
***Commuter Rail Division of the
Regional Transportation
Authority and the Northeast
Illinois Regional Commuter
Railroad Corporation
(A Public Corporation), (Both
d/b/a Metra)***

*Financial Statements, Supplemental Information, and
Independent Auditors' Report for the
Years Ended December 31, 2005 and 2004*

**COMMUTER RAIL DIVISION OF THE REGIONAL TRANSPORTATION
AUTHORITY AND THE NORTHEAST ILLINOIS REGIONAL
COMMUTER RAILROAD CORPORATION
(A Public Corporation), (Both d/b/a Metra)**

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Crowe Chizek and Company LLC
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INDEPENDENT AUDITORS' REPORT

Honorable William G. Holland
Office of the Auditor General
State of Illinois

and

Board of Directors of the Commuter Rail Division of
The Regional Transportation Authority and the Northeast
Illinois Regional Commuter Railroad Corporation (Both d/b/a Metra)

As Special Assistant Auditors for the Auditor General, we have audited the accompanying basic financial statements of Metra, the Commuter Rail Division of the Regional Transportation Authority, as of and for the years ended December 31, 2005 and 2004. These basic financial statements are the responsibility of the management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Metra, the Commuter Rail Division of the Regional Transportation Authority, as of December 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued a report dated April 14, 2006 on our consideration of Metra, the Commuter Rail Division of the Regional Transportation Authority's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subject to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

The management's discussion and analysis and the required supplementary information are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.


Crowe Chizek and Company LLC

Oak Brook, Illinois
April 14, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

This section of the Commuter Rail Division of the Regional Transportation Authority and the Northeast Illinois Regional Commuter Railroad Corporation's (A Public Corporation) (Both d/b/a Metra) ("Metra's") Comprehensive Annual Report presents management's discussion and analysis of Metra's financial performance during the year ended December 31, 2005. The management discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts. Please read it in conjunction with Metra's financial statements, which begin on page 20.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements, prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

The **Statement of Net Assets** presents the assets, both current, such as cash holdings, and long-term, such as its property and equipment, and obligations, both short- and long-term, of Metra on a full accrual and historical cost basis. Assets are recognized when acquired, and liabilities are recognized when goods and services are provided to Metra.

The **Statement of Revenues, Expenses and Changes in Net Assets** lists Metra's revenues and expenses and the net impact these activities had on its fiscal well-being, which is identified as "Change In Net Assets." Recognition of revenues and expenses is often distinct from the related cash transactions, because under the full accrual method, revenues are recognized when earned, and expenses are recognized when incurred.

The **Statement of Cash Flows** presents information relating to operating activities, non-capital and related investing activities, and capital and related investing activities. The net change in cash and cash equivalents provides a view of Metra's ability to meet financial obligations as they mature.

The footnotes to the financial statements are an integral component of the report, because important background information and financial-related matters that may not be reflected on the face of the statements are disclosed. Details on Metra's accounting policies, cash holdings, capital assets, and other important areas may be found in the footnotes.

FINANCIAL HIGHLIGHTS

2005 Financial Highlights

- **Net assets increased** by \$152.1 million to \$2.7 billion at the end of 2005. Net Assets represents Total Assets minus Total Liabilities.
- **Capital assets - net increased** by \$172.4 million during 2005 reflecting new acquisitions minus depreciation on existing assets and retirements. Capital expenditures included \$99.7 million for construction activities associated with Metra's three New Start projects and \$81.7 million for new rolling stock acquisitions relating to the 300 new passenger cars and 26 new electric highliner rail cars Metra ordered in 2000 and 2002 respectively.
- **Operating Passenger Revenues increased** \$6.7 million or 3.5% as ridership increased 3.1%.
- **Total Other Operating Revenues increased** by \$0.5 million or 0.8% to \$62.6 million during 2005.
- **Non-Operating Revenues decreased** by \$40.4 million or 6.7% to \$571.2 million in 2005. In particular, Metra received \$298.7 million in capital grants from external funding sources and provided \$17.7 million of capital funding from its own net assets and its share of sales tax proceeds during 2005.

- **Total Operating Expenses before depreciation increased by \$37.4 million or 8.0% to \$503.6 million during 2005.**

FINANCIAL ANALYSIS

Following are condensed comparative financial statements, which highlight key financial data. Certain budget-to-actual and year-to-year variances are discussed following each respective statement, including explanations for each significant variance.

Net Assets

Net assets represent the difference between total assets and total liabilities. As shown in Table 1a, Metra's total net assets at December 31, 2005 reached \$2.7 billion, a 5.9% increase over December 31, 2004. This is primarily a result of Metra's capital program. Total assets increased by 4.5% to \$3.1 billion primarily due to capital spending. Total liabilities decreased by 4.3% to \$401.5 million primarily due to a decrease in accounts payable and accrued wages and benefits payable.

Table 1a
Condensed Statement of Net Assets
Current Year to Prior Year Analysis
(Amounts in millions)

	<u>December 31,</u>		<u>Variance</u>	
	<u>2005</u>	<u>2004</u>	<u>Dollars</u>	<u>Percent</u>
ASSETS				
Current assets	\$ 148.7	\$ 186.0	\$ (37.3)	(20.1)
Long-term marketable securities	-	2.0	(2.0)	(100.0)
Capital assets - net	2,678.6	2,506.2	172.4	6.9
Restricted assets	282.4	281.4	1.0	0.4
Total assets	<u>\$ 3,109.7</u>	<u>\$ 2,975.6</u>	<u>\$ 134.1</u>	<u>4.5</u>
LIABILITIES				
Current liabilities	\$ 113.3	\$ 127.1	\$ (13.8)	(10.9)
Other liabilities	288.2	292.3	(4.1)	(1.4)
Total liabilities	<u>\$ 401.5</u>	<u>\$ 419.4</u>	<u>\$ (17.9)</u>	<u>(4.3)</u>
NET ASSETS				
Invested in capital assets	\$ 2,678.6	\$ 2,506.3	\$ 172.3	6.9
Restricted for capital purposes	29.6	49.9	(20.3)	(40.7)
Total net assets	<u>\$ 2,708.2</u>	<u>\$ 2,556.2</u>	<u>\$ 152.0</u>	<u>5.9</u>

Key changes include:

- **Current assets** decreased by 20.1 % to \$148.7 million primarily due to decreases in grant projects accounts receivable, cash and cash equivalents, and prepaid expense, which were partially offset by increases in financial assistance receivable from the RTA and PSA carriers.
- **Long-term marketable securities** were eliminated in 2005 in anticipation of rising interest rates in 2006. Metra will re-evaluate its long-term investment strategy as rates stabilize and cash flows are matched to requirements.
- **Capital assets - net** increased by 6.9% to \$2.7 billion due to Metra's capital program. (See the Capital Asset section for more detail on Capital Assets.)

The **restricted assets** are for future payments on the lease obligations. (See Note 8 to the financial statements for details on the lease transaction.)

Table 1b
Condensed Statement of Net Assets
2004 to 2003 Analysis
(Amounts in millions)

	<u>December 31,</u>		<u>Variance</u>	
	<u>2004</u>	<u>2003</u>	<u>Dollars</u>	<u>Percent</u>
ASSETS				
Current assets	\$ 186.0	\$ 198.2	\$ (12.2)	(6.2) %
Long-term marketable securities	2.0	4.0	(2.0)	(50.0)
Capital assets - net	2,506.2	2,266.2	240.0	10.6
Restricted assets	281.4	280.3	1.1	0.4
Total assets	<u>\$ 2,975.6</u>	<u>\$ 2,748.7</u>	<u>\$ 226.9</u>	<u>8.3</u> %
LIABILITIES				
Current liabilities	\$ 127.1	\$ 128.5	\$ (1.4)	(1.1) %
Other liabilities	292.3	290.6	1.7	0.6
Total liabilities	<u>\$ 419.4</u>	<u>\$ 419.1</u>	<u>\$ 0.3</u>	<u>0.1</u> %
NET ASSETS				
Invested in capital assets	\$ 2,506.3	\$ 2,266.2	\$ 240.1	10.6 %
Restricted for capital purposes	49.9	63.4	(13.5)	(21.3)
Total net assets	<u>\$ 2,556.2</u>	<u>\$ 2,329.6</u>	<u>\$ 226.6</u>	<u>9.7</u> %

Revenues, Expenses, and Changes in Net Assets

2005 vs 2004 Analysis

Table 2a
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Current Year to Prior Year Analysis
(Amounts in millions)

	Year Ended		Variance	
	December 31,		Increase (Decrease)	
	2005	2004	Dollars	Percent
OPERATING REVENUES				
Passenger				
Passenger operating revenue	\$ 189.1	\$ 182.7	\$ 6.4	3.5 %
Capital farebox financing revenue	9.4	9.1	0.3	3.3
Total passenger revenues	198.5	191.8	6.7	3.5
Other revenue	62.6	62.1	0.5	0.8
Total operating revenues	\$ 261.1	\$ 253.9	\$ 7.2	2.8 %
OPERATING EXPENSES				
Transportation	170.4	166.3	4.1	2.5
Fuel and motive power	47.4	23.4	24.0	102.6
Maintenance of way	101.2	96.6	4.6	4.8
Maintenance of equipment	105.7	103.7	2.0	1.9
Administration	36.6	35.2	1.4	4.0
Claims, insurance & risk management	16.9	15.4	1.5	9.7
Regional services	13.5	14.1	(0.6)	(4.3)
Downtown stations	11.9	11.5	0.4	3.5
Total operating expenses	\$ 503.6	\$ 466.2	\$ 37.4	8.0 %
OPERATING LOSS BEFORE DEPRECIATION				
	\$ (242.5)	\$ (212.3)	\$ (30.2)	14.2 %
Depreciation expense	176.6	172.7	3.9	2.3
OPERATING LOSS AFTER DEPRECIATION EXPENSE				
	\$ (419.1)	\$ (385.0)	\$ (34.1)	8.9 %
NON-OPERATING REVENUES				
Financial assistance	571.2	611.6	(40.4)	(6.6)
Total non-operating revenues	\$ 571.2	\$ 611.6	\$ (40.4)	(6.6) %
CHANGE IN NET ASSETS				
	\$ 152.1	\$ 226.6	\$ (74.5)	(32.9) %

2005 versus 2004 Revenues

Total Operating Revenues were \$7.2 million or 2.8% greater than 2004. Principal variances are discussed below:

- **Passenger revenues** increased \$6.7 million in 2005 or 3.5%, as ridership increased 3.1%. Below is a table comparing ridership per line for 2005 and 2004:

Ridership by Line
Current Year to Prior Years Analysis
(In Thousands of Riders)

Rail Line	2005	2004*	Increase (Decrease)	Percent
Burlington Northern/Santa Fe	15,420	14,852	568	3.8%
Metra Electric	10,775	10,416	359	3.4
Heritage Corridor	736	669	67	10.0
Milwaukee-North	6,339	6,052	287	4.7
Milwaukee-West	5,967	5,752	215	3.7
North Central	1,045	1,014	31	3.1
Rock Island	9,442	9,284	158	1.7
Southwest Service	1,848	1,782	66	3.7
Union Pacific-North	8,192	8,063	129	1.6
Union Pacific-Northwest	9,348	9,172	176	1.9
Union Pacific-West	<u>7,035</u>	<u>6,775</u>	<u>260</u>	<u>3.8</u>
	<u><u>76,147</u></u>	<u><u>73,831</u></u>	<u><u>2,316</u></u>	<u><u>3.1%</u></u>

* Certain 2004 ridership numbers have been adjusted to conform to the 2005 presentation.

- **Other revenues** increased \$0.5 million. Increases in capital credits, lease revenue, other railroad income, and investment income were partially offset by lower miscellaneous, advertising, and reduced fare subsidy revenue.

2005 versus 2004 Expenses

Total Operating Expenses were \$37.4 million or 8.0% greater than 2004 principally due to the unprecedented increase in the price of diesel fuel. In general, all contract employees other than train crews and locomotive engineers received a 2.5% lump sum wage payment in July 2005. The nationally negotiated contract employee health insurance premiums increased by 2.7%. These increased costs were partially offset by decreased payroll taxes due to a 3.8% reduction in the employer Railroad Retirement Tier II tax in 2005. Additional significant variances by category are discussed below:

- **Transportation** expense increased by \$4.1 million or 2.5%. Labor expense was higher due to increased training and the lump sum payment made to contract employees. Utility expense was also higher due to significant rate increases for natural gas. Security expense decreased by \$1.4 million or 9.7%. Metra did incur higher security costs in response to requirements that were mandated by the Department of Homeland Security, which issued an extended orange alert as a result of terrorist attacks in London.
- **Fuel and motive power** expense increased \$24.0 million or 102.6%. Fuel expense increased \$22.0 million or 117.0%. Metra's average cost per gallon for diesel fuel was \$1.69 per gallon in 2005. In 2004, Metra's average cost per gallon for diesel fuel was \$ 0.80 per gallon as Metra was able to secure a contract that provided fuel at a fixed price. Motive power costs increased \$2.0 million principally due to 2004 reflecting \$1.5 million more of one-time credits received from Commonwealth Edison to correct prior years' bills that were issued based on a faulty meter. A 3.1% increase in usage coupled with a 4.0% rate increase also contributed to the 2005 increase in motive power.

- **Maintenance of way** expense increased by \$4.6 million or 4.8% primarily due to increased labor and materials expenses as a result of increased signal work and winter related expenses. In addition, labor expense was higher due to the lump-sum payment made to contract employees.
- **Maintenance of equipment** expense increased by \$2.0 million or 1.9%. Increased labor expense due to the lump sum payment made to contract employees, increased materials expense, and increased utilities expenses were partially offset by reduced highway vehicle maintenance and shop expenses.
- **Administration** expense increased \$1.4 million or 4.0% primarily due to higher legal expenses. Higher labor and fringe benefit expenses on both the NIRCRC and the PSA carriers also contributed to the increase.
- **Claims, insurance and risk management** increased \$1.5 million or 9.7% principally due to increased liability and property insurance expenses.
- **Regional services** decreased \$0.6 million or 4.3%. Lower external media services were partially offset by increased labor and fringe benefit expenses.
- **Downtown stations** costs increased slightly due to increased rent, maintenance, utilities, and building security expenses.

2004 vs. 2003**Table 2b**

Condensed Statement of Revenues, Expenses, and Changes in Net Assets
2004 to 2003 Analysis
(Amounts in millions)

	Year Ended		Variance	
	December 31,		Increase (Decrease)	
	2004	2003	Dollars	Percent
OPERATING REVENUES				
Passenger				
Passenger operating revenue	\$ 182.7	\$ 182.1	\$ 0.6	0.3 %
Capital farebox financing revenue	9.1	9.0	0.1	1.1
Total passenger revenues	191.8	191.1	0.7	0.4
Other revenue	62.1	61.6	0.5	0.8
Total operating revenues	\$ 253.9	\$ 252.7	\$ 1.2	0.5 %
OPERATING EXPENSES				
Transportation	166.3	158.3	8.0	5.1
Fuel and motive power	23.4	27.5	(4.1)	(14.9)
Maintenance of way	96.6	94.4	2.2	2.3
Maintenance of equipment	103.7	101.9	1.8	1.8
Administration	35.2	35.3	(0.1)	(0.3)
Claims, insurance & risk management	15.4	12.9	2.5	19.4
Regional services	14.1	13.6	0.5	3.7
Downtown stations	11.5	11.3	0.2	1.8
Total operating expenses	\$ 466.2	\$ 455.2	\$ 11.0	2.4 %
OPERATING LOSS BEFORE DEPRECIATION				
	(212.3)	(202.5)	(9.8)	4.8
Depreciation expense	\$ 172.7	\$ 147.7	\$ 25.0	16.9 %
OPERATING LOSS AFTER DEPRECIATION EXPENSE				
	\$ (385.0)	\$ (350.2)	\$ (34.8)	9.9 %
NON-OPERATING REVENUES				
Financial assistance	611.6	677.2	(65.6)	(9.7)
Total non-operating revenues	\$ 611.6	\$ 677.2	\$ (65.6)	(9.7) %
CHANGE IN NET ASSETS	\$ 226.6	\$ 327.0	\$ (100.4)	(30.7) %

2004 versus 2003 Revenues

Total Operating Revenues were \$1.2 million or 0.5 % greater than 2003. Principal variances are discussed below:

- **Passenger revenues** increased \$0.7 million in 2004 or 0.4%, although ridership declined slightly. Below is a table comparing ridership per line for 2004 and 2003:

Ridership By Line
2004 to 2003 Analysis
(In thousands of Riders)

<u>Rail Line</u>	<u>2004</u>	<u>2003</u>	<u>Increase (Decrease)</u>	<u>Percent</u>
Burlington Northern/Santa Fe	14,812	14,674	138	0.9 %
Metra Electric	10,399	10,894	(495)	(4.5)
Heritage Corridor	665	645	20	3.1
Milwaukee-North	6,020	5,966	54	0.9
Milwaukee-West	5,722	5,868	(146)	(2.5)
North Central	1,173	1,156	17	1.5
Rock Island	9,246	9,256	(10)	(0.1)
Southwest Service	1,766	1,731	35	2.0
Union Pacific-North	8,063	8,002	61	0.8
Union Pacific-Northwest	9,174	9,118	56	0.6
Union Pacific-West	6,791	6,728	63	0.9
Total Ridership	<u>73,831</u>	<u>74,038</u>	<u>(207)</u>	<u>(0.3) %</u>

- **Other revenues** increased \$0.5 million or 0.8% primarily due to \$3.2 million in proceeds from the sale of retired locomotives and coaches, that were partially offset by a decrease in capital credits due to reduced capital spending and a decrease in investment income that resulted from a lower average investment portfolio in 2004.

2004 versus 2003 Expenses

Total Operating Expenses were \$11.0 million or 2.4% greater than 2003. In general, all areas were affected by mid-year wage increases for contract labor and an increase in the nationally negotiated contract employee health insurance premiums. These increased costs were partially offset by decreased payroll taxes due to a reduction in the Railroad Retirement Tier II tax in 2004. Additional significant variances by category are discussed below:

- **Transportation** expense increased by \$8.0 million or 5.1%. Security costs increased by \$3.1 million or 28.8% in response to additional security requirements that were mandated by the Department of Homeland Security as result of an extended orange alert due to the terrorist attack in Madrid.
- **Fuel and motive power** expense decreased \$4.1 million or 14.9% because Metra was able to contain the price of diesel fuel by securing a contract at a favorable rate of \$0.80 per gallon for 2004. Motive power costs decreased principally due to a one-time \$2.1 million credit from Commonwealth Edison to correct prior years' bills that were issued based on a faulty meter.
- **Maintenance of way** expense increased by \$2.2 million or 2.3% primarily due to increased snow related and materials expenses. These increases were partially offset by a reduction in lease expense because replacements for vehicles that were previously leased were acquired through the capital program.
- **Maintenance of equipment** expense increased by \$1.8 million or 1.8% primarily due to higher contract wages and nationally negotiated employee benefit costs.

- **Administration** expense decreased \$0.1 million or 0.3%. Decreased labor costs were partially offset by an increase in benefits and other costs.
- **Claims, insurance and risk management** increased \$2.5 million or 19.4%. Claims expense increased by \$1.7 million or 23.0% and insurance premiums increased \$0.8 million or 17.5%.
- **Regional services** increased \$0.5 million or 3.7%. Increased costs as a result of two major Student and Safety Awareness programs were partially offset by reduced labor and marketing costs.
- **Downtown stations** costs increased \$0.2 million or 1.8% primarily due to increased utility and building security expenses.

2005 Actual versus Budget

Table 3a

**Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Budget to Actual Analysis
2005 Analysis
(Amounts in millions)**

	Year Ended		Variance	
	December 31, 2005		Favorable	
	Budget	Actual	(Unfavorable)	
		Dollars	Percent	
OPERATING REVENUES				
Passenger revenue	\$ 184.5	\$ 189.1	\$ 4.6	2.5 %
Reduced fare reimbursement	3.0	2.8	(0.2)	(6.7)
Total operating passenger revenues	187.5	191.9	4.4	2.3
Other revenue	56.9	59.8	2.9	5.1
Section 5307 revenue per ordinance	9.2	9.4	0.2	2.2
Total operating revenues	\$ 253.6	\$ 261.1	\$ 7.5	3.0 %
OPERATING EXPENSES				
Transportation	170.9	170.4	0.5	0.3
Fuel and motive power	34.0	47.4	(13.4)	(39.4)
Maintenance of way	94.9	101.2	(6.3)	(6.6)
Maintenance of equipment	109.2	105.7	3.5	3.2
Administration	36.1	36.6	(0.5)	(1.4)
Claims, insurance & risk management	16.0	16.9	(0.9)	(5.6)
Regional services	13.8	13.5	0.3	2.2
Downtown stations	11.9	11.9	-	0.0
Total operating expenses	\$ 486.8	\$ 503.6	\$ (16.8)	(3.5) %
BUDGETED OPERATING INCOME (LOSS)	\$ (233.2)	\$ (242.5)	\$ (9.3)	(4.0) %
Revenue Recovery Ratio *	55.77%	55.13%		-0.64%

* See page 13 for an explanation of the Recovery Ratio

2005 Actual versus Budget Revenues

Total revenues were favorable when compared to budget by \$7.5 million or 3.0%. Key components include:

- **Operating passenger revenues** were \$4.4 million higher than budgeted. Metra's ridership increased 3.1% in 2005.
- **Other revenues** were favorable when compared to budget by \$3.1 million. \$2.2 million of the variance was due to the unbudgeted sale of retired rolling stock. Leasing revenues were \$1.7 million higher. Capital credits were \$1.3 million lower, and advertising was \$0.7 million lower. To be consistent with the Metra ordinance budget, other revenues on a budget basis include \$9.4 million of Federal Section 5307 funds, which were budgeted at \$9.2 million. Investment income was \$0.4 million higher than planned. All other revenue categories combined were \$0.6 million higher than budget.

2005 Actual versus Budget Expenses

Total Operating Expenses were \$16.8 million or 3.5% unfavorable when compared to budget. Overall, fringe benefit expenses were favorable by \$2.0 million due to lower than budgeted Health Insurance and Railroad Retirement Tier II tax rates. Northeast Illinois Regional Commuter Railroad Corporation (NIRCRC) expenses throughout the organization reflected the payment of a \$3.5 million contribution to the RTA Pension Plan that had not been budgeted. Significant variances by category are discussed below:

- **Transportation** was favorable to budget by \$0.5 million. Security costs were lower than budget and offset unfavorable labor and associated costs for on-board crews.
- **Fuel and motive power** expense was unfavorable to budget by \$13.4 million. Diesel fuel was unfavorable by \$14.1 million. Diesel fuel averaged \$1.69 per gallon versus a budgeted price of \$1.10 per gallon. Motive power was under budget by \$0.6 million due to a billing credit.
- **Maintenance of Way** was over budget by \$6.3 million. Labor was over budget by \$3.8 million, principally on the NIRCRC due to higher spending in signal for all districts and higher track, bridge and building maintenance on the Metra Electric district. Fringe benefits were over budget by \$1.0 million. NIRCRC was over budget by \$1.6 million due to unbudgeted payroll taxes of \$0.9 million on the higher levels of labor and to unbudgeted RTA pension expense of \$0.7 million. The PSA carriers were under budget in fringe benefits by \$0.6 million due to lower labor additives rates. Materials were over budget by \$1.7 million. NIRCRC materials expense was over budget by \$1.1 million due to higher charges for vehicle fuel and supplies, work equipment maintenance, and salt for snow removal. The PSA carriers were over budget in materials expense by \$0.6 million due to higher interlocker maintenance charges and higher costs for snow removal salt and sand. Other costs system-wide were under budget by a net of \$0.2 million.
- **Maintenance of Equipment** was favorable to budget by \$3.5 million. Labor and fringe benefits were \$2.1 million favorable to budget. Audit recoveries of \$0.7 million from the PSA carriers also contributed to the favorable budget variance.
- **Administration** expense was unfavorable to budget by \$0.5 million. The variance was primarily due to higher than budgeted outside legal expenses.
- **Claims, insurance and risk management** expense were \$0.9 million over budget due to increased costs for insurance and higher claims expense.
- **Regional services** was \$0.3 million favorable to budget.
- **Downtown stations** were on budget.

Calculation of the Operating Budget Farebox Revenue Recovery Ratio - Under provisions of the RTA Act, Metra can exclude certain types of expenditures that are reported as operating expense under GAAP from the calculation of its Revenue Recovery Ratio. \$14.1 million pertaining to the acquisition and use of certain transportation facilities has been excluded from expense for the 2005 Recovery Ratio calculation. In addition, the RTA has authorized the Service Boards, including Metra, to exclude security costs in the calculation of the Revenue Recovery Ratio. Metra's security costs in 2005 were \$13.3 million. Other qualifying expenses excluded from the calculation totaled \$2.7 million. Farebox Recovery Ratio expense exclusions totaled \$30.1 million for 2005, and were \$2.0 million lower than budgeted. In addition, to be in technical compliance with the Metra budget ordinance, \$9.4 million of FTA Section 5307 funding, equivalent to the amount of Capital Farebox Financing Proceeds earned in 2005, was included in the calculation of the Operating Budget Farebox Revenue Recovery Ratio. Correspondingly, in 2005, the amount of Capital Farebox Financing Proceeds was excluded from the calculation. The actual amount of this revenue recognized was \$ 0.2 million greater than budgeted.

2004 Actual versus Budget

Table 3b
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
Budget to Actual
2004 Analysis
(Amounts in millions)

	Year Ended		Variance	
	December 31, 2004		Favorable	
	Budget	Actual	Dollars	Percent
OPERATING REVENUES				
Passenger revenue	\$ 182.0	\$ 182.7	\$ 0.7	0.4 %
Reduced fare reimbursement	3.0	3.0	-	-
Total operating passenger revenues	185.0	185.7	0.7	0.4
Other revenue	61.1	59.1	(2.0)	(3.3)
Total operating revenues	\$ 246.1	\$ 244.8	\$ (1.3)	(0.5) %
OPERATING EXPENSES				
Transportation	163.2	166.3	(3.1)	(1.9)
Fuel and motive power	27.1	23.4	3.7	13.7
Maintenance of way	92.9	96.6	(3.7)	(4.0)
Maintenance of equipment	108.1	103.7	4.4	4.1
Administration	35.7	35.2	0.5	1.4
Claims, insurance & risk management	16.6	15.4	1.2	7.2
Regional services	13.7	14.1	(0.4)	(2.9)
Downtown stations	11.6	11.5	0.1	0.9
Total operating expenses	\$ 468.9	\$ 466.2	\$ 2.7	0.6 %
BUDGETED OPERATING LOSS	\$ (222.8)	\$ (221.4)	\$ 1.4	0.6 %
Revenue Recovery Ratio	55.00%	55.04%		

2004 Actual versus Budget Revenues

Total revenues were unfavorable when compared to budget by \$1.3 million or 0.5%.

- **Operating passenger revenues** were \$0.7 million higher than budgeted. Although Metra's ridership declined 0.3% in 2004, the average trip length increased.
- **Other revenue** was unfavorable when compared to budget by \$2.0 million. Capital Credits were \$7.5 million unfavorable due to a decrease in the volume of projects. Metra received \$3.2 million from unbudgeted sales of retired rolling stock. Building revenue was \$0.8 million greater than budgeted due to recoveries from a prior year bankruptcy. All other revenue categories were \$1.5 million favorable.

2004 Actual versus Budget Expenses

Total Operating Expenses were \$2.7 million or 0.6% favorable when compared to budget. Overall, fringe expenses were favorable by \$2.8 million due to lower than budgeted Health Insurance and Railroad Retirement Tier II rates. At the Northeast Illinois Regional Commuter Railroad Corporation (NIRCRC), expenses throughout the organization reflected the payment of a mandatory contribution to the RTA Pension Plan that had not been budgeted. Principal variances by category are discussed below:

- **Transportation** was unfavorable to budget by \$3.1 million primarily due to police overtime and outside security costs higher than budget.
- **Fuel and motive power** expense was favorable to budget by \$3.7 million. Motive power accounted for most of the variance, and included a one-time \$2.1 million credit from Commonwealth Edison to correct bills that were issued in prior years based on a faulty meter. Diesel fuel was \$0.8 million under budget. The average price per gallon was on budget at \$0.80 per gallon.
- **Maintenance of Way** was unfavorable to budget by \$3.7 million. Labor and related costs were \$5.0 million unfavorable to budget due to snow alerts and snow removal costs that were partially offset by a \$1.3 million favorable variance in material and other costs.
- **Maintenance of Equipment** was favorable to budget by \$4.4 million. Favorable variances occurred in all categories of expense.
- **Administration** expense was favorable to budget by \$0.5 million. The variance was the net result of savings from unfilled positions, offset by higher than planned legal fees.
- **Claims, insurance and risk management** expense were \$1.2 million under budget due to lower than budgeted claims and related expense.
- **Regional services** was \$0.4 million unfavorable to budget. Unbudgeted costs associated with two major Student and Safety Awareness Programs resulted in the overall unfavorable variances.
- **Downtown stations** were favorable to budget by \$0.1 million.

Calculation of the **Farebox recovery ratio** - Under provisions of the RTA Act, Metra can exclude certain types of expenditures that are reported as operating expense under GAAP from the calculation of its Recovery Ratio. \$13.7 million of expense for use of certain transportation facilities has been excluded from expense for the 2004 Recovery Ratio calculation. In addition, the RTA had authorized Metra to exclude \$5 million of increased security costs to comply with Homeland Security Act requirements. Farebox recovery ratio expense exclusions totaled \$21.5 million for 2004, and were \$0.1 million greater than budgeted.

GENERAL OPERATIONAL AND ECONOMIC TRENDS

Capital Assets

Metra's capital program has a twofold approach: first, to continue our modernization programs in order to maintain a good state of repair; and second, to provide the major investments to meet long-term capacity needs and system growth. Since its creation in 1984, Metra has committed to a capital program primarily geared toward rebuilding, modernizing, and improving its existing capital assets. This capital investment policy has continued to maintain safe, reliable, and quality services and facilities for its customers and workers, while simultaneously improving the efficiency and cost-effectiveness of its operations.

Metra has always given a high priority to preservation and modernization of the existing system. Consequently, every year Metra undertakes a multitude of modernization projects to preserve and improve Metra's capital assets. For our customers, these modernization projects ensure continued on-time and reliable public transportation services in an efficient and cost-effective manner.

As of December 31, 2005, Metra had invested approximately \$4.7 billion in capital assets including land, stations, maintenance facilities, rolling stock, track, and signal and communication equipment as well as other support equipment. Net of accumulated depreciation, Metra's net capital assets at December 31, 2005 totaled approximately \$2.7 billion. (See Table 4a) This amount represents a net increase (including additions and disposals, net of depreciation) of approximately \$172.4 million or 6.9 % over the December 31, 2004 balance of \$2.5 billion.

Table 4a

**Capital Assets by Funding Source
Current Year to Prior Year Analysis
(Amounts in millions of dollars)**

<u>Funding Source</u>	<u>Year Ended December 31,</u>		<u>Net Change</u>	
	<u>2005</u>	<u>2004</u>	<u>Dollars</u>	<u>Percent</u>
Federal Transit Administration	\$ 2,218.1	\$ 2,060.1	\$ 158.0	7.7 %
Illinois Department of Transportation	475.4	464.1	11.3	2.4
Regional Transportation Authority	1,273.8	1,144.4	129.4	11.3
Northern Indiana Commuter Transportation District	6.4	6.4	0.0	0.0
Metra	718.9	683.3	35.6	5.2
Total Capital Assets	4,692.6	4,358.3	334.3	7.7
Accumulated Depreciation	(2,014.0)	(1,852.1)	(161.9)	8.7
Total Capital Assets, Net	<u>\$ 2,678.6</u>	<u>\$ 2,506.2</u>	<u>\$ 172.4</u>	<u>6.9 %</u>

Major capital asset expenditures during 2005 included the following:

- Metra's **Rolling Stock** program seeks to ensure that an adequate number of locomotives and commuter rail cars are available to meet the current and future service needs of the system. This program includes rehabilitation of, and improvements to, existing vehicles, along with the purchase of 300 new stainless steel bi-level coaches and 26 new self-propelled highliner cars. As of December 31, 2005, all of the new stainless steel bi-level coaches and 8 of the highliner cars have been delivered. The remaining 16 highliner cars have been delivered in the first quarter of 2006. Expenditures for these programs in 2005 and 2004 were \$81.7 and \$87.5 million respectively. Total Rolling Stock expenditures in 2005 and 2004 were \$111.4 million and \$123.7 million respectively.
- The **Track and Structure** program provides for the continued rehabilitation and upgrading of Metra's commuter railroad rights-of-way. In addition to maintaining operational safety, the rehabilitation of track and structure results in reduced train running times, fewer interruptions in service, greater passenger

comfort, and efficient use of plant and equipment. Metra has developed a cyclical program of track rehabilitation, which includes all commuter rail lines within the region. Project priorities are decided based on train volumes, speed restrictions, age and condition of the roadbed, and track speeds essential to maintaining on-time performance. Structure projects serve objectives that are similar to those of the track program. Since 1990, when Metra's comprehensive plan for bridge rehabilitation and replacement began, the structure program has focused on the commuter rail bridges identified as high priorities for action. The 2005-2009 Capital Program continues the implementation of this plan by funding the rehabilitation and replacement of various high-priority bridges. The largest structure project currently underway is the replacement of 24 bridges on the Rock Island District Line. Track and Structure expenditures in 2005 were \$144.3 million, of which \$99.7 million were related to the New Start projects. Track and Structure expenditures in 2004 were \$174.1 million, of which \$103.9 million were related to the New Start projects. (Refer to "Acquisition, Extensions, and Expansions" section listed below).

- **Signaling, Electrical and Communications** systems and equipment improvements are designed to maximize commuter operating efficiencies, maintain reliability of rail service and provide a safe system of dispatching and centrally controlling train movements. Signaling systems and switches control usage of track. Much of this equipment is concentrated at "interlockings," which are control systems where two railroads cross each other or where many trains change tracks. The smooth, dependable operation of these interlockings is critical for maintaining on-time performance. Metra also continues its program to improve communication systems allowing for the provision of timely information to our customers. This includes new passenger information systems at downtown terminals, as well as a new satellite-based system that provides time-of-arrival and related information to customers at stations and on trains all over its system. Each rehabilitated passenger station includes the Voice of Metra audio announcement equipment and a Visual Information System with rolling-message signs for contacting passengers with service-related information on a timely basis. Signaling, Electrical and Communications expenditures in 2005 and 2004 were \$17.1 million, and \$29.4 million respectively.
- **Metra's Support Facilities and Equipment** includes maintenance yards, layover and storage facilities, and support vehicles and equipment that are essential to maintaining reliable and efficient commuter services. Support Facilities and Equipment expenditures in 2005 and 2004 were \$11.4 million and \$22.8 million respectively.
- **Commuter Stations** are portals to the Metra system and very often to the communities in which they are placed. Stations must be functional as well as inviting. Commuter Stations expenditures in 2005 and 2004 were \$45.2 million and \$58.1 million respectively.
- **The Commuter Parking** program is to expand parking capacity to relieve overcrowding at existing facilities and to accommodate future ridership growth. Both station and parking improvements are performed in a manner to ensure conformance with the requirements of the Americans with Disabilities Act. Commuter Parking expenditures in 2005 and 2004 were \$13.8 million and \$7.3 million respectively.
- **Acquisition, Extensions, and Expansions** - On November 5, 2001, Metra achieved a major success with the signing of three Full Funding Grant Agreements ('FFGA') with the Federal Transit Administration. These FFGA's provided for the expansion and extension of services on the North Central Service, the Union Pacific West Line, and the SouthWest Service. These projects are commonly referred to as Metra's "New Start" projects. Metra is now concluding the construction activities associated with the three New Start projects. The total price for these projects is \$558 million. Expenditures for New Start projects in 2005 and 2004 were \$99.7 million and \$103.9 million respectively. The first full month of service on these lines began in February 2006.

Table 4b
Capital Assets by Funding Source
2004 to 2003 Analysis
(amounts in millions of dollars)

<u>Funding Source</u>	<u>Year Ended December 31,</u>		<u>Net Change</u>	
	<u>2004</u>	<u>2003</u>	<u>Dollars</u>	<u>Percent</u>
Federal Transit Administration	\$ 2,060.1	\$ 1,903.2	\$ 156.9	8.2
Illinois Department of Transportation	464.1	432.3	31.8	7.4
Regional Transportation Authority	1,144.4	979.9	164.5	16.8
Northern Indiana Commuter Transportation District	6.4	6.4	0.0	0.0
Metra	683.3	656.7	26.6	4.1
Total Capital Assets	4,358.3	3,978.5	379.8	9.5
Accumulated Depreciation	(1,852.1)	(1,712.4)	(139.7)	8.2
Total Capital Assets, Net	\$ 2,506.2	\$ 2,266.1	\$ 240.1	10.6

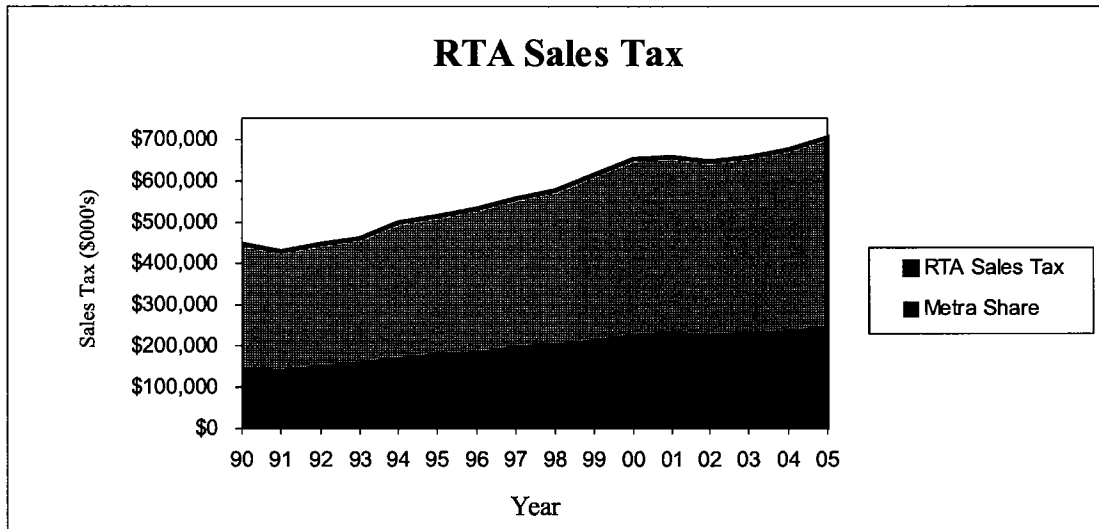
DEBT ADMINISTRATION

Metra has no existing debt and no authority to issue new debt.

ECONOMIC TRENDS

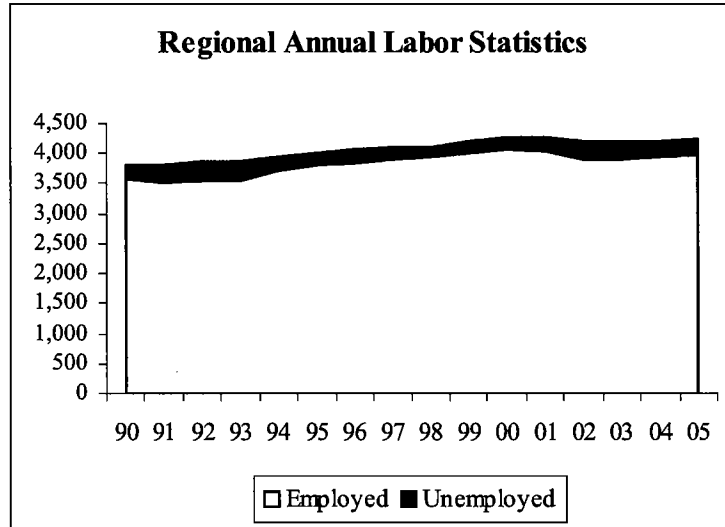
RTA Sales Tax – RTA Sales Tax is the primary source of revenue for the northeastern Illinois public transit system. The tax is authorized by Illinois statute, imposed by the RTA in the six-county area, and collected by the State. The Service Board statutory share is 85% of RTA Sales Tax and is apportioned to the three Service Boards – Metra, CTA and Pace. Metra receives 55% of the Service Board statutory share of sales tax collected in Suburban Cook County, and 70% of the share collected in the collar counties of DuPage, Kane, Lake, McHenry and Will.

The graph below shows the annual RTA Sales Tax collected in the six-county area since 1990. Year 2005 RTA Sales Tax totaled \$700.4 million, of which Metra’s statutory share (\$241.7 million) represents 34.5%.



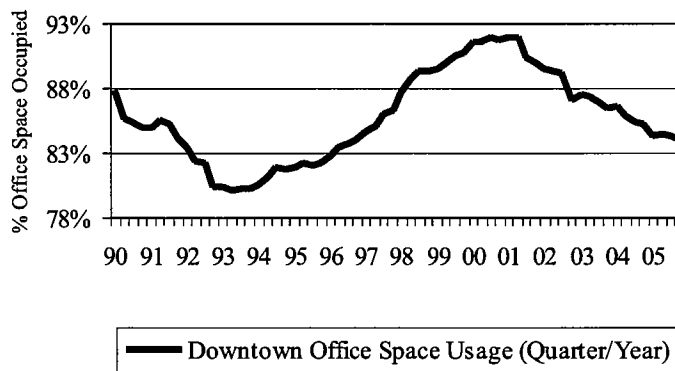
The following two graphs represent key economic indicators that Metra uses to analyze current, and forecast future, ridership.

Labor Statistics – The graph below shows the annual employment and unemployment figures for the six-county area since 1990. The sum of the two lines represents the Region’s labor force. Employment levels increased in 2005. The 2005 annual average unemployment rate was 5.9%, which was lower than the 2004 rate of 6.1 %.



Office Occupancy Rates – According to statistics compiled by CB Richard Ellis, fourth quarter downtown Chicago office occupancy was 84.0%, down from 85.3% in 2004. Downtown space occupancy peaked at 92.0% during the first quarter of 2001, and has since dropped 8.0 percentage points.

Downtown Office Occupancy



Metra will continue to monitor these and other economic indicators for potential long-term impact on Metra’s customer base and therefore future operations. Any significant changes will be considered for inclusion into Metra’s operational and capital planning.

CONTACTING METRA’S FINANCIAL MANAGEMENT

This financial report is designed to provide our customers, vendors and the general public with a general overview of Metra’s finances and to show Metra’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Metra at 547 W. Jackson, Chicago, IL 60661 or www.metrarail.com.

Metra Financial Statements

**Commuter Rail Division of the Regional Transportation
Authority and the Northeast Illinois Regional
Commuter Railroad Corporation
(A Public Corporation), (both d/b/a/ Metra)**

**Statements of Net Assets
December 31, 2005 and 2004**

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 46,177,139	\$ 58,195,936
Accounts receivable:		
Grant projects	35,038,789	62,009,598
Financial assistance - RTA	46,849,653	42,388,280
Financial assistance - other carriers	2,250,668	1,239,752
Other, net	5,789,326	7,781,468
Materials and supplies	11,289,084	11,213,643
Prepaid expense	1,377,231	3,186,973
Total current assets	<u>148,771,890</u>	<u>186,015,650</u>
LONG-TERM MARKETABLE SECURITIES	-	2,000,000
CAPITAL ASSETS		
Land	143,389,365	140,576,391
Rolling stock and equipment	1,486,251,252	1,289,674,267
Roadways and structures	2,629,319,499	2,410,196,930
Furniture, fixtures, & office equipment	78,503,556	75,196,685
Less: Accumulated depreciation	(2,013,993,360)	(1,852,060,641)
Capital projects in progress	355,113,171	442,678,564
Total capital assets	<u>2,678,583,483</u>	<u>2,506,262,196</u>
RESTRICTED ASSETS		
Asset restricted for payment of obligations under leasing transaction	<u>282,374,697</u>	<u>281,352,361</u>
Total non-current assets	2,960,958,180	2,789,614,557
TOTAL ASSETS	<u>\$ 3,109,730,070</u>	<u>\$ 2,975,630,207</u>

See notes to the financial statements

**Commuter Rail Division of the Regional Transportation
Authority and the Northeast Illinois Regional
Commuter Railroad Corporation
(A Public Corporation), (both d/b/a/ Metra)**

**Statements of Net Assets
December 31, 2005 and 2004**

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES		
Accounts payable	\$ 51,732,572	\$ 64,308,070
Accrued wages and benefits payable	28,226,042	29,712,536
Financial assistance payable - other carriers	740,446	1,146,734
Accrued claims - current	9,213,609	9,166,267
Deferred revenues	6,171,025	5,543,934
Amount payable for leasehold transaction	17,193,268	17,193,268
Total current liabilities	113,276,962	127,070,809
OTHER LIABILITIES		
Accrued claims - long term	23,013,999	28,215,153
Amount payable for leasehold transaction	265,181,429	264,159,093
Total other liabilities	288,195,428	292,374,246
TOTAL LIABILITIES	401,472,390	419,445,055
NET ASSETS		
Invested in capital assets	2,678,583,483	2,506,262,196
Restricted for capital purposes	29,674,197	49,922,956
TOTAL NET ASSETS	\$ 2,708,257,680	\$ 2,556,185,152

See notes to the financial statements

**Commuter Rail Division of the Regional Transportation
Authority and the Northeast Illinois Regional
Commuter Railroad Corporation
(A Public Corporation), (both d/b/a/ Metra)**

**Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2005 and 2004**

OPERATING REVENUES	2005	2004
Passenger revenue		
Passenger operating	\$ 189,102,160	\$ 182,687,931
Capital farebox financing	9,391,752	9,075,310
Total passenger revenues	<u>198,493,912</u>	<u>191,763,241</u>
Other	62,599,604	62,092,803
TOTAL operating revenues	<u>261,093,516</u>	<u>253,856,044</u>
OPERATING EXPENSES		
Transportation	170,426,964	166,316,224
Fuel and motive power	47,416,784	23,443,604
Maintenance of way	101,240,318	96,613,406
Maintenance of equipment	105,706,066	103,681,154
Administration	36,581,979	35,207,562
Claims, insurance & risk management	16,905,169	15,339,541
Regional services	13,481,410	14,082,738
Downtown stations	11,879,186	11,527,745
Depreciation	176,558,123	172,669,701
TOTAL operating expenses	<u>680,195,999</u>	<u>638,881,675</u>
OPERATING LOSS	(419,102,483)	(385,025,631)
NON-OPERATING REVENUE (EXPENSES)		
Federal	184,327,372	175,566,350
Local	386,847,639	436,062,738
Total financial assistance	<u>571,175,011</u>	<u>611,629,088</u>
Interest income from restricted assets	18,215,604	18,191,420
Interest expense on leasehold transaction obligations	(18,215,604)	(18,191,420)
Total non-operating revenues (expenses)	<u>571,175,011</u>	<u>611,629,088</u>
Change in net assets	152,072,528	226,603,457
Net assets at beginning of year	2,556,185,152	2,329,581,695
Net assets at end of year	<u>\$ 2,708,257,680</u>	<u>\$ 2,556,185,152</u>

See notes to the financial statements

**Commuter Rail Division of the Regional Transportation
Authority and the Northeast Illinois Regional
Commuter Railroad Corporation
(A Public Corporation), (both d/b/a/ Metra)**

**Statements of Cash Flows
Years Ended December 31, 2005 and 2004**

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from fares	\$ 198,493,912	\$ 191,763,241
Cash received from other operating items	61,010,981	61,174,126
Cash paid to and on behalf of employees for services	(224,686,066)	(208,800,635)
Cash paid to purchased service carriers	(64,188,634)	(62,385,986)
Cash paid for claims	(14,367,421)	(6,692,615)
Cash paid to contractual service providers and suppliers	(219,294,462)	(188,695,908)
Net cash used by operating activities	(263,031,690)	(213,637,777)
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash received from RTA sales tax and other local non-capital assistance	237,266,261	239,892,327
Cash received from non-capital state assistance	2,811,588	2,958,993
Cash received from non-capital federal assistance	16,472,000	-
Net cash provided from non-capital financing activities	256,549,849	242,851,320
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Cash received from capital grants	310,826,685	378,145,516
Cash paid to acquire and construct capital assets	(319,759,909)	(403,761,240)
Net cash used by capital and related financing activities	(8,933,224)	(25,615,724)
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash received from proceeds from the sale and maturity of investments	2,000,000	1,979,844
Cash received from investment income	1,396,268	1,145,315
Net cash provided from investing activities	3,396,268	3,125,159
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,018,797)	6,722,978
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	58,195,936	51,472,958
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 46,177,139	\$ 58,195,936

(CONTINUED ON NEXT PAGE)

**Commuter Rail Division of the Regional Transportation
Authority and the Northeast Illinois Regional
Commuter Railroad Corporation
(A Public Corporation), (both d/b/a/ Metra)**

**Statements of Cash Flows
Years Ended December 31, 2005 and 2004**

	2005	2004
Reconciliation of operating loss to net cash used by operating activities:		
Operating Loss	\$ (419,102,483)	\$ (385,025,631)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation	176,558,123	172,669,701
Provision for claims	9,213,609	9,166,267
Settlement of claims	(14,367,421)	(6,692,615)
State reduced fare assistance	(2,811,588)	(2,958,993)
Interest received	(1,396,268)	(1,145,315)
(Increase) decrease in assets:		
Accounts receivable - other carriers	(1,010,916)	(885,855)
Accounts receivable - other, net	1,992,142	2,224,302
Materials and supplies	(75,441)	72,351
Prepaid expense	1,809,742	2,065,203
Increase (decrease) in liabilities:		
Accounts payable	(12,575,498)	(7,490,064)
Accrued wages and benefits payable	(1,486,494)	3,755,107
Financial assistance payable - other carriers	(406,288)	(353,564)
Deferred revenues	627,091	961,329
Total adjustments	<u>156,070,793</u>	<u>171,387,854</u>
Net cash used by operating activities	<u>\$ (263,031,690)</u>	<u>\$ (213,637,777)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Interest income from assets restricted for payment of leasehold transactions obligations	\$ 18,215,604	\$ 18,191,420
Interest expense on leasehold transactions obligations	(18,215,604)	(18,191,420)

See notes to the financial statements

**COMMUTER RAIL DIVISION OF THE REGIONAL
TRANSPORTATION AUTHORITY AND THE
NORTHEAST ILLINOIS REGIONAL COMMUTER
RAILROAD CORPORATION (A Public Corporation),
(Both d/b/a Metra)**

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

1. ORGANIZATION

The Regional Transportation Authority (“RTA”) is responsible for the development of policies regarding the allocation of public transportation funding in the Chicago metropolitan area, development of system-wide plans and service standards, and coordination of services among different modes of transportation. In addition, the RTA establishes individual farebox recovery ratios (see Note 15) for each of the two service boards (Commuter Rail Board and Suburban Bus Board) and the Chicago Transit Authority (“CTA”) so that the combined regional ratio is at least 50% as mandated by the Regional Transportation Authority Act (“ACT”).

The Northeast Illinois Regional Commuter Railroad Corporation (“NIRCRC”), a separate public corporation, was established by the ACT in 1980 to operate the RTA’s commuter rail service. The NIRCRC is responsible for the operations and management of the Rock Island, Milwaukee Road, Metra Electric, Heritage Corridor, North Central Service and the Metra SouthWest Service commuter lines. The NIRCRC receives farebox and certain other revenues directly from these lines.

In 1984, as a result of the restructuring of the RTA, the Commuter Rail Division (“CRD”) was formed, governed by the Commuter Rail Board (“CRB”). The CRB has the responsibility for policy making with respect to day-to-day operations, capital investments, finances, fare levels, and service and facilities planning for its operations. The CRB has continued the operations of the separate public corporation, known as the NIRCRC, to operate commuter railroad facilities on behalf of the CRB. In addition, the CRD has responsibility for the administration of all commuter rail activities in the metropolitan Chicago area, including deficit funding, capital grant application, and administration activities. Financial operating assistance is provided to the CRD statutorily from State of Illinois taxing authorities. Pursuant to a purchase of service agreement (“PSA”), the CRB distributes the financial operating assistance received from the RTA to the NIRCRC to fund the NIRCRC deficit. Capital additions are generally funded by a combination of federal, state and local grants, and from the CRD’s net assets.

The CRD also provides commuter rail service under PSA’s it maintains with the Union Pacific Railroad (“Union Pacific”), BNSF Railway Company (“BNSF”), and Northern Indiana Commuter Transportation District (“NICTD”). Under these agreements, the CRD funds the commuter-related operating deficits, as defined, or is entitled to receive the commuter-related operating surpluses, as defined, of these carriers. In addition, the CRD, or NIRCRC on behalf of the CRD, provides the PSA carriers certain direct expenses, such as fuel and insurance coverage, considered to be “in-kind assistance.” Capital improvements furnished by the CRD to PSA carriers and funded by grants from federal, state, local, and CRD net assets are reflected in these financial statements. All other assets of the PSA carriers are vested with the PSA carriers, and accordingly, such assets are not reflected in these financial statements.

Both the NIRCRC and the CRD have the registered service mark known as “Metra,” which denotes all commuter rail service under the CRB’s responsibility, and are collectively referred to herein as “Metra.”

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Reporting Entity – As defined by Governmental Accounting Standards Board (“GASB”) Statement No. 14, “The Financial Reporting Entity,” the financial reporting entity consists of the primary government, as well as its component units, which are legally separate organizations for which the elected officials of the primary government are financially accountable. Financial accountability is defined as:

- Appointment of a voting majority of the component unit’s board, and either (a) the ability to impose will by the primary government, or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government; or
- Fiscal dependency on the primary government.

Under the RTA Act, the RTA Board has no control over the selection or the appointment of any of Metra’s directors or management. Further, directors of Metra are excluded from serving on the Board of Directors of the RTA.

In addition, Metra maintains separate management, exercises control over all operations (including the passenger fare structure), and is accountable for fiscal matters including ownership of assets, relations with federal and state transportation funding agencies that provide financial assistance, and the preparation of operating budgets. Metra is also responsible for the purchase of services and approval of contracts relating to its operations.

Based on these factors and applying the aforementioned criteria used to determine financial accountability, management does not consider Metra to be a component unit of the RTA.

As described above, Metra has purchase of service agreements with certain Chicago area commuter rail carriers. However, with the exception of deficit funding and “in-kind assistance” specifically defined in these agreements, Metra is not financially accountable for these carriers, and they are not considered to be a part of the Metra financial reporting entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The accompanying financial statements of Metra are maintained in accordance with the principles of accounting applicable to governmental entities using the proprietary fund type. Proprietary funds are accounted for using the accrual basis of accounting. Therefore, revenues are recognized when earned, and expenses are recorded at the time liabilities are incurred.

Metra’s operating revenues are comprised of passenger revenues, capital grant additives, reimbursement for the use of certain Metra-owned operating property, investment income, joint facility revenue, reduced fare reimbursements and miscellaneous nonfare-generated income. Operating expenses for Metra include the direct costs of operating the service provided by the NIRCRC and the PSA carriers, in-kind assistance provided to PSA carriers, administrative expenses, and depreciation of capital assets. All other revenues and expenses are reported as non-operating.

Metra follows all applicable GASB Statements, as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

Metra implemented GASB Statement No. 33 “Accounting and Financial Reporting for Non-exchange Transactions” for the year ended December 31, 2002 as required. Metra received \$167,855,372 and \$175,566,350 in federal and \$142,971,913 and \$202,579,166 in local capital assistance in 2005 and 2004 respectively. Metra received \$16,472,000 in Federal Section 5307 funds that were used for operating assistance in 2005. No Federal Section 5307 funds were used in 2004. Metra also used \$30,265,119 and \$26,000,722 of net assets to fund capital projects in 2005 and 2004 respectively.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Use of Estimates - The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the measurement of assets and liabilities and revenues and expenses, and the disclosure of contingent assets and liabilities during the reported period. Actual results could differ from those estimates.

Cash and Cash Equivalents - For purposes of the statements of cash flows, Metra considers all highly liquid investments with a maturity at the time of purchase of three months or less to be cash equivalents as well as those amounts that are restricted for certain purposes.

Investments - Metra follows the provisions of GASB Statement No. 40 "Deposit and Investment Risk Disclosures." Metra's investments include certificates of deposit, commercial paper, time deposits, Illinois Funds (formerly known as Illinois Public Treasurers' Investment Pool) deposits and government securities. Fair value for the Illinois Funds is the same as the value of the pool shares. State statutes require this fund to comply with the Illinois Public Funds Investment Act (30 ILCS 235).

Cash equivalents and all other investments are reported at their fair values using quoted market prices.

Materials and Supplies - Materials and supplies are recorded at average cost.

Properties - Properties are recorded at cost, less accumulated depreciation. The cost of maintenance and repairs is charged to operations as incurred. Metra currently capitalizes assets which (1) have a useful life of more than one year, and a unit or group cost of more than \$5,000 and are not intentionally acquired for resale or (2) were purchased with grant money. Depreciation is calculated using the straight-line method over the estimated useful lives of the respective asset classifications, as follows:

	Years
Rolling stock, roadways and structures	10-35
Furniture, fixtures and office equipment	2-10

The transportation system operated by Metra includes certain facilities owned by others. Metra has the exclusive right to operate these facilities under the terms of the authorizing legislation and other agreements.

Compensated Absences - All employees receive compensation for vacations, holidays, illness and certain other qualifying absences. The number of days compensated for the various categories of absence is based generally on length of service. Vacation time that has been earned but not paid has been accrued in the accompanying financial statements. Similarly, sick leave is accrued as the benefits are earned, but only to the extent it is probable that Metra will compensate the employee through cash payments conditioned on the employee's termination or retirement. Compensation for holidays and other qualifying absences is not accrued in the accompanying financial statements because rights to such compensation amounts do not accumulate.

Metra accounts for compensated absences under GASB Statement No. 16, "Accounting for Compensated Absences," whereby the applicable salary-related employer obligations are accrued in addition to the compensated absences liability. The amount is recorded as a portion of accrued wages and benefits payable on the Statements of Net Assets.

Retained Risk Financing - Metra provides for self-insurance programs for public liability, property damage, and Federal Employers' Liability Act ("FELA") claims. In 1993, the RTA, as authorized under the Joint Self-Insurance Fund, obtained liability insurance as part of the self-insurance programs currently maintained by Metra. Claims are recorded in the year of occurrence (see Note 7). Metra directly administers the public liability, property damage, and FELA programs.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

Passenger Revenues - Passenger revenues are recognized when tickets sold are initially valid for transportation service. Tickets sold prior to the month of validity are recorded as deferred revenues.

Other Revenue - Other revenue includes capital grant additives, reimbursement for the use of certain Metra-owned operating property, reduced fare reimbursements, joint facility revenue, investment income, and miscellaneous non-fare generated income.

Revenues from the State of Illinois Reduced Fare Reimbursement Program, which began July 1, 1989, aggregated \$2,811,588 and \$2,958,993 for 2005 and 2004, respectively, for Metra.

In-kind Assistance - In-kind assistance includes expenditures made on behalf of the participating commuter rail carriers for assistance, such as fuel and insurance coverage. The accrued claims liability for unsettled public liability, property damage, and FELA claims of all participating commuter rail carriers is included on Metra's balance sheets.

Financial Operating Assistance - Financial operating assistance is recognized pursuant to RTA appropriations and represents Metra's calculated share of State of Illinois sales tax and other governmental operating assistance collected and distributed by the RTA. Metra's statutory share of RTA sales tax proceeds was \$241,727,634 and \$233,429,078 in 2005 and 2004, respectively. Under its current funding policy, the RTA provides supplemental financial assistance for any shortfall between the sales tax needed to meet the Service Board's approved budget and the actual sales tax collected. There was no sales tax shortfall in 2005 or 2004.

Capital Farebox Financing Revenue - Capital farebox financing revenue represents revenues collected as a result of the 5% fare increase granted February 1, 1989. These proceeds are to be used for capital programs and are excluded from the calculation of the Operating Budget-Basis Farebox Recovery Ratio (see Note 15). Metra's capital farebox financing revenue was \$9,391,752 and \$9,075,310 in 2005 and 2004, respectively.

Reclassifications - Certain items in the December 31, 2004 Financial Statements have been reclassified to correspond to the December 31, 2005 presentation.

3. BUDGET AND BUDGETARY BASIS OF ACCOUNTING

Metra is required under Section 4.01 of the RTA Act to submit for approval an annual budget to the RTA by November 15th prior to the commencement of each fiscal year. The budget is prepared on a basis consistent with accounting principles generally accepted in the United States of America.

The RTA funds the budgets of the service boards rather than the actual operating expenses in excess of system-generated revenues. All annual operating appropriations lapse at fiscal year-end. Favorable variances from budget remain available to Metra and can be used for capital projects with RTA approval. The RTA monitors Metra's performance against the budget on a quarterly basis.

4. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash

Cash - Metra initially deposits cash in accounts maintained in Federal Deposit Insurance Corporation ("FDIC") insured banks located in Illinois and earns interest as provided under Federal Reserve Bank regulations. Funds may be invested in registered time deposits and other interest-bearing accounts in FDIC-insured institutions. Funds can also be invested in U.S. Government obligations, commercial paper, collateralized repurchase agreements arranged through various banks and brokerage firms, and other investments as permitted by Metra's investment policy.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Deposits

The carrying amounts of Metra's deposits, which consist principally of interest-bearing bank accounts, were \$23,722,370 and \$814,292 at December 31, 2005 and 2004, respectively. Metra's books also include \$359,289 and \$148,427 of working cash from ticket stations that were considered in-transit at the year-end 2005 and 2004, respectively. Actual bank balances related to these deposits at December 31, 2005 were \$30,132,661, which were all covered by FDIC insurance or by collateral held by a third party. Actual bank balances related to these deposits at December 31, 2004 were \$5,697,036, of which, all were covered by FDIC insurance or by collateral held by a third party.

	<u>2005</u>	<u>2004</u>
Balance per Statement of Net Assets		
Cash and cash equivalents	46,177,139	58,195,936
Long term marketable securities	-	2,000,000
Total	<u>46,177,139</u>	<u>60,195,936</u>
Balance per note		
Bank deposits	23,722,370	814,292
Working cash	359,289	148,427
Certificates of Deposit	2,500,000	2,100,000
Investments	19,595,480	57,133,217
Total	<u>46,177,139</u>	<u>60,195,936</u>

All account balances at banks were either insured by the Federal Deposit Insurance Corporation (FDIC) for \$100,000, or collateralized with securities of the U.S. Government. The significant increase in bank deposits at December 31, 2005 was due to a wire transfer of \$23.2 million from the RTA after 3:00pm on the last business day of the year. Although Metra was able to fully collateralize the deposit, the funds could not be placed for investment until the following business day.

Certificates of Deposit

Certificates of Deposit amounted to \$2,500,000 and \$2,100,000 at December 31, 2005 and 2004, respectively. In accordance with Metra's policy, certificates of deposit over the FDIC insured limit were collateralized with securities or financial instruments permitted by the Public Funds Investment Act ("Act") (30ILCS 235/0.01) with maturities not exceeding five years in an amount equal to at least 100% of the funds on deposit. All investment collateral is held in safekeeping in Metra's name by financial institutions acting as Metra's agent. Collateral is monitored regularly with additional collateral requested as necessary.

Investments

The investments which Metra may purchase are limited by Illinois law to the following; (1) securities which are fully guaranteed by the U.S. Government as to principal and interest; (2) certain U.S. Government Agency securities; (3) certificates of deposit or time deposits of banks and savings and loan associations which are insured by a Federal corporation; (4) short-term discount obligations of the Federal National Mortgage Association; (5) certain short-term obligations of corporations (commercial paper) rated in the highest classifications by at least two of the major rating services; (6) fully collateralized repurchase agreements; (7) the State Treasurer's Illinois and Prime Funds and (8) money market mutual funds and certain other instruments.

In the opinion of Metra's management, during 2005 and 2004, Metra complied with the provisions of the Illinois Compiled Statutes pertaining to the types of investments held, institutions in which deposits were made, and security requirements.

The following schedule reports the fair values and maturities (using the segmented time distribution method) for Metra's investments at December 31, 2005 and 2004.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

		2005			
		Investment			
		Maturities			
Investment Type	Fair Value	Less than One Year	One to Five Years	Six to Ten years	Greater than Ten Years
U.S. Agencies	\$ 10,492,950	\$ 10,492,950	\$ -	\$ -	\$ -
State Treasurer Illinois Funds	4,104,980	4,104,980	-	-	-
Commercial Paper	4,997,550	4,997,550	-	-	-
Total	\$ 19,595,480	\$ 19,595,480	\$ -	\$ -	\$ -

		2004			
		Investment			
		Maturities			
Investment Type	Fair Value	Less than One Year	One to Five Years	Six to Ten years	Greater than Ten Years
U.S. Agencies	\$ 33,270,939	\$ 33,270,939	\$ -	\$ -	\$ -
State Treasurer Illinois Funds	17,892,975	17,892,975	-	-	-
Commercial Paper	5,969,303	5,969,303	-	-	-
Total	\$ 57,133,217	\$ 57,133,217	\$ -	\$ -	\$ -

Credit Risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. Metra's general investment policy is to apply the prudent-person rule: Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of the capital as well as the probable income to be derived. Metra's investment policy limits investments in short term obligations of corporations organized in the United States with assets exceeding \$500,000,000 if (i) such obligations are rated at the time of purchase at one of the three highest classifications established by at least two standard rating services and which mature not later than 180 days from the date of purchase; (ii) such purchases do not exceed 10% of the corporation's outstanding obligations and (iii) no more than one-third of Metra's funds may be invested in short term obligations of corporations.

Credit ratings for Metra's investments in debt securities as described by Standard & Poor's and Moody's at December 31, 2005 and 2004 (excluding investments in U.S. Treasuries which are not considered to have credit risk) are as follows:

2005				
Disclosure Ratings for Debt Securities (S&P/Moody's)				
(As a percentage of total fair value for debt securities)				
Investment Type	Value	Percent	S&P	Moody's
U.S. Agencies	\$ 10,492,950	53.5%	AAA/A1+	Aaa/P1
The State Treasurer Illinois Funds	4,104,980	20.9%	AAA	N/A
Commercial Paper	4,997,550	25.5%	A-1+	P1
Total investments at fair value	\$ 19,595,480	100%		

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

2004
Disclosure Ratings for Debt Securities (S&P/Moody's)
(As a percentage of total fair value for debt securities)

<u>Investment Type</u>	<u>Value</u>	<u>Percent</u>	<u>S&P</u>	<u>Moody's</u>
U.S Agencies	\$ 33,270,939	58.3%	AAA/A1+	Aaa/P1
The State Treasurer Illinois Funds	17,892,975	31.3%	AAA	N/A
Commercial Paper	5,969,303	10.4%	A-1+	P1
Total investments at fair value	<u>\$ 57,133,217</u>	<u>100%</u>		

Custodial Credit Risk is the risk that, in the event of the failure of the counterparty, Metra will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Metra's investment policy requires that all amounts in excess of any insurance limits be collateralized by securities eligible for investment with maturities not exceeding five years. The market value of the pledge securities shall equal or exceed the portion of the deposit requiring collateralization. Metra's deposits are fully collateralized as of December 31, 2005 and 2004.

Concentration of Credit Risk occurs as more investments are acquired from one issuer (lack of diversification). Metra's investment policy limits the amount of all funds available for investment that it may invest in any one issuer as follows: U.S Government Agencies – 25% of all funds; Commercial Paper – 33 1/3% of all funds with no more than 10% of all funds in any one issuer; Certificates of Deposit – no more than 20% of all funds with any one institution; Money Market Mutual Funds – 20% of all funds; FNMA – 25% of all funds; The Illinois Fund – 25% of all funds; Repurchase Agreements – 50% of all funds with no more than 25% of all funds at any one institution. Metra has been in compliance for both years.

Interest Rate Risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Metra's investment policy seeks to ascertain safety of principal and to attain a market average or better rate of return, taking into account risk, constraints, cash flow, and legal restrictions on investments. Metra's policy is to routinely monitor the contents of the portfolio, the available markets, and the relative values of competing instruments to assess the effectiveness of the portfolio in meeting the safety, liquidity, rate of return, diversification, and general performance objectives, and to adjust the portfolio accordingly. Metra did not have long-term investments in its portfolio at December 31, 2005 and therefore had no material exposure to interest rate fluctuations. Metra had \$2,000,000 in long term marketable securities as of December 31, 2004. These securities were not affected by interest rate fluctuations during 2005.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

5. CAPITAL ASSETS

The following schedule summarizes the capital assets of Metra as of December 31, 2005 and December 31, 2004.

2005	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 140,576,391	\$ 2,812,974	\$ -	\$ 143,389,365
Capital projects in progress	442,678,564	5,639,298	(93,204,691)	355,113,171
Total Capital Assets, not being depreciated	583,254,955	8,452,272	(93,204,691)	498,502,536
Capital Assets being depreciated:				
Rolling stock and equipment	1,289,674,267	211,202,389	(14,625,404)	1,486,251,252
Roadways and structures	2,410,196,930	219,122,569	-	2,629,319,499
Furniture, fixtures and office equipment	75,196,685	3,306,871	-	78,503,556
Total Capital Assets being depreciated	3,775,067,882	433,631,829	(14,625,404)	4,194,074,307
Less Accumulated Depreciation				
Rolling stock and equipment	(573,256,832)	(57,105,282)	14,625,404	(615,736,710)
Roadways and structures	(1,224,078,341)	(113,432,724)	-	(1,337,511,065)
Furniture, fixtures and office equipment	(54,725,468)	(6,020,117)	-	(60,745,585)
Total Accumulated Depreciation	(1,852,060,641)	(176,558,123)	14,625,404	(2,013,993,360)
Total Capital Assets being depreciated, net	1,923,007,241	257,073,706	-	2,180,080,947
Total Capital Assets, net	<u>\$ 2,506,262,196</u>	<u>\$ 265,525,978</u>	<u>\$ (93,204,691)</u>	<u>\$ 2,678,583,483</u>
2004	Beginning Balance	Additions	Reductions	Ending Balance
Capital Assets, not being depreciated:				
Land	\$ 136,735,850	\$ 3,840,541	\$ -	\$ 140,576,391
Capital projects in progress	341,491,240	101,187,324	-	442,678,564
Total Capital Assets, not being depreciated	478,227,090	105,027,865	-	583,254,955
Capital Assets being depreciated:				
Rolling stock and equipment	1,198,851,320	123,820,588	(32,997,641)	1,289,674,267
Roadways and structures	2,241,678,179	168,518,751	-	2,410,196,930
Furniture, fixtures and office equipment	59,788,863	15,407,822	-	75,196,685
Total Capital Assets being depreciated	3,500,318,362	307,747,161	(32,997,641)	3,775,067,882
Less Accumulated Depreciation				
Rolling stock and equipment	(557,120,884)	(49,133,589)	32,997,641	(573,256,832)
Roadways and structures	(1,113,925,414)	(110,152,927)	-	(1,224,078,341)
Furniture, fixtures and office equipment	(41,342,282)	(13,383,186)	-	(54,725,468)
Total Accumulated Depreciation	(1,712,388,580)	(172,669,702)	32,997,641	(1,852,060,641)
Total Capital Assets being depreciated, net	1,787,929,782	135,077,459	-	1,923,007,241
Total Capital Assets, net	<u>\$ 2,266,156,872</u>	<u>\$ 240,105,324</u>	<u>\$ -</u>	<u>\$ 2,506,262,196</u>

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

6. OTHER LIABILITIES

Other liability activity for the years ended December 31, 2005 and 2004 was as follows:

<u>2005</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued Claims	\$ 37,381,420	\$ 9,213,609	\$ (14,367,421)	\$ 32,227,608	\$ 9,213,609
Amount Payable for Leasehold Transaction	<u>\$ 281,352,361</u>	<u>\$ 17,193,268</u>	<u>\$ (16,170,932)</u>	<u>\$ 282,374,697</u>	<u>\$ 17,193,268</u>
Total	<u>\$ 318,733,781</u>	<u>\$ 26,406,877</u>	<u>\$ (30,538,353)</u>	<u>\$ 314,602,305</u>	<u>\$ 26,406,877</u>
<u>2004</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Accrued Claims	\$ 34,907,768	\$ 9,166,267	\$ (6,692,615)	\$ 37,381,420	\$ 9,166,267
Amount Payable for Leasehold Transaction	<u>\$ 280,354,209</u>	<u>\$ 17,193,268</u>	<u>\$ (16,195,116)</u>	<u>\$ 281,352,361</u>	<u>\$ 17,193,268</u>
Total	<u>\$ 315,261,977</u>	<u>\$ 26,359,535</u>	<u>\$ (22,887,731)</u>	<u>\$ 318,733,781</u>	<u>\$ 26,359,535</u>

7. RETAINED RISK PROGRAMS

A liability for each retained risk is provided based upon the estimated ultimate cost of settling claims using a case-by-case review and historical experience. Changes in the retained risk portion of injury and damage, and FELA accounts were as follows:

Balance, December 31, 2003	\$ 34,907,768
2004 Provision	9,166,267
2004 Payments	<u>(6,692,615)</u>
Balance, December 31, 2004	37,381,420
2005 Provision	9,213,609
2005 Payments	<u>(14,367,421)</u>
Balance, December 31, 2005	<u>\$ 32,227,608</u>

8. LEASE TRANSACTION

On September 18, 1998, Metra entered into a transaction to lease 174 railcars to three equity investors (the "headlease") and simultaneously subleased the railcars back (the "sublease"). Under these agreements, Metra maintains the right to use the railcars and is also responsible for their continued maintenance and insurance. Metra's sublease arrangements have been recorded as long-term obligations for accounting purposes.

At closing, the railcars had a fair market value of approximately \$296.9 million and a book value of \$262.9 million. As part of the headlease agreements, Metra received prepayments equivalent to the net present value of the headlease obligations totaling approximately \$274 million.

Metra transferred approximately \$177.4 million and \$52.9 million of the prepayment proceeds to third parties in accordance with the terms of debt and equity payment undertaking agreements, respectively. These agreements

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

constitute commitments by the debt and equity payment undertakers to pay Metra's sublease and buy-out options, under the terms of the subleases. The debt payment undertaker and equity payment undertaker are finance companies. Both the debt payment undertaker and the equity payment undertaker have AA+ and Aa1 ratings from Standard & Poor and Moody's, respectively. Both finance companies performance under the agreement is guaranteed by their parent company that carries the same ratings.

In connection with the transaction, Metra recognized \$43.7 million as leasehold revenue in 1998.

The net present value of the future payments due under the subleases has been recorded as a liability on the accompanying Statement of Net Assets. Since the debt and equity payment undertaking agreements have been structured to meet all future obligations under the subleases, the related asset balances have been recorded to equal the sublease liabilities on the accompanying Statement of Net Assets. The following table sets forth the aggregate amounts due under the sublease agreements:

Future minimum lease payments due:

2006	\$ 17,193,268
2007	17,193,268
2008	25,239,685
2009	28,481,563
2010	20,947,382
2011 - 2015	104,736,910
2016 - 2020	191,522,504
2021 - 2025	122,550,787
2026 - 2029	<u>3,152,120</u>
Total future minimum lease payments	531,017,487
Less imputed interest	<u>(248,642,790)</u>
Present value of minimum lease payments	<u>\$ 282,374,697</u>

9. NEW RAIL CARS

In December 2000, Metra entered into a contract with a vendor to furnish 300 new rail cars for \$399.3 million. Bonds authorized under the Illinois FIRST Program and issued by the RTA provide the funding for this contract. The vendor delivered 2 prototype cars in August 2002 and the first production car in February 2003. The vendor also furnished Metra with an irrevocable letter of credit ("LOC") in an amount equal to funds paid to the vendor to cover startup costs under a milestone payment schedule. The LOC is reduced by specific values with the delivery of each new rail car that is conditionally accepted by Metra and with final acceptance of all work by Metra. As of December 31, 2005, all of the new stainless steel bi-level coaches have been delivered. Metra issued a final acceptance of all work in March 2006. The amount of milestone payments made to the vendor in 2005 and 2004 were \$68.0 million and \$80.0 million respectively.

In December 2002, Metra entered into a contract with a vendor to furnish 26 new bi-level electric rail cars for \$75.9 million. Bonds authorized under the Illinois FIRST Program and issued by the RTA provide the funding for this contract. The vendor also furnished Metra with an irrevocable letter of credit ("LOC") in an amount equal to funds paid to the vendor to cover startup costs under a milestone payment schedule. The LOC is reduced by specific values with the delivery of each new rail car that is conditionally accepted by Metra and with final acceptance of all work by Metra. The first 8 bi-level electric rail cars were delivered in 2005. The remaining 16 bi-level electric rail cars were delivered in the first quarter of 2006. The amount of milestone payments made to the vendor in 2005 and 2004 were \$11.6 million and \$7.5 million respectively.

10. NEW START PROGRAM

On November 5, 2001, Metra entered into Full Funding Grant Agreements with the FTA to provide an extension to the Union Pacific West line, an extension and expanded service on the SouthWest Service line, and expanded service on the North Central Service line. Construction began in 2002 and will be completed in 2006. Service on these lines commenced in January 2006. The cost of these projects is estimated to be \$558.3 million.

11. DEFERRED COMPENSATION PLAN

Metra offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan, available to all Metra employees, permits deferral of a portion of compensation until future years. The deferred amount is not available to employees, other than through participant loans, until termination, retirement, death, or unforeseeable emergency.

All assets of the deferred compensation plan are held in a separate trust in accordance with Section 1448 of the Small Business Jobs Protection Act of 1996. As a result, such amounts are not subject to the claims of Metra's general creditors, and deferred compensation plan assets are not presented on Metra's Statements of Net Assets as of December 31, 2005 and 2004.

Metra also offers its employees a noncontributory defined contribution plan in accordance with Internal Revenue Code Section 401(k). The plan, available to qualified full-time Metra employees, permits the income tax deferral of a portion of compensation until future years. The amount deferred is generally not available to employees, other than through participant loans, until termination, retirement or death. A third-party trustee forwards the participants' contributions to the investment companies selected by the individual participant.

Metra also offers certain health care and life insurance benefits for retired employees. The costs of retiree health care and life insurance benefits are recognized as expense as they are paid and are not material for accrual at the present time. Metra intends to implement GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions" in 2006.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

12. PURCHASE OF SERVICE CARRIERS' EXPENSES

The following details the consolidated operations of Metra's PSA carriers:

Year Ended December 31, 2005

	<u>Union Pacific</u>	<u>BNSF</u>	<u>NICTD</u>	<u>Total</u>
Operating Revenues				
Passenger revenue				
Passenger operating	\$ 61,235,775	\$ 37,913,795	\$3,305,352	\$102,454,922
Capital farebox financing	3,061,789	1,895,690	101,912	5,059,391
Total passenger revenue	<u>64,297,564</u>	<u>39,809,485</u>	<u>3,407,264</u>	<u>107,514,313</u>
Other revenue	1,503,013	449,604	387,289	2,339,906
Total operating revenues	<u>65,800,577</u>	<u>40,259,089</u>	<u>3,794,553</u>	<u>109,854,219</u>
Operating Expenses				
Carrier expenses:				
Transportation	50,671,313	21,001,792	2,461,706	74,134,811
Maintenance of way	29,174,099	4,267,634	1,026,423	34,468,156
Maintenance of equipment	33,078,193	16,774,964	1,561,749	51,414,906
Administration	10,105,848	965,255	1,510,984	12,582,087
Total carrier expenses	<u>123,029,453</u>	<u>43,009,645</u>	<u>6,560,862</u>	<u>172,599,960</u>
Deficit funding	<u>57,228,876</u>	<u>2,750,556</u>	<u>2,766,309</u>	<u>62,745,741</u>
In-kind expenses				
Diesel fuel	17,715,277	7,689,105	-	25,404,382
Motive electricity	-	-	328,598	328,598
Claims, insur. & risk management	5,468,466	2,187,803	304,819	7,961,088
Regional services	3,973,531	1,601,262	287,581	5,862,374
Downtown stations	1,492,321	4,548,447	-	6,040,768
Total in-kind expenses	<u>28,649,595</u>	<u>16,026,617</u>	<u>920,998</u>	<u>45,597,210</u>
Total operating expenses	<u>151,679,048</u>	<u>59,036,262</u>	<u>7,481,860</u>	<u>218,197,170</u>
Net purchase of service carriers' expense	<u>\$ 85,878,471</u>	<u>\$ 18,777,173</u>	<u>\$3,687,307</u>	<u>\$108,342,951</u>

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004

Year Ended December 31, 2004

	<u>Union Pacific</u>	<u>BNSF</u>	<u>NICTD</u>	<u>Total</u>
Operating Revenues				
Passenger revenue				
Passenger operating	\$ 59,518,742.00	\$ 36,508,247.00	\$ 3,070,151.00	\$ 99,097,140.00
Capital farebox financing	2,975,937	1,825,412	94,422	4,895,771
Total passenger revenue	62,494,679	38,333,659	3,164,573	103,992,911
Other revenue	1,260,466	462,722	384,727	2,107,915
Total operating revenues	63,755,145	38,796,381	3,549,300	106,100,826
Operating Expenses				
Carrier expenses:				
Transportation	45,629,971	19,872,677	2,276,063	67,778,711
Maintenance of way	27,813,249	4,043,502	992,412	32,849,163
Maintenance of equipment	32,368,454	15,575,737	1,571,939	49,516,130
Administration	9,752,145	1,058,390	1,397,083	12,207,618
Total carrier expenses	115,563,819	40,550,306	6,237,497	162,351,622
Deficit funding	51,808,674	1,753,925	2,688,197	56,250,796
In-kind expenses				
Diesel fuel	8,157,188	3,512,184	-	11,669,372
Motive electricity	-	-	305,943	305,943
Claims, insur. & risk management	4,933,152	2,552,853	307,084	7,793,089
Regional services	7,422,330	2,804,962	478,688	10,705,980
Downtown stations	1,491,526	4,324,337	-	5,815,863
Total in-kind expenses	22,004,196	13,194,336	1,091,715	36,290,247
Total operating expenses	137,568,015	53,744,642	7,329,212	198,641,869
Net purchase of service carriers' expense	\$ 73,812,870	\$ 14,948,261	\$ 3,779,912	\$ 92,541,043

13. COMMITMENTS

Leases - Metra has entered into several non-cancelable operating leases, primarily for the use of passenger terminals, which expire on various dates through 2024. Future minimum rental payments under all non-cancelable operating leases having initial or remaining terms in excess of one year as of December 31, 2005 were:

2006	\$ 9,488,469
2007	9,524,547
2008	9,537,466
2009	9,550,712
2010	9,564,174
2011-2015	48,032,542
2016-2020	36,149,381
2021-2025	8,973,972
Thereafter	-
Total	<u>\$140,821,263</u>

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Total rent expense aggregated \$13,300,529 and \$14,429,172 for the years ended December 31, 2005 and 2004, respectively.

Grants - At December 31, 2005, Metra had \$442.49 million in obligations related to federal and state (including local) capital grant contracts. \$59.5 million of the \$442.49 million was related to the new car acquisitions described in Note 9.

14. EMPLOYEE BENEFITS

Metra participates in a cost-sharing multiple employer noncontributory defined benefit plan which is sponsored and controlled by the RTA (the "Plan"). Employees of Metra who are not members of a collective bargaining unit are eligible for plan participation. The Plan provides retirement, disability and death benefits. Members are eligible for normal retirement at age 65 and for early retirement at age 55 after 10 years of service. Benefits are determined as a percentage of the participant's average annual compensation in the three completed plan years of highest compensation. The benefits are generally payable through an annuity or a single lump-sum distribution. The RTA issues a publicly available report that includes the financial statements and required supplementary information for the Plan. That report may be obtained by writing to the RTA, 175 West Jackson, Suite 1550, Chicago, Illinois 60604.

Under the provisions of the Plan, Metra contributes annually, if necessary, an amount based on actuarially determined rates. Metra made a contribution to the Plan in December 2005 of \$3,470,000 for pension expense accrued in 2005. In addition, a contribution in the amount of \$3,109,612 was made in January 2005 for pension expense accrued in 2004. No other contributions were made or required by Metra for the years ended December 31, 2005 and 2004.

15. FAREBOX RECOVERY RATIO AND CARRYOVER

Operating Budget-Basis Farebox Recovery Ratio - The operating budget-basis farebox recovery ratio represents the ratio of total operating revenues to total operating expenses, excluding funded depreciation (for both direct operations and commuter rail carriers participating through purchase of service agreements), the proceeds from the capital farebox financing program, the proceeds and related interest income and expense from the lease transaction (see Note 8), and certain other expenses related to the leasing of transportation facilities. In 2005, security expenses were excluded from operating expenses and certain proceeds from Federal Section 5307 funds used for preventive maintenance were included as operating revenue. In 2004, security expenses up to \$5 million were excluded from expenses. Metra did not use any Federal Section 5307 for preventive maintenance in 2004. In accordance with the RTA Act and its mandate to meet a system-wide farebox recovery ratio of 50% or more, the RTA establishes farebox recovery ratios for each of the Service Boards and the CTA. Metra's budgeted farebox recovery ratio was 55.77% and 55.0% in 2005 and 2004, respectively. Metra's farebox recovery ratio on an operating budget basis was 55.13% and 55.04% in 2005 and 2004, respectively.

GAAP-Basis Farebox Recovery Ratio - The GAAP-basis farebox recovery ratio is defined by the RTA Act. It is calculated using the same methodology as the Operating Budget Basis Farebox Recovery Ratio described above except the proceeds from Federal Section 5307 used for preventive maintenance are excluded, and the proceeds from the capital farebox financing program (see Note 2), along with the related interest income and expense from the lease transaction (see Note 8) are included in the calculation of this ratio. Metra's farebox recovery ratio on a GAAP basis was 56.79% and 58.77% in 2005 and 2004, respectively.

**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2005 AND 2004**

Farebox Recovery Carryover - Excess farebox recovery carryover is generated when the actual operating budget-basis farebox recovery ratio exceeds the budgeted farebox recovery ratio. As provided for under the RTA Act, the Service Boards and the CTA may carry over excess farebox recovery amounts to future years. There was no excess farebox recovery in 2005 and \$191,955 in 2004.

16. CONTINGENCIES

Litigation - Metra is a defendant in a number of legal actions. These actions have been considered in estimating and funding Metra's retained risk liability program. The total of amounts claimed under these legal actions, including potential settlements, could exceed the amount of the accrued claims. In the opinion of Metra's management, the retained risk funding and Metra's limited excess indemnity insurance coverage from commercial carriers are adequate to cover the ultimate liability of these legal actions, in all material respects.

Grants - Metra receives moneys from federal and state government agencies under various grants. The costs, both direct and indirect, charged to these grants are subject to audit and disallowance by the granting agency. It is the opinion of management of Metra that any disallowances or adjustments would not have a material adverse effect on the financial position of Metra.

**SUPPLEMENTAL INFORMATION (UNAUDITED)
YEARS ENDED DECEMBER 31, 2005**

**COMMUTER RAIL DIVISION OF THE REGIONAL
TRANSPORTATION AUTHORITY AND THE
NORTHEAST ILLINOIS REGIONAL COMMUTER
RAILROAD CORPORATION (A Public Corporation),
(Both d/b/a Metra)**

**Statement of Revenues and Expenses - Budget to Actual (Budget Basis)
Year Ended December 31, 2005**

	Original and Final Budget	Actual	Favorable (Unfavorable)
OPERATING REVENUES:			
Passenger revenue excluding capital farebox proceeds	\$ 184,504,767	\$ 189,102,160	\$ 4,597,393
Reduced fare reimbursement	3,040,000	2,811,588	(228,412)
Total operating passenger revenues	<u>187,544,767</u>	<u>191,913,748</u>	4,368,981
Other revenue	56,900,232	59,788,016	2,887,784
Section 5307 revenue per ordinance	<u>9,166,398</u>	<u>9,391,752</u>	225,354
TOTAL operating revenues	<u>253,611,397</u>	<u>261,093,516</u>	7,482,119
OPERATING EXPENSES:			
Transportation	170,862,012	170,426,964	435,048
Fuel and motive power	33,987,801	47,416,784	(13,428,983)
Maintenance of way	94,952,300	101,240,318	(6,288,018)
Maintenance of equipment	109,213,108	105,706,066	3,507,042
Administration	36,066,949	36,581,979	(515,030)
Claims, insurance & risk management	15,990,059	16,905,169	(915,110)
Regional services	13,860,330	13,481,410	378,920
Downtown stations	<u>11,887,824</u>	<u>11,879,186</u>	8,638
Total operating expenses	<u>486,820,383</u>	<u>503,637,876</u>	(16,817,493)
Operating loss from all operations before depreciation	(233,208,986)	(242,544,360)	(9,335,374)
Capital farebox financing revenue	<u>9,166,398</u>	<u>9,391,752</u>	225,354
Loss before depreciation, financial assistance, leasehold revenue	<u>\$ (224,042,588)</u>	<u>\$ (233,152,608)</u>	<u>\$ (9,110,020)</u>
Note:			
Amounts excluded from the operating budget-basis farebox recovery ratio:			
Funded depreciation included in expense	\$ 2,857,204	\$ 2,709,302	\$ 147,902
Lease of transportation facilities	14,007,265	14,050,813	(43,548)
Security expense	<u>15,225,547</u>	<u>13,291,836</u>	1,933,711
Total deductions	<u>\$ 32,090,016</u>	<u>\$ 30,051,951</u>	<u>\$ 2,038,065</u>
Farebox recovery ratio - see note 15	<u>55.77%</u>	<u>55.13%</u>	

**SUPPLEMENTAL INFORMATION (UNAUDITED)
YEARS ENDED DECEMBER 31, 2005**

**COMMUTER RAIL DIVISION OF THE REGIONAL
TRANSPORTATION AUTHORITY AND THE
NORTHEAST ILLINOIS REGIONAL COMMUTER
RAILROAD CORPORATION (A Public Corporation),
(Both d/b/a Metra)**

**BUDGET BASIS SCHEDULE OF OPERATIONS
YEAR ENDED DECEMBER 31, 2005**

	NIRCRC	Union Pacific	BNSF	NICTD	TOTAL
OPERATING REVENUES:					
Passenger revenue excluding capital farebox	\$ 86,647,238	\$ 61,235,775	\$ 37,913,795	\$ 3,305,352	\$ 189,102,160
Other revenue	68,271,926	544,034	2,700	361,108	69,179,768
Reduced fare reimbursement	1,379,522	958,979	446,907	26,180	2,811,588
Total operating revenues	156,298,686	62,738,788	38,363,402	3,692,640	261,093,516
OPERATING EXPENSES:					
Carrier level expenses:					
Transportation	96,292,153	50,671,313	21,001,792	2,461,706	170,426,964
Maintenance of way	66,772,162	29,174,099	4,267,634	1,026,423	101,240,318
Maintenance of equipment	54,291,160	33,078,193	16,774,964	1,561,749	105,706,066
Administration	23,999,892	10,105,848	965,255	1,510,984	36,581,979
Total carrier expenses	241,355,367	123,029,453	43,009,645	6,560,862	413,955,327
Centralized expenses					
Diesel fuel	15,410,656	17,715,277	7,689,105	-	40,815,038
Motive electricity	6,273,148	-	-	328,598	6,601,746
Claims, insur. & risk management	8,944,081	5,468,466	2,187,803	304,819	16,905,169
Regional services	7,619,036	3,973,531	1,601,262	287,581	13,481,410
Downtown stations	5,838,418	1,492,321	4,548,447	-	11,879,186
Total centralized expenses	44,085,339	28,649,595	16,026,617	920,998	89,682,549
Total operating expenses	285,440,706	151,679,048	59,036,262	7,481,860	503,637,876
OPERATING LOSS	\$ (129,142,020)	\$ (88,940,260)	\$ (20,672,860)	\$ (3,789,220)	\$ (242,544,360)

NOTE:

Amounts excluded from the operating budget-basis

farebox recovery ratio:

Security expense	\$ 13,291,836
Funded depreciation included in expenses	2,709,302
Lease of transportation facilities	14,050,813
Total exclusions	\$ 30,051,951

Farebox Recovery Ratio

55.13%

**SUPPLEMENTAL INFORMATION (UNAUDITED)
YEARS ENDED DECEMBER 31, 2005**

**COMMUTER RAIL DIVISION OF THE REGIONAL
TRANSPORTATION AUTHORITY AND THE
NORTHEAST ILLINOIS REGIONAL COMMUTER
RAILROAD CORPORATION (A Public Corporation),
(Both d/b/a Metra)**

**BUDGET BASIS SCHEDULE OF OPERATIONS
YEAR ENDED DECEMBER 31, 2004**

	NIRCRC	Union Pacific	BNSF	NICTD	TOTAL
OPERATING REVENUES:					
Passenger revenue excluding capital farebox	\$ 83,590,791	\$ 59,518,742	\$ 36,508,247	\$ 3,070,151	\$ 182,687,931
Other revenue	58,598,436	174,107	2,475	358,792	59,133,810
Reduced fare reimbursement	1,386,452	1,086,359	460,247	25,935	2,958,993
Total operating revenues	<u>143,575,679</u>	<u>60,779,208</u>	<u>36,970,969</u>	<u>3,454,878</u>	<u>244,780,734</u>
OPERATING EXPENSES:					
Carrier level expenses:					
Transportation	94,867,037	48,234,972	20,795,301	2,418,914	166,316,224
Maintenance of way	63,059,193	28,313,636	4,220,725	1,019,852	96,613,406
Maintenance of equipment	53,754,630	32,659,717	15,678,895	1,587,912	103,681,154
Administration	22,999,944	9,752,145	1,058,390	1,397,083	35,207,562
Total carrier expenses	<u>234,680,804</u>	<u>118,960,470</u>	<u>41,753,311</u>	<u>6,423,761</u>	<u>401,818,346</u>
Centralized expenses					
Diesel fuel	7,143,455	8,157,188	3,512,184	-	18,812,827
Motive electricity	4,324,834	-	-	305,943	4,630,777
Claims, insur. & risk management	7,546,452	4,933,152	2,552,853	307,084	15,339,541
Regional services	8,162,678	4,025,679	1,601,957	292,424	14,082,738
Downtown stations	5,711,882	1,491,526	4,324,337	-	11,527,745
Total centralized expenses	<u>32,889,301</u>	<u>18,607,545</u>	<u>11,991,331</u>	<u>905,451</u>	<u>64,393,628</u>
Total operating expenses	<u>267,570,105</u>	<u>137,568,015</u>	<u>53,744,642</u>	<u>7,329,212</u>	<u>466,211,974</u>
OPERATING LOSS	<u>\$(123,994,426)</u>	<u>\$(76,788,807)</u>	<u>\$(16,773,673)</u>	<u>\$(3,874,334)</u>	<u>\$(221,431,240)</u>

NOTE:

Amounts excluded from the operating budget-basis

farebox recovery ratio:

Security expense (\$5,000,000 cap)	\$ 5,000,000
Funded depreciation included in expenses	2,795,035
Lease of transportation facilities	13,710,069
Total exclusions	<u>\$ 21,505,104</u>

Farebox Recovery Ratio

55.04%