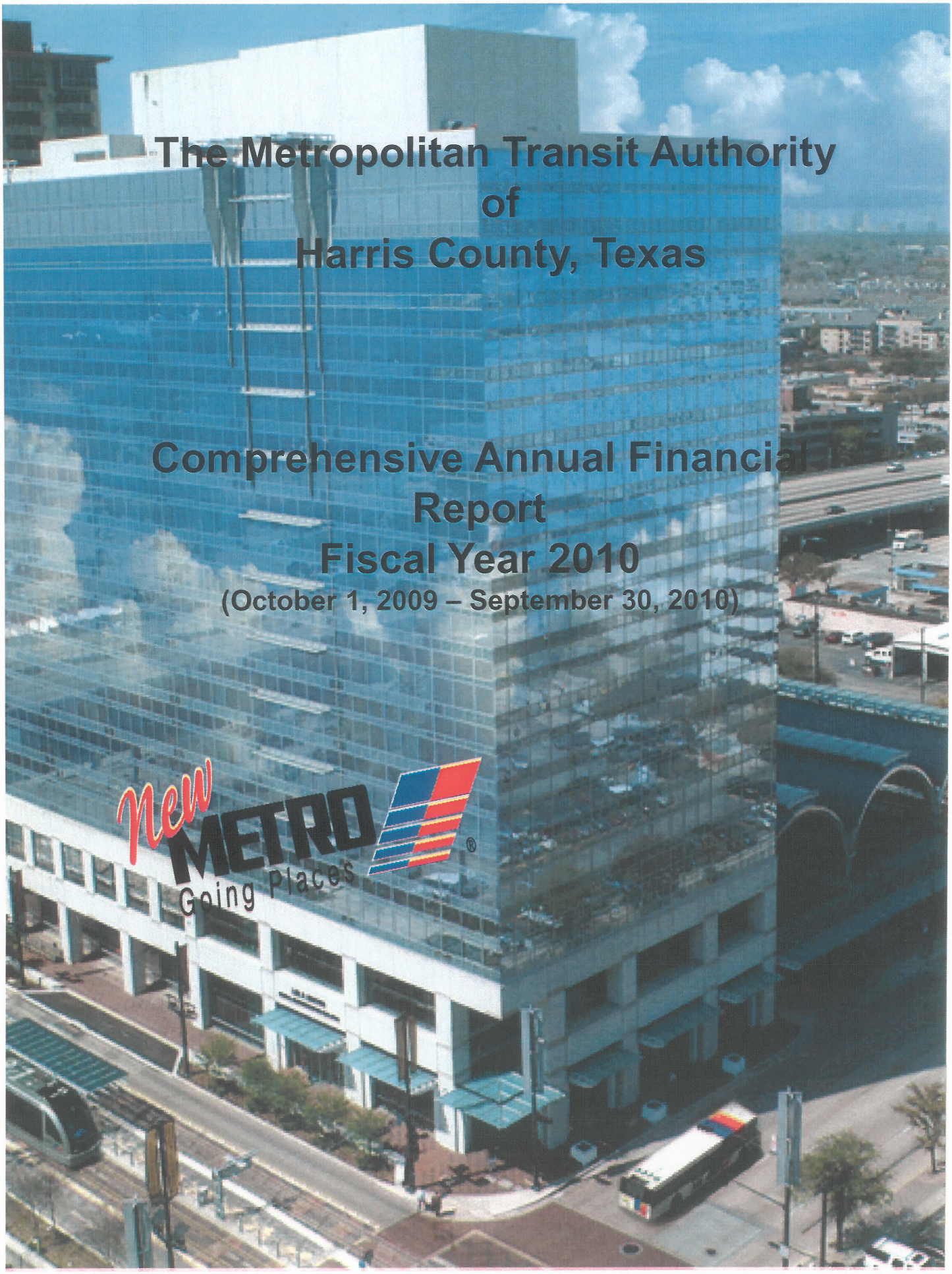
The Metropolitan Transit Authority of Harris County, Texas

Comprehensive Annual Financial Report
Fiscal Year 2010
(October 1, 2009 – September 30, 2010)



Comprehensive Annual Financial Report

Fiscal Year 2010
(October 1, 2009 – September 30, 2010)

Prepared by:

Metropolitan Transit Authority
of
Harris County, Texas

Finance Department

New METRO
Going Places®

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Introduction Section

Board of Directors
Gilbert Andrew Garcia, CFA
Chairman
Allen D. Watson
Vice Chairman
C. Jim Stewart, III
Secretary
Burt Ballanfant
Honorable Dwight Jefferson
Carrin F. Patman
Trinidad Mendenhall Sosa
Christof Spieler
Gary Stobb

President & Chief Executive Officer
George Greanias

March 31, 2011

Board of Directors
Metropolitan Transit Authority of Harris County, Texas ("METRO")
And Taxpayers of the METRO Service Area

I am pleased to present METRO's Comprehensive Annual Financial Report (CAFR) for the year ended September 30, 2010 ("FY 2010"). The management of METRO is responsible for the information presented in the CAFR.

METRO was established under Texas law in 1977. It began operations in 1979 to develop, maintain, and operate a public transportation system primarily in Harris County, Texas. The service area includes Houston, the nation's fourth largest City. The service area includes 3.5 million citizens. METRO's revenues include a 1% local sales tax across the geographic service area as well as fares and federal grants. By voter referendum 25% of the sales tax proceeds are allocated to non-transit general mobility projects of local governments. METRO's capital program is supported primarily by grants and bond proceeds.

METRO's strategic priorities are to 1) provide first class transit services, 2) build great transit infrastructure, and 3) become a trusted community partner. To those ends, METRO currently runs 1,251 buses, 152 paratransit vans, and 18 rail cars. Last year over 81 million passengers boarded METRO vehicles. Ridership was down by 7.4 million passengers or 8.6%. As of November 2010 over 75 million passengers had boarded METRO's Main Street light rail line since it began operations in 2003. METRO is currently constructing three additional rail lines totaling 15 miles with plans for two more lines in the upcoming years.

In FY 2010 METRO struggled with falling revenues. Sales tax fell to $490 million, $28 million or 5.4% less than the prior year. Fares fell to $64.5 million, $2.6 million or 3.8% less than the prior year. Operating grant receipts increased to $64.0 million, $4.6 million or 7.8% more than the prior year. At the same time Metro's operating expenditures increased just slightly to $562.6 million, $4.0 million or 0.7% higher than the prior year. Capital grant proceeds increased to $91.9 million, $50.9 million or more than double the prior year as the FTA awarded $50 million for METRO Rail Expansion on the North and Southeast lines. METRO also recorded $180.3 million in impaired assets in fiscal year 2010. See Management's Discussion and Analysis for further discussion of financial performance and condition.

The Accounting staff in the Finance Department had major responsibility and worked diligently to complete this report timely. The Budget Services staff also contributed significantly to the effort. Operating departments throughout METRO contributed data and handled responses from the audit staff. Thanks and appreciation go to all.

Sue Bailey

Sue Bailey
Sr. Vice President and Chief Financial Officer

Metropolitan Transit Authority of Harris County, Texas
1900 Main • P.O. Box 61429 • Houston, Texas 77208-1429
713-635-4000 • RideMETRO.org

Board of Directors

Gilbert Andrew Garcia, CFA, Chairman

Allen D. Watson, Vice Chairman

C. Jim Stewart, III, Secretary

Burt Ballanfant

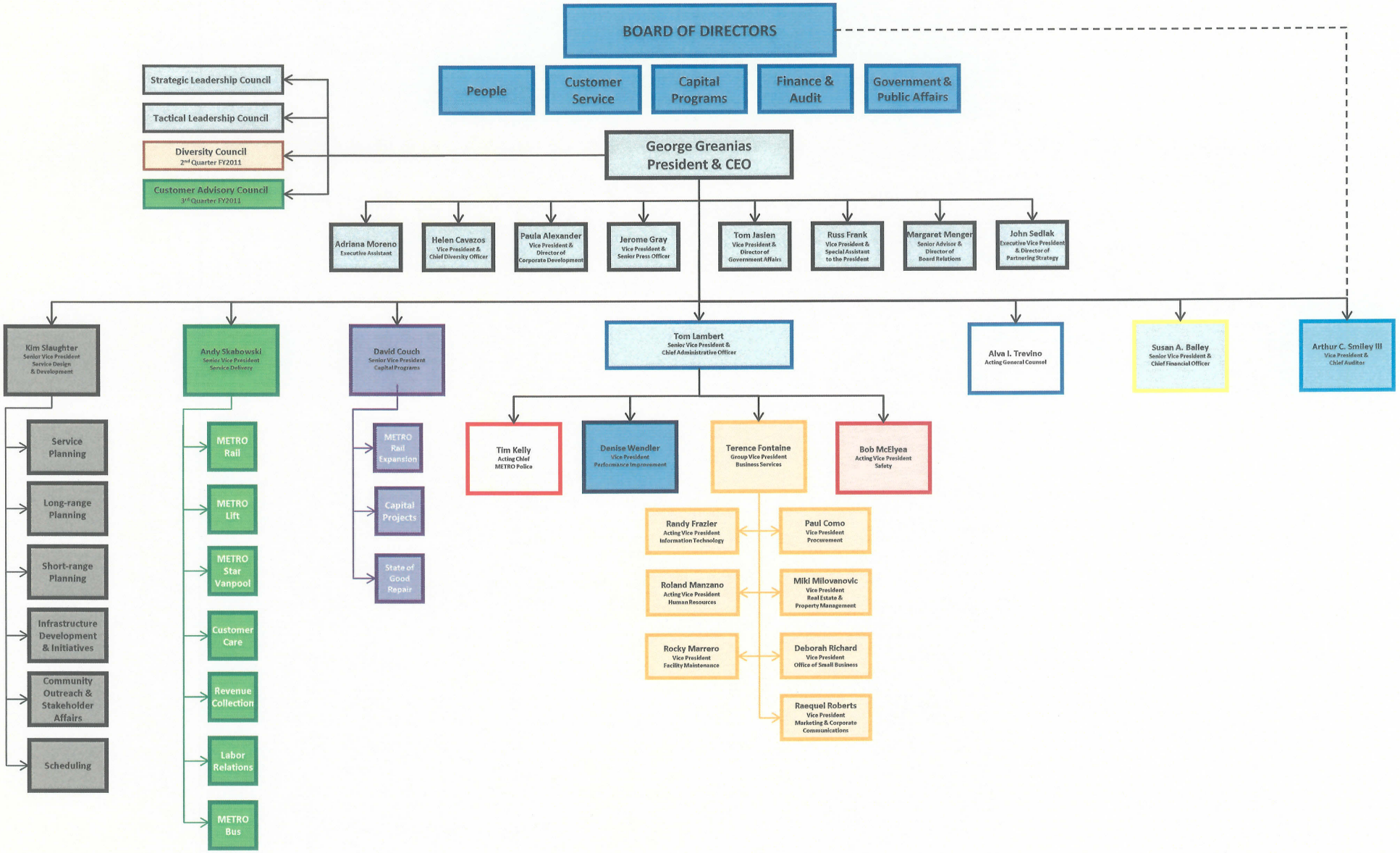
Honorable Dwight Jefferson

Carrin F. Patman

Trinidad (Trini) Mendenhall Sosa

Christof Spieler

Gary Stobb


BOARD OF DIRECTORS
People
Customer Service
Capital Programs
Finance & Audit
Government & Public Affairs
Strategic Leadership Council
Tactical Leadership Council
Diversity Council
2nd Quarter FY2011
Customer Advisory Council
3rd Quarter FY2011
George Greanias
President & CEO
Adriana Moreno
Executive Assistant
Helen Cavazos
Vice President & Chief Diversity Officer
Paula Alexander
Vice President & Director of Corporate Development
Jerome Gray
Vice President & Senior Press Officer
Tom Jasien
Vice President & Director of Government Affairs
Russ Frank
Vice President & Special Assistant to the President
Margaret Menger
Senior Advisor & Director of Board Relations
John Sedlak
Executive Vice President & Director of Partnering Strategy
Kim Slaughter
Senior Vice President Service Design & Development
Service Planning
Long-range Planning
Short-range Planning
Infrastructure Development & Initiatives
Community Outreach & Stakeholder Affairs
Scheduling
Andy Skabowski
Senior Vice President Service Delivery
METRO Rail
METRO Lift
METRO Star Vanpool
Customer Care
Revenue Collection
Labor Relations
METRO Bus
David Couch
Senior Vice President Capital Programs
METRO Rail Expansion
Capital Projects
State of Good Repair
Tom Lambert
Senior Vice President & Chief Administrative Officer
Tim Kelly
Acting Chief METRO Police
Denise Wendler
Vice President Performance Improvement
Terence Fontaine
Group Vice President Business Services
Randy Frazier
Acting Vice President Information Technology
Roland Manzano
Acting Vice President Human Resources
Rocky Marrero
Vice President Facility Maintenance
Paul Como
Vice President Procurement
Miki Milovanovic
Vice President Real Estate & Property Management
Deborah Richard
Vice President Office of Small Business
Raequel Roberts
Vice President Marketing & Corporate Communications
Bob McElyea
Acting Vice President Safety
Alva I. Trevino
Acting General Counsel
Susan A. Bailey
Senior Vice President & Chief Financial Officer
Arthur C. Smiley III
Vice President & Chief Auditor

Financial Entity and Certificate of Achievement for Excellence in Financial Reporting

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 Standards Board Statement 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 efficient 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 that have been legally authorized as listed in Note 2 to the financial statements.

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

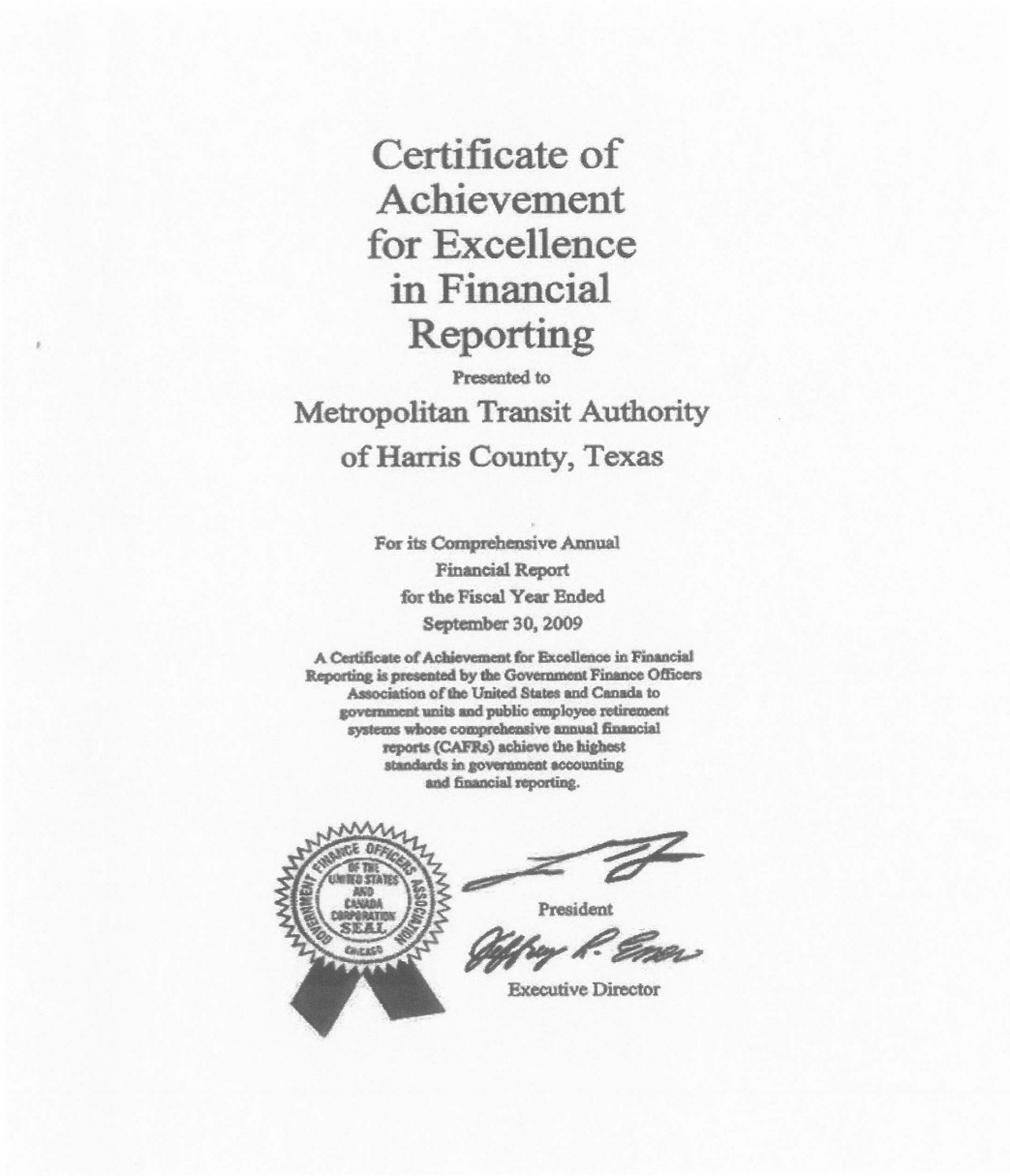
The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to METRO for its CAFR for the year ended September 30, 2009, which is the nineteenth consecutive year that METRO has received this prestigious award. In order to be awarded a 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, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Financial Section

Independent Auditors' Report

KPMG LLP
811 Main Street
Houston, TX 77002

Independent Auditors' Report

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

We have audited the accompanying financial statements of the Metropolitan Transit Authority of Harris County, Texas (the Authority), as of and for the years ended September 30, 2010 and 2009, 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 did not audit the financial statements of the Metropolitan Transit Authority Transport Workers Union Pension Plan Local 260, the Metropolitan Transit Authority Non-Union Pension Plan and Trust, and the Transport Workers Union Metropolitan Transit Authority Health and Welfare Trust (the Retirement Plans) in 2009 or 2008. The financial information related to the Retirement Plans is included in footnote 4 of the notes to the financial statements. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts and disclosures included for the Retirement Plans, is based solely on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of September 30, 2010 and 2009, and the changes in its financial position and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 31, 2011 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

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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 the Required Supplementary Information on pages 8 through 18 and page 48, respectively, 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Authority's basic financial statements. The information in the introduction 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 introduction and statistical sections has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

KPMG LLP

March 31, 2011

Management's Discussion and Analysis

METROPOLITAN TRANSIT AUTHORITY OF HARRIS COUNTY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED SEPTEMBER 30, 2010, 2009, AND 2008

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 years that ended September 30, 2010, 2009, and 2008. Please read it in conjunction with the introductory section of the report and METRO's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Fiscal Year 2010 vs. 2009

- FY2010 Sales Tax revenues were $490.0 million (Table A-3), 5.4% lower than in FY2009 (Table A-3). Fares in FY2010 were $64.5 million, 3.8% less than in FY2009 (Table A-1). The decrease in fare revenue was largely due to a decrease in fixed route ridership of 8.6% following a decline in local employment. Sales Tax deterioration resulted from the economic downturn in Houston and the accompanying job loss.

- FY2010 total operating expenses (including depreciation) were $562.6 million, an increase of 0.7% over FY2009 (Table A-1).

- The balance sheet shows net assets as of September 30, 2010 were $1,594.3 million, a decrease of 10.5% over September 30, 2009 (Table A-4).

- Total capital assets (net of depreciation) were $2,032.0 million as of September 30, 2010, an increase of 3.2% over September 30, 2009 (Table A-5). This increase is primarily due to the purchases of buses and equipment.

Fiscal Year 2009 vs. 2008

- FY2009 Sales Tax revenues were $518.0 million (Table A-3), 0.6% lower than in FY2008 (Table A-3). Fares in FY2009 were $67.1 million, 24.7% more than in FY2008 (Table A-1). There was a 25.0% fare revenue increase in FY2009. The increase in fare revenue was due to the effects of fare restructuring (see Operating Revenue section), partially offset by a decrease in fixed route ridership of 12.4%. Sales Tax deterioration resulted from the economic recession in Houston, and the accompanying job loss.

- FY2009 total operating expenses (including depreciation) were $558.6 million, an increase of 12.5% over FY2008 (Table A-1). This increase was primarily due to higher fuel cost, which is the result of payments made to cover fuel hedge account.

- The balance sheet shows net assets as of September 30, 2009 were $1,780.9 million, an increase of 0.5% over September 30, 2008 (Table A-4).

- Total capital assets (net of depreciation) were $1,969.8 million as of September 30, 2009, an increase of 6.6% over September 30, 2008 (Table A-5). This increase is primarily the result of work performed on the METRONet project and transfer of METRO Q® Card fare collection equipment to fixed assets. METRONet completed installation of 148 closed circuit television cameras and a master control room located in the TranStar facility.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

METRO's financial statements are prepared in conformity with United States generally accepted accounting principles (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. METRO's Statement of Net Assets presents the same information as a balance sheet. It assesses the balance of a government's assets.

FINANCIAL ANALYSIS OF METRO

Net Assets

Fiscal Year 2010 vs. 2009

The decrease in net assets from FY2009 to FY2010 was approximately $186.6 million (Table A-1) or 10.5%. METRO's total operating revenues decreased by 3.8% to $64.5 million (see Operating Revenue section), and total operating expenses increased 0.7% to $562.6 million. Accordingly, the operating subsidy (Operating Loss) including depreciation increased 1.3% (see Expense Factors section). Non-operating income decreased by $240.4 million or 52.2% and capital contribution (Grants) increased by $50.8 million or 125.0%.

The $186.6 million decrease in net assets (end of year) from FY2009 to FY2010 is the net of a decrease of $45.3 million in total assets and an increase of $141.2 million in total liabilities. The $45.3 million decrease in total assets results largely from decreases in both cash and investments (including both restricted and unrestricted) of $153.4 million and prepaid lease payments of $21.7 million. These decreases are offset by increases in capital assets of $62.2 million, largely a result of bus and equipment purchases and increase in receivables of $51.4 million, which include a $5.6 million increase in sales tax receivables, a $32.7 million increase in FTA receivables, and a $14.0 million refund due from the rail car vendor (CAF USA) following the cancellation of the rail car contract.

The $141.2 million increase in total liabilities results largely from increases in bond issuance of $81.6 million, commercial paper of $47.0 million and other post employment benefits (OPEB) of $28.0 million. These increases are offset by a decrease in deferred rental payments of $21.7 million for lease and sub lease agreements for operating facilities and buses.

Total assets (Table A-4) decreased 1.7% to $2,691.8 million and total liabilities increased by 14.8% to $1,097.4 million. Unrestricted assets increased $43.4 million.

Fiscal Year 2009 vs. 2008

The increase in net assets from FY2008 to FY2009 was approximately $9.5 million (Table A-1) or 0.5% (Table A-4). METRO's total operating revenues increased by 24.7% to $67.1 million (see Operating Revenue section), and total operating expenses increased 12.5% to $558.6 million. Accordingly, the operating subsidy (Operating Loss) including depreciation increased 11.0% (see Expense Factors section). Nonoperating income increased by $54.2 million or 13.3% and capital contribution (Grants) increased by $14.0 million or 51.9%.

The $9.5 million increase in net assets from FY2008 to FY2009 is the net of an increase of $314.3 million in total assets and an increase of $304.8 million in total liabilities. Total assets (Table A-4) increased 13.0% to $2,737.1 million and total liabilities increased by 46.8% to $956.2 million. As a result of increased capital purchases and capital lease obligations, unrestricted assets decreased $51.4 million.

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

	FY2010	FY2009	Percentage Change FY2010-2009	FY2008
Operating Revenue				
Transportation Fares	$64.5	$67.1	(3.8%)	$53.8
Total Operating Revenue	**64.5**	**67.1**	**(3.8%)**	**53.8**
Operating Expense				
Operating Expenses	418.6	417.7	0.2%	371.5
Depreciation & Amortization	144.0	140.8	2.2%	124.9
Total Operating Expense (Table A-2)	**562.6**	**558.6**	**0.7%**	**496.4**
Operating Loss	(498.0)	(491.5)	1.3%	(442.6)
Non-Operating Revenue / (Expenses)	219.9	460.3	(52.2%)	406.1
Loss Before Contribution	(278.1)	(31.1)	793.4%	(36.5)
Capital Contribution	91.5	40.7	125.0%	27.0
Change in Net Assets	**(186.6)**	**9.6**	**(2,034.6%)**	**(9.5)**
Total Net Assets, Beginning of the Year	1,780.9	1,771.4	0.5%	1,780.9
Total Net Assets, End of Year	$1,594.3	$1,781.0	(10.5%)	$1,771.4

Operating Revenue

Fiscal Year 2010 vs. 2009

The 3.8% decrease in FY2010 operating revenue over FY2009 is due to reduced transportation fares resulting from a decline in local employment experienced in FY2010.

Fiscal Year 2009 vs. 2008

The 24.7% increase in FY2009 operating revenue over FY2008 is due to an increase in fares of 25%.

Operating Expense

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

	FY2010	FY2009	Percentage Change FY2010-2009	FY2008
Scheduled Services - Fixed Route				
Bus & Rail Operations - Direct	$161,548	$179,245	(9.9%)	$148,356
Contract Service	44,366	45,638	(2.8%)	39,518
Materials	5,995	5,663	5.9%	5,804
Preventative Maintenance	49,926	47,706	4.7%	47,194
Central Shops & Maint. Support	13,796	13,192	4.6%	13,086
Safety & Training	859	925	(7.2%)	796
Subtotal Scheduled Services	276,490	292,369	(5.4%)	254,754
Non-Scheduled Services - Special				
METROLift	35,916	35,557	1.0%	34,237
METROVan	4,328	6,075	(28.8%)	4,079
Special Events	809	793	2.0%	624
Subtotal Non-Scheduled Services	41,052	42,425	(3.2%)	38,941
Service Support				
Service Planning & Evaluation	823	247	233.0%	587
Marketing	6,933	5,324	30.2%	5,709
Transit Security	14,485	14,020	3.3%	14,333
Insurance & Claims	5,144	4,485	14.7%	4,476
Ticket & Fare Collection	2,029	1,682	20.6%	1,786
Facility Maintenance	19,193	22,753	(15.6%)	20,863
Subtotal Service Support	48,607	48,511	0.2%	47,754
Traffic Management - Services				
Traffic Management	8,386	8,311	0.9%	11,514
Subtotal Traffic Management	8,386	8,311	0.9%	11,514
Organizational Support				
Business, Community & Gov't Dev.	4,111	1,374	199.2%	911
Administrative, Financial & Personnel	18,922	11,639	62.6%	10,657
Information Systems	10,836	3,809	184.5%	2,401
Purchasing	2,838	1,646	72.4%	1,400
Oversight, Audit & Legal	7,333	7,620	(3.8%)	3,269
Subtotal Organizational Support	44,039	26,088	68.8%	18,638
Depreciation & Amortization	143,977	$140,847	2.2%	124,856
Total Operating Expenses	**$562,553**	**$558,551**	**0.7%**	**$496,457**

Expense Factors

Fiscal Year 2010 vs. 2009

Total operating expenses increased by $4.0 million or 0.7%. This change is the result of lower operating cost primarily due to diesel fuel offset by changes to capitalization policy.

Fiscal Year 2009 vs. 2008

The increase in expenses was largely due to higher diesel fuel costs of $57.7 million in FY2009 compared to $26.3 million in FY2008.

Depreciation and Amortization

Fiscal Year 2010 vs. 2009

In FY2010 METRO purchased buses, constructed facilities, and updated data processing hardware/software needed to improve transit service, and sold equipment it no longer needed. As a result of these capital asset acquisitions and sales, the depreciation and amortization expense in FY2010 increased $3.1 million or 2.2%.

Fiscal Year 2009 vs. 2008

In FY2009 due to capital asset acquisitions and sales, the depreciation and amortization expense increased $16.0 million or 12.8%.

Non-Operating Income Discussion

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

	FY2010	FY2009	Percentage Change FY2010-2009	FY2008
Non-Operating Revenues (expenses) and Capital Contributions				
Sales Tax	$490.0	$518.0	(5.4%)	$521.2
Investment Income	2.1	4.3	(51.2%)	7.1
Inter-Government Revenue	2.0	0.6	231.3%	0.0
Interest Expense (Commercial Paper and Bonds)	(7.5)	0.0	N/A	0.0
Other Income/Expense	0.8	1.1	(23.9%)	0.8
Grant Proceeds	64.0	59.3	7.8%	58.0
Local Infrastructure Assistance	(150.1)	(116.7)	28.6%	(179.8)
Loss from Impairment Assets	(180.3)	0.0	N/A	0.0
Loss on Sale of Assets	(1.1)	(6.3)	(82.5%)	(1.2)
Total Net Non-Operating Revenues	**219.9**	**460.3**	**(52.2%)**	**406.1**
Capital Contributions (Grants)	91.9	41.0	124.0%	27.0
Funds Passed to Subrecipients	(0.4)	(0.4)	0.0%	0.0
Total Net Non-Operating Revenues and Capital Contributions	**$311.4**	**$501.0**	**(37.8%)**	**$433.1**

Sales Tax

Fiscal Year 2010 vs. 2009
METRO collects a 1% Sales Tax in its 1,285 square mile service area, a tax approved by public vote when METRO was established in 1977. FY2010 Sales Tax revenues were $28.0 million lower than in FY2009, 5.4% decrease.

Population and employment are the major drivers of Sales Tax. During the course of FY2010 the Houston regional economy continued to experience a decline in local employment and as a result Sales Tax revenue decreased.

According to Barton Smith's (Professor of Economics Emeritus, University of Houston) sales tax report, "the recovery in the local economy and hence in sales tax revenue will be gradual without any particularly stellar years."

Fiscal Year 2009 vs. 2008

FY2009 Sales Tax revenues were $3.2 million lower than in FY2008, 0.6% decrease.

Capital Contributions (Grants)

Fiscal Year 2010 vs. 2009

METRO is the recipient of a number of federal and state grants from a variety of programs including Formula Funds, New Starts, Fixed Guideway Modernization, Bus and Bus Facility, and Congestion Mitigation/Air Quality (CMAQ). These funds are received on the basis of project expenditures made. As projects are advanced and expenditures incurred, the grants are accrued and recognized. In FY2009 total grants were $100.4 million. In FY2010, the total received/accrued was $155.9 million, an increase of $55.5 million. The increase is primarily due to higher federal reimbursements of METRO Rail Expansion grant-eligible expenses.

Fiscal Year 2009 vs. 2008

In FY2008 total grants were $85.0 million. In FY2009, the total received was $100.4 million, an increase of $15.4 million. The increase is primarily due to higher federal reimbursements of METRO Rail Expansion grant-eligible expenses.

Investment Income

Fiscal Year 2010 vs. 2009

METRO's average invested General Funds for FY2010 were $106.4 million and for FY2009 $132.8 million. The decrease was primarily due to outflows for METRO Solutions and General Mobility projects being paid from unencumbered cash rather than incurring additional debt. METRO's average realized return was 0.487% for 2010 and 1.053% for 2009. The investment portfolio consisted of the following: U.S. Treasuries, Texas Municipal Commercial Paper, Cash, Local Government Investment Pools and Money Market Mutual Funds during FY2010. The decrease in realized returns from 1.05% to 0.487% is the result of declining returns on top quality, short-term liquid investments which are highly sought after during market turmoil.

Fiscal Year 2009 vs. 2008

METRO's average invested funds for FY2009 were $132.8 million and for FY2008 $185.5 million. The decrease was primarily due to outflows for METRO Solutions and General Mobility projects being paid from unencumbered cash rather than incurring additional debt. METRO's average realized return was 1.05% for 2009 and 3.28% for 2008. The investment portfolio consisted of the following: U.S. Treasuries, U.S. Agencies, Commercial Paper, Cash, Local Government Investment Pools and Money Market Funds during FY2009. METRO's realized return decrease from 3.28% to 1.05% is due to the effect of substantial and abrupt easing as the Federal Reserve reduced the Fed Funds Target Rates from 2.0% to 0.00% during the liquidity crisis in the fall of 2008.

Local Infrastructure Assistance

Fiscal Year 2010 vs. 2009

By voter referendum METRO must allocate 25% of its sales tax revenue to 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. As the streets are not the property of METRO, the construction expenditures are reported as current period non-operating expenses. These street projects are a major contribution to enhanced mobility and reduced congestion in the METRO service area – a key part of METRO's mission. These investments in regional mobility totaled $116.7 million in FY2009 and $150.1 million in FY2010 (Table A-3). The increase in local infrastructure assistance is due primarily to an increase in the invoicing of General Mobility expenses by the City of Houston and Harris County.

Fiscal Year 2009 vs. 2008

Investments in regional mobility totaled $179.8 million in FY2008 and $116.7 million in FY2009 (Table A-3). The decrease in local infrastructure assistance expense is due primarily to the one time funding for General Mobility Program "Future Designated Projects" in FY2008.

Loss from Impairment of Assets

Fiscal Year 2010 vs. 2009

In FY2010 METRO recorded a loss of $180.3 million resulting from assets that were considered impaired following the application of GASB Statement No. 42*: Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The standard provides guidelines on when and how governments should recognize that the service potential of a capital asset has been impaired. Asset impairment occurs when there is a significant, unexpected decline in the service utility of a capital asset. Capital assets are held primarily to provide service to constituents. When an asset's ability to provide this service is significantly reduced in a way not anticipated, that event is then to be recognized in the financial statements as an impairment loss. The majority of the losses were incurred as the result of cancellation of a rail car contract, abandonment of a plan for an intermodal terminal, and write off of planning and engineering studies after changes in planned rail alignments.

Fiscal Year 2009 vs. 2008

No impaired assets were reported in FY2009.

Loss on Sale of Assets

Fiscal Year 2010 vs. 2009

In FY2010 the Authority recorded a loss of $1.1 million due to the sale of obsolete parts and retired transit equipment, neither of which had remaining useful value to the Authority.

Fiscal Year 2009 vs. 2008

In FY2009 the loss was due to the sale of obsolete parts and retired transit equipment, neither of which had remaining useful value to the Authority.

Table A-4

METRO's Net Assets
(in millions of dollars)

	FY2010	FY2009	Percentage Change FY2010-2009	FY2008
Current Assets	$340.2	$308.2	10.4%	$308.6
Capital Assets (Net)	2,032.0	1,969.8	3.2%	1,847.9
Prepaid and Other Assets	319.4	459.1	(30.4%)	266.3
Total Assets	**2,691.7**	**2,737.1**	**(1.7%)**	**2,422.8**
Current Liabilities	403.3	330.7	22.0%	307.2
Other Liabilities	694.1	625.5	11.0%	344.2
Total Liabilities	**1,097.4**	**956.2**	**14.8%**	**651.4**
Net Assets:				
Investments in capital assets	1,690.4	1,822.8	(7.3%)	1,763.9
Restricted	20.3	23.4	(13.2%)	8.8
Unrestricted	(116.4)	(65.3)	78.3%	(1.3)
Total Net Assets	**$1,594.3**	**$1,780.9**	**(10.5%)**	**$1,771.4**

CAPITAL ASSETS

Fiscal Year 2010 vs. 2009

As of September 30, 2010, METRO had invested approximately $2,297.3 million in capital assets, including rail and equipment, 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, 2010 totaled $2,032.0 million (Table A-5). This amount represents a net increase (including additions and disposals, net of depreciation) of $62.2 million or 3.2% over September 30, 2009. A significant addition in FY2010 was $56.9 million used to purchase buses and equipment. Additional analysis is located in financial note 3.

The increase in total capital assets (before depreciation) from FY2009 to FY2010 was $22.7 million, an increase of 1.0%. A number of projects were completed during the year and transferred from construction-in-progress to specific asset categories.

Fiscal Year 2009 vs. 2008

As of September 30, 2009, METRO had invested approximately $2,274.5 million in capital assets, including rail and equipment, 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, 2009 totaled $1,969.8 million (Table A-5). This amount represents a net increase (including additions and disposals, net of depreciation) of $121.9 million or 6.6% over September 30, 2008. Additional analysis is located in financial note 3.

The increase in total capital assets (before depreciation) from FY2008 to FY2009 was $121.9 million, an increase of 6.6%. A number of projects were completed during the year and transferred from construction-in-progress to specific asset categories.

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

	FY2010	FY2009	Percentage Change FY2010-2009	FY2008
Rail and Equipment	$292,371	$298,105	(1.9%)	$297,909
Buildings and Improvements	422,113	414,505	1.8%	411,543
Park and Ride Lots	284,529	283,338	0.4%	263,065
Buses and Equipment	722,335	655,809	10.1%	533,351
Transitways	514,123	513,773	0.1%	511,862
Other Property and Equipment	61,784	108,980	(43.3%)	95,883
Total Capital Assets	**2,297,255**	**2,274,510**	**1.0%**	**2,113,613**
Less: Accumulated Depreciation & Amortization	(1,200,634)	(1,128,255)	6.4%	(1,029,583)
Net Depreciable Property and Improvements	**1,096,621**	**1,146,255**	**(4.3%)**	**1,084,030**
Land	354,529	327,573	8.2%	287,434
Construction-in-Progress	580,889	495,986	17.1%	476,484
Capital Assets (Net)	**$2,032,039**	**$1,969,814**	**3.2%**	**$1,847,948**

OUTSTANDING COMMITMENTS

Fiscal Year 2010 vs. 2009

The Authority has entered into various contracts and purchase orders to acquire goods and services or to assist in developing infrastructure improvements within the Authority service area. Many of these contracts extend beyond a single fiscal year. These items total approximately $1.4 billion as of September 30, 2010. Additional analysis is located in financial note 7.

ECONOMIC OUTLOOK FY2011

The slowdown in the Houston economy that began in FY2009 continued in FY2010, but recent data appears to indicate the economy is beginning to pick up strength once again. The price of oil and natural gas, and the recovery of the US and World economy as a whole are the drivers' of growth. Predicting these events in the future is very difficult due to the complexity of national and international economies and events, and many uncertainties and instabilities that continue to exist.

As we look ahead to FY2011, all three of these factors are expected to inhibit the pace of economic growth in Houston. Gross National Product growth is forecast to be slightly greater than 3%, price of natural gas remains low, and the world economy remains problematic. On the basis of these fundamentals, the Houston economy in FY2011 will be better than FY2010 but next year will still lack the gusto of most post-recession rebound years.

Contact Information

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, Texas, 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, 2010 and 2009

	2010	2009
Assets		
Current assets		
Cash	$ 1,564,969	$ 829,893
Cash - restricted	-	10,809,248
Investments	119,209,517	135,115,133
Receivables		
Sales tax	83,314,283	77,761,055
Federal government - Federal Transit Administration	62,448,555	29,699,429
Interest	142,978	143,450
Bus passes	3,905,144	3,974,792
Other	17,578,747	4,383,491
Total receivables	167,389,707	115,962,217
Material and supplies inventory	22,400,422	20,605,560
Prepaid pension	1,057,934	1,057,934
Other current assets	6,958,099	2,212,825
Prepaid lease payments	21,657,708	21,657,708
Total current assets	340,238,356	308,250,518
Noncurrent assets		
Investments - restricted	93,381,904	210,766,724
Capital assets, net of depreciation	2,032,038,758	1,969,813,283
Prepaid pension	26,791,960	27,539,598
Other noncurrent assets	7,959,529	7,734,236
Prepaid lease payments	191,360,541	213,018,249
Total noncurrent assets	2,351,532,692	2,428,872,090
Total assets	2,691,771,048	2,737,122,608
Liabilities		
Current liabilities		
Trade payables	124,829,224	115,799,760
Accrued compensation and benefits	24,703,772	27,094,159
Liabilities for injuries and damages	5,317,508	4,691,532
Commercial paper	190,000,000	143,000,000
Other current liabilities	15,000,793	7,403,357
Deferred lease payments	21,657,708	21,657,708
Capital lease obligation	7,222,767	4,256,609
Bond payable	6,435,000	-
Debt interest payable	8,155,478	6,756,159
Total current liabilities	403,322,250	330,659,284
Noncurrent liabilities		
Liabilities for injuries and damages	10,985,722	15,630,560
Deferred rental payments	191,360,541	213,018,249
Capital lease obligation	99,475,662	106,859,364
Bond payable	301,233,434	226,057,724
Other postemployment benefits	86,263,172	58,196,633
Other noncurrent liabilities	4,802,679	5,774,679
Total noncurrent liabilities	694,121,210	625,537,209
Total liabilities	1,097,443,460	956,196,493
Net Assets		
Invested in capital assets, net of related debt	1,690,456,527	1,822,809,038
Restricted assets	20,307,480	23,410,852
Unrestricted assets	(116,436,419)	(65,293,775)
Total net assets	$ 1,594,327,588	$ 1,780,926,115

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

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2010 and 2009

	2010	2009
Operating revenues:		
Transportation fares	$ 64,538,736	$ 67,083,414
Operating expenses:		
Scheduled services - fixed route		
Bus and rail operations - direct	161,548,458	179,245,220
Contract service	44,365,552	45,638,064
Material distribution	5,994,776	5,662,705
Preventative maintenance	49,926,437	47,705,846
Central shop and maintenance support	13,796,093	13,192,409
Safety and training	858,722	925,202
Subtotal scheduled services - fixed route	276,490,038	292,369,446
Non-scheduled services -special		
METROLift	35,915,851	35,556,663
METROVan	4,327,517	6,075,378
Special events	808,861	793,180
Subtotal non-scheduled services - special	41,052,229	42,425,221
Service support		
Service planning and evaluation	822,792	247,023
Marketing	6,933,097	5,324,367
Transit security	14,484,702	14,019,638
Insurance and claims	5,144,081	4,484,705
Ticket and fare collection	2,029,498	1,682,347
Facility maintenance	19,193,318	22,752,511
Subtotal service support	48,607,488	48,510,591
Traffic management - services	8,386,197	8,310,640
Organizational support		
Business, community and governmental development	4,111,359	1,373,563
Administrative, financial and personnel	18,921,682	11,639,038
Information systems	10,835,724	3,808,872
Purchasing	2,837,551	1,646,574
Oversight, audit and legal	7,333,120	7,620,394
Subtotal organizational support	44,039,436	26,088,441
Depreciation and amortization	143,977,419	140,847,103
Total operating expenses	562,552,807	558,551,442
Operating loss	(498,014,071)	(491,468,028)
Nonoperating revenues (expenses):		
Sales tax	489,972,748	517,972,851
Investment income	2,103,533	4,307,902
Inter-government revenue	1,986,614	599,650
Interest expense	(7,493,528)	-
Other income	848,968	1,115,401
Grant proceeds	63,988,363	59,345,052
Local infrastructure assistance	(150,091,349)	(116,744,258)
Loss for asset impairments	(180,308,408)	-
Loss on sale or disposal of assets	(1,095,753)	(6,258,755)
Total nonoperating revenues (expenses)	219,911,188	460,337,843
Loss before capital grants	(278,102,883)	(31,130,185)
Capital grant proceeds	91,897,549	41,027,564
Funds passed to subrecipients	(393,193)	(352,228)
Changes in net assets	(186,598,527)	9,545,151
Net assets - beginning of the year	1,780,926,115	1,771,380,964
Net assets - end of the year	$ 1,594,327,588	$ 1,780,926,115

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

Metropolitan Transit Authority of Harris County, Texas
Statements of Cash Flows
For the Years Ended September 30, 2010 and 2009

	2010	2009
Cash flows from operating activities:		
Cash received from customers	$ 65,411,537	$ 69,517,774
Cash payments to employees	(228,966,620)	(213,605,881)
Cash payments to suppliers for goods and services	(173,238,258)	(160,515,030)
Net cash used in operating activities	(336,793,341)	(304,603,137)
Cash flows from noncapital financing activities:		
Sales tax	484,666,753	522,525,907
Proceeds from grants	62,838,918	58,725,481
Cash payments for local infrastructure assistance	(166,371,742)	(116,544,213)
Cash received from commercial paper used for GMP	92,000,000	115,000,000
Cash payments for GMP using commercial paper	(92,000,000)	(115,000,000)
Cash proceeds from nonoperating activities	2,858,358	1,711,231
Net cash provided by noncapital financing activities	383,992,287	466,418,406
Cash flows from capital and related financing activities:		
Proceeds from grants	59,702,242	19,104,451
Cash received from commercial paper used for capital	801,250,000	974,250,000
Cash payments for capital using commercial paper	(754,250,000)	(974,250,000)
Proceeds from sale of sales tax bonds	81,933,144	226,380,155
Long-term debt issuance cost	(727,364)	(5,420,635)
Interest payments related to debts	(6,094,209)	-
Purchase of investments using sales tax bond proceeds	(81,902,229)	(210,764,694)
Proceeds from sale of assets	120,860	425,938
Capital purchases	(374,602,233)	(200,272,610)
Net cash used in capital and related financing activities	(274,569,789)	(170,547,395)
Cash flows from investing activities:		
Proceeds from sale and maturities of investments	321,471,547	257,496,318
Purchase of investments	(106,128,099)	(249,795,970)
Interest income	1,953,223	3,785,029
Net cash provided by investing activities	217,296,671	11,485,377
Net change in cash	(10,074,172)	2,753,251
Cash at beginning of year	11,639,141	8,885,890
Cash at end of year	$ 1,564,969	$ 11,639,141
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (498,014,071)	$ (491,468,028)
Depreciation and amortization	143,977,419	140,847,103
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	69,652	(217,069)
Increase (Decrease) in accounts receivable-other	(12,456,019)	455,822
Increase (Decrease) in inventory	(1,794,863)	11,087,767
Increase (Decrease) in other assets	(101,650)	1,254,919
Decrease in prepaid pension	747,639	1,057,934
Decrease (Increase) in accrued compensation and benefits	(2,390,391)	5,562,669
Increase in other postemployment benefits	28,066,539	26,592,826
Decrease in liabilities for injuries and damages	(4,018,862)	(3,175,981)
Increase in other liabilities	1,558,229	6,399,013
Increase (Decrease) in accounts payable	7,563,037	(3,000,112)
Cash used by operating activities	$ (336,793,341)	$ (304,603,137)
Noncash investing activities		
The net decrease (increase) in fair value of investments	$ 187,439	$ (387,438)
Capital leases	-	47,669,817

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

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 (GASB) Statement No. 14, *The Financial Reporting Entity,* amended by GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units.*

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 the Mayors of the 14 cities other than Houston within the Authority's service area.

Related Organizations

The City of Houston, 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 since it is unable to impose its will, and a financial benefit or burden relationship does not exist.

Nature of Operating and Nonoperating Activities

Operating

The Authority uses the flow of economic resources measurement focus and accrual basis of accounting when preparing financial statements. Using this approach, revenues are recognized when earned and expenses are recognized when incurred. In accordance with GASB Statement No. 20, *Accounting and Financial reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* the Authority follows 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.

Operating revenue consists of transit fares while expenses consist of transit operations, traffic management, and organizational support.

Transit operations - provide the public with a high quality and cost effective public transportation system. Transit operations include the designing and constructing of maintenance facilities, rail lines, transit centers, Park & Ride lots, and bus storage facilities; selecting bus/rail routes; purchasing buses and rail equipment; maintaining equipment; and hiring/training personnel who deliver transit services and provide security.

Traffic management operations - 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. The Authority also provides traffic and transportation law enforcement activities in order to increase safety for the area's motorists and pedestrians.

Organizational support - provides the Authority with oversight, direct assistance, and community/business development opportunities.

Nonoperating

Nonoperating revenue and expenses include; the one percent sales tax levied in the Authority's service area, investment income, Inter-government revenue, Other expenses (income) which includes leasing of property not used in transit operations and cash receipts from lease/sublease arrangements, Grant proceeds used in operations, Local infrastructure assistance (See note 7), Loss for asset impairments and Loss on sale or disposal of assets.

Cash and Investments Activities Including Compliance with the Texas Public Fund Investment Act (TPFIA)

Cash consists of amounts maintained in demand deposit and petty cash accounts. Restricted cash for FY2009 consisted of deposits with the State of Texas relating to a joint construction project, a local court for one eminent domain case and margin calls with a counterparty for fuel hedge contracts.

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The Authority's deposits and investment activities comply with polices established by the Board of Directors and the TPFIA. The TPFIA requires, as part of the annual financial statement audit, compliance reviews by the independent auditor some of which include the Board of Directors has: adopted a written investment policy and strategies that complies with TPFIA, the policy and investment strategies are reviewed at least annually, adequately trained investment officers have been designated and ensure that investment activity is reported, reviewed and accepted by the Board of Directors at least quarterly. The investment policy must also include a listing of authorized investments which can include: Obligations of the United States of America and its agencies and instrumentalities, money market mutual funds, commercial paper, fully collateralized repurchase agreements, local government investment pools, certificates of deposit and other investments authorized by the TPFIA.

All investments are reported at fair value based on quoted market prices. Investments from borrowing have been reported as Restricted Investments in the Statements of Net Assets.

Receivables

Receivables generally consist of amounts due from customers, grantor agencies, cost sharing agreements, employees, warranties, and miscellaneous activities.

Inventories of Materials and Supplies

Inventories are valued using a weighted average costing method and consist principally of diesel fuel, repair parts, and other supplies that are used to maintain buses, rail cars, equipment, and facilities.

Capital Assets

The Authority's overall capitalization policy requires expenditures to be capitalized when they exceed $1,000 and (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 calculated using the straight-line method over the following estimated useful lives:

Park and ride lots	4 - 30 years
Buses	3 - 12 years
Other property and equipment	3 - 10 years
Transitways	4 - 30 years
Rail cars	4 - 25 years
Rail infrastructure	4 - 30 years
Buildings and improvements	4 - 40 years

Capital assets, including capital leases, are recorded at historical cost and expenditures relating to normal repair and maintenance are expensed as incurred. The cost and accumulated depreciation of assets retired or sold are removed from the accounts with any gain or loss included in nonoperating revenues. Liabilities relating to capital leases are reflected separately in the Statements of Net Assets.

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. Earned vacation hours must be used in the next calendar year. These employees also accumulate one sick day per month up to a maximum of 30 days based on date of hire and years of service. 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 Statements of Net Assets.

Non-union employees can earn vacation hours up to 16.67 each month and can accumulate, based on years of service, up to 520 hours. Vacation expense is recorded when earned with the unused balance being reported as a liability in the Statements of Net Assets. Employees are paid for their unused vacation time upon termination or retirement. In addition, these employees receive 10 sick days per year at the beginning of each calendar year. Unused sick leave can not be carried forward to subsequent years and there is no payment at the end of a calendar year, termination or retirement. Sick leave for non-union employees is expensed when incurred.

Commercial Paper

Funds received from the issuance of tax exempt commercial paper are recorded as a current liability with interest accrued monthly.

Sales Tax

Revenue from the one percent sales tax is recognized when taxable sale transactions occur within the Authority service area. The Comptroller for the State of Texas collects and distributes these amounts to the appropriate governmental organizations with funding normally occurring within approximately 60 days from date of the sale.

Use of Estimates

The preparation of financial statements in conformity with United States' 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 these estimates.

Comparative Information

Certain amounts in prior financial statements have been reclassified to conform to the current financial statement presentation.

Implementation of New Accounting Standard

During FY2010 the Authority implemented Governmental Accounting Standards Board Statement No. 51 *Accounting and Financial Reporting for Intangible Assets* and Statement No 53 *Accounting and Financial Reporting for Derivative Instruments.* Statement No. 51 provides guidance on capitalization of intangible costs including Information Technology and Statement No. 53 requires the Authority to report derivatives at fair value and to disclose the effectiveness of any hedge transactions as discussed in Note 7.

2. Deposits and Investment Securities:

Deposits and Investments Including Compliance with the Texas Public Fund Investment Act (TPFIA)

The Authority's deposits and investments complies with the TPFIA or policies (if more restrictive) established by the Board of Directors. Some items required by the TPFIA include: written investment policies, designation of adequately trained investment managers, submissions (at least quarterly) of investment reports to the Board of Directors and compliance reviews performed annually by the external auditors as part of the financial statement audit. Also, the investment policy must also be approved by the Board and include a list of authorized Investments which can include: obligations of the United States of America and its agencies and instrumentalities, money market mutual funds, commercial paper, fully collateralized repurchase agreements, local government investment pools, certificates of deposit and other investments authorized by the TPFIA.

Interest Rate and Credit Risk

The Authority's investment policy is to minimize interest rate and credit risk by investing a majority of the portfolio in short-term investments such as commercial paper, money market mutual funds and obligations of the United States of America with maturities generally less than two years. Investments not insured or guaranteed by a governmental entity must be rated by a nationally recognized organization with rating not less than AAAm, A-1, P-1, F-1 or equivalent ratings.

Custodial Credit Risk

The Authority's investment policy requires bank deposits to be insured by Federal Deposit Insurance or collateralized at least 102 percent of value with the collateral being held by a nonaffiliated, federally insured financial institution. Investment securities are registered in the Authority's name and held by an independent custodian.

Concentration of Credit Risk

The Authority's investment policy requires a diversified portfolio that minimizes the risk of loss resulting from over concentration of assets in specific maturity, specific issuer or specific class of securities and places limits on the allocation of investments between investment types. Investments issued or explicitly guaranteed by the U.S. government, money market mutual funds and investment pools are not subject to Concentration of Credit Risk disclosure and represented 100% of total investments.

Deposits

The Authority's deposits and cash book balances as of September 30, 2010 and 2009 were:

	Fiscal 2010	Fiscal 2009
Unrestricted:		
Bank deposit	$ 1,062,615	$ 1,009,934
Book balance	1,564,969	829,893
Restricted:		
Bank deposit	-	10,809,248
Book balance	-	10,809,248

Investments

The fair value of the Authority's investments is estimated based on quoted market prices. The investments held at September 30, 2010 and 2009 are indicative of the type of investments made by the Authority during each fiscal year and consist of the following:

	Fiscal 2010 Fair Value	Fiscal 2009 Fair Value	Rating Agencies
Unrestricted			
U.S. Treasury securities	$ 10,823,438	$ 10,672,656	
Local government investment pool	57,826,984	63,816,945	Aaa , AAAm
Money market mutual funds	40,559,095	60,625,532	Aaa , AAAm
Municipal commercial paper	10,000,000	-	A-1, P-1
Total unrestricted investments	119,209,517	135,115,133	
Restricted			
Local government investment pool	91,004,344	208,394,802	Aaa , AAAm
Money market mutual funds	2,377,560	2,371,922	Aaa , AAAm
Total investments	$ 212,591,421	$ 345,881,857	

Investment by type and weighted average maturity as of September 30, 2010 and 2009 consisted of:

		Investment Maturity		
	Fiscal 2010 Fair Value	Less than 1 Year	Less Than 3 years	Average Maturity
Investment securities				
U.S. Treasury securities	$ 10,823,438	$ -	$ 10,823,438	2.7 years
Local government investment pool	148,831,328	148,831,328	-	49 days
Municipal commercial paper	10,000,000	10,000,000	-	12 days
Money market mutual funds	42,936,655	42,936,655	-	1 day
Total investments	$ 212,591,421	$ 201,767,983	$ 10,823,438	

		Investment Maturity		
	Fiscal 2009 Fair Value	Less than 1 Year	Less Than 4 years	Average Maturity
Investment securities				
U.S. Treasury securities	$ 10,672,656	$ -	$ 10,672,656	3.67 years
Local government investment pool	272,211,747	272,211,747	-	46 days
Money market mutual funds	62,997,454	62,997,454	-	1 day
Total investments	$ 345,881,857	$ 335,209,201	$ 10,672,656	

The Board 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. This 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, 2010 and 2009 collateral received by CM for securities lending transactions is held in the name of the Authority and consists of cash or governmental securities and equals 102 percent or more of the fair 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 deficits that result from the sale of investments that relate to the cash collateral held by CM. When the collateral is in the form of securities, 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.

Only the Treasury Note was available for use in the security lending program and security lending activity for fiscals 2010 and 2009 consisted of:

	Fiscal 2010	Fiscal 2009
Investment securities available for lending	$ 10,823,438	$ 10,672,656
Amount on loan	-	4,485,123
Gross earnings	3,777	8,531
Rebates	-	1,083
Agent fees	1,510	2,978
Amount reported in investment income	2,266	4,470
Percentage on loan	-	42.0 %

3. Capital Assets

Changes in capital assets for fiscal 2010 were:

Capital Assets	October 1, 2009	Additions	Reductions and Retirements	Transfers And Completed Projects	September 30, 2010
Capital assets not depreciated:					
Land	$ 327,572,747	$ -	$ -	$ 26,956,402	$ 354,529,149
Construction in progress	495,985,624	329,800,206	(166,838,712)	(78,058,131)	580,888,987
Total capital assets not depreciated	823,558,371	329,800,206	(166,838,712)	(51,101,729)	935,418,136
Capital assets depreciated:					
Administration & operating facilities	414,505,411	-	-	7,607,116	422,112,527
Park and ride lots & transit centers	283,338,074	-	(821,741)	2,012,559	284,528,892
Buses and equipment	655,808,832	56,879,157	(17,874,256)	27,521,538	722,335,271
Rail cars	54,056,029	-	(10,700,106)	2,198,049	45,553,972
Rail infrastructure	244,049,188	-	(512,358)	3,280,180	246,817,010
Transitways	513,772,698	306,748	-	43,735	514,123,181
Other property and equipment	108,980,176	-	(55,635,214)	8,438,552	61,783,514
Total capital assets depreciated	2,274,510,408	57,185,905	(85,543,675)	51,101,729	2,297,254,367
Less: Accumulated depreciation and amortization					
Administration & operating facilities	(198,110,239)	(17,365,736)	-	-	(215,475,975)
Park and ride lots & transit centers	(145,780,126)	(11,940,851)	821,741	-	(156,899,236)
Buses and equipment	(405,711,619)	(59,329,398)	17,098,294	-	(447,942,723)
Rail cars	(15,454,647)	(6,958,040)	10,700,106	-	(11,712,581)
Rail infrastructure	(53,478,293)	(11,461,426)	512,358	-	(64,427,361)
Transitways	(249,667,027)	(17,854,526)	-	-	(267,521,553)
Other property and equipment	(60,053,545)	(19,067,442)	42,466,671	-	(36,654,316)
Total accumulated depreciation and amortization	(1,128,255,496)	(143,977,419)	71,599,170	-	(1,200,633,745)
Total capital assets being depreciated, net	1,146,254,912	(86,791,514)	(13,944,505)	51,101,729	1,096,620,622
Total capital assets, net	$ 1,969,813,283	$ 243,008,692	$(180,783,217)	$ -	$ 2,032,038,758

In FY2010 METRO recorded a loss of $180.3 million resulting from assets that were considered impaired following the application of GASB Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The standard provides guidelines on when and how governments should recognize that the service potential of a capital asset has been impaired. Asset impairment occurs when there is a significant, unexpected decline in the service utility of a capital asset. Capital assets are held primarily to provide service to constituents. When an asset's ability to provide this service is significantly reduced in a way not anticipated, that event is then to be recognized in the financial statements as an impairment loss. The majority of the losses were incurred as the result of cancellation of a rail car contract, abandonment of a plan for an intermodal terminal, and write off of planning and engineering studies after changes in planned rail alignments.

Changes in capital assets for fiscal 2009 were:

Capital Assets	October 1, 2008	Additions	Reductions and Retirements	Transfers And Completed Projects	September 30, 2009
Capital assets not depreciated:					
Land	$ 287,433,739	$ -	$ (7,147,195)	$ 47,286,203	$ 327,572,747
Construction in progress	476,484,105	182,767,505	(6,637,217)	(156,628,769)	495,985,624
Total capital assets not depreciated	763,917,844	182,767,505	(13,784,412)	(109,342,566)	823,558,371
Capital assets depreciated:					
Administration & operating facilities	411,542,624	-	-	2,962,787	414,505,411
Park and ride lots & transit centers	263,064,981	-	(854,704)	21,127,797	283,338,074
Buses and equipment	533,350,569	98,016,754	(36,533,750)	60,975,259	655,808,832
Rail cars	58,287,201	-	-	(4,231,172)	54,056,029
Rail infrastructure	239,621,653	-	(328,220)	4,755,755	244,049,188
Transitways	511,862,895	-	-	1,909,803	513,772,698
Other property and equipment	95,882,669	-	(8,744,830)	21,842,337	108,980,176
Total capital assets depreciated	2,113,612,592	98,016,754	(46,461,504)	109,342,566	2,274,510,408
Less: Accumulated depreciation and amortization					
Administration & operating facilities	(182,723,846)	(15,386,393)	-	-	(198,110,239)
Park and ride lots & transit centers	(131,432,530)	(14,502,299)	154,703	-	(145,780,126)
Buses and equipment	(383,732,095)	(55,017,006)	33,037,482	-	(405,711,619)
Rail cars	(9,968,292)	(7,047,641)	-	1,561,286	(15,454,647)
Rail infrastructure	(41,433,164)	(10,812,064)	328,221	(1,561,286)	(53,478,293)
Transitways	(231,812,897)	(17,854,130)	-	-	(249,667,027)
Other property and equipment	(48,479,694)	(20,227,571)	8,653,720	-	(60,053,545)
Total accumulated depreciation and amortization	(1,029,582,518)	(140,847,104)	42,174,126	-	(1,128,255,496)
Total capital assets being depreciated, net	1,084,030,074	(42,830,350)	(4,287,378)	109,342,566	1,146,254,912
Total capital assets, net	$ 1,847,947,918	$ 139,937,155	$ (18,071,790)	$ -	$ 1,969,813,283

The new Q fare card revenue and fare collection system resulted in older Ticket Vending Machines (TVMs) becoming obsolete (impaired) and subsequently written down by $3,013,213 in FY2009 to their estimated net realizable value. Also during the year, litigation with the original vendor of the older revenue collection and reporting system was concluded, which resulted in $6,266,807 being removed from Construction in progress. As the results of the asset impairment and conclusion of litigation $4,885,047 was reported as a loss on sale or disposal of assets and $4,394,973 was reported as an increase in legal fees in the Statements of Revenues, Expense and Changes in Net Assets.

4. Retirement Plans:

The Authority has three pension plans and two post employment health care plans. Two of the pension plans are noncontributory, single-employer, defined benefit plans and one is a 401a defined contribution plan. The defined contribution plan became effective on October 1, 2007 for new employees who were previously eligible for the Non-union Pension Plan. The post employment health care plans are single employer, defined benefit plans which are available to eligible retirees.

Pension and post employment health care contributions are authorized by the Board during the annual budgeting process. Monthly pension contributions are placed into a trust account that will be used to fund

pension contributions as they become due. Other post employment benefits are either pay as you go (Non-union employees) or based on a monthly contract amount paid to the Health and Welfare Trust for union employees. The trusts have stand-alone audited financial statements which are available for both defined benefit pension plans and the Health and Welfare Trust from the Authority's Treasury Division located at 1900 Main Street Houston, Texas.

Calculating the annual required contribution and obligations for the defined benefit pensions and the defined post employment health care benefit plans requires the use of actuarial estimates which include: future employment, mortality, asset returns, salaries, funding and health care cost trend rates, which are listed in tables on the following pages. These actuarial calculations reflect long-term perspective and use techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and assets. The required schedule of funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities.

Defined Benefits Plans

Transport Workers Union Pension Plan Local 260, AFL-CIO (TWUPP) - The TWUPP provides monthly normal retirement benefits based on participants' years of service but not less than $300 per month. The calculation for monthly normal retirement benefits is based on the designated dollar amount times the number of credited years of service. The designated dollar amount used to determine monthly normal retirement benefit is based on date of retirement and the current union contract. The designated dollar amount will change periodically as a result of new contracts and has ranged from $50 effective August 1, 2002 to $60 effective February 1, 2009. Participants can only choose monthly distributions. No lump payments are available unless the participants have a balance of $5,000 or less.

Plan participants are 100% vested after five years of credited services. Participants become eligible to receive benefits at the earlier of 28 years of credited services or age 60 with five years of credited services. The requirements for early retirement with reduced benefits are that an employee reaches age 55 and has 25 years of credited services. In addition, the Plan provides disability retirement benefits with the requirement being five years of credited service. Additional requirements include five years of vesting service for vested deferred retirement benefits and for pre-retirement spousal benefits.

TWUPP required contributions are based on actuarial valuations prepared annually by an independent actuary from data furnished by the Authority. The unfunded actuarial accrued liability as of January 1, 2010 was $64,701,000 and the pension expenses recognized in the financial statements for the current and previous two fiscal years were $13,190,330, $12,177,222 and $9,583,095. Actual contributions for the current and previous two fiscal years were $12,359,063, $11,345,954 and $16,751,827.

Non-union Pension Plan (NUPP) - NUPP participants are 100% vested in employer contributions to the Plan after 5 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 monthly normal retirement benefit of a participant who retires on or after their normal retirement date is $300 a month, provided the participant has at least ten years of credited service at retirement regardless of the date of their retirement. The monthly benefit is based on the average monthly salary of the participant for the last three years from termination date. Participants can choose a lump sum distribution or a monthly distribution. Participants with balances equal to or less than $1,000 are automatically distributed a lump sum payment or rolled into another qualified plan. The requirement for early retirement with reduced benefits is that an employee reaches age 55 with 15 years of credited services. In addition, the Plan provides for disability retirement benefits with the requirement being total and permanent disability at any age with benefits deferred to normal retirement

date. Additional requirements include five years of vesting services for vested deferred retirement benefits and pre-retirement spousal benefits. The NUPP plan is administered by a seven-member administrative committee appointed by the Authority. The Plan's custodian, State Street Bank, is responsible for executing and recording all investment transactions authorized by the money managers for the Plan. This Plan was closed to new members effective September 30, 2007. Employees hired on/after October 1, 2007 are now placed into the 401a defined contribution plan.

NUPP required contributions are based on actuarial valuations prepared annually by an independent actuary from data furnished by the Authority. The unfunded actuarial accrued liability as of January 1, 2010 was $33,807,000 and the pension expenses recognized in the financial statements for the current and previous two fiscal years were $11,514,705, $11,953,284 and $9,313,694. Actual contributions for the current and previous two fiscal years were $ 11,598,334, $11,726,618 and $13,087,028. Significant actuarial assumptions used in the Authority's plan valuations and funded status is listed below:

	TWUPP	NUPP
Valuation date	January 1st of each year	January 1st of each year
Cost method	Unit credit	Projected Unit credit
Asset valuation method	Five-year smoothed market value	Five-year smoothed market value
Interest rates:		
Investment rate of return	8.0% per annum	8.0% per annum
Funding rate	8.0% per annum compounded annually	8.0% per annum, compounded annually
Cost of living adjustments	None	None
Projected salary increase	None	4.0% per annum
Assumed annual Retirement rate	Varying percentage ranging From 5% to 100% for age 60 Through 70	Varying percentage ranging From 20% to 100% for ages 55 Through 70
Mortality basis after normal Retirement	RP-2000 Combined Mortality Table	RP-2000 Combined Mortality Table
Amortization of gains and losses		
Method	Level dollars/open	Level dollars/open
Period	30 years	30 years

The current and previous fiscal year contributions and changes in the Net Pension Obligations for the period are:

	Fiscal Year 2010		Fiscal Year 2009	
	TWUPP	NUPP	TWUPP	NUPP
Annual required contributions	$ 12,359,063	$ 11,288,039	$ 11,345,955	$ 11,726,618
Amortization of Net Pension Obligation	831,267	226,666	831,267	226,666
Annual Pension cost	13,190,330	11,514,705	12,177,222	11,953,284
Contributions	12,359,063	11,598,334	11,345,954	11,726,618
Change in Net Pension Obligation	831,267	(83,629)	831,268	226,666
Beginning Net Pension Obligation/(Asset)	(22,417,530)	(6,180,002)	23,248,798)	(6,406,668)
Ending Net Pension Obligation/(Asset)	$(21,586,263)	$ (6,263,631)	$ (22,417,530)	$ (6,180,002)
Percentage of pension cost contributed	93.70%	100.73%	93.17%	98.10%

The unaudited, funded status of the TWUPP and NUPP pension plans as of January 1, 2010 (in thousands) was:

	Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded (UAAL)	Funded Ratio Percentage	Covered Payroll	UAAL as a Percentage of Covered Payroll
TWUPP	$162,390	$227,091	$64,701	71.5%	$88,184	73.4%
NUPP	110,434	144,241	33,807	76.6%	56,962	59.4%

The TWUPP and NUPP Annual Pension Cost (APC) and Net Pension Obligations are:

	Annual Pension Cost	Percentage of APC Funded	Year-End Net Pension Obligation/(Asset)
TWUPP			
2008	$ 9,583,095	174.81%	$ (23,248,798)
2009	12,177,222	93.17	(22,417,530)
2010	13,190,330	93.70	(21,586,263)
NUPP			
2008	$ 9,313,694	140.51%	(6,406,668)
2009	11,953,284	98.10	(6,180,002)
2010	11,514,705	100.73	(6,263,631)

Defined Contribution Plan (401a)

The employer contributes 2 percent of the employee's annual salary and will match up to an additional 4 percent of employee contributions. The employee vesting rate is 40% after the second year and 20% annually thereafter. Contributions by the Authority for the current and previous two fiscal years are $471,354, $312,498 and $106,289 with employees contributing $503,642, $329,530 and $129,774.

Other Post Employment Benefits Other Than Pension

The Authority sponsors two, single-employer, defined benefit Other Post Employment Health Care Plans which includes the Transport Workers Union Metropolitan Transit Authority Health & Welfare Trust (Trust) and the Non-Union Plan. These plans cover medical, dental and life insurance for retirees with retiree's contribution being the same as active employees. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and historical pattern of cost sharing between the employer and plan members. The Authority is on a pay-as-you-go funding of the benefits.

The Trust is a separate legal entity that is managed by four Trustees who are responsible for managing resources and establishing benefits. Two of the trustees are from the Transport Workers Union Local 260, AFL-CIO and two are from the Authority. Payments to the Trust are irrevocable and made monthly based on amounts established during contract negotiations with the union. To qualify for this retirement benefit, an employee must be 60 years old with 5 years of credited services, any age with 28 years of credited services or 55 years old with 25 years of credited services or meet disability qualifications. Actual contributions for the current and previous two fiscal years were $6,724,455, $5,506,859 and $5,371,636.

The Non-Union plan is administered by the Authority and covers full-time employees with payments made as services are provided. To qualify for this benefit, an employee must be 55 years or older with 5 years of credited services. Employees hired after December 31, 2009 are not eligible for post-retirement medical and dental benefits. Actual contributions for the current and previous two fiscal years were $3,787,663, $3,773,087 and $3,109,843. Significant actuarial assumptions used in the Authority's Other Post Employment Plans valuations are:

	Trust	Non-Union
Valuation date	Bi-annually on January 1st	Bi-annually on January 1st
Cost method	Unit credit	Unit credit
Health Care Cost Trend Rate	Varying from 11.3% declining to 5.8 % in 2016	Varying from 9.1% declining to 5.8% in 2015
Discount rate	4.0% per annum	4.0% per annum
Assumed annual Retirement rate	Varying percentage ranging From 5% to 100% for age 55 Through 70	Varying percentage ranging From 20% to 100% for ages 55 Through 70
Mortality basis after normal Retirement	RP-2000 Combined Mortality/ Disability Tables	RP-2000 Combined Mortality/ Disability Tables
Amortization of gains and losses		
Method	Level dollars/re-established annually	Level dollars/re-established annually (closed)
Period	30 years	30 years

The following calculations for Other Post Employment Cost, Net Post Employment Benefit Obligation and Funded Status of the plans are based on actuarial reports. The Trust's report was updated in FY2010 while the Non-Union used the same report as FY2009.

	Fiscal Year 2010		Fiscal Year 2009	
	Trust	Non-Union	Trust	Non-Union
Annual required contributions	$ 28,213,826	$ 11,160,691	$ 24,900,521	$ 11,160,691
Interest on prior year Net Post Employment Benefit Obligation	1,556,902	482,996	-	482,996
Adjustment to annual required contributions	(2,164,322)	(671,436)	-	(671,436)
Other Post Employment Cost	27,606,406	10,972,251	24,900,521	10,972,251
Contribution	6,724,455	3,787,663	5,506,859	3,773,087
Change in Net Post Employment Benefit Obligation	20,881,951	7,184,588	19,393,662	7,199,164
Beginning Net Post Employment Benefit Obligation	38,922,547	19,274,086	19,528,885	12,074,922
Ending Net Post Employment Benefit Obligation	$ 59,804,498	$ 26,458,674	$ 38,922,547	$ 19,274,086
Percentage of Post Employment Benefit cost contributed	24.36%	34.52%	22.12%	34.39%

The Trust and Non-union Other Post Employment Benefit (OPEB) cost and Net OPEB Obligation are:

	Annual OPEB Cost	Percentage of OPEB Funded	Year-End Net OPEB Obligation
Trust			
2008	$ 24,900,521	21.57%	$ 19,528,885
2009	24,900,521	22.12	38,922,547
2010	27,606,406	24.36	59,804,498
Non-union			
2008	$ 15,184,765	20.48%	$ 12,074,922
2009	10,972,251	34.39	19,274,086
2010	10,972,251	34.52	26,458,674

The unaudited, funded statues of the Trust and Non-union OPEB plans are:

Valuation Date		Actuarial Value of Assets	Actuarial Accrued Liabilities (AAL)	Unfunded AAL	Funded Ratio Percentage
October 1, 2010	Trust	-	$ 301,283,583	$ 301,283,583	-
October 1, 2008	Non-union	-	114,269,458	114,269,458	-

5. Self-Insurance:

The Authority is self-insured for workers' compensation, unemployment and other general liabilities and purchases property and flood insurance which covers the risk of loss (after deductible) to all real and personal property, including transit buses, located on the Authority's property.

The Authority is protected by governmental immunity, except as provided by the Texas Tort Claims Act (TTCA). Under the 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. Settlements have not exceeded our insurance coverage for any of the past three fiscal years.

Net liabilities for injuries and damages (using a 5% discount rate) as of September 30, 2010 and 2009 are $16,303,230 and $20,322,092 with gross reserves totaling $18,488,359 and $23,022,574. These amounts were developed from historical information maintained by the Authority and consisted respectively of both reported but not paid and incurred but not yet reported claims. During FY2010 and FY2009 the reserve balances are reduced by $5,751,058 and $6,224,679 respectively to reflect revisions in estimated future claims and is reported in the Claims and Changes in Estimates column. The amounts reported as current liability on the Statement of Net Assets for both fiscal years are $5,317,508 and $4,691,532 respectively and is based on prior year claim payments. Changes in liabilities for injury and damages for fiscal 2010 and 2009 were:

	Balance Beginning of the Fiscal Year	Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
October 1,2009 - September 30, 2010	$ 20,322,092	$ 1,298,646	$ (5,317,508)	$ 16,303,230
October 1, 2008- September 30, 2009	$ 23,498,073	$ 1,515,551	$ (4,691,532)	$ 20,322,092

The Authority's ultimate liability for 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. Public/Private Development and Partnership:

Development

During FY2006 the Authority leased 11.5 acres of land for 99 years to A-S 90 HWY 290- Skinner, L.P. (lessee) the right (a ground lease) to develop, construct, operate and maintain a mixed-use residential and commercial facility. The Authority originally paid $3,605,567 for the land during FY2003. The Authority maintains a continuing financial interest in the property and must grant prior approval for certain activities, sales, assignments, transfers and subleasing by the lessee.

As part of the development program, the Authority paid $16,630,466 to the lessee for the construction of a multi-level parking garage and its share of cost for common areas. The garage provides parking for tenants and Park & Ride patrons and is maintained by the Authority with up to 20 percent of certain expenses billed to the lessee.

The lessee is responsible for maintaining the grounds and may bill the Authority up to 33.89 percent of the cost to maintain the drainage facilities/detention pond and certain common areas. The remaining cost associated with the property and improvement (excluding the garage) is paid by the lessee with most payments being included when calculating the Authority's 25 percent share of cash flow participation rent as described below.

The Authority receives $50,000 annually in base rent, paid monthly, and cash flow participation rent calculated as 25 percent of the net cash flows of the leases less most expenses, reasonable reserves, and the base rent. Upon certain payment events, the Authority will receive participation payments calculated as 25 percent of the net proceeds. These payment events include: sale, casualty, condemnation action or permanent project financing. All cash flow participation rent will cease if the lessee sells its interest to a third party. No cash flow participation rents or payment events have been received by the Authority through FY2010.

Partnership

During FY2005 the Authority entered into a taxable limited partnership (Wellington Fisher, Ltd.) for the acquisition and development of certain land for transit related projects. The Authority is the limited partner with Wellington Fisher One LLC being the general partner. This partnership will continue for 50 years unless the general partner enters bankruptcy or the general partner determines, with the approval of the limited partner, that the partnership should be dissolved.

The Authority initially paid $10,062,072 for its 66.6 percent investment in the partnership and during FY2006 paid $5,047,793 to H.O. Development, Ltd to acquire their 33.3 interest. Both payments are reported in the Statements of Net Assets as part of Capital assets, net of depreciation. The partnership owns 17.3 acres located near downtown Houston and net earning generally consists of parking fees reduced by property taxes, administrative cost, and fees paid to the general partner. The Authority's share of net earnings since inception of the partnership, through December 31, 2009, totals $145,142 and will be reported in the Statements of Revenue Expenses and Changes in Net Assets as cash is received.

7. Commitments and Contingencies:

In addition to the retirement plans discussed in note 4, the Authority has various commitments and contingencies that include commercial paper, infrastructure assistance, outstanding contracts and purchase orders, capital leases/operating leases, compensated absences, financial hedges for diesel fuel, litigation and audit by other governmental entities. Descriptions and changes for these items are listed below:

Commercial paper

The Authority is authorized to issue up to $400 million in Sales and Use Tax Revenue Commercial Paper Notes (CP). These notes are supported by pledging 75% of the Authority's Sales and Use Tax Revenue and interest earned on related investments. To support the CP program, the Authority has implemented a revolving credit facility totaling $400 million of which $70 million was used for 14 days during FY2009. The notes were successfully remarketed after the initial period. None of the credit facility was used during FY2010.

In the event of a remarketing failure, the credit line will be invoked to fund maturities and will incur interest costs as follows:

Period	Bank Rate
Day 1 through Day 14	Initial Base Rate
Day 15 through Day 90	Base Rate
Day 91 through Day 180	Base Rate plus 2.00% per annum
Day 181 through the day the amount is due and payable	Term Out Rate

Where the *"Initial Base Rate"* means for any day the higher of (a) the Bank's U.S. prime commercial lending rate in effect for such day (as such U.S. prime commercial lending rate is announced from time to time by the Bank at its principal New York office), and (b) the sum of 1.00% per annum plus the Federal Funds Rate for such day (it being understood that each change in such Initial Base Rate is to be effective for purposes of this Agreement on the day on which such change is effective for the Bank's purposes). Each determination of the Initial Base Rate by the Bank will be conclusive and binding on the Authority and the Bank, absent manifest error; *"Base Rate"* means for any day the higher of (a) the Bank's U.S. prime commercial lending rate in effect for such day (as such U.S. prime commercial lending rate is announced from time to time by the Bank at its principal New York office) plus 2.00% per annum, (b) the sum of 3.00% per annum plus the Federal Funds Rate for such day (it being understood that each change in such Base Rate is to be effective for purposes of this Agreement on the day on which such change is effective for the Bank's purposes), and (c) 9.00% per annum. Each determination of the Base Rate by the Bank will be conclusive and binding on the Authority and the Bank, absent manifest error; where "*Term Out Rate*" shall never exceed the *"Maximum Interest Rate"* meaning the lesser of (a) maximum non-usurious interest rate that may, under applicable federal law and applicable state law (including specifically Chapter 1204, *Texas Government Code*), be contracted for, charged or received under such laws and (b) 25% per annum. The Authority is also required to pay an annual commitment fee of 1.20% for funds that are available, whether used or unused.

Proceeds from CP were used to make payments for General Mobility expenditures, expanding, maintaining and improving public transit or eliminating outstanding notes of the same series. Changes and outstanding CP as of September 30, 2010 were:

Balance October 1, 2009	Proceeds	Repayment	Balance September 30, 2010
$ 143,000,000	$ 893,250,000	$ (846,250,000)	$ 190,000,000

Amount Issued	Maturity Date	Days outstanding	Nominal Rate %
$ 23,500,000	10/06/2010	62	0.30
7,650,000	10/06/2010	58	0.28
11,750,000	10/07/2010	104	0.36
36,500,000	10/13/2010	35	0.27
11,750,000	10/19/2010	63	0.28
13,250,000	11/10/2010	91	0.32
17,350,000	12/07/2010	90	0.30
45,000,000	12/07/2010	89	0.30
13,250,000	12/09/2010	87	0.34
10,000,000	02/10/2011	150	0.36
190,000,000			

Outstanding value of contracts

The Authority has various contracts for materials, services and construction activities some of which cover multiple fiscal years. The outstanding contract values as of September 30, 2010 was approximately $1,430,869,412 of which $1,069,589,609 is for the design-build rail contract assigned to Houston Rapid Transit (HRT) for 3 of the 5 rail lines. During December 2010 an additional $97,000,000 was authorized and assigned to HRT for the acceptance of additional responsibilities for the design and construction of the 3 rail lines. Payments to vendors will be made from sales tax collections, transit fares, bond proceeds and grants.

Agreements to fund local infrastructure improvements and mobility programs through September 30, 2014

The Authority makes payments to or on behalf of Harris County, the City of Houston, and 14 cities (Multi-Cities) within the Authority's service area for infrastructure improvement and mobility programs. These payments were re-authorized during a special election held during FY2004 which designated 25 percent of the Authority's sales tax through September 30, 2014. Funds not spent may be carried over and used, as appropriated by the Board, in future funding periods through September 30, 2014. The net carry-over balance as of September 30, 2010 was $84,922,000 which consisted of $75,233,000 due the City of Houston, $43,009,000 due Harris County, less advance payments made to the Multi-Cities of $33,320,000. Prior to January 1, 2013 the Authority is required to call a special election to determine what type, if any, infrastructure assistance and mobility programs will be funded by the Authority. Expenses related to these agreements are reported as Local infrastructure assistance in the Statements of Revenues, Expenses, and Changes in Net Assets as funding requests are received and accepted by the Authority.

Lease/sub-lease agreements for Operating Facilities and Buses

From December 2000 through April 2003, the Authority entered into 12 leveraged lease agreements, including "lease/leaseback" agreements for 7 bus operating facilities (BOF), 620 buses and related equipment. Under each of these agreements, the Authority entered into a head-lease as lessor with an investor and simultaneously entered into a sublease agreement as lessee to lease back the assets. The Authority received upfront head-lease rent prepayments which it invested in fixed income deposits in an amount that, including interest which is to be deferred and compounded to a future date, will be sufficient to fund all of the Authority's scheduled sublease rent payments through the date on which the Authority can exercise a designated early buyout option. Amounts relating to seven of the lease agreements were invested with a subsidiary of American International Group, Inc. and guaranteed by its parent ("AIG"), and amounts relating to five of the lease agreements were invested in United States Treasury and agency securities (the "Agency Securities"). In addition, and only in connection with those five lease agreements, Financial Security Assurance Inc. ("FSA") provided certain financial guarantee coverage for the benefit of the related investors. The Authority realized approximately $14 million in net benefit after funding these investments and paying related transaction expenses.

Part of the lease agreements requires the Authority to maintain third party payment guarantees by organizations with credit ratings of AA-/Aa3 or higher. During FY2008 and FY2009 both payment guarantors (AIG and FSA) were downgraded by S&P and Moody's below the required rating.

Bank of America and NorLease are the Equity Investors of the Authority's BOF leases. Wells Fargo and Comerica are the Equity Investors of the Bus and Bus Equipment leases. American International Group (AIG) is the Payment Guarantor for the BOF leases and Financial Security Assurance (FSA) is Payment Guarantor for the Bus and Related Equipment leases.

As of September 30, 2010, Bank of America is the only equity investor who has officially requested the Authority to replace their initial lease Equity Payment Agreement and the Letter of Credit (LOC) due to the downgrade of AIG. The estimated cost to terminate all 12 leases is approximately $73 million. This estimate will fluctuate based on the schedule of termination payments, market conditions, and credit ratings for AIG and FSA. It is anticipated that no termination payment will be required since the Authority has the ability and intent to continue making lease payments until the end of the lease terms.

The Authority continues to work with other transit agencies in seeking assistance from the Federal Government and the U.S. Congress in order to resolve the Lease in Lease out or Sales in Lease Out issue in the best interest of the nation's transit industry.

Amounts placed with the payment undertakers are amortized on a straight-line basis over the life of the specific lease. Unamortized balances are reported on the Statements of Net Assets as Prepaid lease payments with a corresponding liability titled Deferred rental payments. Sale and sub-lease terms and original amounts placed with payment undertakers are:

Facility	Original Lease Expiration Date	Sub-Lease Early Purchase Option Date	Sub-Lease Expiration Date	Amortization Period (Years)
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 1, 2012-15	10-13
Transit Buses	Dec 19, 2052	-	Jan 1, 2014	12
Transit Buses	Dec 19 2052	-	Jan 1, 2016	14
Fare boxes/radios	Apr 22, 2043	-	Jan 1, 2018	16

Amortization of the amounts placed with payment undertakers for fiscal year 2010 and 2009 were:

Facility	Unamortized Balance Remaining with Payment Undertakers September 30, 2009	Current Year Amortization	Unamortized Balance Remaining with Payment Undertakers September 30, 2010
Buffalo Bayou	$ 6,892,958	$ 275,719	$ 6,617,239
Fallbrook	39,664,284	1,526,555	38,137,729
Field Service Center	16,062,208	669,258	15,392,950
Hiram Clarke	19,978,044	799,122	19,178,922
Kashmere	35,214,225	1,304,231	33,909,994
Northwest	19,692,983	787,720	18,905,263
West	24,054,446	925,171	23,129,275
Transit buses	24,964,896	5,735,631	19,229,265
Transit buses	20,494,363	6,116,271	14,378,092
Transit buses	4,251,747	607,392	3,644,355
Transit buses	3,487,419	697,484	2,789,935
Fare boxes/radios	19,918,384	2,213,154	17,705,230
Total	$ 234,675,957	$ 21,657,708	$ 213,018,249

Facility	Unamortized Balance Remaining with Payment Undertakers September 30, 2008	Current Year Amortization	Unamortized Balance Remaining with Payment Undertakers September 30, 2009
Buffalo Bayou	$ 7,168,677	$ 275,719	$ 6,892,958
Fallbrook	41,190,839	1,526,555	39,664,284
Field Service Center	16,731,466	669,258	16,062,208
Hiram Clarke	20,777,166	799,122	19,978,044
Kashmere	36,518,456	1,304,231	35,214,225
Northwest	20,480,703	787,720	19,692,983
West	24,979,617	925,171	24,054,446
Transit buses	30,700,527	5,735,631	24,964,896
Transit buses	26,610,634	6,116,271	20,494,363
Transit buses	4,859,139	607,392	4,251,747
Transit buses	4,184,903	697,484	3,487,419
Fare boxes/radios	22,131,538	2,213,154	19,918,384
Total	$ 256,333,665	$ 21,657,708	$ 234,675,957

These are considered listed transactions by the Internal Revenue Service and an excise tax must be calculated and paid annually by the Authority. Excise tax returns are current through December 30, 2009 with payments totaling $41,937.

Long-term Debt

Long-term debt consists of capital leases and sales and use tax bonds. The Authority is authorized by the voters to issue $640 million of long-term sales and use tax bonds to fund projects for the transit system pursuant to the November 2003 election. The Authority has $463 million authorized but not yet issued from this election. Sales and Use Tax Bonds relating to contractual obligations for the purchase of buses and rail cars do not count against the voter authorized amount. Amounts placed into debt service accounts have been reported as part of restricted assets. Payment schedules for capital leases and bonds are:

	Capital Leases			Sales and Use Tax Bonds			
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total	Total
2011	$ 7,222,767	$ 4,932,869	$ 12,155,636	$ 6,435,000	$ 14,897,376	$ 21,332,376	$ 33,488,012
2012	7,549,701	4,603,360	12,153,061	9,285,000	14,918,507	24,203,507	36,356,568
2013	7,899,879	4,245,094	12,144,973	9,600,000	14,595,332	24,195,332	36,340,305
2014	8,129,906	3,881,965	12,011,871	9,970,000	14,221,556	24,191,556	36,203,427
2015	8,543,263	3,472,233	12,015,496	10,385,000	13,807,156	24,192,156	36,207,652
2016-2020	49,074,092	10,735,683	59,809,775	58,990,000	61,920,744	120,910,744	180,720,519
2021-2025	16,390,000	738,147	17,128,147	53,475,000	47,431,344	100,906,344	118,034,491
2026-2030	-	-	-	43,720,000	36,707,156	80,427,156	80,427,156
2031-2035	-	-	-	52,470,000	22,565,328	75,035,328	75,035,328
2036-2039	-	-	-	40,810,000	5,767,781	46,577,781	46,577,781
	$104,809,608	$32,609,351	$137,418,959	$ 295,140,000	$ 246,832,280	$541,972,280	$679,391,239

Capital Leases

The Board has authorized the use of a Master Lease Purchase Finance Program (MLPFP) for the purchase of buses and rail cars. Funds from the MLPFP were used to purchase 158 buses that were placed into service during FY2008 and FY2009. In addition to the MLPFP, the Authority entered into other leases which include: a 5 year lease for copiers and a 50 year lease with three 15 years extensions for the use of land and related improvements for a park & ride lot. Land improvements for this park & ride lot have been capitalized and will be depreciated over its remaining useful life with payments for the land being reported as an operating lease. Capital leased assets are depreciated over their estimated useful life or the life of the lease, if shorter, and have been reported as part of capital assets, net with a corresponding capital lease liability on the Statements of Net Assets.

Scheduled lease payments over the remaining lease terms are:

Future payments for the MLPFP:

	MLPFP					
	Series A		Series B		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 4,255,000	$ 2,521,244	$ 2,790,000	$ 2,366,375	$ 7,045,000	$ 4,887,619
2012	4,385,000	2,347,794	2,975,000	2,222,250	7,360,000	4,570,044
2013	4,605,000	2,154,703	3,100,000	2,070,375	7,705,000	4,225,078
2014	4,770,000	1,958,862	3,290,000	1,910,625	8,060,000	3,869,487
2015	4,995,000	1,721,612	3,475,000	1,741,500	8,470,000	3,463,112
2016-2020	28,600,000	4,945,891	20,320,000	5,782,275	48,920,000	10,728,166
2021-2022	6,555,000	143,391	9,835,000	594,756	16,390,000	738,147
	$ 58,165,000	$ 15,793,497	$ 45,785,000	$ 16,688,156	$103,950,000	$32,481,653

Future payments for other leases:

	Copiers		Park & Ride Land Improvements		Total	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 120,688	$ 23,869	$ 57,079	$ 21,381	$ 177,767	$ 45,250
2012	129,880	14,676	59,821	18,640	189,701	33,316
2013	128,177	4,334	66,702	15,682	194,879	20,016
2014	-	-	69,906	12,478	69,906	12,478
2015	-	-	73,263	9,121	73,263	9,121
2016-2019	-	-	154,092	7,517	154,092	7,517
	$ 378,745	$ 42,879	$ 480,863	$ 84,819	$ 859,608	$ 127,698

Changes during the last two years for capital lease obligations are:

	Capital Leases	Addition	Retirement	Premium/ (Discount)	Amortization of Premium/ Discount	Combined Balance September 30, 2010
MLPFP						
Series A	$ 62,255,000	$ -	$ 4,090,000	$ 861,414	$ (66,262)	$ 58,960,152
Series B	45,785,000	-	-	1,184,809	(91,140)	46,878,669
Copiers	490,891	-	112,146	-	-	378,745
Park & Ride Land Improvements	538,859		57,996	-	-	480,863
Total	$ 109,069,750	$ -	$ 4,260,142	$ 2,046,223	$ (157,402)	$ 106,698,429

	Capital Leases	Addition	Retirement	Premium/ (Discount)	Amortization of Premium/ Discount	Combined Balance September 30, 2009
MLPFP						
Series A	$ 62,255,000	$ -	$ -	$ 861,414	$ -	$ 63,116,414
Series B		45,785,000	-	1,184,809	-	46,969,809
Copiers	599,689	-	108,798	-	-	490,891
Park & Ride Land	591,467		52,608	-	-	538,859
Improvements						
Total	$ 63,446,156	$ 45,785,000	$ 161,406	$ 2,046,223	$ -	$ 111,115,973

Bonds

The Authority has five Sales and Use Tax bonds outstanding as of September 30, 2010. Three of the 5 bonds are contractual obligations with proceeds used to purchase buses and rail cars. The remaining two bonds were used to pay for construction activity on the North and Southeast rail lines. Interest and principal payments are guaranteed from sales tax receipts that are deposited directly by the bank each month into a third party trust account. Funds not yet spent have been reported as restricted investments in the Statement of Net Assets. Scheduled payments over the remaining life of the bonds and changes during the last two fiscal years are:

	Sales and Use Tax Bonds					
	Sales and Use Tax Bonds Series 2009A		Contractual Obligations Series 2009B		Build America Bonds Series 2009C	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 2,955,000	$ 4,496,225	$ 1,085,000	$ 1,875,900	$ -	$ 5,675,657
2012	3,045,000	4,406,225	1,115,000	1,842,900	-	5,675,657
2013	3,135,000	4,313,525	1,150,000	1,808,925	-	5,675,657
2014	3,265,000	4,184,875	1,185,000	1,773,900	-	5,675,656
2015	3,430,000	4,017,500	1,225,000	1,731,625	-	5,675,656
2016-2020	20,000,000	17,258,750	6,930,000	7,865,025	-	28,378,281
2021-2025	25,670,000	11,578,250	8,610,000	6,187,688	-	28,378,281
2026-2030	32,965,000	4,285,625	10,755,000	4,043,250	-	28,378,281
2031-2035	-	-	10,725,000	1,105,875	41,745,000	21,459,453
2036-2039	-	-	-	-	40,810,000	5,767,781
	$ 94,465,000	$ 54,540,975	$ 42,780,000	$ 28,235,088	$ 82,555,000	$ 140.740,360

The Build America Bonds Series 2009C receives a special interest cost rebate each year from the Federal Government. This amount varies annually starting with $1,986,480 that will be received annually through FY2030 and $1,894,802 declining to $131,080 received annually through FY2039. The anticipated remaining rebate due as of September 30, 2010 is $49,038,406. The rebate is reported as Intergovernmental grant revenue in the Statement of Revenue, Expense and Changes in Net Assets as earned. Interest cost reported in this schedule has not been reduced for this rebate.

	Sales and Use Tax Bonds					
	Contractual Obligations Series 2009D		Contractual Obligations Series 2010A		Total For Sales and Uses Tax Bonds	
Fiscal Year	Principal	Interest	Principal	Interest	Principal	Interest
2011	$ 2,395,000	$ 1,319,775	$ -	$ 1,529,819	$ 6,435,000	$ 14,897,376
2012	2,460,000	1,258,925	2,665,000	1,734,800	9,285,000	14,918,507
2013	2,545,000	1,171,125	2,770,000	1,626,100	9,600,000	14,595,332
2014	2,640,000	1,074,025	2,880,000	1,513,100	9,970,000	14,221,556
2015	2,730,000	986,875	3,000,000	1,395,500	10,385,000	13,807,156
2016-2020	15,210,000	3,373,063	16,850,000	5,045,625	58,990,000	61,920,744
2021-2025	7,070,000	358,000	12,125,000	929,125	53,475,000	47,431,344
2026-2030	-	-	-	-	43,720,000	36,707,156
2031-2035	-	-	-	-	52,470,000	22,565,328
2036-2039	-	-	-	-	40,810,000	5,767,781
	$ 35,050,000	$ 9,541,788	$ 40,290,000	$ 13,774,069	$ 295,140,000	$ 246,832,280

Changes during the last two years for Sales and Use Tax Bonds consist of:

	Changes in Outstanding Bonds and Contractual Obligations			Changes in Premium/(Discount)		
Series	Bonds	Addition	Retirement	Premium/ (Discount)	Amortization of Premium/ Discount	Combined Balance September 30, 2010
2009A	$ 94,465,000	$ -	$ -	$ 6,464,734	$ (318,318)	$ 100,611,416
2009B	42,780,000	-	-	881,506	(15,104)	43,646,402
2009C	82,555,000	-	-	(1,088,516)	41,903	81,508,387
2009D	-	35,050,000	-	2,585,431	-	37,635,431
2010A	-	40,290,000	-	3,976,798	-	44,266,798
Total	$ 219,800,000	$ 75,340,000	$ -	$ 12,819,953	$ (291,519)	$ 307,668,434

	Changes in Outstanding Bonds			Changes in Premium/(Discount)		
Series	Bonds	Addition	Retirement	Premium/ (Discount)	Amortization of Premium/ Discount	Combined Balance September 30, 2009
2009A	$ -	$ 94,465,000	$ -	$ 6,464,734	$ -	$ 100,929,734
2009B	-	42,780,000	-	881,506	-	43,661,506
2009C	-	82,555,000	-	(1,088,516)	-	81,466,484
Total	$ -	$ 219,800,000	$ -	$ 6,257,724	$ -	$ 226,057,724

Operating lease

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, 2010:

Year Ending September 30	Operating Leases
2011	$ 4,421,252
2012	4,327,424
2013	4,144,380
2014	4,060,380
2015	4,060,380
Total minimum lease payments (excluding prepaid)	$ 21,013,816

Rent expenses (including amortization of prepaid rent) for FY2010 and 2009 was $2,123,565 and $1,816,881 respectively.

Financial Hedges for Diesel Fuel

The Authority developed and implemented a plan through physical forward contracts and/or financial contracts, which will provide fuel and energy commodity price certainty for up to 24 months of expected consumption. The tactics to achieve this goal could include: Fixed Price Future Delivery Contracts, Guaranteed Price Contracts (Swaps), Maximum/Minimum Price Contracts (Collars) and Maximum Price Contracts (Caps). Credit risk is minimized because all counterparties of contracts shall either have a minimum long-term rating of A3 or A- by at least two of the three nationally recognized rating agencies or have collateral posting requirements for entities with ratings below this level. Diesel fuel purchases and related swap agreements cover the same time period and use the same index which is the Platts US Gulf Coast Ultra Low Sulfur Diesel. No upfront cash is received or paid by the Authority when entering into any derivative transactions.

On September 30, 2009 the Authority had 15 swap agreements outstanding. Seven swaps are for FY2010 and total 14,448,000 gallons which represents approximately 100 percent of the Authority's anticipated usage. The remaining swaps are for 8,878,000 gallons and will settle during FY2011. These outstanding swaps had a negative value of $8,849,233 as of September 30, 2009 as calculated by the counterparties both of whom are nationally recognized commodity traders Koch Supply & Trading, LLP and J. Aron & Company. The 2010 swaps ultimately settled at a loss of $8,012,449 which was reported as part of operating cost in bus and rail operations in the Statement of Revenues, Expenses and Changes in Net Assets.

The Authority had 12 outstanding diesel fuel swaps totaling 13,314,000 gallons as of September 30, 2010 which cover most of the anticipated FY2011 fuel requirements. These swaps will settle monthly during FY2011 and have a positive fair value of $4,967,134 when calculated by the counterparty (Koch Supply & Trading), a nationally recognized commodity trader. During FY2010 the Authority implemented Governmental Accounting Standards Board Statement No 53 *Accounting and Financial Reporting for Derivative Instruments* which requires the Authority to report and disclose the effectiveness of any hedge transactions. These swaps are considered effective with the positive fair value being reflected in the Statement of Net Assets in Other current assets and Other current liabilities. No derivatives were reclassified during the year from a hedging derivative to an investment derivative.

Compensated absences are earned, as discussed in note one, based on employee classification. The ending balance is payable next fiscal year and has been reported in the current liability section of the Statements of Net Assets as part of accrued compensation and benefits.

Changes during the last two years are:

	Balance at Beginning of Fiscal Year	Taken	Earned	Balance at End of Fiscal Year
October 1,2009 - September 30, 2010	$ 12,978,543	$ (14,224,855)	$ 14,766,076	$13,519,764
October 1, 2008 - September 30, 2009	12,623,705	(14,080,665)	14,435,503	12,978,543

Litigation

The Authority is a defendant in various legal actions occurring in the normal course of its operations and has recognized, to the extent it believes necessary, liabilities for any reasonably expected losses that 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, except for the $20,700,000 currently recorded as a liability related to grant funded light rail car contract which will be reimbursed to the federal government.

METRO Rail Expansion

The Authority continues to work with the Federal Transit Administration to secure additional funding needed to complete the design and construction of the five rail lines. However, inadequate or significant delays in funding may result in additional impaired cost.

Required Supplemental Information

Metropolitan Transit Authority

Schedule of Funding Progress for the
Non-Union and Transport Workers Union Pension and Other Postemployment Benefit Plans
(Amounts in Thousands)
(Unaudited)

	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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, 2010	$ 110,434	$ 144,241	$ 33,807	76.6%	$ 56,962	59.35%
	Jan 1, 2009	87,155	139,380	52,226	62.5%	63,625	82.08%
	Jan 1, 2008	104,824	120,407	15,583	87.1%	62,930	24.76%
Other Postemployment Benefits	Oct 1, 2009	-	114,269	114,269	-	-	-
	Oct 1, 2008	-	114,269	114,269	-	-	-
	Oct 1, 2007	-	140,456	140,456	-	-	-
Transport Workers Union Pension Plan	Jan 1, 2010	162,390	227,091	64,701	71.5%	88,184	73.37%
	Jan 1, 2009	131,281	204,685	73,404	64.1%	85,317	86.04%
	Jan 1, 2008	160,889	193,595	32,706	83.1%	84,414	38.74%
Other Postemployment Benefits	Oct 1, 2010	-	301,284	301,284	-	-	-
	Oct 1, 2009	-	236,772	236,772	-	-	-
	Oct 1, 2008	-	236,772	236,772	-	-	-

Other Postemployment Benefits actuarial studies are done bi-annually

See accompanying independent auditors' report

Statistical Section

This part of Metropolitan Transit Authority of Harris County, Texas (METRO)'s comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements and note disclosures says about the Authority's overall financial health.

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These schedules contain trend information to help the reader understand how the Authority's financial performance and well-being have changed over time.

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

The Authority implemented and complies with GASB Statement No. 44 *Economic Condition Reporting: The Statistical Section* starting in FY2005.

Metropolitan Transit Authority of Harris County, Texas
Statements of Net Assets
September 30, 2010, 2009, 2008, 2007, 2006 and 2005

	2010	2009	2008	2007	2006	2005
Assets						
Current assets						
Cash	$ 1,564,969	$ 829,893	$ 121,392	$ 231,459	$ 480,999	1,141,984
Cash - restricted	-	10,809,248	8,764,498	9,214,638	5,632,666	2,447,541
Investments	119,209,517	135,115,133	142,262,789	271,234,401	245,227,457	104,516,140
Receivables						
Sales tax	83,314,283	77,761,055	83,275,323	82,267,723	78,514,236	67,495,967
Federal government - Federal Transit Administration	62,448,555	29,699,429	7,508,972	12,837,240	18,970,115	12,653,593
Interest	142,978	143,450	169,539	487,925	2,409,928	408,545
Bus passes	3,905,144	3,974,792	3,757,723	549,262	948,510	409,295
Other	17,578,747	4,383,491	4,835,499	3,010,623	4,983,751	5,670,868
Total receivables	167,389,707	115,962,217	99,547,056	99,152,773	105,826,540	86,638,268
Material and supplies inventory	22,400,422	20,605,560	32,086,923	22,901,955	29,758,196	23,278,027
Prepaid pension	1,057,934	1,057,934	1,057,934	657,930	366,667	-
Other current assets	6,958,099	2,212,825	3,054,762	973,238	1,486,436	1,249,029
Prepaid lease payments	21,657,708	21,657,708	21,657,708	21,657,708	21,657,708	21,657,708
Total current assets	340,238,356	308,250,518	308,553,062	426,024,102	410,436,669	240,928,697
Noncurrent assets						
Investments - restricted	93,381,904	210,766,724	5,760	555,775	4,370,072	-
Capital assets, net of depreciation	2,032,038,758	1,969,813,283	1,847,947,918	1,634,225,906	1,506,044,662	1,499,727,161
Prepaid pension	26,791,960	27,539,598	28,597,532	18,055,470	10,266,669	-
Other noncurrent assets	7,959,529	7,734,236	2,992,574	3,153,564	3,314,553	3,474,690
Prepaid lease payments	191,360,541	213,018,249	234,675,957	256,333,665	277,991,373	299,649,081
Total noncurrent assets	2,351,532,692	2,428,872,090	2,114,219,741	1,912,324,380	1,801,987,329	1,802,850,932
Total assets	2,691,771,048	2,737,122,608	2,422,772,803	2,338,348,482	2,212,423,998	2,043,779,629
Liabilities						
Current liabilities						
Trade payables	124,829,224	115,799,760	104,155,476	91,844,230	82,589,611	62,222,230
Accrued compensation and benefits	24,703,772	27,094,159	21,531,490	19,301,412	18,655,986	22,040,633
Liabilities for injuries and damages	5,317,508	4,691,532	6,632,936	5,883,512	4,953,276	4,933,521
Commercial paper	190,000,000	143,000,000	143,000,000	143,000,000	89,000,000	-
Other current liabilities	15,000,793	7,403,357	7,823,172	4,136,485	4,683,614	13,454,666
Deferred lease payments	21,657,708	21,657,708	21,657,708	21,657,708	21,657,708	21,657,708

Metropolitan Transit Authority of Harris County, Texas
Statements of Net Assets
September 30, 2010, 2009, 2008, 2007, 2006 and 2005

	2010	2009	2008	2007	2006	2005
Capital lease obligation	7,222,767	4,256,609	2,406,683	-	-	-
Bond payable	6,435,000	-	-	-	-	-
Debt interest payable	8,155,478	6,756,159	-	-	-	-
Total current liabilities	403,322,250	330,659,284	307,207,465	285,823,347	221,540,195	124,308,758
Noncurrent liabilities						
Liabilities for injuries and damages	10,985,722	15,630,560	16,865,137	15,248,000	13,055,519	12,120,851
Deferred rental payments	191,360,541	213,018,249	234,675,957	256,333,665	277,991,373	299,649,081
Capital lease obligation	99,475,662	106,859,364	61,039,473	-	-	-
Bond payable	301,233,434	226,057,724	-	-	-	-
Other post employment benefits	86,263,172	58,196,633	31,603,807	-	-	-
Other noncurrent liabilities	4,802,679	5,774,679				
Total noncurrent liabilities	694,121,210	625,537,209	344,184,374	271,581,665	291,046,892	311,769,932
Total liabilities	1,097,443,460	956,196,493	651,391,839	557,405,012	512,587,087	436,078,690
Net Assets						
Invested in capital assets, net of related debt	1,690,456,527	1,822,809,038	1,763,904,490	1,613,628,634	1,485,447,390	1,499,727,161
Restricted assets	20,307,480	23,410,852	8,764,498	9,214,638	5,632,666	2,447,541
Unrestricted assets	(116,436,419)	(65,293,775)	(1,288,024)	158,100,198	208,756,855	105,526,237
Total net assets	$ 1,594,327,588	$ 1,780,926,115	$ 1,771,380,964	$ 1,780,943,470	$ 1,699,836,911	$ 1,607,700,939

Source: METRO's comprehensive annual report
Unaudited - see accompanying independent auditors' report

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2010, 2009, 2008, 2007, 2006 and 2005

	2010	2009	2008	2007	2006	2005
Operating revenues:						
Transportation fares	$ 64,538,736	$ 67,083,414	$ 53,805,283	$ 53,266,927	$ 54,186,016	50,137,041
Operating expenses:						
Scheduled services - fixed route						
Bus and rail operations - direct	161,548,458	179,245,220	148,355,656	131,195,120	126,865,459	125,262,654
Contract service	44,365,552	45,638,064	39,517,766	39,844,157	38,906,779	36,332,284
Material distribution	5,994,776	5,662,705	5,804,008	4,603,536	4,299,865	4,241,837
Preventative maintenance	49,926,437	47,705,846	47,194,361	41,396,795	41,755,975	39,384,631
Central shop and maintenance support	13,796,093	13,192,409	13,086,172	11,650,263	12,956,132	13,480,763
Safety and training	858,722	925,202	795,904	728,688	532,939	3,791,481
Subtotal scheduled services - fixed route	276,490,038	292,369,446	254,753,867	229,418,559	225,317,149	222,493,650
Non-scheduled services -special						
METROLift	35,915,851	35,556,663	34,237,245	32,215,665	30,547,646	28,884,037
METROVan	4,327,517	6,075,378	4,079,490	5,184,800	3,578,916	2,563,513
Special events	808,861	793,180	624,013	3,053,355	3,506,689	3,636,986
Subtotal non-scheduled services - special	41,052,229	42,425,221	38,940,748	40,453,820	37,633,251	35,084,536
Service support						
Service planning and evaluation	822,792	247,023	586,792	415,576	348,891	1,177,777
Marketing	6,933,097	5,324,367	5,708,560	4,186,209	3,861,995	4,260,466
Transit security	14,484,702	14,019,638	14,332,699	11,087,339	10,607,564	9,188,740
Insurance and claims	5,144,081	4,484,705	4,476,482	3,336,401	3,141,878	3,021,310
Ticket and fare collection	2,029,498	1,682,347	1,786,021	818,416	971,469	1,227,181
Facility maintenance	19,193,318	22,752,511	20,863,515	15,883,937	13,940,679	11,283,070
Subtotal service support	48,607,488	48,510,591	47,754,069	35,727,878	32,872,476	30,158,544
Traffic management - services	8,386,197	8,310,640	11,514,654	10,585,299	9,549,401	11,011,559
Organizational support						
Business, community and governmental development	4,111,359	1,373,563	910,623	455,465	447,374	528,487
Administrative, financial and personnel	18,921,682	11,639,038	10,656,994	17,021,569	17,122,603	15,665,098
Information systems	10,835,724	3,808,872	2,401,196	2,467,722	2,188,249	2,929,732
Purchasing	2,837,551	1,646,574	1,400,093	891,513	1,223,727	1,747,664
Oversight, audit and legal	7,333,120	7,620,394	3,268,706	2,308,768	2,288,331	2,856,902
Subtotal organizational support	44,039,436	26,088,441	18,637,612	23,145,037	23,270,284	23,727,883

Metropolitan Transit Authority of Harris County, Texas
Statements of Revenues, Expenses and Changes in Net Assets
For the Years Ended September 30, 2010, 2009, 2008, 2007, 2006 and 2005

	2010	2009	2008	2007	2006	2005
Depreciation and amortization	143,977,419	140,847,103	124,856,131	120,289,857	107,030,889	107,970,694
Total operating expenses	562,552,807	558,551,442	496,457,081	459,620,450	435,673,450	430,446,866
Operating loss	(498,014,071)	(491,468,028)	(442,651,798)	(406,353,523)	(381,487,434)	(380,309,825)
Nonoperating revenues (expenses):						
Sales tax	489,972,748	517,972,851	521,179,360	481,721,482	467,645,812	394,015,831
Investment income	2,103,533	4,307,902	7,165,095	14,240,392	7,923,445	1,803,936
Inter-government revenue	1,986,614	599,650	-	-	-	-
Interest expense	(7,493,528)	-				
Other income (expenses)	848,968	1,115,401	793,638	648,162	446,526	(874,336)
Grant proceeds	63,988,363	59,345,052	57,965,428	58,145,684	59,929,875	55,574,154
Local infrastructure assistance	(150,091,349)	(116,744,258)	(179,845,280)	(108,530,541)	(115,616,319)	(134,178,117)
Loss from impairment assets	(180,308,408)	-	-	-	-	-
Loss on sale or disposal of assets	(1,095,753)	(6,258,755)	(1,169,107)	(1,941,917)	(10,245,545)	(2,392,293)
Total nonoperating revenues (expenses)	219,911,188	460,337,843	406,089,134	444,283,262	410,083,794	313,949,175
Loss before capital grants	(278,102,883)	(31,130,185)	(36,562,664)	37,929,739	28,596,360	(66,360,650)
Capital grant proceeds	91,897,549	41,027,564	27,000,158	43,176,821	63,539,611	95,032,960
Funds passed to subrecipients	(393,193)	(352,228)	-	-	-	-
Changes in net assets	(186,598,527)	9,545,151	(9,562,506)	81,106,560	92,135,971	28,672,310
Net assets - beginning of the year	1,780,926,115	1,771,380,964	1,780,943,470	1,699,836,910	1,607,700,939	1,579,028,629
Net assets - end of the year	$ 1,594,327,588	$ 1,780,926,115	$ 1,771,380,964	$ 1,780,943,470	$ 1,699,836,910	$ 1,607,700,939

Source: METRO's comprehensive annual report
Unaudited - see accompanying independent auditors' report

Metropolitan Transit Authority
of Harris County, Texas
Revenue Capacity
For the Last Two Fiscal Years

	2010	2009
Net sales tax	$ 489,972,748	$ 517,972,851
Taxable retail sales	$ 49,997,219,184	$ 52,854,372,551
Ratio of sales tax to taxable retail sales	0.98%	0.98%
Transit fares	$ 64,538,736	$ 67,083,414
Total transit boarding	81,158,905	88,517,657
Ratio of transit fares to total transit boarding	79.52%	75.79%

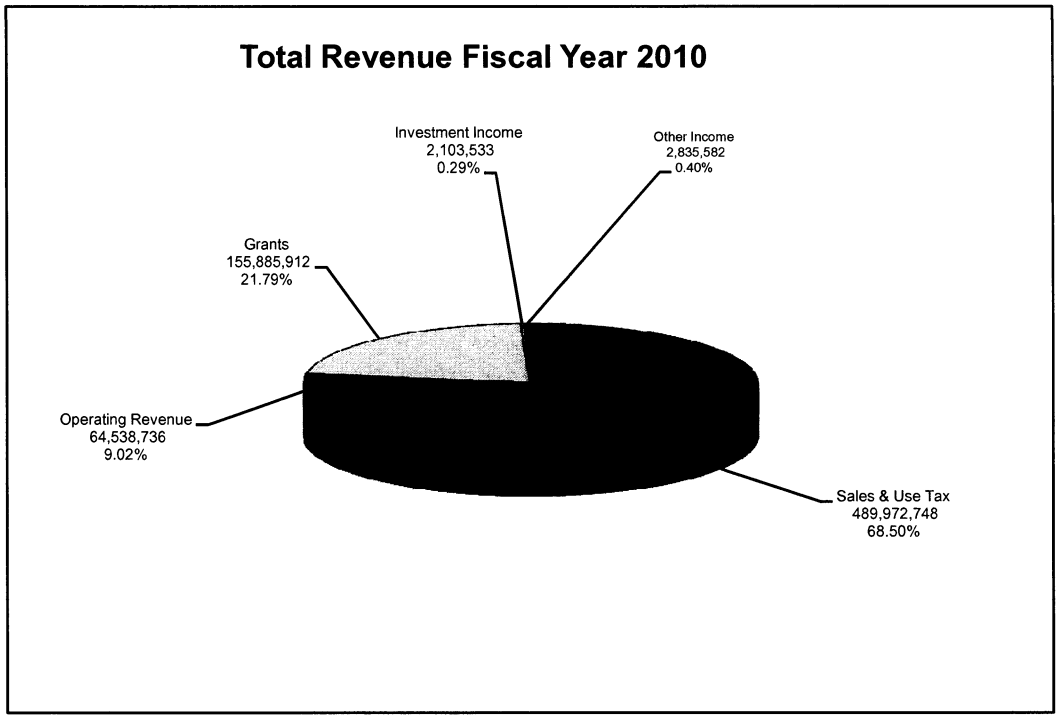
Please refer to MD&A for additional information.

Metropolitan Transit Authority
of Harris County, Texas
Current Fares

	Full Fare		Discounted Fare	
	Previous*	**Since November 2008**	**Previous***	**Since November 2008**
Local/METRORail	$1.00	$1.25	$0.50	$0.60
Park & Ride Zone 1	$1.50	$2.00	$0.75	$1.00
Park & Ride Zone 2	$2.50	$3.25	$1.25	$1.60
Park & Ride Zone 3	$3.00	$3.75	$1.50	$1.85
Park & Ride Zone 4	$3.50	$4.50	$1.75	$2.25

* The previous Local fare was implemented in October 1994.
* The previous Park & Ride fares were implemented in September 1996.

Metropolitan Transit Authority
of Harris County, Texas
Total Revenue By Category
Fiscal Year 2010



Metropolitan Transit Authority of Harris County, Texas
Debt-Revenue Coverage
Sales and Use Tax Bonds

Fiscal Year	75% of Sales Tax Revenue	Operating Revenues	Operating Grants	Less Operating Expenses (Net of Depreciation)	Net Available Revenues	Subsidy from IRS for Taxable Bonds	FY2011 Payments for Sales & Usage Tax Bonds		Coverage Ratio
							Principal	Interest	
2010	$ 367,479,561	$ 64,538,736	$ 63,988,363	$ 418,575,386	$ 77,431,274	$ (1,986,614)	$ 6,435,000	$ 14,897,376	4.00
2009	388,479,638	67,083,414	59,345,052	417,704,339	97,203,765	(599,650)	-	10,763,005	9.56

Note: METRO had no bonds outstanding prior to fiscal year 2009.

Metropolitan Transit Authority
of Harris County, Texas
Demographic Statistics
For the Last Ten Years

Fiscal Year	Population	Per Capita Personal Income	Total Retail Sales (000)	Unemployment Rate
2010	5,147,033	$ 45,988	$ 81,914,732	8.2 %
2009	5,125,027	45,403	81,640,877	7.6
2008	5,076,604	46,666	84,208,417	4.8
2007	4,917,300	44,333	89,040,047	4.3
2006	4,729,300	42,701	80,725838	5.0
2005	4,622,400	39,561	76,570,737	5.6
2004	4,428,400	36,755	66,806,776	6.2
2003	4,376,600	34,565	63,995,848	6.7
2002	4,340,900	33,933	62,764,016	6.0
2001	4,268,100	35,166	61,924,674	4.7

Source: Institute for Regional Forecasting, A Division of the Center for Public Policy, University of Houston

Metropolitan Transit Authority
of Harris County, Texas
Principal Employers
(amounts in thousands)

	2009			2000		
Employer	Employees	Rank	Percentage of Total County Employment	Employees	Rank	Percentage of Total County Employment
Continental Airlines (merger pending w/ United Airlines)	14,651	1	0.54%	16,779	1	0.74%
Exxon Mobil	13,353	2	0.49%	-	-	-
Shell Oil Company	11,855	3	0.44%	7,425	10	0.33%
Chevron Companies	7,000	4	0.26%	-	-	-
JP Morgan Chase(former Texas Commerce Bank)	6,500	5	0.24%	-	-	-
AT&T Inc.(former SBC/Southwestern Bell)	6,047	6	0.22%	-	-	-
Baker Hughes Incorporated	5,369	7	0.20%	-	-	-
KBR Inc. (spun off from Halliburton)	5,089	8	0.19%	15,550	3	0.68%
CenterPoint Energy (Spun off from Reliant Energy)	4,750	9	0.17%	-	-	-
Aramark	4,500	10	0.17%	-	-	-
Halliburton Company	4,500	10	0.17%	-	-	-
Administaff	-	-	-	16,458	2	0.72%
Enron	-	-	-	13,669	4	0.60%
Compaq Computer	-	-	-	13,400	5	0.59%
Wal-Mart	-	-	-	9,560	6	0.42%
Kroger Food Stores	-	-	-	9,100	7	0.40%
Southwestern Bell/SWB	-	-	-	7,800	8	0.34%
Reliant Energy Inc/Center Point Energy	-	-	-	7,670	9	0.34%

* Based on calendar year

Source: Houston Business Journal First Survey/Greater Houston Partnership/HBJ

Metropolitan Transit Authority of Harris County, Texas
Operating Statistics
Last Ten Fiscal Years

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 Transit ways	Number of						Directional Route Miles			Total Actual Rail Passenger Car Revenue Miles
						Emp	Buses *	Rail Cars	BOF	TC	P&R	Rail	HOV Lanes	Service Area (sq. mile)	
2010	23,761,231	81,158,905	55,670,178	551,914,756	244,978,292	3,453	1,403	18	6	21	29	14.8	128.6	1,285	900,517
2009	24,112,235	88,517,657	55,142,910	610,865,178	254,105,685	3,512	1,374	18	6	21	29	14.8	128.6	1,285	903,668
2008	24,732,107	100,348,037	54,018,635	646,762,573	254,988,018	3,528	1,342	18	6	21	28	14.8	116.9	1,285	884,171
2007	24,875,224	101,310,353	53,905,535	638,818,780	257,093,716	3,429	1,328	18	6	20	27	14.8	115.2	1,285	877,433
2006	22,382,441	102,827,629	53,984,414	633,249,121	230,762,976	3,356	1,330	18	6	20	25	14.8	115.2	1,285	859,867
2005	21,254,941	94,959,198	54,428,597	582,363,102	219,732,408	3,360	1,412	18	6	20	26	14.8	102.0	1,285	805,568
2004	23,128,816	96,428,515	57,809,095	618,237,026	238,458,131	3,699	1,553	18	6	18	25	14.8	102.0	1,285	473,368
2003	22,666,399	93,740,511	56,150,814	607,364,245	233,690,569	3,784	1,565	0	6	15	25	0	102.0	1,285	0
2002	20,685,679	97,704,392	56,269,408	625,060,589	213,269,331	3,644	1,536	0	6	15	25	0	102.7	1,285	0
2001	18,793,691	101,914,157	54,666,706	362,160,800	193,762,951	3,687	1,550	0	6	15	25	0	102.7	1,285	0

Source: Metropolitan Transit Authority Office of Management and Budget

BOF = Bus Operating Facility
TC = Transit Centers
P&R = Park & Ride Lots
* Includes Metrolift