Financials

Basic Financial Statements

Required Supplemental Information

Statistical (unaudited)

Metropolitan Transit Authority of Harris County, Texas, Fiscal Year 2002 (October 2001-September 2002)

Financial Information

The Authority is not a component unit and the accompanying financial statements include all activity for which the Authority is financially accountable as defined by Governmental Accounting Standard No. 14 “The Financial Reporting Entity”.

The Authority's principal operating and capital resources are derived from a 1 percent sales tax levied in the Authority's service area, user fees for transit service, investment income and federal capital grants. The Authority's expenditures relate primarily to transit operations, local infrastructure improvements, traffic management and various capital items.

The responsibility for the accuracy, reliability and fairness of the presentation of financial information and related disclosures rests with the Authority’s management. All disclosures that are necessary to enable the reader to gain an understanding of the Authority’s financial activities have been included. The Authority is also responsible for ensuring that an adequate internal control structure is in place for preparation of financial information, safeguarding of assets, effective and efficiency use of resources and compliance with applicable laws and regulations. The internal control structure has been designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of cost and benefits requires estimates and judgment by management. In addition, the Authority is required by state and federal law to have independent certified public accountants perform audits and issue reports in accordance with generally accepted auditing standards, the Single Audit Act of 1996 and U.S. Office of Management and Budget Circular A-133. These reports are filed annually with the appropriate state and federal agency.

The Enterprise Fund is used to account for transit operations that have been designed to provide the public with a high quality, cost effective public transportation system. Transit operations include designing and constructing maintenance and bus storage facilities, selecting bus routes, purchasing buses, maintaining equipment, hiring and training personnel who deliver transit services, providing security and traffic enforcement and administering and managing the transit system.

The Authority's cash and investment policy is to monitor and adjust, on a daily basis, its cash balance and investment portfolio while investing in only those securities which have been legally authorized. Such securities and cash deposits include: collateralized money market accounts, repurchase agreements, certificates of deposits, U.S. Treasury securities, and U.S. Agency securities. Investments and deposits are either insured, registered or held by the Authority or its agent in the Authority's name as required by law.

METRO is self-insured, except for property risk insurance, for which it pays an annual premium to a third party insurance company. This policy covers risk of loss to all real and personal property, including transit buses, located on METRO's property, but excludes off-property coverage.

Other Information

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to METRO for its CAFR for the year ended September 30, 2001. This is the eleventh consecutive year that METRO has received this prestigious award. In order to be awarded a Certificate of Achievement, METRO must publish an easily readable and efficiently organized CAFR report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

METRO’s financial statements have been audited by the firm of KPMG LLP.

Acknowledgments

The management of the Authority expresses its appreciation to the employees of METRO for their commitment in making this one of the best transit agencies in the nation.

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Metropolitan Transit Authority of Harris County, Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2001

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.

GOVERNMENT FINANCE OFFICERS ASSOCIATION OF THE UNITED STATES AND CANADA CORPORATION SEAL CHICAGO

President

Executive Director

KPMG
700 Louisiana
Houston, TX 77002

Telephone: 713-319-2000
Fax: 713-319-2041

Independent Auditors' Report

The Board of Directors
Metropolitan Transit Authority of
Harris County, Texas:

We have audited the accompanying basic financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority) as of and for the years ended September 30, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2002 and 2001, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 1, the Authority has implemented a new financial reporting model, as required by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*: Omnibus an amendment of GASB Statements No. 21 and No. 34, and GASB No. 38, *Certain Financial Statement Note Disclosures*, as of October 1, 2000.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 31, 2002, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Required Pension Supplementary Information on pages F-4 through F-7 and page F-22 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Authority's basic financial statements. The information in the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in the introductory and statistical sections 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

December 31, 2002

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED SEPTEMBER 30, 2002

This section of the annual report of the Metropolitan Transit Authority of Harris County (METRO) presents a discussion and analysis of METRO's financial performance during the fiscal year that ended September 30, 2002. Please read it in conjunction with the introductory section of the report and METRO's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- The FY2002 Sales Tax revenues were $370.9 million, 1.3% higher than in FY2001. Transportation fares in FY2002 were $50.7 million, 0.8% lower than in FY2001. There was no fare increase in FY2002 and the decrease in fare revenue was due primarily to a small decline in bus ridership.

- FY2002 total operating expenses (including depreciation) were $373.4 million, an increase of 11.7% over FY2001. This increase was primarily due to an increase in fixed-route bus services, expansion of METROLift demand response services, inflation in the cost of healthcare, additional pension expense due to market losses in the salaried pension investment portfolio, increased transit security, an increase in depreciation expense, and a large non-recurring credit in FY2001 from an adjustment to insurance reserves.

- The balance sheet shows the net assets as of September 30, 2002 were $1,609.3 million, an increase of 4.8% over September 30, 2001.

- Total capital assets (net of depreciation) were approximately $1,362.1 million at September 30, 2002, an increase of 6.6% over September 30, 2001. The increase in total capital assets is a result of purchasing property and equipment and completing capital projects related to the Capital Improvement Program.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of this report consists of three parts: management's discussion and analysis (this section), the basic financial statements and the notes to the financial statements, and other supplementary information.

METRO's financial statements are prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units on an accrual basis. Under this basis, revenues are recognized in the period in which they are earned, expenses are recognized in the period in which they are incurred, and depreciation of assets is recognized in the Statement of Revenues, Expenses and Changes in Net Assets.

The Statement of Net Assets reports METRO's net assets and how they have changed. Net assets — the difference between METRO's assets and liabilities — are a measure of METRO's financial position. The increase in METRO's net assets during FY2002 is an indicator of its financial condition.

FINANCIAL ANALYSIS OF METRO

Changes in Net Assets

The increase in net assets from FY2001 to FY2002 was approximately $73.0 million or 4.8%. (See Table A-1.) METRO's total operating revenues decreased by 0.6% to $51.2 million, and total operating expenses increased 11.7% to $373.4 million. Accordingly the operating subsidy including depreciation increased 13.9%. Non-operating income decreased 9.3%.

Table A-1
Changes in METRO's Net Assets
(in millions of dollars)

	FY2002	FY2001	Percentage Change FY2002-2001
Operating Revenue			
Transportation Fares	50.7	51.1	-0.8%
Other Operating	0.5	0.4	25.0%
Total Operating Revenue	51.2	51.5	-0.6%
Operating Expense			
Operating Expenses	277.3	250.3	10.8%
Depreciation & Amortization	96.1	84.0	14.4%
Total Operating Expense	373.4	334.3	11.7%
Operating Subsidy	(322.2)	(282.8)	13.9%
Net Non-Operating Income	395.2	435.8	-9.3%
Change in Net Assets	73.0	153.0	-52.3%
Total Net Assets, Beginning of the year	1,536.3	1,383.2	11.1%
Total Net Assets, End of Year	1,609.3	1,536.2	4.8%

Operating Revenue Discussion

The 0.6% decrease in FY2002 operating revenue over FY2001 is due to no changes to bus fare policy and to a slight decrease in bus ridership. The decline in regional employment levels contributed to the decrease in ridership.

Operating Expense Discussion

Table A-2
METRO's Total Operating Expenses (including depreciation)
(in thousands of dollars)

	FY2002	FY2001	Percentage Change FY2002-2001
Scheduled Services - Fixed Route			
Bus & Rail Operations - direct	106,761	95,525	11.8%
Contract Service	24,995	17,946	39.3%
Materials	3,678	3,479	5.7%
Preventative Maintenance	40,751	37,162	9.7%
Central Shops & Maint. Support	10,076	8,340	20.8%
Safety & Training	5,713	4,437	28.8%
Subtotal Scheduled Services	191,974	166,889	15.0%
Non-Scheduled Services - Special			
METROLift	24,153	20,667	16.9%
METROVan	1,691	1,901	-11.0%
Special Events	3,708	3,605	2.9%
RideShare	6	2	200.0%
Subtotal Non-Scheduled Services	29,558	26,175	12.9%
Service Support			
Service Planning & Evaluation	896	784	14.3%
Marketing	3,618	3,832	-5.6%
Transit Security	6,218	5,109	21.7%
Insurance & Claims	2,018	1,409	43.2%
Ticket & Fare Collection	793	906	-12.5%
Facility Maintenance	9,270	11,026	-15.9%
Subtotal Service Support	22,813	23,066	-1.1%
Traffic Management - Services			
ServicesTransitways	5,069	5,087	-0.4%
TranStar	1,623	1,367	18.7%
Congestion Mitigation	4,350	3,934	10.6%
Subtotal Traffic Management	11,042	10,388	6.3%
Organizational Support			
Business, Community & Gov't Dev.	607	568	6.9%
Administrative, Financial & Personnel	14,537	16,275	-10.7%
Information Systems	3,113	3,514	-11.4%
Purchasing	1,546	1,419	8.9%
Oversight, Audit & Legal	2,059	2,010	2.4%
Subtotal Organizational Support	21,862	23,786	-8.1%
Depreciation & Amortization	96,138	83,951	14.5%
Total Operating Expenses	373,387	334,255	11.7%

Depreciation and Amortization

In FY2001 METRO acquired 426 new buses in a program to modernize the fleet and to make the fleet more homogeneous and 100 percent handicap accessible. In FY2002 the old buses, most of which were well past their normal useful life and fully depreciated, were sold. With the addition of new buses and disposition of old buses, the average age of the fleet was reduced from 4.96 years at the beginning of FY2001 to 3.85 at the end of FY2002. A younger and more homogeneous fleet reduces the number of service interruptions and breakdowns thus improving the quality of service and reducing operating costs. Also in FY2002 several major capital projects were completed including HOV expansions and modernization, facilities rehabilitation and expansion of two park & rides. Information technology investment also increased substantially in FY2002. As a result of these capital additions, the depreciation and amortization expense in FY2002 increased by 14.5%. The increase of $12.2 million accounts for 31.1% of the total expense variance of $39.1 million.

Special Note

In FY2001 METRO's reserves for worker's compensation and general liability were reevaluated and found to be excessive. A one-time adjustment of $15 million in FY2001 caused that year's operating expenses to decrease relative to normal levels. That adjustment causes a variance in expense between FY2002 and FY2001, accounting for $15 million (38.4%) of the total expense variance of $39.1 million.

Additional Expense Factors

In FY2002 METRO increased service for fixed route, METROLift, and special events. The bulk of cost increases were due to medical inflation in both union and salaried employee health benefits, contract rate increases for paratransit service, and increased transit security in response to the events of September 11 and additional pension expense due to market losses in the salaried pension investment portfolio.

The balance of cost increases were partially offset through cost savings gained through more efficient operations and some decreases in market prices, e.g., diesel fuel and utility expense.

Non-Operating Income Discussion

Table A-3
Changes in METRO Non-Operating Revenue
(in millions of dollars)

	FY2002	FY2001	Percentage Change FY2002-2001
Non-Operating Revenues (expenses)			
Sales Tax	370.8	365.9	1.3%
Grants	118.3	139.1	-15.0%
Investment Income	9.1	21.1	-56.9%
Other Income	4.5	7.1	-36.6%
Local Infrastructure Assistance	-92.6	-94.1	-1.6%
Loss on Sale of Assets	-14.9	-3.3	351.5%
Total Net Non-Operating Revenues	395.2	435.8	-9.3%

Sales Tax

METRO collects a one-percent sales tax in its service area, a tax approved by public vote when METRO was established. FY2002 sales tax revenues were $4.9 million higher than in FY2001, a 1.3% increase.

Population and employment are the major drivers of sales tax. During the latter part of FY2002 the Houston region's employment decreased in the airline, entertainment and energy industries as a result of the terrorist attacks on September 11, 2001, the collapse of Enron and the U.S. recession. METRO achieved an increase in sales tax revenue despite all these negative factors.

Grants

METRO is the recipient of a number of federal grants from a variety of programs including formula funds, new starts, fixed guideway modernization, and CMAQ (Congestion Mitigation and Air Quality). These funds are received on the basis of project expenditures made. As projects and operations are advanced and expenditures incurred, the grants are received and recognized. In FY2001 total grants were $139.1 million. In FY2002 the total was $118.3 million. The decrease in grant funds from FY2001 to FY2002 is due entirely to the receipt and payment of replacement buses in FY2001, which did not recur in FY2002.

Investment Income

METRO's average invested funds for FY2002 were $226 million and for FY2001 $246.8 million. METRO's average realized return was 5.2% for 2002 and 7% for 2001. The investment portfolio consisted of the following: U.S. Treasuries, U.S. Agencies, Commercial Paper, Texas Municipal Securities Bonds, Cash and Money Market Funds. Metro's realized return decreased from 7.0% to 5.2% due to the decline in financial markets in FY2002 and the historically low market interest rates.

Other Income

The largest revenue item in other income is net receipts to METRO from defeased leases. In FY2001 the receipt was $6.8 million on a defeased lease on a package of facilities. In FY2002 the receipt was $4.0 million on a defeased lease on a package of buses.

Local Infrastructure Assistance

METRO has an extensive set of programs to construct, rebuild and rehabilitate streets in the Houston region. These programs include the General Mobility Program, Regional Bus Plan – Downtown/Midtown/Texas Medical Center street improvements and Regional Computerized Traffic Signal System, and transit mobility. The streets are not the property of METRO so the construction expenditures are reported as nonoperating expenses. These street projects are a major contribution to enhanced mobility and reduced congestion in the METRO service area – a major part of METRO's mission. These investments in regional mobility totaled $94.1 million in FY2001 and $92.6 million in FY2002.

Loss on Sale of Assets

In FY2002 METRO retired a large number of old buses. The loss was the recognition of the difference between the residual book values and the sales prices, which were very low.

Net Assets

The total net assets of METRO at September 30, 2002 reached $1,609.3 million, a 4.8% increase over September 30, 2001. (See Table A-4.) Total assets increased 12.4% to $2,077.6 million.

Table A-4
METRO's Net Assets
(in millions of dollars)

	FY2002	FY2001	Percentage Change FY2002-2001
Current Assets	89.4	96.6	-7.5%
Capital Assets (net)	1,362.1	1,277.7	6.6%
Other Assets	292.1	262.9	11.1%
Prepaid Assets	334.0	211.9	57.6%
Total Assets	2,077.6	1,849.1	12.4%
Current Liabilities	75.5	63.1	19.7%
Other Liabilities	392.8	249.6	57.4%
Total Liabilities	468.3	312.7	49.8%
Net Assets:			
Investments in capital assets	1,362.1	1,277.7	6.6%
Restricted	247.2	258.6	-4.4%
Total Net Assets	1,609.3	1,536.3	4.8%

Construction of transitways and building improvements has continued. As capital projects progress, a shift from current assets to capital assets occurs. Other capital projects included in the FY2002 Capital Plan also contribute to the shift from current assets to capital assets. METRO capital project payments are funded by sales tax, federal grants, investment earnings, and cash reserves. Consequently, net assets continue to increase. METRO has no debt.

CAPITAL ASSETS

As of September 30, 2002, METRO had invested approximately $2,046.3 million in capital assets, including buildings, buses and equipment, transitways, other property and equipment, leasehold improvements, land, and construction-in-progress. Net of accumulated depreciation, METRO's net capital assets at September 30, 2002 totaled $1,362.1 million. (See Table A-5) This amount represents a net increase (including additions and disposals, net of depreciation) of $84.4 million or 6.6% over September 30, 2001.

Table A-5
METRO's Capital Assets
(in thousands of dollars)

	FY2002	FY2001	Percentage Change FY2002-2001
Buildings and Improvements	326,014	319,553	2.0%
Buses and Equipment	559,099	579,834	-3.6%
Transitways	374,601	360,778	3.8%
Other Property and Equipment	79,834	56,543	41.2%
Leasehold Improvements	6,923	6,472	7.0%
	1,346,471	1,323,180	1.8%
Less: Accumulated Depreciation and Amortization	(684,206)	(630,157)	8.6%
Net Depreciable Property and Improvements	662,265	693,023	-4.4%
Land	223,540	218,886	2.1%
Construction-in-Progress	476,332	365,820	30.2%
Capital Assets (Net)	1,362,137	1,277,729	6.6%

Completed rehabilitation and improvements projects were reclassified from work in progress to buildings and improvements. These rehabilitation projects increased building and improvements 2.0% in FY2002 over FY2001.

In FY2001 METRO continued the process of replacing its aging bus fleet. Retired buses were sold at auction during FY2002. This is accounted for the majority of the 3.6% reduction in the buses and equipment capital assets.

Transitway segments of the Southwest and Eastex HOV (high occupancy vehicle) projects were completed in FY2002, with partial completion of fixed guideway modernization for all operating HOVs. Construction cost was shifted from work in progress to the capital assets account. The reclassification of these costs to the appropriate capital asset created a majority of the 3.8% increase to transitways. Construction of other segments of these projects is expected to continue for several more years.

In 2000, METRO adopted its Information Technology (IT) Systems Strategic Plan for the purpose of updating it's aging critical software systems. Several large systems projects are underway including Customer Telephone Information System (CTIS), Automated Procurement System (MAPS), Financial Management Software, Windows Operating System, and "Maintenance, Material Management & Inventory System" (SEMA). These IT projects account for the 41% increase in other property and equipment.

Land acquisition was completed for Kingsland Park & Ride Expansion and West Bellfort Park & Ride Expansion. The property purchased for these two projects accounted for nearly all of the 2.1% increase in land.

The $110.5 million increase in Construction-in-Progress is primarily due to $81.6 million in additions to the METRORail project during FY2002. The METRORail project represents $173.7 million (36.5%) of the Construction-in-Progress balance as of September 30, 2002.

OUTSTANDING COMMITMENTS

The authority had outstanding commitments totaling $302 million as of September 30, 2002. The outstanding commitments include contract and agreement estimated values of $207 million and contract obligations established by issued purchase orders of $95 million. Outstanding commitments arise from agreements and contracts that extend beyond a single fiscal year. Future Revenues from sales tax collections and grants will be used to fund commitments.

ECONOMIC OUTLOOK FY2003

The Houston economy took a hit in FY2002 due to factors identified above. However, the economic hit was not nearly as bad in Houston as in other areas of Texas and the U.S. Recovery in the Houston economy is expected to be driven primarily by the price of oil and the recovery of the U.S. economy. Predicting these events is very difficult due to the complex national and international situation and the degree of uncertainty and instability that exists.

The prevailing view of FY2003 is that the Houston economy will begin an expansion at some point. That expansion will lead to increases in METRO's sales tax income and to increased system ridership. When that expansion will begin and how rapid it will be is highly uncertain.

CONTACTING

This financial report is designed to provide our patrons and other interested parties with a general overview of the finances and to demonstrate METRO's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the Metropolitan Transit Authority of Harris County, Finance Department, P.O. Box 61429, Houston, TX 77208-1429.

Basic Financial Statements

Metropolitan Transit Authority of Harris County, Texas

Statements of Net Assets

September 30, 2002 and 2001

	2002	2001
Assets		
Current assets		
Cash	$ 2,410,103	$ 994,881
Receivables		
Sales taxes	60,047,059	65,142,124
Federal government -		
Federal Transit Administration	5,176,089	5,137,172
Joint projects- City of Houston	7,104,861	4,684,613
Interest	2,462,459	2,059,284
Bus passes	1,256,705	994,380
Other	711,631	1,776,880
Total receivables	76,758,804	79,794,453
Material and supplies inventory	9,730,354	12,113,018
Other current assets	469,318	3,687,744
Total current asset	89,368,579	96,590,096
Non current assets		
Investments	246,604,160	237,582,945
Security lending transactions	45,519,673	25,310,002
Capital assets, net (Note 3)	1,362,136,900	1,277,729,915
Prepaid lease payments	333,996,153	211,861,356
Total non current assets	1,988,256,886	1,752,484,218
Total assets	$2,077,625,465	$1,849,074,314
Liabilities		
Current liabilities		
Trade payables	38,540,817	37,541,433
Accrued wages, vacation and payroll taxes	20,805,214	18,225,609
Other current liabilities	16,115,504	7,381,697
Total current liabilities	75,461,535	63,148,739
Liabilities for injuries and damages	13,292,328	12,423,164
Obligation for security lending transactions	45,519,673	25,310,002
Deferred rental payments	333,996,153	211,861,356
Total liabilities	468,269,689	312,743,261
Net Assets		
Invested in capital assets	1,362,136,900	1,277,729,915
Unrestricted	247,218,876	258,601,138
Total Net Assets	$1,609,355,776	$1,536,331,053

Metropolitan Transit Authority of Harris County, Texas

Statement of Revenues, Expenses and Changes in Net Assets

For the Years Ended September 30, 2002 and 2001

	2002	2001
Operating revenues:		
Transportation fares	$ 50,702,965	$ 51,120,919
Other operating income	483,097	400,710
Total operating revenue	51,186,062	51,521,629
Operating expenses:		
Scheduled Services - Fixed Route		
Bus & Rail Operations - direct	106,761,142	95,524,530
Contract Service	24,995,397	17,946,029
Materials	3,677,949	3,478,547
Preventative Maintenance	40,751,472	37,162,082
Central Shop & Maintenance Support	10,075,975	8,340,412
Safety & Training	5,713,151	4,436,591
Subtotal Scheduled Services-Fixed Route	191,975,086	166,888,191
Non-Scheduled Services-Special		
METROLift	24,152,787	20,667,316
METROVan	1,691,131	1,901,040
Special Events	3,708,342	3,604,536
RideShare	6,462	1,548
Subtotal Non-Scheduled Service-Special	29,558,722	26,174,440
Service Support		
Service Planning & Evaluation	895,609	784,171
Marketing	3,618,073	3,831,932
Transit Security	6,217,766	5,109,029
Insurance & Claims	2,017,607	1,408,658
Ticket & Fare Collection	792,712	905,500
Facility Maintenance	9,270,001	11,025,727
Subtotal Service Support	22,811,768	23,065,017
Traffic Management - Services		
Transitways	5,069,216	5,087,311
Transtar	1,623,244	1,366,674
Congestion Mitigation	4,350,362	3,933,533
Subtotal Traffic Management - Services	11,042,822	10,387,518
Organizational Support		
Business, Community & Governmental Development	606,735	567,572
Administrative, Financial and Personnel	14,536,568	16,275,341
Information Systems	3,112,759	3,513,568
Purchasings	1,545,860	1,418,502
Oversight, Audit & Legal	2,059,396	2,010,194
Subtotal Organizational Support	21,861,318	23,785,177
Depreciation and amortization	96,138,041	83,950,800
Total operating expenses	373,387,757	334,251,143
Operating loss	(322,201,695)	(282,729,514)
Nonoperating revenues (expenses):		
Sales Tax	370,857,631	365,919,523
Investment income	9,113,410	21,108,943
Other income	4,463,837	7,121,016
Local infrastructure assistances	(92,559,736)	(94,087,788)
Loss on sale or disposal of assets	(14,931,554)	(3,329,025)
Total nonoperating revenues (expenses)	276,943,588	296,732,669
Income(loss) before contributions	(45,258,107)	14,003,155
Capital contributions	118,282,830	139,093,321
Changes in net assets	73,024,723	153,096,476
Net assets - beginning of the year	1,536,331,053	1,383,234,577
Net assets - end of the year	$1,609,355,776	$1,536,331,053

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

Metropolitan Transit Authority of Harris County, Texas

Statement of Cash Flows

For The Years Ended September 30, 2002 and 2001

	2002	2001
Cash flows from operating activities:		
Cash received from customers	$ 50,440,642	$ 51,088,539
Cash payments to employees	(189,511,549)	(175,971,328)
Cash payments to suppliers for goods and services	(88,033,267)	(83,069,193)
Cash received from special events/programs	5,062,115	4,505,760
Net cash used in operating activities	(222,042,059)	(203,446,222)
Cash flows from noncapital financing activities:		
Sales tax	375,952,696	363,052,349
Cash payments for local infrastructure assistance	(91,761,558)	(100,161,463)
Cash received from property leases	148,482	126,068
Cash received from rental income	286,675	219,185
Cash received from concession sales	12,739	13,763
Net cash provided by noncapital financing activities	284,639,034	263,249,902
Cash flows from capital and related financing activities:		
Grants	118,243,913	140,124,983
Cash received from lease/sublease	4,015,941	6,762,000
Cash received from sale of assets	294,617	526,956
Capital purchases	(178,013,440)	(253,762,732)
Net cash used in capital and related financing activities	(55,458,969)	(106,348,793)

	2002	2001
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	922,002,217	1,879,497,851
Purchase of investments	(936,576,009)	(1,851,853,436)
Interest and dividends on investments	8,851,008	17,811,218
Net cash used in investing activities	(5,722,784)	45,455,633
Net change in cash and cash equivalents	1,415,222	(1,089,480)
Cash and cash equivalents at beginning of year	994,881	2,084,361
Cash and cash equivalents at end of year	$ 2,410,103	$ 994,881
Reconciliation of operating loss to net cash used in operating activities:		
Operating Loss	$(322,201,695)	$ (282,729,514)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	96,138,041	83,950,800
Non cash operating expenses		389,775
Changes in assets and liabilities:		
Account receivables	(262,325)	(32,379)
Other receivables	407,452	(692,490)
Inventory	(33,300)	(344,686)
Accrued payroll	2,408,770	1,633,517
Accounts payable	1,500,998	(5,621,245)
Net cash provided by operating activities	$(222,042,059)	$ (203,446,222)
Non cash investing activities		
The net (decrease) increase in fair value of investment	(1,536,125)	4,475,393

1. Summary of Significant Accounting Policies:

The Metropolitan Transit Authority of Harris County, Texas (the Authority) prepares its financial statements in accordance with generally accepted accounting principles established or approved by the Governmental Accounting Standards Board (GASB), the more significant of which are described below.

Reporting Entity

The Authority is a stand-alone governmental entity as defined by Governmental Accounting Standards Board Statement No. 14 "The Financial Reporting Entity" and uses a single enterprise fund when preparing its financial statements.

The Authority is a political subdivision of the State of Texas established in 1977. The Authority began operations in 1979 to develop, maintain, and operate a public mass transportation system, principally within Harris County, Texas and is governed by a nine member Board of Directors (the Board). Five are nominated by the Mayor of the City of Houston and confirmed by City Council. Two are nominated by the Harris County Judge and confirmed by the Harris County Commissioners Court, and two are elected by Mayors of the 14 cities other than Houston within the Authority's service area.

Related Organizations

The following related organizations are excluded from the financial reporting entity because the Authority's accountability does not extend beyond making appointments and/or defined contributions and financial information is available from the respective organizations.

City of Houston, Texas (the City) - Incorporated under the laws of the State of Texas, the City provides governmental services as authorized or required by its charter. While the City appoints a voting majority of the Authority's board members, it is not financially accountable for the actions of the Authority as it is unable to impose its will, and a financial benefit or burden relationship does not exist.

Transport Workers Union - Metropolitan Transit Authority Welfare Trust (HWT) - Established to provide health and welfare benefits for certain employees of the Authority. Although the Authority appoints two of the four members of the Board, the Authority does not have significant influence over its management, budget or policies, and its financial accountability is limited to negotiated defined contributions.

The Non-union Pension Plan (NUPP) is administered by a five-member administrative committee appointed by the Authority. The Transport Workers Union Pension Plan Local 260, AFL-CIO (TWUPP) is administered by four trustees with two appointed by the Authority and two appointed by local 260.

These committee members and trustees are responsible for oversight and management of the plans. The assets of the plans are held by a custodian in the name of the NUPP and TWUPP and are not available for use by the Authority.

Nature of Operating and Non-operating Activities

The Authority is accounted for on a flow of economic resources measurement focus and accrual basis of accounting. Using this approach, revenues are recognized when earned and expenses are recognized when incurred. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority has elected to follow all Financial Accounting Standard Board (FASB) pronouncements issued prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. The Authority has elected not to follow FASB pronouncements issued subsequent to that date. The Authority's primary activities consist of:

Transit operations which are designed to provide the public with a high quality, cost effective public transportation system. Transit operations include designing and constructing maintenance facilities, transit centers, Park & Ride lots, bus storage facilities, selecting bus routes, purchasing buses, maintaining equipment, hiring and training personnel who deliver transit services, providing security, and administering and managing the transit system.

Traffic management operations which are designed to provide comprehensive, effective and efficient management of traffic and vehicular movement in order to enhance the utilization of the Authority's Regional Street and Road Network, thereby improving regional mobility. In addition, traffic and transportation law enforcement activities are provided in order to increase safety for the area's motorists and pedestrians. Traffic management operations also include the management of freeways, activity center congestion, special events congestion, motorist assistance program, RideShare, transitway operations, driving while intoxicated enforcement and radar enforcement.

Local Infrastructure improvements assistance represents cost associated with working with local governments toward improving the quality of roads, streets, sidewalks, bridges and other infrastructure assets which helps to promote more efficient and safer mobility.

Operating revenue is the amount received from transit fares while other operating revenue represents amounts earned from providing shuttle services to special events within the Authority's service area. Non-operating revenue and expenses represents the amounts earned from the one percent sales tax levied in the Authority's service area, federal capital grants that are received on a reimbursement basis, investment income, other income, local infrastructure improvements and loss on disposal of assets. Other income represents amounts earned through concession sales fees, payments, the leasing of property not used in transit operations and cash receipts from lease/sublease arrangements.

The Authority's expenditures relate primarily to transit operations, traffic management, capital and infrastructure improvements.

Cash and Investments

Cash consists of amounts maintained in demand deposit accounts and cash on-hand while investments can consist of a variety of items including: money market accounts, commercial paper, mortgage backed securities, mutual funds, repurchase agreements, certificates of deposit, U.S. Treasury securities, and U.S. Agency securities. In addition, investments are available for participation in the Securities lending program established by Chase Bank of Texas.

Cash and Investments, continued

Investments that are lent and cash received as collateral in securities lending transactions are reported as assets with a corresponding liabilities on the balance sheet.

Inventories of Materials and Supplies

Inventories are valued using a weighted average costing method and consist principally of repair parts and other supplies that are used to maintain the bus fleet and facilities.

Capital Assets

The Authority's overall capitalization policy requires expenditures to be capitalized when (a) the useful life of the asset acquired exceeds one year and/or (b) the useful life of an existing asset is increased beyond its original useful life. Depreciation of such property and equipment is provided using the straight-line method over the following estimated useful lives:

Leasehold improvements	3 - 5 years
Buses and equipment	3 - 10 years
Other property and equipment	3 - 10 years
Transitways	30 years
Buildings and improvements	40 years

The cost of normal repairs and maintenance are charged to expense as incurred. The cost and accumulated depreciation of assets retired or sold are removed from the accounts and any gain or loss is included in nonoperating revenues.

Compensated Absences

Compensated absences are earned by all full-time and part-time employees.

Employees covered by the Authority's Union Contract earn vacation hours each December 31 based on years of service. A maximum of 200 vacation hours per year can be earned. Vacation hours earned must be used in the next calendar year. These employees also accumulate one sick day per month up to a maximum, based on date of hire and years of service, of 30 working days. Accumulated sick pay in excess of eight days may be sold each September 30, back to the Authority. Vacation and sick pay for these employees are expensed when earned with unpaid balances being reported as a liability in the Statement of Net Assets.

Nonunion employees earn, based on years of service, vacation hours up to a maximum of 16.70 hours each month. Vacation hours accumulate and may reach a maximum, based on years of service, of 400 hours. These employees receive 10 sick days per year beginning January 1 of each year. Unused sick leave for nonunion employees can not be carried forward to subsequent years and there is no compensation paid for unused sick leave at the end of a calendar year, termination or retirement. Sick leave for nonunion employees is expensed when incurred. Vacation for these employees are expensed when earned with balances being reported as a liability in the Statement of Net Assets.

Upon termination or retirement, employees are entitled to receive compensation for their unused accrued vacation leave.

Sales Taxes

Revenue from the 1 percent sales tax is recognized when taxable sale transactions occur within the Authority service area. The Comptroller for the State of Texas is responsible for collecting and distributing these amounts to the appropriate governmental organization with funding normally occur within approximately 60 days from date of the sale.

Use of Estimates

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

Implementation of New Accounting Standards and Comparative Data

The Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, GASB Statement No. 37 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and GASB Statement No. 38 *Certain Financial Statement Note Disclosures*. These statements made several changes to the method of presenting financial information including: using enterprise fund financial statements for organizations that are primarily involved in business-type activities, expensing improvements made to infrastructure assets that are not owned or maintained by the Authority, changing the method of reporting pension cost for the Non-Union Pension Plan and the presentation of management's discussion and analysis. In prior years, multi-column general purpose financial statements were utilized. The change in accounting for infrastructure assets required a reduction to the 2001 beginning balance of Work-in-Process of $120,581,590, RCTTS-TSC Improvements of $17,829,150, Accumulated Depreciation RCTTS Improvements of $7,134,544 and beginning net asset balance of $131,276,196. The change in accounting for the Non-union Pension plan resulted in an increase in the beginning 2001 net asset balance of $2,179,172 with an increase to other assets. The financial statements for 2001 have been restated to reflect these new requirements.

2. Deposits and Investment Securities:

The Authority is legally authorized to invest in money market accounts, commercial paper, mortgage backed securities, mutual funds, repurchase agreements, certificates of deposit, U.S. Treasury securities, and U.S. Agency securities some of which include short-term collateralized mortgage obligations (CMOs) and floating rate securities, which are used to enhance earnings. Credit and market risk relating to CMOs and floating rate securities are minimized by limiting these investments to securities whose principal and interest payments are guaranteed by an Agency of the United States Government with expected maturities not exceeding five years.

All of the Authority's deposits are insured by federal depository insurance or collateralized at a minimum of 105 percent of their fair value, while investment securities are insured or registered with repurchase agreements requiring collateral of at least 102 percent of their cost plus accrued interest. The market value associated with the collateral for deposits and repurchase agreements is monitored daily by the Authority's Treasury Department.

All collateral and investment securities are held by the Authority's agent and in the name of the Authority. This permits the investments and deposits to be reported in category one according to Governmental Accounting Standard Board Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

As of September 30, 2002, the Authority's cash deposits totaled $2,933,292 of which $2,373,672 was on deposit with the State of Texas and $559,620 was on deposit with local banks.

The fair value of the Authority's investments is estimated based on quoted market prices and those investments held at September 30, 2002 and 2001 are indicative of the type of investments made by the Authority during each fiscal year and consist of the following:

	2002 Fair Value	2001 Fair Value
Investment securities:		
U.S. Treasury securities	$ 31,745,157	$ 36,802,970
U.S. Agency securities	151,845,842	161,358,592
Commercial paper	53,994,923	37,888,172
Mortgage backed securities	752,716	1,533,211
Total of category one investments	238,338,638	237,582,945
Money Market Mutual Funds	8,265,522	–
Total investments	$ 246,604,160	$ 237,582,945

The Board of Directors has authorized the Authority to enter into a securities lending agreement with JPMorgan Chase Bank of Texas (CT) and its affiliate JPMorgan Chase Manhattan Bank (CM) for securities held by the Authority. The agreement authorizes CT to act as the Authority's agent and deliver to CM securities which may be loaned to those organizations that are reported on the approved borrowers list maintained by CM. The Authority has the right to further limit the organizations that CM may conduct securities lending transactions on its behalf. In addition, the Authority or the borrower may terminate the loan on demand.

As of September 30, 2002 and 2001 collateral received by CM for securities lending transactions is held in the name of the Authority and consists of cash or governmental securities which are category one investments and must always equal 102 percent of the market value of the securities loaned which is determined at the end of each business day by CM. Investment of the Authority's cash collateral by CM is limited to U.S. Treasury and Agency securities and Repurchase agreements with maturities not to exceed 90 days. Repurchase agreements must be fully collateralized by securities that are issued or guaranteed as to principal and interest by the United States Government, its agencies, or instrumentalities. Because of these restrictions, the Authority is not subject to any credit risk.

The Authority is responsible for any deficit that may occur from losses on sale of the investments of the cash collateral by CM. When the collateral is in the form of securities, then CM will indemnify the Authority if the borrower fails to return any of the borrowed securities upon termination of the loan. The collateral is held by CM in the name of the Authority and can be pledged or sold only if the borrower defaults.

All Investment securities are available for use in the security lending program and security lending activity for fiscal 2002 and 2001 consisted of:

	Fiscal 2002	Fiscal 2001
Investment Securities available for lending	$238,338,638	$ 237,582,945
Amount on loan	45,519,673	25,310,002
Gross earnings	384,646	1,088,341
Rebates	303,850	980,851
Agent fees	32,319	42,996
Amount reported in Investment income	48,477	64,494
Percentage on loan	19.1 %	10.6 %

3. Capital Assets:

Changes in capital assets for fiscal 2002 and 2001 were:

Capital Assets	October 1, 2001	Additions	Retirements	Transfers And Completed Projects	September 30, 2002
Capital assets not being depreciated:					
Land	$ 218,886,339	$ –	$ –	$ 4,653,872	$ 223,540,211
Construction in progress	` 365,820,403	186,220,187	–	(75,708,301)	476,332,289
Total capital assets not being depreciated	584,706,742	186,220,187	–	(71,054,429)	699,872,500
Other capital assets:					
Building and improvements	319,553,428	–	(2,900)	6,463,798	326,014,326
Buses and equipment	579,833,554	–	(44,967,955)	24,233,298	559,098,897
Transitways	360,777,832	–	–	13,822,832	374,600,664
Other property and equipment	63,015,492	–	(2,793,127)	26,534,501	86,756,866
Total other capital assets	1,323,180,306	–	(47,763,982)	71,054,429	1,346,470,753
Less: Accumulated depreciation and amortization	(630,157,133)	(96,138,041)	42,088,821	–	(684,206,353)
Other capital assets, net	693,023,173	(96,138,041)	(5,675,161)	71,054,429	662,264,400
Total capital assets, net	$1,277,729,915	$90,082,146	$ (5,675,161)	$ –	$1,362,136,900

Capital Assets	October 1, 2000	Additions	Retirements	Transfers And Completed Projects	September 30, 2001
Capital assets not being depreciated:					
Land	$ 204,124,565	$ –	$ –	$ 14,761,774	$ 218,886,339
Construction in progress	333,049,400	250,711,808	–	(217,940,805)	365,820,403
Total capital assets not being depreciated	537,173,965	250,711,808	–	(203,179,031)	584,706,742
Other capital assets:					
Building and improvements	314,391,395	–	(135,000)	5,297,033	319,553,428
Buses and equipment	459,434,365		(34,473,265)	154,872,454	579,833,554
Transitways	321,422,543	–	(1,220)	39,356,509	360,777,832
Other property and equipment	62,731,413	–	(3,368,956)	3,653,035	63,015,492
Total other capital assets	1,157,979,716	–	(37,978,441)	203,179,031	1,323,180,306
Less: Accumulated depreciation and amortization	(579,939,021)	(83,950,800)	33,732,688	–	(630,157,133)
Other capital assets, net	578,040,695	(83,950,800)	(4,245,753)	203,179,031	693,023,173
Total capital assets, net	$1,115,214,660	$166,761,008	$ (4,245,753)	$ –	$1,277,729,915

4. Retirement Plans:

Pension Plans - The Authority has two pension plans, the Transport Workers Union Pension Plan, Local 260 AFL-CIO and the Non-union Pension Plan. Both plans are noncontributory, single-employer, defined benefit plans designed to provide retirement benefits to full-time employees. Stand-alone financial statements are available for both pension plans from the Authority's Treasury Department. Pension plan contributions are authorized by the Board of Directors during the annual budgeting process.

Transport Workers Union Pension Plan Local 260, AFL-CIO (TWUPP) - The TWUPP provides for monthly normal retirement benefits based on the participants' years of service but not less than $300. Plan participants have a 100 percent vested interest in employer contributions to the Plan after ten years of credited service. Participants become eligible to receive benefits at the earlier of 28 years of credited service or age 60 with five years of credited service. The requirements for early retirement with reduced benefits are that an employee reaches age 55 and has 25 years of credited service. In addition, the Plan provides for disability retirement benefits with the requirements being 10 years of credited service. Additional requirements include 10 years of vesting service for vested deferred retirement benefits and for pre-retirement spousal benefits. Four trustees administer the TWUPP. Two trustees are appointed by the Authority and two are appointed by Local 260.

TWUPP contributions are based on actuarial valuations prepared by an independent actuary from data furnished by the Authority. In 1998, the past service liability was re-established using an interest rate of 8% and is being amortized over 30 years with future gains and losses being amortized over 5 years. The unfunded actuarial accrued liability as of January 1, 2002 was $22,146,000. Funding and pension expenses recognized in the financial statements for the current and previous two fiscal years were $5,358,456, $5,111,289, and $5,589,089.

Non-union Pension Plan (NUPP) - NUPP participants have a 100 percent vested interest in employer contributions to the Plan after five years of credited service. Participants become eligible to receive benefits at age 65 with special provisions allowing for retirement at an earlier age. The minimum annual normal retirement benefit of a participant who retires on or after his normal retirement date is $300 a month, provided the participant has at least 10 years of credited service at retirement regardless of the date of his retirement. The requirements for early retirement with reduced benefits are that an employee reaches age 55 and has 15 years of credited service. In addition, the Plan provides for disability retirement benefits with the eligibility requirement being total and permanent disability at any age with benefits deferred to normal retirement date. Additional requirements include five years of service for vested deferred retirement benefits and pre-retirement spousal benefits. The NUPP plan is administered by a five-member administrative committee appointed by the Authority.

NUPP required contributions were based on actuarial valuations prepared by an independent actuary from data furnished by the Authority. Actual contributions were based on 7 percent of payroll plus amortization for 1995 and 1996 early retirement programs. On January 1, 2002 the past service liability (unfunded actuarial accrued liability) totaling $13,279,049 was re-established and is being amortized over 30 years. Pension expense recognized in the financial statements for the current and previous two fiscal years were $7,026,973, $4,940,383 and $2,987,434 while contributions were $4,537,228, $4,255,490 and $4,120,494.

Actuarial Assumptions - Significant actuarial assumptions used in the Authority's plan valuations are as follows:

	TWUPP	NUPP
Valuation date	January 1st of each year	January 1st of each year
Cost method	Unit credit (closed)	Unit credit (closed)
Asset valuation method	Five-year moving average	Market
Interest rates:		
Investment rate of return	8.0% annum	8.0% per annum
Funding rate	8.0% per annum, compounded annually	8.0% per annum, compounded annually
Inflation rate	Modest	Modest
Cost of living adjustments	3.0 % per annum	3.0 % per annum
Projected salary increase	None	4 percent per annum
Disability retirement rate	Revenue Ruling 96-7	Revenue Ruling 96-7
Assumed annual Retirement rate	Varying percentage ranging From 5% to 100% for age 70	Varying percentage ranging From 5% to 100% for ages 55 Through 70 respectively
Mortality basis after normal Retirement	1979 George B. Buck Mortality Table	1983 Group Annuity Mortality Table
Amortization of gains and losses		
Method	Level dollars/closed	Level dollars/closed
Period	5 years	30 years

4. Retirement Plans, continued:

The NUPP and TWUPP Annual Pension Cost (APC) and Net Pension Obligation for the three calendar years are:

Calendar year	Annual Pension Cost	Percentage of APC Funded	Net Pension Obligation
NUPP			
2000	$3,113,636	132.5	$(2,432,126)
2001	5,549,302	77.5	(1,494,279)
2002 from January 1 to September 30	5,639,650	65.6	995,446
TWUPP			
2000	5,537,912	100.0	–
2001	4,969,094	100.0	–
2002 from January 1 to September 30	4,116,182	100.0	–

The amount of the annual required contribution calculated by the actuary has not been adjusted for past excess or deficient contributions. The current fiscal year contributions and changes in the Net Pension Obligations for the period are:

	TWUPP	NUPP
Annual required contributions	$5,358,456	$7,026,973
Adjustments to annual required contributions		
Interest on beginning Net Pension Obligations	–	–
Annual required contribution	–	–
Pension cost	5,358,456	7,026,973
Current year contribution	5,358,456	4,537,228
Current year change in Net Pension Obligation	–	2,489,745
Net Pension Obligation balance October 1, 2001	–	(1,494,279)
Net Pension Obligation balance September 30, 2002	–	995,446
Percentage of annual pension cost contributed	% 100.0	% 65.6

5. Self-Insurance:

The Authority is self-insured for non-union health benefits, workers compensation, unemployment and other general liabilities, except for property risk insurance for which it pays an annual premium to a third-party insurance company. This property policy covers risk of loss to all real and personal property, including transit buses, located on the Authority's property, but excludes off-property coverage.

The Authority is protected by governmental immunity, except as provided by the Texas Tort Claims Act (TTCA). This act limits the Authority's liability for claims arising from the ownership and use of motor vehicles and real and personnel property.

Under TTCA, liabilities for claims arising from the ownership and use of motor vehicles cannot exceed $100,000 per person and $300,000 per accident for bodily injury and $100,000 per accident for property damages. Bodily injury claims arising from the ownership of real and personal property are also limited to $100,000 per person and $300,000 per accident. Property damage claims arising from the ownership of real and personal property (other than motor vehicles) are barred by state statute. Property settlements have not exceeded our insurance coverage for any of the past three fiscal years.

Liabilities for injuries and damages were $13,292,328 at September 30, 2002 and $12,423,164 at September 30, 2001 and reported at their net present value using a 5 percent discount rate. Gross reserves for 2002 and 2001 were $15,156,547 and $14,181,043 respectively.

Changes in liabilities for injury and damages for fiscal 2002 and 2001 were:

	Balance Beginning of the Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
October 1,2001-September 30, 2002	$ 12,423,164	$ 8,357,594	$ (7,488,430)	$ 13,292,328
October 1, 2000 - September 30, 2001	24,721,589	(4,582,645)	(7,715,780)	12,423,164

During 2001, Metro’s reserves for worker compensation and general liability were found to be excessive therefore the reserve was reduced from 24.7 million to 12.4 million. The Authority’s ultimate liability for workers compensation claims may be more or less than the amount accrued; however, management believes the differences will not materially affect the Authority’s financial position.

6. Commitments and Contingencies

Outstanding value of contracts, purchase orders/requisitions and agreements

The Authority has entered into various contracts, purchases orders/requisitions and agreements to acquire goods, services or to assist in developing infrastructure improvements within the Authority Service area. The remaining balance of these commitments total $302,490,655 as of September 30, 2002.

Interlocal and congestion mitigation\traffic management agreements

The Authority has entered into interlocal agreements with the City of Houston and Harris County as well as congestion mitigation\traffic management agreements with the 14 remaining cities within the Authority's service area. These agreements require the Authority to make payments through September 30, 2009 totaling approximately $105,622,000 of which $85,518,000 has been paid through September 30, 2002. Current period expenditures of $12,400,000 have been included as part of Local Infrastructure assistance in the Statements of Revenues, Expenses and Changes in Net Assets.

Leases

The Authority leases land, buildings and data processing equipment under various operating leases. In most cases, management expects to renew or replace these leases as they expire.

Future minimum payments under operating leases with initial or remaining terms of one year or more consisted of the following on September 30, 2002:

Year Ending September 30,	Operating Leases
2003	$ 4,040,717
2004	3,980,744
2005	3,960,720
2006	3,965,310
2007	3,879,434
2008	3,879,434
Total minimum lease payments	$23,706,359

Rent expenditures aggregated approximately $4,837,021 and $4,546,985 for the years ending September 30, 2002 and 2001 respectively.

Lease/sub-lease agreements

Operating Facilities and Buses

During Fiscal 2001 the Authority entered into 7 Participation Agreements (PA) with various parties for the leasing and sub-leasing of seven of its operating facilities/land and in 2002 entered into 2 PA for 572 of its buses. Under terms of the PA, the Authority would lease the operating facilities/land and buses to nine business trusts and then sub-lease them back from the trusts for use in operating, maintaining and providing bus services. These PA required the Authority to irrevocably place with Equity and Debt Payment Undertakers sufficient cash for use in making all leaseback and purchase option payments with payments by the undertakers being unconditionally guaranteed by American International Group, Inc for the facilities and Financial Security Assurance Inc. for the buses. Additional funding by the Authority will be required only if the Authority elects to terminate early any lease agreement (prior to the Early Purchase Option date) or has to reimburse any of the Owner/Participants of the trusts under the Tax Indemnification Agreements.

The Authority has the right to purchase the lessee (trusts) interest in the facilities/land or buses at the Early Purchase Option or End-of-Term lease dates. If the Authority does not exercise one of these options or if the Authority defaults on a lease agreement then the trusts can exercise their purchase options relating to the specific lease. Termination amounts are calculated by multiplying the original lease facility value by the early termination percentage (reduced annually) where as the Tax Indemnification Agreements are based on maintaining the Net Economic Return that was expected by the Owner/Participants when they entered into the specific leases.

The Authority received a net benefit of $6,762,000 in 2001 and $4,015,941 in 2002 which has been recorded as other income in the Statements of Revenues, Expenses and Changes in Net Assets. Amounts placed with the payments undertakers are amortized on a straight-line basis over the life of the specific lease. Unamortized balances are reported on the Statement of Net Assets as Restricted asset-prepaid lease payments with a corresponding liability titled Deferred rental payments.

Lease and sub-lease terms and original amounts placed with payment undertakers are:

	Original Lease Expiration Date	Sub-Lease Early Purchase Option Date	Sub-Lease Expiration Date	Amortization Period (Years)
Facility				
Buffalo Bayou	Dec 14, 2075	Jan 1, 2026	Jun 14, 2035	34
Fallbrook	Dec 14, 2087	Jan 1, 2026	Dec 14, 2036	35
Field Service Center	Jun 14, 2068	Jan 1, 2026	Dec 14, 2034	33
Hiram Clarke	Dec 14, 2075	Jan 1, 2026	Jun 14, 2035	34
Kashmere	Jun 14, 2083	Jan 1, 2026	Jun 14, 2037	36
Northwest	Dec 14, 2075	Jan 1, 2026	Jun 14, 2035	34
West	Jun 14, 2083	Jan 1, 2026	Dec 14, 2036	35
Transit Buses	May 02, 2052	–	Jan 01, 2012-15	10-13

6. Commitments and Contingencies, continued:

Changes in the amounts placed with payment undertakers and amounts amortized were:

	Unamortized Balance Remaining with Payment Undertakers September 30, 2001	Current year Placements	Current Year Amortization	Unamortized Balance Remaining with Payment Undertaker September 30, 2002
Facility				
Buffalo Bayou	$ 9,098,710	$ –	$ 275,719	$ 8,822,991
Fallbrook	51,876,724	–	1,526,555	50,350,169
Field Service Center	21,416,272	–	669,258	20,747,014
Hiram Clarke	26,371,020	–	799,122	25,571,898
Kashmere	45,648,073	–	1,304,231	44,343,842
Northwest	25,994,743	–	787,720	25,207,023
West	31,455,814	–	925,171	30,530,643
Transit buses (286)	–	70,849,944	5,735,631	65,114,313
Transit buses (286)	–	69,424,531	6,116,271	63,308,260
Total	$211,861,356	$140,274,475	$18,139,678	$333,996,153

	Unamortized Balance Remaining with Payment Undertakers September 30, 2000	Current year Placements	Current Year Amortization	Unamortized Balance Remaining with Payment Undertaker September 30, 2001
Facility				
Buffalo Bayou	$ –	$ 9,374,429	$ 275,719	$ 9,098,710
Fallbrook	–	53,429,420	1,552,696	51,876,724
Field Service Center	–	22,085,530	669,258	21,416,272
Hiram Clarke	–	27,170,142	799,122	26,371,020
Kashmere	–	46,952,304	1,304,231	45,648,073
Northwest	–	26,782,463	787,720	25,994,743
West	–	32,380,985	925,171	31,455,814
Total	$ –	$218,175,273	$6,313,917	$211,861,356

6. Commitments and Contingencies, continued

Litigation

The Authority is a defendant in various legal actions occurring in the normal course of its operations. The Authority has recognized, to the extent it believes necessary, liabilities for any reasonably expected losses which might arise from the final resolution of such litigation. In certain cases, however, management is not presently able to determine the ultimate liability, if any, which might arise upon final resolution of the various legal actions. In these instances, management believes the ultimate liability in excess of amounts recorded, if any, will not materially affect the Authority's financial position.

Federal and State Grants

Expenditures financed by federal and state grants are subject to audit by the granting agencies. Management believes that no significant liability will arise from any such audits.

7. Post-employment Health and Life Insurance Benefits:

In addition to pension benefits to retirees described in note 4, the Authority provides post-employment health and limited life insurance benefits. To receive these benefits, the individuals must be eligible to receive pension benefits from their respective pension plan. Currently, 202 nonunion and 382 union retirees receive these benefits. The Board of Directors authorizes these benefits during the budgetary process.

Transport Workers Union - Metropolitan Transit Authority Health & Welfare Trust (H&WT) - The Authority contributed based upon a contractual agreement to the H&WT $495 each month starting September 1, 2002 for medical/dental benefits. The Authority is not responsible for payments in excess of its monthly contribution. The Authority recognizes as an expense its monthly contributions to the H&WT. Fiscal 2002 contributions by the Authority to the H&WT for post-employment benefits were approximately $1,991,144 for medical/dental. The total cost to administer H&WT benefits is determined by the H&WT Trustees. The Labor Agreement sets the Authority’s contribution. The employees’ portion, determined by the H&WT Trustees, represents the difference between the total cost of benefits and METRO’s contribution to HW&T.

Nonunion post-employment health care coverage - The Authority contributes approximately 85 percent of the cost of various medical/dental plans offered to nonunion participants. This amount is established on a pay-as-you-go basis with information furnished by the Authority's benefits staff and projected annually by the Authority’s management and budget staff. During fiscal 2002, the Authority contributed approximately $843,000 for nonunion post-employment health benefits. This amount is recognized as expense when paid.

Post-employment life insurance - The Authority contributes $3.12 monthly (limited to age 70 for pre-June 1, 1995 retirees) for nonunion retirees and 43 cents for each $1,000 of basic group life insurance for union retirees. Contributions made by the Authority during the current year were approximately $7,000 for nonunion and $29,000 for union retirees.

Required Supplementary Information

Metropolitan Transit Authority of Harris County, Texas

Schedule of Funding Progress for the

Non-Union and Transport Workers Union Pension Plan

(Unaudited)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accred Liability (AAL) Unit credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio Percentage (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Non-union pension plan	Jan 1, 2002	$ 65,951	79,230	13,279	83.2%	$ 56,585	23.47%
	Jan 1, 2001	69,201	70,646	1,445	98.0%	52,044	2.78%
	Jan 1, 2000	68,517	59,818	(8,699)	114.5%	49,567	-17.55%
Transport Workers union pension plan	Jan 1, 2002	82,865	105,012	22,147	78.9%	81,573	27.15%
	Jan 1, 2001	75,549	94,382	18,833	80.0%	78,251	24.07%
	Jan 1, 2000	65,213	85,739	20,526	76.1%	78,611	26.11%

Statistical (unaudited)

Metropolitan Transit Authority of Harris County, Texas

Combined Resources by Source—Last Ten Years

(Unaudited)

Fiscal Year	Sales Tax	Operating Revenue	Grants	Investment Income	Other Income	Total Revenue
2002	$ 370,857,631	$ 50,702,965	$ 118,282,830	$ 9,113,410	$ 4,946,934	$ 553,903,770
2001	365,919,523	51,120,919	139,093,321	21,108,942	7,521,726	584,764,431
2000	359,254,669	49,596,708	96,476,000	16,205,395	884,021	522,416,793
1999	333,460,909	47,697,779	111,396,131	9,128,831	403,810	502,087,460
1998	314,697,620	46,894,741	66,254,738	14,612,638	656,527	443,116,264
1997	285,009,303	44,257,254	73,469,765	14,846,678	513,855	418,096,855
1996	267,711,763	43,588,945	79,298,109	18,839,108	576,700	410,014,625
1995	258,227,038	45,389,454	51,404,700	21,238,199	322,531	376,581,922
1994	246,835,190	42,186,669	45,290,192	21,197,270	261,816	355,771,137
1993	235,579,770	43,926,004	45,403,434	42,656,867	140,120	367,706,195

Source: Annual Financial Reports

Metropolitan Transit Authority of Harris County, Texas

Operating and Capital Expenditures—Last Ten Years

(Unaudited)

Fiscal Year	Operating	Depreciation	Infrastructure	Capital
2002	$277,249,716	$ 96,138,041	$ 92,559,736	$186,220,187
2001	250,300,343	83,950,800	94,087,788	250,711,808
2000	246,054,622	79,771,509	125,849,412	143,044,962
1999	231,782,080	81,627,201	98,297,871	152,596,859
1998	223,296,882	78,952,936	98,021,755	136,325,583
1997	220,473,642	64,034,181	113,724,011	138,166,755
1996	208,717,799	57,050,319	145,987,983	100,985,286
1995	205,513,728	57,259,564	130,280,023	103,105,477
1994	204,721,070	55,459,387	172,290,527	94,855,773
1993	187,601,203	43,551,459	154,274,870	181,430,865

Source: Annual Financial Reports

Metropolitan Transit Authority of Harris County, Texas

Demographic Statistics—Last Ten Years

(Unaudited)

Fiscal Year	(a) Population	(a) Per Capita Personal Income	(a) Total Retail Sales (000)	(a) Unemployment Rate
2002	(b)	$ (b)	(b)	5.9
2001	4,262,000	33,620	56,895,000	4.3
2000	4,177,000	33,891	56,213,000	4.1
1999	4,058,000	31,726	52,697,000	4.5
1998	3,965,000	31,136	53,192,000	4.1
1997	3,829,000	28,831	52,043,000	5.0
1996	3,693,000	26,702	43,115,000	5.2
1995	3,591,000	25,318	38,911,000	5.7
1994	3,513,000	23,933	36,335,000	6.5
1993	3,455,000	23,280	32,924,000	7.3

(a) Source: University of Houston’s Center for Public Policy Primary Metropolitan Statistical area
(b) 2002 statistical data not available

Metropolitan Transit Authority of Harris County, Texas

Ridership Statistics—Last Ten Years

(Unaudited)

Fiscal Year	HOV Ridership Cars & Vans & Non-Metro buses	Transit Boarding	Revenue Vehicle Miles	Passenger Miles-Transit	Passenger-Miles Carpool/Vanpool Non-Metro buses on HOV Lanes	Number of Employees
2002	20,685,679	97,704,373	56,269,408	625,056,662	213,269,331	3,644
2001	18,793,691	101,914,157	54,666,706	632,160,800	193,762,951	3,687
2000	16,325,048	101,101,040	52,161,652	607,449,113	168,311,243	3,487
1999	16,550,699	101,106,374	49,911,832	601,923,531	170,637,709	3,555
1998	15,207,916	96,274,371	47,688,468	548,950,133	156,793,609	3,413
1997	15,292,009	88,332,464	47,219,839	466,272,601	157,660,605	3,465
1996	15,347,291	81,401,409	45,220,481	397,024,900	158,230,570	3,513
1995	14,096,183	80,753,187	44,756,351	441,847,870	145,331,647	3,507
1994	13,665,844	83,881,148	42,844,089	458,200,243	140,927,459	3,480
1993	12,412,000	84,548,826	40,717,284	460,407,236	127,994,000	3,556

Source: Metropolitan Transit Authority Office of Management and Budget

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