bus Program: including purchase of advanced technology buses to address overcrowding, regional bus stop database, maps and stop improvements, and analysis of future service requirements,
- Security Program: including providing a continuity of operations, mainly in the form of a alternative operations control center
- System Expansion Program: including providing for future investments,
- Credit facility: including providing funds as required.

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, 2006. This marks the twentieth consecutive year that the Authority has received this prestigious award.

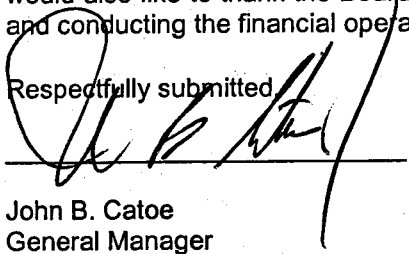
In order to be awarded a Certificate the Authority had to publish an easily readable and efficiently organized CAFR. The content of the CAFR had to satisfy both generally accepted accounting principles and applicable legal requirements.

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

Acknowledgement

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

Respectfully submitted,



John B. Catoe
General Manager



H. Charles Woodruff II
Chief Financial Officer

The Authority is governed by a Board of Directors consisting of 12 members. The Board is comprised of six voting and six alternate members. Maryland, the District of Columbia and Virginia each appoint two voting members and two alternates.

*Elizabeth Hewlett
Chair*



Elizabeth Hewlett, Chair, joined the Board in April 2007 as a Principal Director, representing Prince George's County and the State of Maryland. She is currently a principal in the law firm of Shipley & Horne, P.A.

*Christopher Zimmerman
First Vice Chairman*



Christopher Zimmerman, First Vice Chairman, has served on the Board as a Principal Director representing Arlington County, VA, since January 1998. He has served on the Arlington County Board since 1996.

*Jim Graham
Second Vice Chairman*



Jim Graham, Second Vice Chairman, joined the Board in January 1999 and represents the District of Columbia as a Principal Director. Mr. Graham serves on the Council of the District of Columbia, representing Ward 1.

Peter Benjamin



Peter Benjamin joined the Board in April 2007 as a Principal Director, representing Montgomery County and the State of Maryland. Mr. Benjamin previously served as Chief Financial Officer from 1993-2006.

Dana Kauffman



Dana Kauffman has served on the Board since January 1996 and became the Principal Director representing Fairfax County, VA in January 2001. He has served on the Fairfax County Board of Supervisors since January 1996.

Emeka C. Moneme



Emeka C. Moneme joined the Board in February 2007 as a Principal Director, representing the District of Columbia. Mr. Moneme serves as the Director of the District Department of Transportation.

Marcell Solomon



Marcell Solomon joined the Board in March 2003 as an Alternate Director from Prince George's County, MD. Mr. Solomon currently practices law at Solomon & Martin in Greenbelt, MD.

William D. Euille



William D. Euille joined the Board in July 2000 as an Alternate Director representing the City of Alexandria, VA. Mr. Euille is currently the Mayor of Alexandria.

Marion Barry



Marion Barry joined the Board in January 2005 as an Alternate Director for the District of Columbia. Mr. Barry serves on the Council of the District of Columbia, representing Ward 8.

Gordon Linton joined the Board in May 2004 as an Alternate Director representing Montgomery County, MD. Mr. Linton is a Senior Advisor and Vice President of Business Development with WageWorks, Inc.



Gordon Linton

Catherine Hudgins joined the Board in January 2004 as an Alternate Director, representing Fairfax County, VA. Ms. Hudgins was elected to the Fairfax County Board of Supervisors in November 1999.



Catherine Hudgins

Anthony R. Giancola joined the Board in February 2007, as an Alternate Director representing the District of Columbia. Since 1993, he has served as the Executive Director of the National Association of County Engineers.



Anthony R. Giancola

Agency Oversight

Riders' Advisory Council

On December 15, 2005, the Board appointed a Riders' Advisory Council (RAC). The council allows customers an unprecedented level of input on bus, rail and paratransit service. The 21-member RAC includes six representatives from Maryland, Virginia, and the District of Columbia, two at-large members, and the chair of the Authority's Elderly and Disabled Transportation Advisory Committee. Michael Snyder currently serves as RAC chairman.

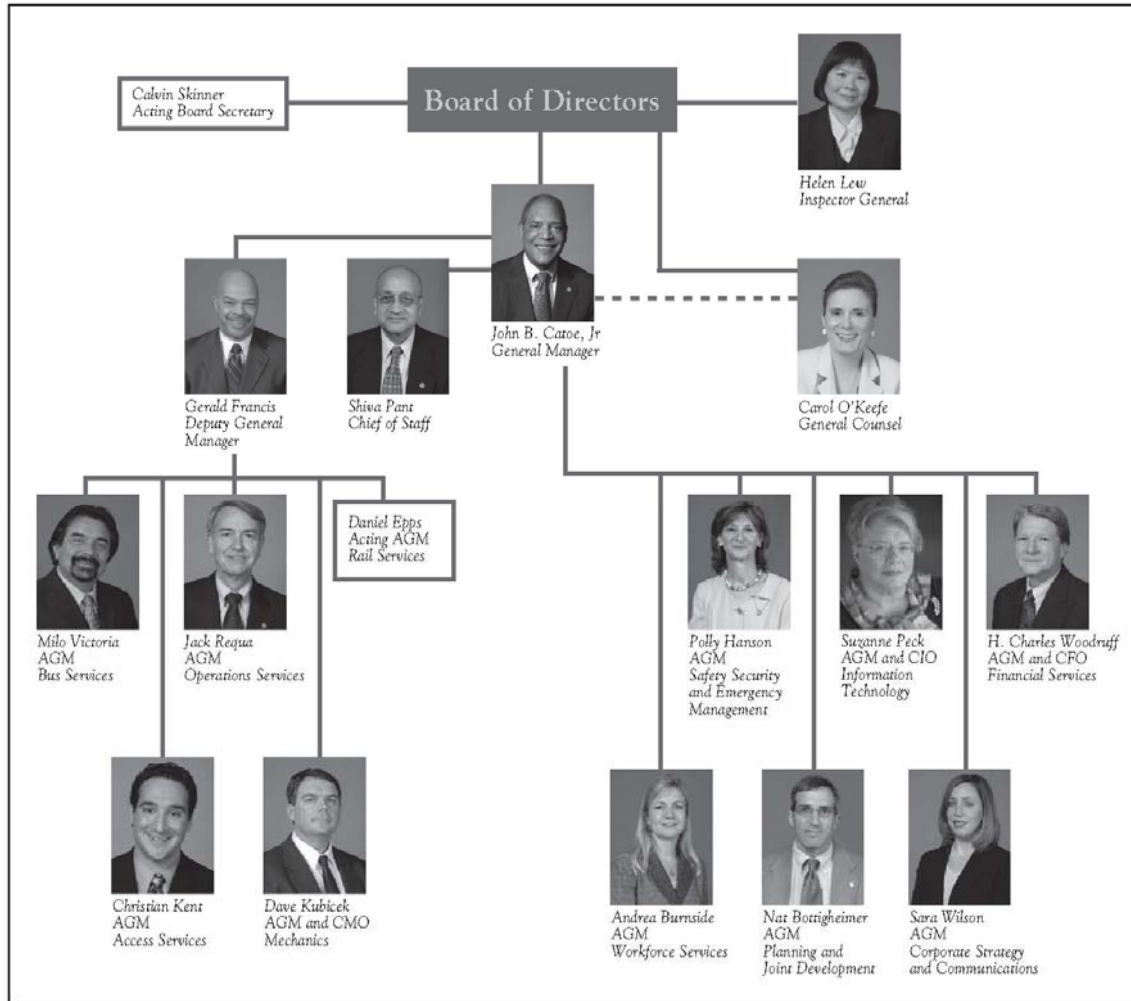
Jurisdictional Coordinating Committee

The Jurisdictional Coordinating Committee (JCC) consists of staff members from the jurisdictions supporting the Authority. The JCC was established by the Board of Directors to facilitate the exchange of information between jurisdictions and staff. Meeting agendas are established by staff and the JCC chairman and include items referred by the Board or staff as well as items requested by JCC members. Freddie Fuller, representing the District of Columbia, currently serves as JCC chairman.

Elderly and Disabled Transportation Advisory Committee

The Authority's Elderly and Disabled Transportation Advisory Committee was created to address the needs of senior citizens and customers with disabilities. Its efforts have resulted in numerous service upgrades including gap reducers, which make it easier for customers who use wheelchairs to board Metrorail trains. Patrick Sheehan currently serves as chairman.





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, 2006

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.



Charles S. Cox
President

Jeffrey R. Emery
Executive Director

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SECTION TWO - FINANCIAL

Independent Auditors' Report

Management's Discussion and Analysis

Basic Financial Statements:

Statement of Net Assets

Statements of Revenues, Expenses, and Changes in
Net Assets

Statements of Cash Flows

Notes to Financial Statements

Required Supplementary Information
Schedules of Funding Progress



KPMG LLP
2001 M Street, NW
Washington, DC 20036

Independent Auditor's 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, 2007 and 2006, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of June 30, 2007 and 2006 and the changes in its financial position and cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2007 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.



The Management's Discussion and Analysis and Required Supplementary Information on pages 11 through 20 and 52 are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

KPMG LLP

September 28, 2007

Management's Discussion and Analysis

As management of the Washington Metropolitan Area Transit Authority (Authority), we offer readers of the basic financial statements this narrative overview and analysis of the financial activities of the Authority as of June 30, 2007, 2006 and 2005 and for the years ended June 30, 2007 and 2006. 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 2007 Financial Highlights

- Capital assets increased by \$97.7 million or 1.2 percent, largely attributable to bus purchases, facilities enhancements and rail rehabilitation.
- Noncurrent liabilities decreased by \$60.5 million or 3.7 percent, largely due to bond repayments and decreases in outstanding lease agreement obligations.
- Operating revenues increased by \$17.6 million or 2.9 percent, due to an increase in ridership. Special events such as Washington area capital events, sporting events, as well as an increase in gas prices all contributed to the increase in revenue and ridership.
- Operating expenses increased by \$145.0 million or 9.9 percent, due primarily to an increase in labor cost to cover vacancies, system maintenance cost, and additional safety and security activities. The cost associated with the increase use of the Authority's paratransit service and rising fuel cost also contributed to this increase.

Overview of the Basic Financial Statements

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

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

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

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

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

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

The basic financial statements can be found on pages 21-26 of this report.

Management's Discussion and Analysis

Overview of the Basic Financial Statements (Continued)

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 27- 51 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Authority's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found on page 52 of this report.

Financial Analysis

Statements of Net Assets

As noted earlier, net assets may serve over time as an indicator of the Authority's financial position. This is only one measure; however, the reader should consider other indicators, such as the age and condition of the Authority's three-decade system, as well as its need for increasing operating subsidies and ridership levels. The following table provides an overview of the Authority's financial position for the years ended June 30, 2007, 2006 and 2005:

Table 1
Condensed Statements of Net Assets
June 30, 2007, 2006 and 2005
(in thousands)

	2007	2006	2005
Current and other assets	\$2,270,758	\$2,351,726	\$ 2,485,329
Capital assets	8,234,163	8,136,494	7,800,188
Total assets	10,504,921	10,488,220	10,285,517
Current liabilities	767,616	552,638	444,055
Noncurrent liabilities	1,591,253	1,651,760	1,721,722
Total liabilities	2,358,869	2,204,398	2,165,777
Net assets:			
Investment in capital assets, net of related debt	7,880,168	7,904,568	7,547,065
Restricted	265,884	379,254	572,675
Total net assets	\$ 8,146,052	\$ 8,283,822	\$ 8,119,740

Current Year

Net assets decreased by \$137.7 million or 1.7 percent during the current fiscal year, due to an increase in spending for capital expenditures and the method of jurisdictional funding for such capital expenditures.

The largest portion of the Authority's net assets, \$7.9 billion or 96.7 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to

Management's Discussion and Analysis

Statements of Net Assets (Continued)

Current Year (Continued)

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

A portion of the Authority's net assets, \$265.9 million or 3.3 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 \$97.7 million or 1.2 percent, largely attributable to bus purchases, facilities enhancements and rail rehabilitation.

Current liabilities increased by \$215.0 million or 38.9 percent, mainly due to the issuance of commercial paper notes for the purpose of funding Metro Matters.

Noncurrent liabilities decreased by \$60.5 million or 3.7 percent, largely due to bond repayments and decreases in outstanding lease agreement obligations.

Prior Year

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

The largest portion of the Authority's net assets, \$7.9 billion or 95.4 percent, reflects its investment in capital assets (e.g., land, buildings, transit facilities and revenue vehicles), less any related debt used to acquire those assets. The Authority uses these capital assets to provide public transportation services for the metropolitan area. Consequently, these assets are not available for future spending. Although the Authority's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

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

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

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

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

Management's Discussion and Analysis

Statements of Revenues, Expenses, and Changes in Net Assets

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

Table 2
Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2007, 2006 and 2005
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
OPERATING REVENUES			
Passenger revenue	\$ 563,356	\$ 555,262	\$ 522,475
Charter and contract revenue	6,767	3,909	3,395
Advertising revenue	33,000	30,000	29,000
Rental revenue	20,777	17,108	16,466
Other revenue	1,192	1,199	1,206
Total operating revenues	<u>625,092</u>	<u>607,478</u>	<u>572,542</u>
NONOPERATING REVENUES			
Investment income	3,288	3,981	5,011
Interest income from leasing transactions	87,874	88,548	91,924
Income from pension plans	16,392	-	16,687
Other	12,281	9,413	3,790
Total nonoperating revenues	<u>119,835</u>	<u>101,942</u>	<u>117,412</u>
Total revenues	<u>744,927</u>	<u>709,420</u>	<u>689,954</u>
OPERATING EXPENSES			
Labor	573,514	536,439	498,865
Fringe benefits	302,416	271,577	272,756
Services	117,867	102,081	77,063
Materials and supplies	144,584	123,439	105,560
Utilities	72,286	67,010	61,517
Casualty and liability costs	28,223	44,688	16,869
Leases and rentals	2,925	3,999	4,096
Miscellaneous	3,452	5,205	3,253
Depreciation and amortization	361,141	306,955	299,707
Total operating expenses	<u>1,606,408</u>	<u>1,461,393</u>	<u>1,339,686</u>
NONOPERATING EXPENSES			
Expense from pension plan	-	14,514	-
Interest expense	99,712	98,526	102,535
Total nonoperating expenses	<u>99,712</u>	<u>113,040</u>	<u>102,535</u>
Total expenses	<u>1,706,120</u>	<u>1,574,433</u>	<u>1,442,221</u>
Loss before capital grants/subsidies	(961,193)	(865,013)	(752,267)
Jurisdictional subsidies:			
Operations	589,639	546,132	441,949
Interest	10,413	11,926	10,611
Capital contributions	223,371	471,037	297,208
Change in net assets	<u>(137,770)</u>	<u>164,082</u>	<u>(2,499)</u>
Net assets, beginning of year	<u>8,283,822</u>	<u>8,119,740</u>	<u>8,122,239</u>
Net assets, ending of year	<u>\$ 8,146,052</u>	<u>\$ 8,283,822</u>	<u>\$ 8,119,740</u>

Management’s Discussion and Analysis

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

Revenues

Current Year

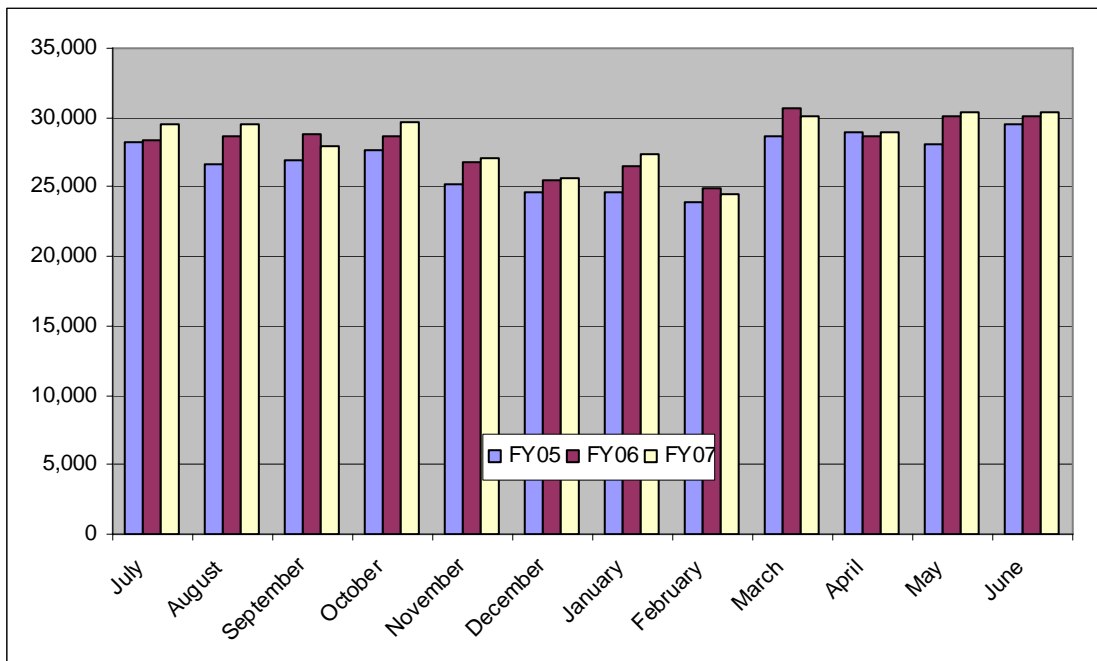
Total revenues for Fiscal Year 2007 totaled \$744.9 million. Operating revenues, which include passenger revenue, totaled \$625.1 million, an increase of \$17.6 million or 2.9 percent as described below.

Passenger revenue, a significant portion of the Authority’s operating revenues, increased by \$8.1 million or 1.5 percent. The increase can be attributed to higher ridership, which reached record levels in Fiscal Year 2007.

Metrorail ridership climbed to a record level of over 207 million annual trips for an increase of 1.1 percent. Metrobus ridership grew to 131.5 million annual trips resulting in an increase of 0.5 percent. Sporting events, such as the Washington Redskins and the Washington Nationals home games, and national capital events, such as the Independence Day Celebration and the Cherry Blossom Festival, contributed to the increase in passenger revenue and ridership. Additionally, record gas prices and construction or closure of several main roadways leading into the District of Columbia also attributed to the increase in annual trips.

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

Passenger Trips
(in thousands)



Management’s Discussion and Analysis

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

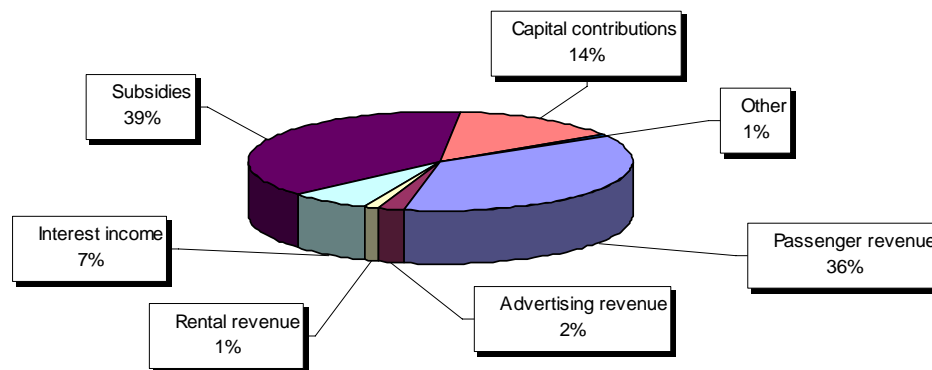
Revenues (Continued)

Charter and contract revenue for bus increased by \$2.9 million or 73.1 percent, primarily due to new contracts for the DC Circulator, the yellow line to Fort Totten rail service extension, the red line Grosvenor Turnback and the Metro Extra 79 Georgia Avenue bus route.

Nonoperating revenues increased by \$17.9 million or 17.6 percent, primarily due to income from pension plans.

Capital contributions to the Authority decreased by \$247.7 million or 52.6 percent, primarily due to a decrease in funding for transit construction projects.

Fiscal Year 2007 Revenues



Prior Year

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

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

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

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

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

Management’s Discussion and Analysis

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

Revenues (Continued)

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

Expenses

Current Year

Total expenses increased by \$131.7 million or 8.4 percent to \$1.7 billion in Fiscal Year 2007 as compared to \$1.6 billion for Fiscal Year 2006. A review of significant changes in operating expenses is described below.

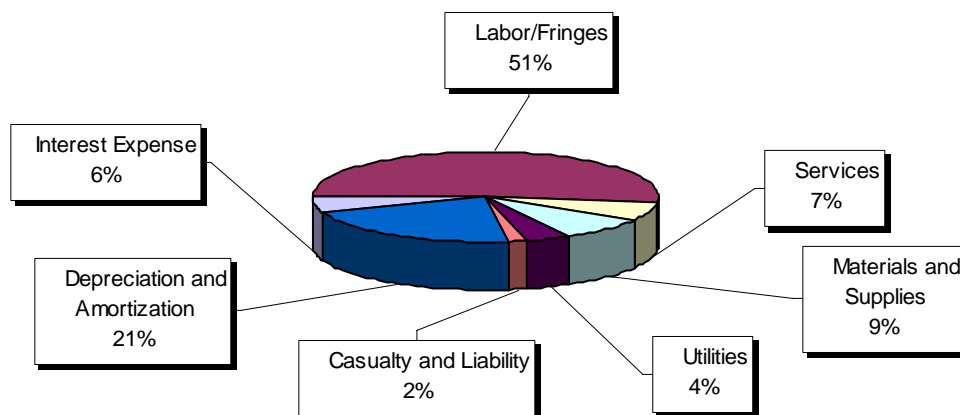
Salaries and benefits increased by \$67.9 million or 8.4 percent. Salaries and benefits were driven by contractual wage increases and increased levels of revenue vehicle maintenance and system enhancements. Additional Transit Police were added for general safety and security as well as for Washington sporting events, national capital events and festivals.

Services increased by \$15.8 million or 15.5 percent. Service Expenses were \$117.9 million as compared to Fiscal Year 2006 with costs of \$102.1 million. The increase in costs was primarily driven by the increased usage of MetroAccess, SmartCard service and transportation consultation services.

Materials and supplies increased by \$21.1 million or 17.1 percent. The steadily increasing cost for fuel accounted for the largest portion of this increase.

Utilities increased by \$5.3 million or 7.9 percent, due to increased propulsion usage to operate eight-car passenger trains and higher natural gas costs.

Fiscal Year 2007 Expenses



Management's Discussion and Analysis

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

Expenses (Continued)

Prior Year

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

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

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

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

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

Capital Assets and Debt Administration

The following table shows the capital assets of the Authority:

Table 3
Schedules of Capital Assets
June 30, 2007, 2006 and 2005
(in thousands)

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 431,291	\$ 431,291	\$ 431,291
Buildings and improvements	453,633	448,921	436,820
Transit facilities	7,431,297	7,126,154	7,211,193
Revenue vehicles	1,933,396	1,745,241	1,619,357
Other equipment	1,296,290	1,205,935	1,131,154
Construction in progress	871,245	1,033,335	540,618
Intangible costs	1,157,217	1,157,217	1,157,217
	<u>13,574,369</u>	<u>13,148,094</u>	<u>12,527,650</u>
Less accumulated depreciation and amortization	5,340,206	5,011,600	4,727,462
Net capital assets	<u>\$ 8,234,163</u>	<u>\$ 8,136,494</u>	<u>\$ 7,800,188</u>

Management's Discussion and Analysis

Capital Assets and Debt Administration (Continued)

Capital Assets

Current Year

Net capital assets increased by \$97.7 million or 1.2 percent, as described below.

Revenue vehicles increased by \$188.1 million or 10.8 percent, as a result of placing into service rail cars and clean natural gas transportation vehicles. In addition, costs associated with railcar rehabilitation also contributed to the increase.

Construction in progress decreased by \$162.1 million or 15.7 percent, as a result of transferring a number of completed projects to transit facilities and equipment.

Additional information on the Authority's capital assets can be found in note 5 on pages 35- 36 of this report.

Prior Year

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

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

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

Future Capital Plans

During Fiscal Year 2007, Metro Matters funds were used for the maintenance of the Authority's infrastructure. Maintenance includes such work as replacing deteriorated or damaged track, repairing cracks and leaks in stations and tunnels, replacing obsolete communications and train control equipment, and performing general building maintenance at many WMATA facilities. This work will continue through Fiscal Year 2010.

The Metro Matters Rail Cars and Facilities program will allow Metrorail to have an estimated fifty percent of its peak hour trains operating in an eight-car configuration. To achieve these goals, WMATA is procuring 122 rail cars (6000-series), and expanding and making other necessary improvements to the Brentwood, Greenbelt, and Shady Grove rail yards and maintenance facilities. By December 2008, eight-car train operations are expected to achieve a 50 percent service rate.

Bonds and Other Debt

The Authority's total outstanding bond debt as of June 30, 2007 and 2006 was \$178.9 million and \$203.5 million, respectively. By insuring its bonds, the Authority has obtained a AAA rating from Standard and Poor's for existing issuances. The bonds' uninsured rating is A minus.

The Authority's total outstanding Commercial Paper Notes, Series A debt as of June 30, 2007 was \$215 million.

Management's Discussion and Analysis

Bonds and Other Debt (Continued)

Additional information on the Authority's bonds and other debt can be found in note 6 on pages 37-39 of this report.

Lease Obligations

Information on these transactions can be found in note 11 on pages 49 - 50 of this report.

Economic Factors

Employment in the Washington, D.C. metropolitan area was stable throughout the Fiscal Year performing above the national average. According to the George Mason University, Center for Regional Analysis (CRA), the employed labor force was 2.9 million at June 2007, an increase of 27,000 jobs or 0.9 percent. The region benefits from a low unemployment rate of 3.3 percent at June 2007 as well as June 2006. This compares favorably with the national unemployment rate of 4.5 percent at June 2007. The region is the seat of the federal government, which accounts for nearly 35.0 percent of the region's economy, according to CRA.

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, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets:		
Cash and deposits (note 3)	\$ 9,576	\$ 7,462
Investments (note 3)	280,872	395,126
Contributions receivable (note 4)	102,443	62,896
Accounts receivable and other assets (net of \$1,400 in uncollectible accounts)	26,676	21,130
Current portion of prefunded lease commitments (note 11)	132,264	145,066
Materials and supplies inventory (net of allowance of \$8,441 in 2007 and \$8,639 in 2006)	<u>82,603</u>	<u>79,746</u>
Total current assets	<u>634,434</u>	<u>711,426</u>
Noncurrent assets:		
Long-term portion of contributions receivable (note 4)	138,727	119,745
Net pension asset (note 8)	202,789	186,397
Prefunded lease commitments (notes 11 and 12)	1,294,808	1,334,158
Capital assets (note 5):		
Construction in progress	871,245	1,033,335
Land	431,291	431,291
Transit facilities and equipment, net	<u>6,931,627</u>	<u>6,671,868</u>
Total noncurrent assets	<u>9,870,487</u>	<u>9,776,794</u>
Total assets	<u>10,504,921</u>	<u>10,488,220</u>

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

Statements of Net Assets (Continued)

June 30, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	189,227	203,627
Accrued salaries and benefits	77,920	68,443
Accrued interest payable	5,177	4,896
Deferred revenue	77,881	69,220
Current portion of estimated liability for injury and damage claims (notes 10 and 12)	34,394	29,995
Current portion of retainage on contracts (note 12)	4,508	2,057
Current portion of deferred lease revenue (note 12)	5,469	5,469
Current portion of bonds payable and other debt (notes 6 and 12)	240,776	23,865
Current portion of obligations under lease agreements (notes 11 and 12)	<u>132,264</u>	<u>145,066</u>
Total current liabilities	<u>767,616</u>	<u>552,638</u>
Noncurrent liabilities:		
Estimated liability for injury and damage claims (notes 10 and 12)	62,870	55,177
Retainage on contracts (note 12)	29,729	26,388
Deferred lease revenue (note 12)	50,720	56,421
Bonds payable and other debt (notes 6 and 12)	153,126	179,616
Obligations under lease agreements (notes 11 and 12)	<u>1,294,808</u>	<u>1,334,158</u>
Total noncurrent liabilities	<u>1,591,253</u>	<u>1,651,760</u>
Total liabilities	<u>2,358,869</u>	<u>2,204,398</u>
Commitments and contingencies (note 8, 9, 10 and 11)		
NET ASSETS		
Invested in capital assets, net of related debt	7,880,168	7,904,568
Restricted	265,884	<u>379,254</u>
Total net assets	<u>\$ 8,146,052</u>	<u>\$ 8,283,822</u>

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

Statements of Revenues, Expenses, and Changes in Net Assets

For the Years Ended June 30, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Passenger revenue	\$ 563,356	\$ 555,262
Charter and contract revenue	6,767	3,909
Advertising revenue	33,000	30,000
Rental revenue	20,777	17,108
Other revenue	1,192	1,199
Total operating revenues	<u>625,092</u>	<u>607,478</u>
OPERATING EXPENSES		
Labor	573,514	536,439
Fringe benefits	302,416	271,577
Services	117,867	102,081
Materials and supplies	144,584	123,439
Utilities	72,286	67,010
Casualty and liability costs	28,223	44,688
Leases and rentals	2,925	3,999
Miscellaneous	3,452	5,205
Depreciation and amortization	361,141	306,955
Total operating expenses	<u>1,606,408</u>	<u>1,461,393</u>
Operating loss	<u>(981,316)</u>	<u>(853,915)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	3,288	3,981
Interest income from leasing transactions	87,874	88,548
Interest expense from leasing transactions	(87,874)	(88,548)
Interest expense	(11,838)	(9,978)
Income (expense) from pension plans	16,392	(14,514)
Other	12,281	9,413
Jurisdiction subsidies:		
Operations	589,639	546,132
Interest	10,413	11,926
Total nonoperating revenues (expenses), net	<u>620,175</u>	<u>546,960</u>
Loss before capital contributions	<u>(361,141)</u>	<u>(306,955)</u>
Revenue from capital contributions	<u>223,371</u>	<u>471,037</u>
Change in net assets	<u>(137,770)</u>	<u>164,082</u>
Total net assets, beginning of year	<u>8,283,822</u>	<u>8,119,740</u>
Total net assets, ending of year	<u>\$ 8,146,052</u>	<u>\$ 8,283,822</u>

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

Statements of Cash Flows

For the Years Ended June 30, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Cash received from operations	\$ 628,206	\$ 617,046
Cash paid to suppliers	(352,578)	(250,834)
Cash paid to and on behalf of employees	(866,453)	(810,490)
Cash paid for operating claims	<u>(16,132)</u>	<u>(24,475)</u>
Net cash used in operating activities	<u>(606,957)</u>	<u>(468,753)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Cash received from jurisdiction subsidies	<u>547,503</u>	<u>448,764</u>
Net cash provided by noncapital financing activities	<u>547,503</u>	<u>448,764</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Construction of capital assets	(459,212)	(536,769)
Capital contributions	202,400	420,736
Interest paid on bonds and other debt	(11,558)	(10,340)
Principal paid on bonds and other debt	(548,865)	(23,040)
Proceeds from commercial paper	740,000	-
Interest subsidy for revenue bonds	<u>8,983</u>	<u>9,978</u>
Net cash used in capital and related financing activities	<u>(68,252)</u>	<u>(139,435)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale and maturities of investments	368,881	424,506
Purchases of investments	(254,630)	(274,898)
Interest received from operational investments	<u>16,815</u>	<u>9,757</u>
Net cash provided by investing activities	<u>131,066</u>	<u>159,365</u>
Net change in cash and deposits	2,114	(59)
Cash and deposits, beginning of year	<u>7,462</u>	<u>7,521</u>
Cash and deposits, end of year	<u>\$ 9,576</u>	<u>\$ 7,462</u>

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

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2007 and 2006

(in thousands)

	<u>2007</u>	<u>2006</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	<u>\$ (981,316)</u>	<u>\$ (853,915)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	361,141	306,955
(Increase) decrease in accounts receivables (net) and other assets	(5,547)	9,727
(Increase) in materials and supplies inventory	(2,858)	(480)
(Decrease) increase in accounts payable and accrued expenses	(14,400)	48,158
Increase (decrease) in accrued salaries and benefits	9,477	(2,474)
Increase in estimated liability for injury and damage claims	12,092	20,213
Increase (decrease) in deferred revenue	8,661	(159)
Increase in retainage on contracts	<u>5,793</u>	<u>3,222</u>
Total adjustments	<u>374,359</u>	<u>385,162</u>
Net cash used in operating activities	<u><u>\$ (606,957)</u></u>	<u><u>\$ (468,753)</u></u>
Noncash investing, capital, and financing activities:		
(Decrease) increase in fair value of investments	<u>\$ (1,663)</u>	<u>\$ 5,096</u>
Other income (expense) from pension	<u>\$ 16,392</u>	<u>\$ (14,514)</u>
Interest expense from leasing transaction	<u>\$ (87,874)</u>	<u>\$ (88,548)</u>
Interest income from leasing transaction	<u>\$ 87,874</u>	<u>\$ 88,548</u>

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

(1) Summary of Significant Accounting Policies

(a) Organization

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

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

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

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

(b) Financial Reporting Entity

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

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

(1) Summary of Significant Accounting Policies (Continued)

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

(c) Basis of Accounting

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

(d) Receivables and Payables

The major components of the accounts receivable balance are payments due from governmental agencies (81.7 percent), companies (17.9 percent) and other receivables (.04 percent).

The major components of the accounts payable balance are payments due to vendors and contractors (78.5 percent), governmental agencies (20.0 percent) and other payables (1.5 percent).

(e) Revenues and Expenses

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

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

Nonoperating revenues and expenses include investment income and expense from the Authority's pension assets that represents the excess or shortage of contributions over the annual required contributions.

(f) Investments

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

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

(h) Transit Facilities and Equipment

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

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

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

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

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

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

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

(i) Grants

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

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

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

(k) Restricted Net Assets

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

(l) Fuel Price Swap Arrangement

The Authority enters into agreements to fix the price associated with the purchase of fuel for specified periods of time. These agreements enable the Authority to plan its fuel costs for the year and to protect itself against increases in the market price of fuel. These agreements are disclosed at fair value and amounts due to the Authority are included in "Accounts receivable and other assets" and amounts owed by the Authority are included in "Accounts payable and accrued expenses."

(m) Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(n) Recent Pronouncements

The Authority, in fiscal year 2007, adopted the following GASB Statement:

GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, established accounting and financial reporting standards for plans that provided other postemployment benefits (OPEB) separately from the pension benefits. The Statement was effective for the Authority's OPEB plans on July 1, 2006. 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.

Notes to Basic Financial Statements

June 30, 2007 and 2006

(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. Any excess funding is credited to individual jurisdictional accounts for refund or for use as payment on current or future obligations as determined by the funding jurisdiction.

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

(3) Cash, Deposits and Investments

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

- 1) Direct obligation of, or obligations guaranteed by, the United States;
- 2) Bonds, debentures, notes, or other evidences of indebtedness issued by agencies of the United States;
- 3) Domestic and Eurodollar certificates of deposit;

Notes to Basic Financial Statements

June 30, 2007 and 2006

(3) Cash, Deposits and Investments (Continued)

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

(a) Cash and Deposits

The Authority's bank balances as of June 30, 2007 and 2006 are grouped to give an indication of the level of custodial risk assumed by the Authority as follows (in thousands):

<u>Cash and Deposits</u>	2007		2006	
	<u>Carrying Amount</u>	<u>Bank Balance</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Deposits insured or collateralized	\$ 604	\$ 674	\$ 385	\$ 530
Deposits uninsured or uncollateralized	<u>2,656</u>	<u>3,138</u>	<u>735</u>	<u>764</u>
Total deposits	3,260	3,812	1,120	1,294
Cash on hand	<u>6,316</u>	<u>-</u>	<u>6,342</u>	<u>-</u>
Total cash and deposits	<u>\$ 9,576</u>	<u>\$ 3,812</u>	<u>\$ 7,462</u>	<u>\$ 1,294</u>

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

As of June 30, 2007, the Authority had the following investments and maturities (in thousands):

<u>Investment Type</u>	<u>Investment Maturities</u>				
	<u>Fair Value</u>	<u>Less than 6 Months</u>	<u>7 Months - 1 Year</u>	<u>1-3 Years</u>	<u>More than 3 Years</u>
Money market funds	\$ 8,506	\$ 8,506	\$ -	\$ -	\$ -
Repurchase agreements	129,410	129,410	-	-	-
United States treasuries	12,169	4,997	-	4,987	2,185
United States agencies	129,352	39,294	37,847	26,521	25,690
	<u>279,437</u>	<u>182,207</u>	<u>37,847</u>	<u>31,508</u>	<u>27,875</u>
Accrued interest	1,435	1,435	-	-	-
Total	<u>\$ 280,872</u>	<u>\$ 183,642</u>	<u>\$ 37,847</u>	<u>\$ 31,508</u>	<u>\$ 27,875</u>

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

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

Interest Rate Risk

As a means of limiting its exposure to fair value losses caused by rising interest rates, the Authority's practice is to structure its investment portfolio maturities to meet cash flow requirements. This results in short term maturities for investments for operations and medium/intermediate maturities for capital projects investments. On average, maturities are less than two years at June 30, 2007 and 2006.

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

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

Custodial Credit Risk

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

(4) Contributions Receivable (including Jurisdictional Operating Subsidy)

Since inception, the Authority has operated at a loss, which has been fully subsidized each year by the participating jurisdictions. For purposes of determining the current year's operating loss to be funded by the local participating jurisdictions, the Authority calculates the results of transit operations on an agreed-upon basis different from that reflected in the Statements of Revenues, Expenses and Changes in Net Assets, as follows at June 30, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Jurisdictional operating subsidy per financial statements	\$ 589,639	\$ 546,132
Add (deduct) operating costs (not) requiring current funding:		
Preventive maintenance subsidy	(20,700)	(20,700)
Prepaid pension cost adjustment	16,392	(14,514)
Unrealized (loss) gain from investments	(1,663)	(5,096)
Agreed-upon funding of employee vacations liability and related taxes	(3,999)	3,735
Agreed-upon funding of claims for injuries and damages	(14,982)	(38,042)
Rail repairable parts	252	395
Increase in prior year obligations and commitments	-	1,490
Maximum fare assistance	4,870	4,695
Operating expenses funded by capital grants	<u>(88,883)</u>	<u>(46,254)</u>
Jurisdictional operating subsidy - funding basis	<u>\$ 480,926</u>	<u>\$ 431,841</u>

Notes to Basic Financial Statements

June 30, 2007 and 2006

(4) Contributions Receivable (including Jurisdictional Operating Subsidy) (Continued)

The cumulative effects of the different agreed-upon basis, which result in long-term contributions receivable, are as follows at June 30, 2007 and 2006 (in thousands):

	<u>2007</u>	<u>2006</u>
Agreed-upon funding of employee vacation liability and related taxes	\$ 41,463	\$ 37,463
Agreed-upon funding of claims for injuries and damages	<u>97,264</u>	<u>82,282</u>
Total accumulated difference	<u><u>\$ 138,727</u></u>	<u><u>\$ 119,745</u></u>

The current portion of contributions receivable at June 30, 2007 and 2006 of \$102,443,000 and \$62,896,000, respectively are related primarily to federal grants.

Notes to Basic Financial Statements

June 30, 2007 and 2006

(5) Capital Assets

Capital assets activity for the years ended June 30, 2007 and 2006, was as follows (in thousands):

	<u>June 30, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2007</u>
Capital assets not being depreciated:				
Land	\$ 431,291	\$ -	\$ -	\$ 431,291
Construction in progress	1,033,335	345,984	(508,074)	871,245
Total capital assets not being depreciated	<u>1,464,626</u>	<u>345,984</u>	<u>(508,074)</u>	<u>1,302,536</u>
Capital assets being depreciated:				-
Buildings and improvements	448,921	4,712	-	453,633
Transit facilities	7,126,154	305,143	-	7,431,297
Revenue vehicles	1,745,241	217,130	(28,975)	1,933,396
Other equipment	1,205,935	94,316	(3,961)	1,296,290
Intangible costs:				
Bond interest capitalized	244,358	-	-	244,358
Construction supervision and consulting	480,765	-	-	480,765
Project and executive management	321,916	-	-	321,916
Pre-rail operations and testing	110,178	-	-	110,178
Total capital assets being depreciated	<u>11,683,468</u>	<u>621,301</u>	<u>(32,936)</u>	<u>12,271,833</u>
Less accumulated depreciation and amortization for:				
Buildings and improvements	198,685	21,511	-	220,196
Transit facilities	2,009,422	175,848	-	2,185,270
Revenue vehicles	902,617	81,014	(28,975)	954,656
Other equipment	965,969	66,757	(3,961)	1,028,765
Intangible costs	934,907	16,412	-	951,319
Total accumulated depreciation and amortization of intangible costs	<u>5,011,600</u>	<u>361,542</u>	<u>(32,936)</u>	<u>5,340,206</u>
Total capital assets being depreciated, net	<u>6,671,868</u>	<u>259,759</u>	<u>-</u>	<u>6,931,627</u>
Total capital assets, net	<u>\$ 8,136,494</u>	<u>\$ 605,743</u>	<u>\$ (508,074)</u>	<u>\$ 8,234,163</u>

Notes to Basic Financial Statements

June 30, 2007 and 2006

(5) Capital Assets (continued)

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

(6) Bonds Payable and Other Debt**(a) Bonds Payable**

Pursuant to the Compact and the Bond Resolution of the Authority, the following bonds were outstanding at June 30, 2007 and 2006 (in thousands):

	2007			2006
	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	\$ (696)	\$ 41,454	\$ 41,246
Series 2003, 4.60% dated October 23, 2003, due semi-annually through July 1, 2014	109,075	5,795	114,870	134,515
Series 2003B, 4.06% dated November 20, 2003, due semi-annually through July 1, 2010	21,265	1,313	22,578	27,720
	<u>\$172,490</u>	<u>\$ 6,412</u>	<u>\$ 178,902</u>	<u>\$ 203,481</u>

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

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

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

(6) Bonds Payable and Other Debt (Continued)**(b) Bonds Debt Service Requirements**

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

Fiscal Year	Principal	Interest	Total
2008	\$ 25,025	\$ 8,325	\$ 33,350
2009	26,380	6,960	33,340
2010	27,815	5,520	33,335
2011	29,330	4,000	33,330
2012	24,655	2,818	27,473
2013-2015	39,285	2,429	41,714
	<u>172,490</u>	<u>30,052</u>	<u>202,542</u>
Plus unamortized premium net of issuance cost	6,412	-	6,412
	<u>\$178,902</u>	<u>\$30,052</u>	<u>\$208,954</u>

(c) 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, 2007 and 2006, the unamortized cost of refunding the bonds was \$2,981,000 and \$3,427,000, respectively. This unamortized cost relates primarily to the call premium on the Series E Transit Bond, and the Series 1993 Gross Revenue Transit Refunding Bonds, which are being amortized over the life of the outstanding bonds.

Notes to Basic Financial Statements

June 30, 2007 and 2006

(6) Bonds Payable and Other Debt (Continued)**(d) Commercial Paper Notes Payable, Series A**

Pursuant to the Compact and the Note resolution of the Authority, Commercial Paper Notes, (Series A) were issued during Fiscal Year 2007. The Series A Notes activity for the year ended June 30, 2007 was as follows (amounts in thousands):

	Beginning Balance	Issued	Redeemed	Ending Balance
Commercial Paper Notes, Series A	\$ -	\$740,000	\$525,000	\$215,000

The Series A Notes are authorized to be issued and reissued from time to time in denominations of any integral multiple of \$5,000 equal to, or, in excess of \$100,000 and to mature no later than 270 days from the respective dates of issuance. The maximum principal amount of Series A Notes currently authorized to be outstanding at any time is \$330,000,000. The principal and redemption price of and interest on the Series A Notes are special obligations of the Authority payable solely from and secured solely by the funds pledged pursuant to the Note Resolution including the proceeds of sale of Series A Notes and Gross Revenues of the Authority. Such pledge of Gross Revenues is subject and subordinate to pledges securing certain outstanding and future indebtedness of the Authority. The Series A Notes are further secured by an irrevocable direct pay letter of credit issued by a major national bank. The issuance of Series A Notes does not constitute a debt or legal obligation and will not create a lien upon the revenues of the participating jurisdictions or the Federal Government or Federal Government agencies.

(e) Interest Expense

Interest expense on bonds for the years ended June 30, 2007 and 2006 was \$8,983,000 and \$9,978,000.

Interest expense on the Series A Notes for the year ended June 30, 2007 was \$2,855,000.

(7) Termination Benefits

The General Manager may authorize a general reduction, in the work force, which is accomplished by a reduction in positions and may result in the termination of personnel. This course of action is approved by the Authority's Board of Directors and outlined in the Authority's Personnel Policies and Procedures Manual which details the basis for severance pay to be made to employees subject to a reduction-in-force. On June 30, 2007, the financial statements of the Authority contained a liability and expense of \$2,500,000 representing benefits to be paid to employees affected by a reduction-in-force implemented in the fiscal year ended June 30, 2007.

Notes to Basic Financial Statements

June 30, 2007 and 2006

(8) Pension Plans

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

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

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

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

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

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

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

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

(ii) Transit Police Plan

Transit Police Officers and Transit Police Officials of the Authority are eligible to participate in the Transit Police Plan. The plan is governed by the terms of the employees' collective bargaining agreement. The normal retirement age is upon completing 25 years of credited service, but in no event later than the attainment of age 65. The normal retirement benefit is 2.56 percent of final average earnings multiplied by years of credited service. The pension plan also provides death and

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

disability benefits. Employees are required to contribute 7.27 percent of compensation beginning October 1, 2003. The Authority is responsible for contributions required in excess of the employee contribution level. The Authority may limit the amount of contribution to 17.05 percent of gross earnings in any plan year and defer any balance. This deferral can be for no more than three consecutive plan years or for no more than four plan years out of any consecutive seven years. The benefit provisions and employee contribution obligations are established pursuant to a collective bargaining agreement between the Authority and the Fraternal Order of Police. The vesting requirement is 10 years.

(iii) Union Local 689 Plan

Any regular full-time or part-time Authority employee, who is a member of Union Local 689 of the Amalgamated Transit Union (Local 689), after a 90-day probationary period is eligible to participate in the Union Local 689 Plan. The plan is governed by the terms of the employees' collective bargaining agreement. Employees are eligible for the normal retirement allowance upon either attainment of age 70; attainment of age 65 and the completion of 10 years of continuous service; upon completion of 27 years of continuous service regardless of age; or after the sum of years of service plus attained age is 83 or more. The normal retirement monthly pension is 1.85 percent of the highest 4-year average monthly total compensation times the number of years of continuous service up to 27 years. Additionally, for participants whose benefits commence on or after July 1, 2006, the normal retirement monthly pension is 1.95 percent of average compensation times the number of years of continuous service in excess of 27 years. The minimum benefit is \$600 monthly. Employees participating in the plan are not required to contribute to the plan. For each fiscal year, the Authority shall contribute that percentage of total covered payroll determined necessary to pay the normal cost of the plan as determined by the plan actuary. The pension plan also provides pre-retirement death and disability benefits. The vesting requirement is 10 years.

(iv) Union Local 922 Plan

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

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

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

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

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

(ii) Transit Police Plan

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

(iii) Union Local 689 Plan

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

(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 Basic Financial Statements

June 30, 2007 and 2006

8) Pension Plans (Continued)

(v) Union Local 2 Plan

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

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

	Salaried Personnel Plan	Transit Police Plan	Union Local 689 Plan	Union Local 922 Plan	Union Local 2 Plan
Contribution rates:*					
Authority	27.5%	22.0%	3.9%	15.1%	17.2%
Employees (Plan Members)	0.0%	7.3%	0.0%	0.0%	0.0%
Annual pension cost	\$ 10,456	\$ 5,098	\$ (8,684)	\$ 3,394	\$ 3,048
Contributions made:					
Authority	\$ 9,358	\$ 5,098	\$ 6,001	\$ 3,275	\$ 3,044
Actuarial valuation date	7/1/2006	1/1/2006	1/1/2006	1/1/2006	7/1/2006
Actuarial cost method	Individual entry age	Aggregate cost	Aggregate cost	Entry age	Individual entry age
Amortization method	Level dollar	N/A	N/A	Level dollar	Level dollar
Amortization period	15 years	N/A	N/A	30 years	15 years
Remaining amortization period	Open	N/A	N/A	Open	Open
Asset valuation method	Smoothed market value	Smoothed market value	3-yr assumed yield	Smoothed market value	Smoothed market value
Actuarial assumptions:					
Investment rate of return	8.0%	8.0%	8.0%	7.0%	8.0%
Projected salary increases	3.5-8%	4.75-9%	3.5%	4.5%	3.5-8%
Post-retirement benefit	3.5%	up to 6%	3.0%	4.0%	3.5%
Inflation rate	2.5%	2.5%	3.0%	3.0%	2.5%

Notes to Basic Financial Statements

June 30, 2007 and 2006

(8) Pension Plans (Continued)

The Salaried Personnel Plan and the Union Local 2 Plan had a change in the mortality assumption for healthy participants from the RP-2000 mortality table projected to 2005 to the RP-2000 mortality table projected to 2007. The effect of this change in the mortality assumption was an increase in the recommended contributions to the Salaried Personnel Plan and Union Local 2 Plan of \$170,000 and \$43,000, respectively.

There were no significant assumption changes from prior year valuation for the Transit Police Plan, Union Local 689 Plan and Local 922 Plan.

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

	Salaried Personnel Plan <u>7/1/2006</u>	Transit Police Plan <u>1/1/2006</u>	Union Local 689 Plan <u>1/1/2006</u>	Union Local 922 Plan <u>1/1/2006</u>	Union Local 2 Plan <u>7/1/2006</u>
Net pension assets beginning of year	\$ -	\$ -	\$ (183,564)	\$ (2,833)	\$ -
Annual required contribution	10,373	5,098	6,001	3,377	3,035
Interest on net pension assets	(179)	-	(14,685)	(220)	(30)
Adjustment to annual required contribution	262	-	-	237	43
Annual pension cost	10,456	5,098	(8,684)	3,394	3,048
Net pension obligations (assets) before contributions	10,456	5,098	(192,248)	561	3,048
Adjustments to beginning balance	(2,243)	-	-	(315)	(370)
Contributions made	(9,358)	(5,098)	(6,001)	(3,275)	(3,044)
Net pension assets end of year	<u>\$ (1,145)</u>	<u>\$ -</u>	<u>\$ (198,249)</u>	<u>\$ (3,029)</u>	<u>\$ (366)</u>
	<u>7/1/2005</u>	<u>1/1/2005</u>	<u>1/1/2005</u>	<u>1/1/2005</u>	<u>7/1/2005</u>
Net pension assets beginning of year	\$ -	\$ -	\$ (198,047)	\$ (2,864)	\$ -
Annual required contribution	9,156	5,427	-	3,213	3,065
Interest on net pension assets	-	-	(15,844)	(201)	-
Adjustment to annual required contribution	-	-	30,327	216	-
Annual pension cost (income)	9,156	5,427	14,483	3,228	3,065
Net pension obligations (assets) before contributions	9,156	5,427	(183,564)	364	3,065
Contributions made	(9,156)	(5,427)	-	(3,197)	(3,065)
Net pension assets end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (183,564)</u>	<u>\$ (2,833)</u>	<u>\$ -</u>

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

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

	Year Ending	Annual Pension Cost	Percentage of APC Contribution	Net Pension Asset
Salaried Personnel Plan	7/01/06	\$ 10,456	89.5%	\$ (1,145)
	7/01/05	\$ 9,156	100.0%	-
	7/01/04	\$ 8,385	100.0%	-
Transit Police Plan	1/01/06	\$ 5,098	100.0%	-
	1/01/05	\$ 5,427	100.0%	-
	1/01/04	\$ 3,900	100.0%	-
Union Local 689	1/01/06	\$ (8,684)	N/A	\$ (198,249)
	1/01/05	\$ 14,483	N/A	\$ (183,564)
	1/01/04	\$ (17,209)	N/A	\$ (198,047)
Union Local 922	1/01/06	\$ 3,394	96.5%	\$ (3,029)
	1/01/05	\$ 3,228	99.0%	\$ (2,833)
	1/01/04	\$ 3,246	95.3%	\$ (2,864)
Union Local 2	7/01/06	\$ 3,048	100.0%	\$ (366)
	7/01/05	\$ 3,065	100.0%	\$ -
	7/01/04	\$ 3,098	100.0%	\$ -

(d) Defined Contribution Retirement Plan

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

The Authority contributed \$3,209,600 and \$2,698,000 for the years ended June 30, 2007 and 2006, respectively.

Notes to Basic Financial Statements

June 30, 2007 and 2006

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

The Authority offers a deferred compensation plan for salaried employees under the terms of the Internal Revenue Section 457(g). Under the 457 plan, employees are permitted to defer up to 100 percent of salary not to exceed \$15,500 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.

(9) 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 \$125,638,000 and \$118,695,000 for June 30, 2007 and 2006, respectively. The cost of providing benefits for approximately 3,900 retirees and beneficiaries is not separable from the cost of providing benefits for approximately 10,000 active participating employees and cannot be reasonably estimated.

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

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

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

Liabilities are reported in the self-insurance funds when it is probable that losses have occurred and the amounts of the losses can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported to date. Because actual claims liabilities depend on such complex factors as inflation, changes in governing laws and standards, and court awards, the process used in computing claims liabilities is reevaluated periodically, to include an annual actuarial study, to take into consideration the history, frequency and severity of recent claims and other economic and social

Notes to Basic Financial Statements

June 30, 2007 and 2006

(10) Commitments and Contingencies (Continued)**(a) Litigation and Claims (Continued)**

factors. These liabilities are computed using a combination of actual claims experience and actuarially determined amounts and include any specific, incremental claim adjustment expenses and estimated recoveries. The liabilities do not include nonincremental claim adjustment expenses. The claims liabilities in the self-insurance funds are discounted at 4.0 percent at June 30, 2007 and 2006, respectively, to reflect anticipated investment income.

Changes in the estimated liability for the years ended June 30, 2007 and 2006 are as follows (in thousands):

	<u>2007</u>	<u>2006</u>
Estimated liability for injury and damage claims, beginning of year	\$ 85,172	\$ 64,959
Incurred new claims	42,383	30,710
Changes in estimate for claims of prior periods	(10,637)	16,685
Payments on claims	<u>(19,654)</u>	<u>(27,182)</u>
Estimated liability for injury and damage claims, end of year	<u>\$ 97,264</u>	<u>\$ 85,172</u>
Due within one year	<u>\$34,394</u>	<u>\$29,995</u>

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

The Authority is a party in various legal actions and claims brought by or against it. At June 30, 2007, the Authority had claims totaling approximately \$5,650,000, which were reasonably possible that a loss may be incurred.

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

(b) Leasing Commitment

In September 1999, the Authority entered into a 10-year operating lease for office space. The terms of the lease set forth scheduled rent increases to occur annually. Lease payments for years ended June 30, 2007 and 2006 are \$706,000 and \$686,000, respectively.

Notes to Basic Financial Statements

June 30, 2007 and 2006

(10) Commitments and Contingencies (Continued)**(b) Leasing Commitment (Continued)**

The Authority's minimum lease payments as of June 30, 2007 are as follows (in thousands):

<u>Fiscal Year</u>	<u>Total</u>
2008	\$ 727
2009	749
2010	189
	<u>\$ 1,665</u>

(c) Fuel Price Swap Agreement

Objective of the swap: The Authority entered into fuel price swap agreements to plan its fuel costs for the year and to protect itself against increases in the market price of fuel.

Terms: The Authority entered into commodity swap agreements for NYMEX No.2 heating oil as shown below (in thousands):

<u>Effective Date</u>	<u>Maturity Date</u>	<u>Notional quantity per calculation period (gallons)</u>	<u>Total notional quantity (gallons)</u>	<u>Market Value</u>
7/1/2007	12/1/2007	84	504	\$ 66
7/1/2007	6/30/2008	84	1,008	161
7/1/2007	6/30/2008	84	1,008	169
7/1/2007	6/30/2008	210	2,520	539
7/1/2007	6/30/2008	126	1,512	404
7/1/2007	6/30/2008	84	1,008	315
				<u>\$1,654</u>

Payment between the swap parties is the price per gallon equal to the unweighted arithmetic mean of each of the closing settlement prices quoted by the NYMEX on each NYMEX trading day during the settlement period for the No.2 heating oil futures.

Fair value: As of June 30, 2007, the swap agreement had a positive fair value of \$1,654,000 estimated by using a mathematical approximation of market value derived from both proprietary models as of a given date based on certain assumptions regarding past, present and future market conditions and certain financial information from other sources.

Credit value: The Authority is exposed to credit risk in the amount of its fair value. The long-term deposit ratings for the swap counterparty were AA per Standard & Poor's and AA per Fitch.

Notes to Basic Financial Statements

June 30, 2007 and 2006

(10) Commitments and Contingencies (Continued)**(c) Fuel Price Swap Agreement (Continued)**

Termination risk: The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. Also, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value.

(d) Other

Construction and capital improvement costs are funded by federal grants, local matching funds, and third party agreements. As of June 30, 2007, the Authority is committed to expend approximately \$142,529,000 (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.

(11) Leasing Transactions

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

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

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

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

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

As part of the headlease agreements, the Authority received prepayments equivalent to the net present value of the headlease obligations. The Authority transferred a portion of these proceeds to third party

Notes to Basic Financial Statements

June 30, 2007 and 2006

(11) Leasing Transactions (Continued)

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

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

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

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

Future minimum payments due:	
2008	\$ 132,264
2009	162,925
2010	127,917
2011	152,778
2012	146,733
2013-2017	790,631
2018-2022	454,725
2023-2027	130,585
2028-2031	97,124
Total future minimum payments	<u>2,195,682</u>
Less imputed interest	<u>768,610</u>
Present value of minimum lease payments	<u><u>\$ 1,427,072</u></u>

Notes to Basic Financial Statements

June 30, 2007 and 2006

(12) Changes in Long-Term Liabilities

Long-term liabilities activity for the years ended June 30, 2007 and 2006, was as follows (in thousands):

	Injury & Damage Claims	Retainage on Contracts	Deferred Lease Revenue	Bonds Payable	Obligations Under Lease Agreements
Beginning balance, July 1, 2005	\$ 64,959	\$ 25,223	\$ 67,591	\$ 227,900	\$ 1,479,140
Additions	47,395	13,225	-	-	84
Reductions	<u>(27,182)</u>	<u>(10,003)</u>	<u>(5,701)</u>	<u>(24,419)</u>	-
Balance, June 30, 2006	85,172	28,445	61,890	203,481	1,479,224
Additions	42,383	17,414	-	(24,579)	-
Reductions	<u>(30,291)</u>	<u>(11,622)</u>	<u>(5,701)</u>	<u>-</u>	<u>(52,152)</u>
Ending balance, June 30, 2007	<u>\$ 97,264</u>	<u>\$ 34,237</u>	<u>\$ 56,189</u>	<u>\$ 178,902</u>	<u>\$ 1,427,072</u>
Due within one year	<u>\$ 34,394</u>	<u>\$ 4,508</u>	<u>\$ 5,469</u>	<u>\$ 25,776</u>	<u>\$ 132,264</u>
Noncurrent portion	<u>\$ 62,870</u>	<u>\$ 29,729</u>	<u>\$ 50,720</u>	<u>\$ 153,126</u>	<u>\$ 1,294,808</u>

Required Supplementary Information
 Historical Trend Information – Pension Plans

Schedules of Funding Progress

(dollars in thousands)

(unaudited)

	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	7/1/2006	\$ 349,796	\$ 412,855	\$ 63,059	84.7%	\$ 37,769	167.0%
	7/1/2005	\$ 343,657	\$ 395,416	\$ 51,759	86.9%	\$ 40,750	127.0%
	7/1/2004	\$ 330,582	\$ 376,905	\$ 46,323	87.7%	\$ 42,756	108.3%
Union Local 689 Plan	1/1/2006	\$ 2,068,831	\$ 2,068,831	\$ -	100.0%	\$ 465,458	0.0%
	1/1/2005	\$ 1,977,425	\$ 1,710,543	\$ (266,882)	115.6%	\$ 437,399	(61.0)%
	1/1/2004	\$ 1,877,321	\$ 1,596,968	\$ (280,353)	117.6%	\$ 425,147	(65.9)%
Union Local 922 Plan	1/1/2006	\$ 99,332	\$ 113,544	\$ 14,212	87.5%	\$ 22,267	63.8%
	1/1/2005	\$ 91,191	\$ 103,395	\$ 12,204	88.2%	\$ 21,085	57.9%
	1/1/2004	\$ 86,317	\$ 95,233	\$ 8,916	90.6%	\$ 19,176	46.5%
Local 2	7/1/2006	\$ 109,041	\$ 116,915	\$ 7,874	93.3%	\$ 17,628	44.7%
	7/1/2005	\$ 104,006	\$ 112,051	\$ 8,045	92.8%	\$ 18,754	42.9%
	7/1/2004	\$ 96,727	\$ 105,016	\$ 8,289	92.1%	\$ 20,384	40.7%

Notes:

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

SECTION THREE – STATISTICAL (Unaudited)

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

Contents	Page
Financial Trends These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.	53
Revenue Capacity These schedules contain information to help the reader assess the Authority's most significant local revenue source, passenger revenue.	55
Debt Capacity These schedules present information to help the reader assess the affordability of the Authority's current levels of outstanding debt and the Authority's ability to issue additional debt in the future.	57
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader to understand the environment within which the Authority's financial activities take place.	58
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Authority's financial report relates to the services the Authority provides and the activities it performs.	60

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

Net Assets by Component
For Fiscal Year 2002 to Fiscal Year 2007
(amounts expressed in thousands)

	Fiscal Year					
	2002	2003	2004	2005	2006	2007
Invested in capital assets, net of related debt	\$7,148,786	\$7,368,413	\$7,414,886	\$7,547,065	\$7,904,568	\$7,880,168
Restricted	810,257	830,017	707,353	572,675	379,254	265,884
Total Net Assets	<u>\$7,959,043</u>	<u>\$8,198,430</u>	<u>\$8,122,239</u>	<u>\$8,119,740</u>	<u>\$8,283,822</u>	<u>\$8,146,052</u>

Source: The Authority's Audited Financial Statements.

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

Changes in Net Assets
For Fiscal Year 2002 to Fiscal Year 2007
(amounts expressed in thousands)

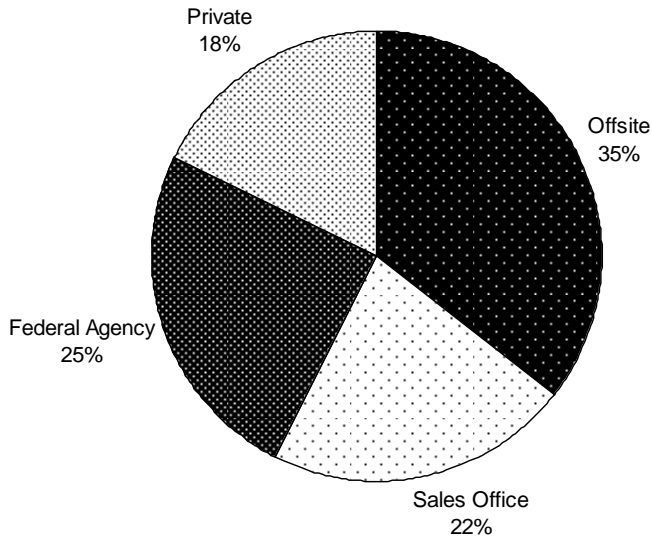
	Fiscal Year						
	2002	2003	2004	2005	2006	2007	
Operating Revenues							
Passenger revenue	\$ 394,153	\$ 404,211	\$ 453,043	\$ 522,475	\$ 555,262	\$ 563,356	
Charter and contract revenue	7,746	9,597	3,806	3,395	3,909	6,767	
Advertising revenue	20,001	23,001	26,002	29,000	30,000	33,000	
Rental revenue	12,536	13,101	15,786	16,466	17,108	20,777	
Other revenue	2,563	1,195	1,348	1,206	1,199	1,192	
Total operating revenues	<u>436,999</u>	<u>451,105</u>	<u>499,985</u>	<u>572,542</u>	<u>607,478</u>	<u>625,092</u>	
Nonoperating revenues							
Investment income	19,830	26,975	1,450	5,011	3,981	3,288	
Interest income from leasing transactions	78,181	80,560	88,562	91,924	88,548	87,874	
Income from pension plans	53,702	17,610	-	16,687	-	16,392	
Other	1,924	3,544	3,277	3,790	9,413	12,281	
Total nonoperating revenues	<u>153,637</u>	<u>128,689</u>	<u>93,289</u>	<u>117,412</u>	<u>101,942</u>	<u>119,835</u>	
Total Revenues	<u>590,636</u>	<u>579,794</u>	<u>593,274</u>	<u>689,954</u>	<u>709,420</u>	<u>744,927</u>	
Operating expenses							
Labor	437,380	460,435	485,124	498,865	536,439	573,514	
Fringe benefits	201,061	215,878	250,784	272,756	271,577	302,416	
Services	64,140	62,192	67,696	77,063	102,081	117,867	
Materials and supplies	76,721	87,418	89,586	105,560	123,439	144,584	
Utilities	46,843	49,758	52,681	61,517	67,010	72,286	
Casualty and liability costs	4,842	4,871	12,467	16,869	44,688	28,223	
Leases and rentals	3,042	3,067	1,913	4,096	3,999	2,925	
Miscellaneous	5,364	3,749	2,778	3,253	5,205	3,452	
Depreciation and amortization	275,896	294,300	296,485	299,707	306,955	361,141	
Total operating expenses	<u>1,115,289</u>	<u>1,181,668</u>	<u>1,259,514</u>	<u>1,339,686</u>	<u>1,461,393</u>	<u>1,606,408</u>	
Nonoperating expenses							
Interest expense from leasing transactions	78,181	80,560	88,562	91,924	88,548	87,874	
Interest expense	12,411	11,706	12,517	10,611	9,978	11,838	
Pension plans expense	-	-	23,808	-	14,514	-	
Total nonoperating expenses	<u>90,592</u>	<u>92,266</u>	<u>124,887</u>	<u>102,535</u>	<u>113,040</u>	<u>99,712</u>	
Total Expenses	<u>1,205,881</u>	<u>1,273,934</u>	<u>1,384,401</u>	<u>1,442,221</u>	<u>1,574,433</u>	<u>1,706,120</u>	
Jurisdictional subsidies, capital grants and capital subsidies	<u>1,077,138</u>	<u>933,527</u>	<u>714,936</u>	<u>749,768</u>	<u>1,029,095</u>	<u>823,423</u>	
Increase in Net Assets	<u>\$ 461,893</u>	<u>\$ 239,387</u>	<u>\$ (76,191)</u>	<u>\$ (2,499)</u>	<u>\$ 164,082</u>	<u>\$ (137,770)</u>	

Source: The Authority's Audited Financial Statements.

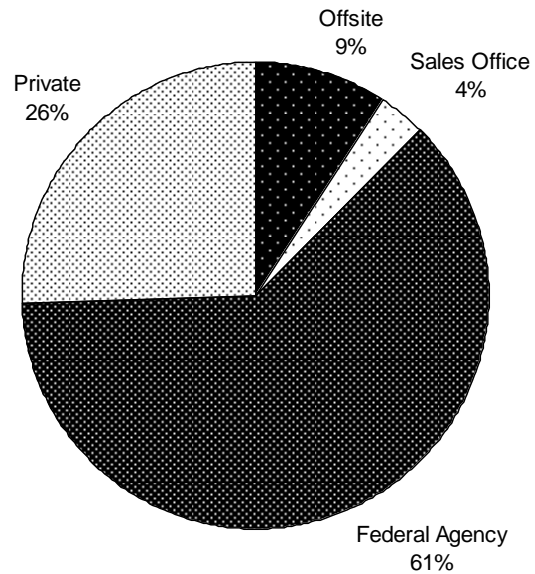
Note: The Authority implemented GASB Statement 34 in FY 2002.

**Principal Revenue Pay Categories
For Fiscal Year 1998 and Fiscal Year 2007**

Fiscal 1998



Fiscal 2007



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

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

Private pay category consists of private sector employers.

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

Source: The Authority's Office of Customer and Media

Passenger Fare Structure For Fiscal Year 1998 to Fiscal Year 2007

Fiscal Year	Metrobus			Metrorail			
	Peak/Off Peak			Peak		Off Peak	
	DC Base	MD Base	VA Base	Boarding Charge	Each Additional Composite Mile	Boarding Charge	Each Additional Composite Mile
1998	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
1999	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2000	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2001	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2002	\$1.10	\$1.10	\$1.10	\$1.10	\$.19 (3-6miles) \$.165 (6+miles) \$3.25 (Max.fare)	\$1.10 (0-7miles) \$1.60 (7-10miles) \$2.10 (10 miles)	n/a n/a n/a
2003	\$1.20	\$1.20	\$1.20	\$1.20	\$.21 (3-6miles) \$.185 (6+miles) \$3.60 (Max. fare)	\$1.20 (0-7miles) \$1.70 (7-10miles) \$2.20 (10+ miles)	n/a n/a n/a
2004	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a
2005	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a
2006	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a
2007	\$1.25	\$1.25	\$1.25	\$1.35	\$.22 (3-6miles) \$.195 (6+miles) \$3.90 (Max. fare)	\$1.35 (0-7miles) \$1.85 (7-10miles) \$2.35 (10+ miles)	n/a n/a n/a

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

Source: Tariff of The Washington Metropolitan Area Transit Authority

Pledged-Revenue Coverage
For Fiscal Year 1998 to Fiscal Year 2007
(amounts expressed in thousands)

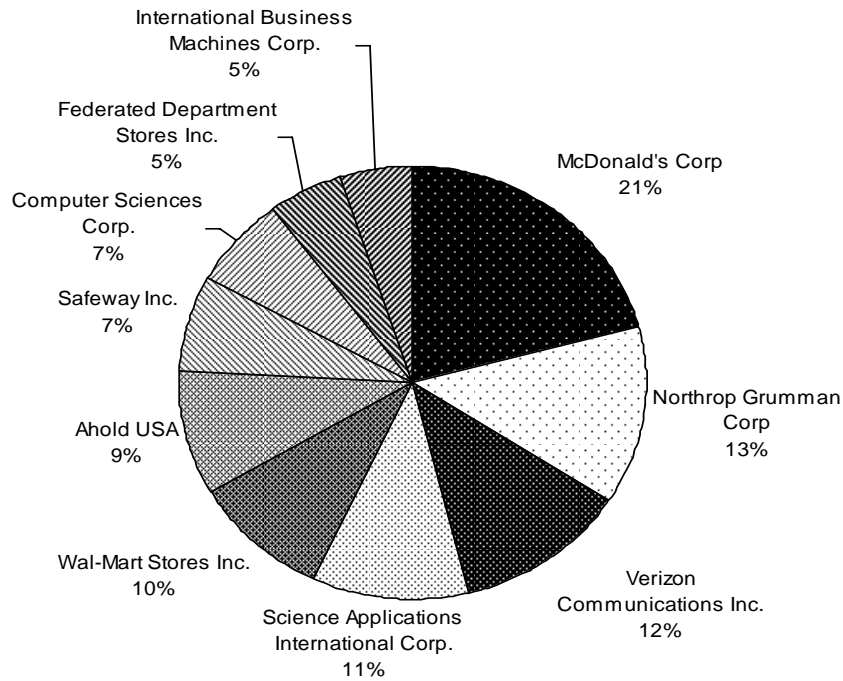
Fiscal Year	Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service			Coverage
				Principal	Interest	Total	
1998	\$ 680,065	652,833	\$ 27,232	\$ 12,215	15,017	\$ 27,232	100%
1999	\$ 702,269	675,115	\$ 27,154	\$ 12,780	14,374	\$ 27,154	100%
2000	\$ 754,423	727,296	\$ 27,127	\$ 13,440	13,687	\$ 27,127	100%
2001	\$ 838,899	811,734	\$ 27,165	\$ 14,095	13,070	\$ 27,165	100%
2002	\$ 866,539	839,393	\$ 27,146	\$ 14,735	12,411	\$ 27,146	100%
2003	\$ 914,489	887,368	\$ 27,121	\$ 15,415	11,706	\$ 27,121	100%
2004	\$ 1,175,871	986,837	\$ 189,034	\$ 176,470	12,517	\$ 188,987	100%
2005	\$ 1,072,480	1,039,979	\$ 32,501	\$ 21,890	10,611	\$ 32,501	100%
2006	\$ 1,201,970	1,168,952	\$ 33,018	\$ 23,040	9,978	\$ 33,018	100%
2007	\$ 1,280,970	1,245,267	\$ 35,703	\$ 23,865	11,838	\$ 35,703	100%

Revenues consists of operating revenues, non-operating revenues, jurisdictional subsidies and principal paid on revenue bonds. Income from leasing transactions is excluded. Operating expenses excludes depreciation and amortization, and non-operating expenses, except expenses from pension plans.

Source: The Authority's Audited Financial Statements.

Major Private Employers For Fiscal Year 2007

Employer	Rank	Area Employees	Industry
McDonald's Corp.	1	32,000	Food
Northrop Grumman Corp.	2	20,220	Aerospace/defense
Verizon Communications Inc.	3	18,200	Telecommunications
Science Applications International Corp.	4	16,630	Information Technology
Wal-Mart Stores Inc.	5	14,900	Retail
Ahold USA	6	14,206	Retail
Safeway Inc.	7	11,000	Retail
Computer Sciences Corp.	8	10,416	Information Technology
Federated Department Stores Inc.	9	8,000	Retail
International Business Machines Corp.	10	7,600	Information Technology



Source: Washingtonpost.com - Post 200/2007/ Major Employers

**Authorized Employee Positions
For Fiscal Year 1998 to Fiscal Year 2007**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Non-Union	1,230	1,266	1,313	1,511	1,525	1,586	1,457	1,540	1,640	1,673
AFL-CIO/OPIEU Local - 2	640	639	601	622	662	689	739	785	794	818
FOP Transit Police	252	252	257	271	305	305	319	321	336	356
Teamsters Local - 639	65	65	65	65	70	75	90	89	89	89
AFL-CIO ATU Local - 689	5,990	6,071	6,310	6,580	7,064	7,133	7,042	7,207	7,237	7,809
Teamsters Local - 922	317	317	321	370	339	368	368	352	355	357
Total Authority Positions	<u><u>8,494</u></u>	<u><u>8,610</u></u>	<u><u>8,867</u></u>	<u><u>9,419</u></u>	<u><u>9,965</u></u>	<u><u>10,156</u></u>	<u><u>10,015</u></u>	<u><u>10,294</u></u>	<u><u>10,451</u></u>	<u><u>11,102</u></u>

Source: The Authority's Approved Annual Budgets.

Operating Indicators For Fiscal Year 1998 to Fiscal Year 2007

Fiscal Year	Annual Vehicle Revenue Miles	Annual Vehicle Revenue Hours	Annual Unlinked Trips	Annual Passenger Trips
1998				
Metrobus	33,240,586	2,975,646	125,967,257	402,675,692
Metrorail	44,788,104	2,109,821	213,044,900	1,077,145,702
Metro Access	2,394,185	152,414	200,844	1,981,305
1999				
Metrobus	33,168,939	2,979,136	143,240,114	474,556,951
Metrorail	46,166,860	2,165,262	212,620,976	1,044,703,469
Metro Access	2,528,931	173,872	210,078	2,018,976
2000				
Metrobus	34,192,726	3,065,946	129,524,241	452,855,175
Metrorail	48,243,553	2,260,586	218,273,257	1,190,448,841
Metro Access	3,643,119	238,648	246,071	2,498,629
2001				
Metrobus	36,447,570	3,247,015	142,647,640	457,028,244
Metrorail	51,553,445	2,316,049	235,731,726	1,362,866,338
Metro Access	5,569,594	357,000	556,982	5,419,598
2002				
Metrobus	37,934,187	3,349,152	147,771,191	450,768,806
Metrorail	52,192,185	2,269,529	242,794,078	1,438,336,161
Metro Access	8,021,812	505,105	738,284	8,021,812
2003				
Metrobus	38,897,499	3,433,521	147,831,547	447,551,132
Metrorail	56,470,216	2,241,771	243,188,066	1,451,856,563
Metro Access	9,786,953	631,341	972,425	9,786,953
2004				
Metrobus	38,901,318	3,458,658	146,010,344	436,436,653
Metrorail	58,205,365	2,312,490	250,659,980	1,507,072,928
Metro Access	11,030,419	698,401	1,112,358	12,269,308
2005				
Metrobus	38,458,955	3,422,983	153,392,000	453,290,328
Metrorail	62,152,936	2,460,432	259,430,086	1,401,105,158
Metro Access	12,179,777	765,719	1,253,948	13,686,293
2006				
Metrobus	38,364,771	3,557,212	131,339,808	419,809,944
Metrorail	63,577,383	2,513,934	274,767,272	1,577,789,264
Metro Access	12,135,331	1,015,815	1,340,201	14,318,204
2007				
Metrobus	38,421,414	3,398,732	131,489,651	410,761,850
Metrorail	67,029,516	2,636,654	276,440,693	1,590,316,851
Metro Access	14,861,434	1,270,731	1,276,870	17,422,600

Source: National Transit Database

M System Map

MetroOpensDoors.com
 Customer Information Service: 202/637-6000
 TTY Phone: 202/638-3780

- ## 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 Fort Totten



Every other outbound Red Line train terminates at Grosvenor-Strathmore station Weekdays 7:00 to 9:30 a.m. and 4:00 to 6:30 p.m.

Yellow Line service operates between Mt Vernon Sq/7th St-Convention Center and Fort Totten stations except Weekdays 5:00 to 9:30 a.m. and 3:00 to 7:00 p.m.



Metro is accessible.

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REV 10/27/06

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

The Circulator and Extra buses are part of the WMATA family.



Enjoy Your Ride.



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