



NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

Financial Statements
(Together with Independent Auditors' Report)

Years Ended June 30, 2008 and 2007

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)

YEARS ENDED JUNE 30, 2008 AND 2007

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New York City Transitional Finance Authority

We have audited the accompanying financial statements of the governmental activities of New York City Transitional Finance Authority (the "Authority"), a component unit of The City of New York, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Authority as of and for the year ended June 30, 2007 were audited by other auditors whose report dated October 29, 2007 expressed an unqualified opinion on those statements. As discussed in Note 8, the Authority has restated its financial statements as of and for the year ended June 30, 2007 during the current year to implement Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues*. The other auditors reported on the financial statements as of and for the year ended June 30, 2007 before the restatement.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the governmental activities of the Authority as of June 30, 2008 and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in Note 8 that were applied to restate the 2007 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The accompanying management's discussion and analysis on pages 2 – 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Marks Paneth & Shron LLP

New York, New York
September 30, 2008



**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a narrative overview and analysis of the financial activities of the New York City Transitional Finance Authority (the "Authority") for the fiscal years ended June 30, 2008 and 2007. It should be read in conjunction with the Authority's entity-wide financial statements, governmental fund financial statements and the notes to the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the entity-wide financial statements; and (3) the governmental fund financial statements.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficits) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34 - *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended.

The entity-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Authority's governmental fund financial statements (capital and debt service) are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenues are considered available if received within two months after the fiscal year end. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

The reconciliations of the statements of revenues, expenditures and changes in fund balances of the governmental funds to the statements of activities and the balance sheet of the governmental funds to the statement of net assets are presented to assist the reader in understanding the differences between entity-wide and fund financial statements.

Although legally separate from New York City (the "City"), the Authority is a financing instrumentality of the City and accordingly it is included in the City's financial statements as a blended component unit.

The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for general City capital purposes ("Future Tax Secured Bonds") to \$13.5 billion as of June 30, 2008. The limit was increased \$2.0 billion in fiscal year 2007 and the increased limit was reached during fiscal year 2007. The Authority had future tax secured bonds outstanding, excluding Recovery Bonds, as of June 30, 2008 and 2007 of \$11.31 billion and \$11.54 billion, respectively.

Legislation enacted in April 2006 enables the Authority to have outstanding up to \$9.4 billion of Building Aid Revenue Bonds ("BARBs"), notes or other obligations, secured by State Building Aid, subject to State annual appropriation, assigned by the City to the Authority, for purposes of funding costs of the five-year educational facilities capital plan for the City school system, of which \$700 million was issued in fiscal year 2008 and \$1.3 billion was issued in fiscal year 2007. The Authority had BARBs outstanding as of June 30, 2008 and 2007 of \$2.0 billion and \$1.3 billion, respectively.

The Authority is also authorized to have outstanding \$2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack. The Authority had Recovery Bonds outstanding as of June 30, 2008 and 2007 of \$1.52 billion and \$1.77 billion, respectively.

The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues* ("GASB 48") in fiscal year 2008. GASB 48 establishes accounting and financial reporting standards for governmental entities that have exchanged an interest in expected cash flows from collecting specific receivables or specific future revenues, and established the criteria that are used to determine whether the exchange should be reported as a sale or as a collateralized borrowing.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

The implementation of GASB 48 changed the accounting and financial reporting for the Authority's disbursements of BARBs proceeds to the City and receipt of building aid from New York State ("State") to the Authority pursuant to the assignment to the Authority by the City in fiscal year 2007 of building aid payments from the State to the Authority. The Authority retains sufficient building aid revenue to service the BARBs debt and to pay its administrative expenses. Under the criteria established by GASB 48, this assignment of building aid revenue by the City to the Authority is considered a collateralized borrowing due to the City's continuing involvement necessary for collection of the building aid. As a result of the implementation of GASB 48, the Authority's fiscal year 2007 financial statements have been restated, resulting in an increase in the Authority's net assets of \$686.13 million as the Authority reports as an asset (Due from New York City—Future Building Aid) the cumulative amount it has distributed to the City for the educational facilities capital plan net of the cumulative amount of building aid it has retained. The effect of the implementation of GASB 48 on the fund financial statements is to report distributions to the City for its educational facilities capital program as an other financing use of funds, rather than as an expenditure, as these distributions are now considered as repayments of a borrowing, which are reported as an other financing use of funds.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - ENTITY-WIDE FINANCIAL STATEMENTS

The following summarizes the activities of the Authority for the years ended June 30,

	<u>2008</u>	<u>2007</u> (Restated)	<u>2006</u>	Variance	
	------(in thousands)-----			<u>2008/2007</u>	<u>2007/2006</u>
				------(in thousands)-----	
Expenses:					
Distributions to New York City for general capital program	\$ 412,488	\$ 1,635,310	\$ -	\$(1,222,822)	\$1,635,310
Interest expense	592,285	620,580	544,379	(28,295)	76,201
Other	<u>39,727</u>	<u>43,326</u>	<u>46,907</u>	<u>(3,599)</u>	<u>(3,581)</u>
Total expenses	<u>1,044,500</u>	<u>2,299,216</u>	<u>591,286</u>	<u>(1,254,716)</u>	<u>1,707,930</u>
Revenues:					
Personal income tax retained	163,756	684,607	350,000	(520,851)	334,607
Unrestricted grant from New York City	545,747	1,264,215	-	(718,468)	1,264,215
Investment earnings	<u>43,718</u>	<u>69,430</u>	<u>34,222</u>	<u>(25,712)</u>	<u>35,208</u>
Total revenues	<u>753,221</u>	<u>2,018,252</u>	<u>384,222</u>	<u>(1,265,031)</u>	<u>1,634,030</u>
Change in net assets	(291,279)	(280,964)	(207,064)	(10,315)	(73,900)
Net deficit, beginning of year	<u>(12,083,362)</u>	<u>(11,802,398)</u>	<u>(11,595,334)</u>	<u>(280,964)</u>	<u>(207,064)</u>
Net deficit, end of year	<u>\$(12,374,641)</u>	<u>\$(12,083,362)</u>	<u>\$(11,802,398)</u>	<u>\$ (291,279)</u>	<u>\$ (280,964)</u>

The Authority issued BARBs in the amount of \$700 million and \$1.30 billion in fiscal years 2008 and 2007, respectively. The bond proceeds are used to finance a portion of the City's educational facilities capital plan. The Authority distributed \$1.24 billion and \$748 million of the BARBs proceeds to the City in fiscal years 2008 and 2007, respectively. These distributions to the City are reported on the Authority's entity-wide financial statements as due from the City and this receivable is reduced by the amount of building aid revenue retained by the Authority for its BARBs debt service. The remainder of the building aid revenue received by the Authority and not retained for debt service or operations is remitted to the City. Below is a table summarizing the total building aid received, remitted to the City and the balance retained by the Authority for the fiscal years ending June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	------(in thousands)-----		
Building aid received from New York State	\$ 696,566	\$ 505,818	\$ -
Building aid remitted to the City	<u>(483,519)</u>	<u>(443,645)</u>	<u>-</u>
Total retained for BARBs debt service	<u>\$ 213,047</u>	<u>\$ 62,173</u>	<u>\$ -</u>

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

The Authority retained \$163.76 million of personal income tax ("PIT") in fiscal year 2008 compared to \$684.61 million retained in fiscal year 2007 for debt service of its tax secured debt ("TS") and its operations. The decrease in retention of personal income tax was due to the Authority's receipt of an unrestricted grant from the City of \$1.26 billion on June 28, 2007, reducing the amount of PIT needed to be retained by the Authority in fiscal year 2008 for its debt service payments on tax secured bonds and its operations. The Authority did not receive a grant from the City in fiscal year 2006, requiring the Authority to fund its debt service payments in fiscal year 2007 through the retention of personal income tax and interest earnings. Below is a table summarizing the personal income tax revenue, remittances to the City and the balance retained by the Authority for fiscal years ending June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	------(in thousands)-----		
PIT received from New York State	\$ 8,700,965	\$8,254,777	\$7,800,813
PIT remitted to the City	<u>(8,537,209)</u>	<u>(7,570,170)</u>	<u>(7,450,813)</u>
 Total retained for tax secured debt service and operating expenses	 \$ <u>163,756</u>	 \$ <u>684,607</u>	 \$ <u>350,000</u>

In fiscal year 2007 the Authority received an unrestricted grant from the City of \$1.26 billion which was used to fund the debt service requirements of the tax secured debt for the year ending June 30, 2008, to fund a cash defeasance escrow of \$546.33 million (used to defease \$537.30 million of tax secured bonds) on June 28, 2007 and for the early retirement of \$170.3 million of tax secured variable rate debt on September 4, 2007.

In fiscal year 2008, the Authority received an unrestricted grant from the City of \$545.75 million which may be used for debt service payments on tax secured bonds and to fund the Authority's operations in fiscal year 2009.

The decrease in investment earnings in fiscal year 2008 was due to the distribution of bond proceeds to the City during fiscal year 2008 to fund the City's capital programs, reducing the invested balance. The bond proceeds were obtained through the issuance of \$1.30 billion of BARBs and \$2.0 billion of tax secured bonds in fiscal year 2007.

The following summarizes the Authority's assets, liabilities, and net assets (deficits) as of June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	Variance	
	------(in thousands)-----			<u>2008/2007</u>	<u>2007/2006</u>
		(Restated)		------(in thousands)-----	
Assets:					
Total assets	\$ <u>3,473,776</u>	\$ <u>3,821,830</u>	\$ <u>1,196,939</u>	\$ (348,054)	\$ <u>2,624,891</u>
Liabilities:					
Current liabilities	924,807	1,127,085	1,006,645	(202,278)	120,440
Non-current liabilities	<u>14,923,610</u>	<u>14,778,107</u>	<u>11,992,692</u>	<u>145,503</u>	<u>2,785,415</u>
Total liabilities	<u>15,848,417</u>	<u>15,905,192</u>	<u>12,999,337</u>	<u>(56,775)</u>	<u>2,905,855</u>
Net assets (deficits):					
Restricted	11,440	1,075,372	1,640	(1,063,932)	1,073,732
Unrestricted	<u>(12,386,081)</u>	<u>(13,158,734)</u>	<u>(11,804,038)</u>	<u>772,653</u>	<u>(1,354,696)</u>
Net deficit, end of year	\$ <u>(12,374,641)</u>	\$ <u>(12,083,362)</u>	\$ <u>(11,802,398)</u>	\$ <u>(291,279)</u>	\$ <u>(280,964)</u>

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

Total assets decreased due to the cash distribution from bond proceeds remitted to the City during fiscal year 2008 for its general capital program of \$412.49 million and for its school facilities capital program of \$1.24 billion. As previously discussed, under GASB 48, the cumulative amount of transfers to the City from the BARBs proceeds are reported as a receivable from the City, reduced by the cumulative amount of building aid revenue retained by the Authority for its BARBs debt service and operations. Total liabilities decreased due to a reduction in personal income tax payable to the City from \$580.15 million in fiscal year 2007 to \$446.45 million in fiscal year 2008. This decrease may be an indication of a weakening economy.

The amount due to the City for reimbursement of its capital expenses decreased \$105.29 million, a result of a timing difference between the City's incurrence of the capital expenditures and billing the Authority.

In fiscal year 2007, liabilities increased primarily due to the issuance of bonds comprised of \$2.0 billion of future tax secured bonds and \$1.3 billion of BARBs, reduced by the defeasance of approximately \$537 million of tax secured bonds on June 28, 2007 using the grant funds received from the City, as well as scheduled principal payments of future tax secured bonds.

In fiscal year 2007 and 2008, the changes in bonds payable were as follows:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
----- (in thousands) -----							
Future tax secured bonds (excluding recovery bonds)	\$ 10,391,655	\$2,289,370	\$(1,139,260)	\$ 11,541,765	\$ -	\$(235,835)	\$ 11,305,930
Recovery bonds	1,840,890	-	(75,830)	1,765,060	-	(243,160)	1,521,900
Building aid revenue bonds	-	<u>1,300,000</u>	-	<u>1,300,000</u>	<u>700,000</u>	-	<u>2,000,000</u>
Total bonds payable	\$ <u>12,232,545</u>	<u>\$3,589,370</u>	<u>\$(1,215,090)</u>	<u>\$ 14,606,825</u>	<u>\$ 700,000</u>	<u>\$(478,995)</u>	<u>\$ 14,827,830</u>

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

The Authority reports governmental activity using four funds, comprised of two capital projects funds and two debt service funds: (1) a building aid revenue bonds capital project fund (BARBs CPF), (2) a future tax secured capital project fund (FTS CPF), (3) a building aid revenue bonds debt service fund (BARBs DSF) and (4) a future tax secured debt service fund (FTS DSF).

The following summarizes the BARBs CPF activities of the Authority for the years ended June 30,

	<u>2008</u>	<u>2007</u> Restated	<u>2006</u>	<u>2008/2007</u>	<u>2007/2006</u>
	----- (in thousands) -----			Variance ----- (in thousands) -----	
Fund balance, beginning of year	\$ 631,444	\$ -	\$ -	\$ 631,444	\$ -
Revenues	11,686	19,028	-	(7,342)	19,028
Expenditures	(4,618)	(15,013)	-	10,395	(15,013)
Other financing sources (uses)	<u>(568,847)</u>	<u>627,429</u>	-	<u>(1,196,276)</u>	<u>627,429</u>
Fund balance, end of year	<u>\$ 69,665</u>	<u>\$ 631,444</u>	<u>\$ -</u>	<u>\$ (561,779)</u>	<u>\$ 631,444</u>

The Authority's other financing sources (uses) include \$1.24 billion in fiscal year 2008 and \$748.30 million in fiscal year 2007 distributed to the City to finance its school capital program. The distributions are financed through bond proceeds and interest earnings. Legislation was enacted in fiscal year 2007 which enabled the Authority to have outstanding up to \$9.4 million of BARBs. The Authority issued \$700 million and \$1.30 billion of BARBs in fiscal year 2008 and 2007, respectively. The bond proceeds and distributions to the City are reported as an other financing source (use) in the governmental funds.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2008 AND 2007**

The following summarizes the FTS CPF activities of the Authority for the years ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	Variance	
	------(in thousands)-----			------(in thousands)-----	
	<u>2008/2007</u>	<u>2007/2006</u>			
Fund balance, beginning of year	\$ 443,777	\$ -	\$ -	\$ 443,777	\$ -
Revenues	7,381	24,058	-	(16,677)	24,058
Expenditures	(412,488)	(1,648,227)	-	1,235,739	(1,648,227)
Other financing sources (uses)	<u>(8,259)</u>	<u>2,067,946</u>	<u>-</u>	<u>(2,076,205)</u>	<u>2,067,946</u>
Fund balance, end of year	<u>\$ 30,411</u>	<u>\$ 443,777</u>	<u>\$ -</u>	<u>\$ (413,366)</u>	<u>\$ 443,777</u>

Expenditures decreased in fiscal year 2008 as the Authority's distributions to the City's general capital program decreased to \$412.49 million from \$1.64 billion in fiscal year 2007, since the Authority had reached its statutory debt limit of \$13.5 billion in fiscal year 2007. No tax secured bonds were issued in fiscal year 2006 as the Authority had already reached the statutory debt limit then in force. The bond proceeds are reported as an other financing source in the governmental funds.

The following summarizes the BARBs DSF activities of the Authority for the years ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	Variance	
	------(in thousands)-----			------(in thousands)-----	
	<u>2008/2007</u>	<u>2007/2006</u>			
Fund balance, beginning of year	\$ 62,743	\$ -	\$ -	\$ 62,743	\$ -
Revenues	1,558	536	-	1,022	536
Expenditures	(62,318)	(92)	-	(62,226)	(92)
Other financing sources	<u>243,559</u>	<u>62,299</u>	<u>-</u>	<u>181,260</u>	<u>62,299</u>
Fund balance, end of year	<u>\$ 245,542</u>	<u>\$ 62,743</u>	<u>\$ -</u>	<u>\$ 182,799</u>	<u>\$ 62,743</u>

Expenditures in the debt service fund are primarily for the interest expense related to the \$1.3 billion BARBs issued in fiscal year 2007. The other financing source consisted of \$213.04 million and \$62.17 million received in fiscal year 2008 and 2007, respectively, of building aid retained.

The following summarizes the FTS DSF activities of the Authority for the years ended June 30,

	<u>2008</u>	<u>2007</u>	<u>2006</u>	Variance	
	------(in thousands)-----			------(in thousands)-----	
	<u>2008/2007</u>	<u>2007/2006</u>			
Fund balance, beginning of year	\$1,094,289	\$ 636,893	\$1,588,843	\$ 457,396	\$ (951,950)
Revenues	732,596	1,974,630	384,222	(1,242,034)	1,590,408
Expenditures	(1,085,711)	(1,517,779)	(1,317,691)	432,068	(200,088)
Other financing sources (uses)	<u>8,230</u>	<u>545</u>	<u>(18,481)</u>	<u>7,685</u>	<u>19,026</u>
Fund balance, end of year	<u>\$ 749,404</u>	<u>\$ 1,094,289</u>	<u>\$ 636,893</u>	<u>\$ (344,885)</u>	<u>\$ 457,396</u>

The Authority received unrestricted grants from the City of \$545.75 million and \$1.26 billion in fiscal year 2008, and 2007, respectively. These grants were used to service the Authority's debt service payments in the following fiscal year. The Authority did not receive a grant from the City in fiscal year 2006 and retained \$684.61 million of personal income tax in fiscal year 2007 compared to \$163.76 million in fiscal year 2008 to service its debt.

Expenditures decreased in fiscal year 2008 due to the cash defeasance of \$546.33 million bonds in fiscal year 2007.

** END **

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
		Restated
	(in thousands)	
ASSETS		
Unrestricted cash and cash equivalents	\$ 3,322	\$ 2,878
Restricted cash and cash equivalents	410,884	977,848
Restricted cash escrow for economic defeasance	683	681
Restricted investments	771,380	1,264,554
Restricted investments escrow for economic defeasance	33,505	238,198
Personal income tax receivable	446,455	580,149
Due from New York City - future State building aid	1,717,000	686,126
Unamortized bond issuance costs	68,911	71,396
Other	21,636	-
	<u>3,473,776</u>	<u>3,821,830</u>
TOTAL ASSETS		
LIABILITIES		
Personal income tax payable to New York City	\$ 446,455	\$ 580,149
Distributions payable to New York City capital programs	144,348	249,638
Accrued expenses	2,041	2,268
Accrued interest payable	156,363	189,125
Bonds payable		
Portion due within one year	175,600	105,905
Portion due after one year	14,652,230	14,500,920
Unamortized deferred bond refunding costs	(113,061)	(136,767)
Unamortized bond premium	384,441	413,954
	<u>15,848,417</u>	<u>15,905,192</u>
TOTAL LIABILITIES		
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	1,367	151
Restricted for capital projects	10,073	1,075,221
Deficit	<u>(12,386,081)</u>	<u>(13,158,734)</u>
	<u>\$ (12,374,641)</u>	<u>\$ (12,083,362)</u>
TOTAL DEFICIT		

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
		Restated
		(in thousands)
EXPENSES:		
General and administrative expenses	\$ 8,879	\$ 8,940
Distributions to New York City for general capital program	412,488	1,635,310
Amortization of deferred bond refunding costs	23,706	27,425
Interest expense	592,285	620,580
Amortization of debt issuance costs	7,142	6,961
TOTAL EXPENSES	1,044,500	2,299,216
REVENUES:		
Personal income tax revenue	8,700,965	8,254,777
Less remittances to New York City	(8,537,209)	(7,570,170)
Personal income tax revenue retained	163,756	684,607
Unrestricted grant from New York City	545,747	1,264,215
Investment earnings	43,718	69,430
TOTAL REVENUES	753,221	2,018,252
CHANGE IN DEFICIT	(291,279)	(280,964)
Deficit - beginning of year	(12,083,362)	(11,802,398)
DEFICIT - END OF YEAR	\$ (12,374,641)	\$ (12,083,362)

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2008**

(in thousands)

	Capital Projects		Debt Service		Total Governmental Funds
	Building Aid	Future Tax	Building Aid	Future Tax	
	Revenue Bonds	Secured	Revenue Bonds	Secured	
ASSETS					
Unrestricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ 3,322	\$ 3,322
Restricted cash and cash equivalents	211,383	33,421	81,054	85,026	410,884
Restricted cash in escrow for economic defeasance	-	-	-	683	683
Restricted investments	-	-	143,150	628,230	771,380
Restricted investments in escrow for economic defeasance	-	-	-	33,505	33,505
Personal income tax receivable	-	-	-	446,455	446,455
Other	-	-	21,448	188	21,636
TOTAL ASSETS	\$ 211,383	\$ 33,421	\$ 245,652	\$ 1,197,409	\$ 1,687,865
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued expenses	\$ 381	\$ -	\$ -	\$ 1,550	\$ 1,931
Distributions payable to New York City for capital programs	141,337	3,010	-	-	144,347
Personal income tax payable to New York City	-	-	-	25,455	25,455
Deferred personal income tax revenue	-	-	-	421,000	421,000
Other	-	-	110	-	110
TOTAL LIABILITIES	141,718	3,010	110	448,005	592,843
FUND BALANCES					
Restricted for capital projects	69,665	30,411	-	-	\$ 100,076
Restricted for debt service	-	-	245,542	711,894	957,436
Reserved for economic defeasance	-	-	-	34,188	34,188
Unreserved	-	-	-	3,322	3,322
TOTAL FUND BALANCES	69,665	30,411	245,542	749,404	1,095,022
TOTAL LIABILITIES AND FUND BALANCES	\$ 211,383	\$ 33,421	\$ 245,652	\$ 1,197,409	\$ 1,687,865

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2007
RESTATED

(in thousands)

	Capital Projects		Debt Service		Total Governmental Funds
	Building Aid	Future Tax	Building Aid	Future Tax	
	Revenue Bonds	Secured	Revenue Bonds	Secured	
ASSETS					
Unrestricted cash and cash equivalents	\$ -	\$ -	\$ -	\$ 2,878	\$ 2,878
Restricted cash and cash equivalents	73,088	566,848	62,743	275,169	977,848
Restricted cash in escrow for economic defeasance	-	-	-	681	681
Restricted investments	685,693	-	-	578,861	1,264,554
Restricted investments in escrow for economic defeasance	-	-	-	238,198	238,198
Personal income tax receivable	-	-	-	580,149	580,149
TOTAL ASSETS	<u>\$ 758,781</u>	<u>\$ 566,848</u>	<u>\$ 62,743</u>	<u>\$ 1,675,936</u>	<u>\$ 3,064,308</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accrued expenses	\$ 105	\$ 665	\$ -	\$ 1,498	\$ 2,268
Distributions payable to New York City for capital programs	127,232	122,406	-	-	249,638
Personal income tax payable to New York City	-	-	-	45,149	45,149
Deferred personal income tax revenue	-	-	-	535,000	535,000
TOTAL LIABILITIES	<u>127,337</u>	<u>123,071</u>	<u>-</u>	<u>581,647</u>	<u>832,055</u>
FUND BALANCES					
Restricted for capital projects	631,444	443,777	-	-	\$ 1,075,221
Restricted for debt service	-	-	62,743	852,532	915,275
Reserved for economic defeasance	-	-	-	238,879	238,879
Unreserved	-	-	-	2,878	2,878
TOTAL FUND BALANCES	<u>631,444</u>	<u>443,777</u>	<u>62,743</u>	<u>1,094,289</u>	<u>2,232,253</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 758,781</u>	<u>\$ 566,848</u>	<u>\$ 62,743</u>	<u>\$ 1,675,936</u>	<u>\$ 3,064,308</u>

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2008
(in thousands)

	Capital Projects		Debt Service		Total Governmental Funds
	Building Aid Revenue	Future Tax Secured	Building Aid Revenue	Future Tax Secured	
	Bonds	Bonds	Bonds	Bonds	
REVENUES					
Personal income tax revenue	\$ -	\$ -	\$ -	\$ 8,814,965	\$ 8,814,965
Less remittances to New York City	-	-	-	(8,651,209)	(8,651,209)
Personal income tax revenue retained	-	-	-	163,756	163,756
Unrestricted grant from New York City	-	-	-	545,747	545,747
Investment earnings	11,686	7,381	1,558	23,093	43,718
TOTAL REVENUES	<u>11,686</u>	<u>7,381</u>	<u>1,558</u>	<u>732,596</u>	<u>753,221</u>
EXPENDITURES					
Interest expense	-	-	62,208	589,559	651,767
Interest expense economic defeasance	-	-	-	8,411	8,411
Costs of debt issuance	4,618	-	-	-	4,618
Distributions to New York City for general capital program	-	412,488	-	-	412,488
Principal amounts of bonds retired	-	-	-	279,678	279,678
Principal amount of economic defeased bonds retired	-	-	-	199,295	199,295
General and administrative expenses	-	-	110	8,768	8,878
TOTAL EXPENDITURES	<u>4,618</u>	<u>412,488</u>	<u>62,318</u>	<u>1,085,711</u>	<u>1,565,135</u>
Excess (deficiency) of revenues over expenditures	<u>7,068</u>	<u>(405,107)</u>	<u>(60,760)</u>	<u>(353,115)</u>	<u>(811,914)</u>
OTHER FINANCING SOURCES (USES)					
Principal amount of bonds issued	700,000	-	-	-	700,000
Distributions to New York City for educational facilities capital program	(1,243,921)	-	-	-	(1,243,921)
Bond premium, net of discount	5,557	-	-	-	5,557
Transfer from New York City - building aid	-	-	213,047	-	213,047
Transfers in (out)	(30,483)	(8,259)	30,512	8,230	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(568,847)</u>	<u>(8,259)</u>	<u>243,559</u>	<u>8,230</u>	<u>(325,317)</u>
NET CHANGES IN FUND BALANCES	(561,779)	(413,366)	182,799	(344,885)	(1,137,231)
Fund Balances- beginning of year	<u>631,444</u>	<u>443,777</u>	<u>62,743</u>	<u>1,094,289</u>	<u>2,232,253</u>
FUND BALANCES - END OF YEAR	<u>\$ 69,665</u>	<u>\$ 30,411</u>	<u>\$ 245,542</u>	<u>\$ 749,404</u>	<u>\$ 1,095,022</u>

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
JUNE 30, 2007
RESTATED
(in thousands)

	Capital Projects		Debt Service		Total Governmental Funds
	Building Aid Revenue	Future Tax Secured	Building Aid Revenue	Future Tax Secured	
	Bonds		Bonds		
REVENUES					
Personal income tax revenue	\$ -	\$ -	\$ -	\$ 7,719,777	\$ 7,719,777
Less remittances to New York City	-	-	-	(7,035,170)	(7,035,170)
Personal income tax revenue retained	-	-	-	684,607	684,607
Unrestricted grant from New York City	-	-	-	1,264,215	1,264,215
Investment earnings	19,028	24,058	536	12,523	56,145
Investment earnings economic defeasance escrow	-	-	-	13,285	13,285
TOTAL REVENUES	<u>19,028</u>	<u>24,058</u>	<u>536</u>	<u>1,974,630</u>	<u>2,018,252</u>
EXPENDITURES					
Interest expense	-	-	-	579,949	579,949
Interest expense economic defeasance	-	-	-	12,154	12,154
Costs of debt issuance	15,013	12,917	-	-	27,930
Distributions to New York City for general capital program	-	1,635,310	-	-	1,635,310
Principal amounts of bonds retired	-	-	-	339,375	339,375
Defeasance escrow	-	-	-	546,326	546,326
Principal amount of economic defeased bonds retired	-	-	-	29,285	29,285
Refunding bond issuance costs	-	-	-	1,842	1,842
General and administrative expenses	-	-	92	8,848	8,940
TOTAL EXPENDITURES	<u>15,013</u>	<u>1,648,227</u>	<u>92</u>	<u>1,517,779</u>	<u>3,181,111</u>
Excess (deficiency) of revenues over expenditures	<u>4,015</u>	<u>(1,624,169)</u>	<u>444</u>	<u>456,851</u>	<u>(1,162,859)</u>
OTHER FINANCING SOURCES (USES)					
Principal amount of bonds issued	1,300,000	1,989,370	-	-	3,289,370
Distributions to New York City for educational facilities capital program	(748,299)	-	-	-	(748,299)
Refunding bond proceeds	-	-	-	321,400	321,400
Bond premium, net of discount	75,763	82,262	-	-	158,025
Payments to refunded bond escrow holder	-	-	-	(324,450)	(324,450)
Transfer from New York City - building aid	-	-	62,173	-	62,173
Transfers in (out)	(35)	(3,686)	126	3,595	-
TOTAL OTHER FINANCING SOURCES	<u>627,429</u>	<u>2,067,946</u>	<u>62,299</u>	<u>545</u>	<u>2,758,219</u>
NET CHANGES IN FUND BALANCES	631,444	443,777	62,743	457,396	1,595,360
Fund Balances- beginning of year	-	-	-	636,893	636,893
FUND BALANCES - END OF YEAR	<u>\$ 631,444</u>	<u>\$ 443,777</u>	<u>\$ 62,743</u>	<u>\$ 1,094,289</u>	<u>\$ 2,232,253</u>

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2008 AND 2007**

	2008	2007
	Restated	
	(in thousands)	
Total fund balances - governmental funds	\$ 1,095,022	\$ 2,232,253
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of debt issuance are expenditures in governmental funds financial statements. However, in the statement of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the life of the related asset.	68,910	71,396
Bond premiums are reported as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt.	(384,441)	(413,954)
Distributions to the City's educational facilities capital program from BARBS proceeds are reported as an other financing source in the governmental funds financial statements. However, in the statement of net assets (deficit), they are reported as due from the City.	1,717,000	686,126
Some liabilities are not due and payable in the current period from currently available financial resources and therefore are not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). These liabilities consist of:		
Bonds payable	(14,827,830)	(14,606,825)
Accrued interest on bonds	(156,363)	(189,125)
Costs of bond refundings are reported as expenditures in governmental funds financial statements. However, in the statement of net assets (deficit), those costs and the related gain or loss are deferred and amortized over the shorter of the remaining life of the old debt or the life of the new debt.	113,061	136,767
Net assets (deficit) of government activities	\$ (12,374,641)	\$ (12,083,362)

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
		Restated
	(in thousands)	
Net changes in fund balances- total governmental funds	\$ (1,137,231)	\$ 1,595,360
Amounts reported for governmental activities in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but bonds issued increase long-term liabilities on the statements of net assets (deficit).	(700,000)	(3,289,370)
Cash defeasances of long-term debt are reported as other expenditures, but decrease long-term liabilities in the statements of net assets (deficit).	-	546,326
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	-	3,050
Governmental funds report costs of bond refundings as expenditures. However, in the statements of activities, the costs of bond refundings are amortized over the shorter of the life of the bonds refunded or the life of the bonds issued to advance refund the bonds.	(23,706)	(27,425)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (deficit).	478,973	368,660
Governmental funds report the costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the life of the related debt.	(2,524)	22,811
Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statements of activities, bond premiums/discounts are amortized over the lives of the related debt as interest expense.	29,553	(119,635)
Distributions to the City's educational facilities capital program from BARBS proceeds are reported as expenditures in governmental funds. However, in the statements of activities, BARBS proceed distributions are reported as due from the City.	1,243,921	748,299
Transfers from the City of building aid is reported as an other financing source in the governmental funds. However, in the statements of activities, building aid retained is reported as a reduction of the amount due.	(213,047)	(62,173)
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as an expenditure in the governmental funds when the outlay of financing resources is required.	32,782	(66,867)
Change in net (deficit) assets of governmental activities	\$ (291,279)	\$ (280,964)

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

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental entity constituting a public benefit corporation and an instrumentality of the State of New York (the "State"). The Authority is governed by a Board of five directors, consisting of the following officials of The City of New York (the "City"): the Director of Management and Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design and Construction, the City Comptroller and the Speaker of the City Council. Although legally separate from the City, the Authority is a component unit of the City and is included in the City's financial statements as a blended component unit.

The Authority was created by State legislation enacted in 1997 to issue and sell up to \$7.5 billion in bonds and notes ("Future Tax Secured Bonds") to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State Legislature increased to \$11.5 billion the Authority's capacity to issue bonds and notes for general City capital purposes. In June 2000, the State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from \$750 million to \$2.3 billion. In July 2006, the statutory capacity to issue bonds and notes for general capital purposes of the City was increased by \$2 billion; as of June 30, 2007, the Authority had issued its new statutory limit of \$13.5 billion of Future Tax Secured Bonds.

On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional \$2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center.

Legislation enacted in April 2006 enables the Authority to have outstanding up to \$9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system and the Authority's operating expenditures; as of June 30, 2008 and 2007, \$2.0 billion and \$1.3 billion, respectively of Building Aid Revenue Bonds ("BARBs") have been issued and are outstanding.

The Authority does not have any employees; its affairs are administered by employees of the City and another component unit of the City, for which the Authority pays a management fee, rent and overhead based on its allocated share of personnel and overhead costs.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- A. The entity-wide financial statements of the Authority, which include the statement of net assets (deficit) and the statement of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board Statement No. 34, as amended. The statement of net assets (deficit) and the statement of activities are prepared using the economic resources measurement focus and the accrual basis of accounting.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

The governmental funds consist of four funds: (1) a building aid revenue bonds capital project fund (BARBs CPF), (2) a future tax secured capital project fund (FTS CPF), (3) a building aid revenue bonds debt service fund (BARBs DSF) and (4) a future tax secured debt service fund (FTS DSF). The two capital projects funds account for resources to be transferred to the City's capital program in satisfaction of amounts due to the City and the two debt service funds account for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt, and support the operations of the Authority.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- B. To maintain the exemption from Federal income tax of interest on bonds issued by the Authority, the Authority will fund amounts required to be rebated to the Federal government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds.

During the fiscal year ended June 30, 2008, the Authority made rebate payments of \$111 thousand and no payments were required in the fiscal year ended June 30, 2007.

- C. Bond and bond anticipation note premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The governmental fund financial statements recognize the premiums and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued and premium received are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.
- D. Deferred bond refunding costs represent the accounting loss incurred in advance refunding of outstanding bonds. The deferred bond refunding costs are amortized over the shorter of the remaining life of the old debt or the life of the new debt.
- E. Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when bond interest is due in the governmental fund financial statements.
- F. The Authority receives City personal income taxes, imposed pursuant to State law and collected on behalf of the Authority by the State, to service its future tax secured debt and pay a portion of its administrative expenses. Funds for future tax secured bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are available to be remitted to the City. During the years ended June 30, 2008 and 2007, the Authority retained \$163.76 million and \$684.61 million, respectively of personal income tax to be used for tax secured bonds debt service. During fiscal years 2008 and 2007, unrestricted grants were received from the City which are described in Note 7.
- G. The Authority receives building aid payable by the State pursuant to the assignment by the City of the building aid payments to the Authority to service its building aid revenue bonds and pay a portion of its administrative expenses. Funds for building aid revenue bond debt service are required to be retained when the projected remaining building aid to be received by the Authority reaches 110% of the unfunded debt service for the current and the next fiscal year. Unused building aid is available to be remitted to the City. During the years ended June 30, 2008 and 2007, the Authority received transfers from the City of \$213.05 million and \$62.17 million, respectively of building aid to be used for BARBs debt service.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- H. The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues* ("GASB 48") in fiscal year 2008. GASB 48 establishes accounting and financial reporting standards for governmental entities that have exchanged an interest in expected cash flows from collecting specific receivables or specific future revenues, and established the criteria that are used to ascertain whether the exchange should be reported as a sale or as a collateralized borrowing. The effects of the implementation of GASB 48 are described in Note 8.
- I. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 – CASH AND CASH EQUIVALENTS

The Authority's restricted cash and cash equivalents consisted of bank deposits, commercial paper and securities of U.S. Government agencies held by the Authority's Trustee in the Authority's name. The Authority's restricted cash escrow was cash held by the escrow agent in the economic defeasance account.

	<u>2008</u>	<u>2007</u>
	(in thousands)	
Restricted cash and cash equivalents:		
Cash	\$ 8	\$ 5
Commercial paper	33,420	737,988
U.S. government agencies	<u>377,456</u>	<u>239,855</u>
Total restricted cash and cash equivalents	<u>\$ 410,884</u>	<u>\$ 977,848</u>
Restricted cash in escrow for economic defeasance	<u>\$ 683</u>	<u>\$ 681</u>

All of the commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services. As of June 30, 2008 and 2007, the Authority's restricted cash in escrow for economic defeasance consisted of bank deposits. As of June 30, 2008 and 2007, the carrying amounts and bank balances of bank deposits were \$683,000 and \$681,000, respectively. As of June 30, 2008 and 2007, \$100,000 of the bank balances was insured by the Federal Deposit Insurance Corporation. The remaining balances were not insured or collateralized.

The Authority's unrestricted cash and cash equivalents consisted of bank deposits, and securities of U.S. Government agencies held by the Authority's Trustee in the Authority's name.

	<u>2008</u>	<u>2007</u>
	(in thousands)	
Unrestricted cash and cash equivalents:		
Cash	\$ 90	\$ 127
U.S. government agencies	<u>3,232</u>	<u>2,751</u>
Total unrestricted cash and cash equivalents	<u>\$ 3,322</u>	<u>\$ 2,878</u>

As of June 30, 2008 and 2007, the carrying amounts and bank balances of bank deposits were \$89,000 and \$132,000, respectively. As of June 30, 2008 and 2007, \$89,000 and \$100,000, respectively, of the bank balances were insured by the Federal Deposit Insurance Corporation. The remaining balances were not insured or collateralized.

The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less from the date of purchase. The Authority values those investments at cost plus accrued interest, which approximates market. See Note 4 below for the Authority's investment policy.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 4 – INVESTMENTS

Each account of the Authority that is held pursuant to the Indenture between the Authority and its Trustee, as amended and as restated November 16, 2006 (the "Indenture") may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture.

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are not collateralized. All investments are held in the Authority's name by the trustee.

The Authority values commercial paper at cost plus accrued interest, which approximates market. As of June 30, 2008, the Authority did not hold any of its investments in commercial paper. In the fiscal year ended June 30, 2007, the commercial paper held by the Authority was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

The Authority's restricted investments in the economic defeasance escrow account at the Authority's trustee were valued at market, which resulted in an unrealized loss of approximately \$14 million as of June 30, 2008 and an unrealized gain of approximately \$3.41 million as of June 30, 2007. The investments included purchases of securities at a premium, resulting in higher interest-bearing investments and this was included in the verification agent's computations to assure that the escrow fund provides for all future debt service on the economically defeased bonds.

The Authority's restricted investments as of June 30, 2008 and 2007 are as follows:

	2008	2007
	(in thousands)	
Restricted investments:		
Commercial paper	\$ -	\$ 277,102
Securities of U.S. government agencies	771,380	987,452
Total restricted investments	\$ 771,380	\$ 1,264,554
Restricted investments for economic defeasance		
Securities of U.S. government agencies	\$ 33,505	\$ 238,198

NOTE 5 – BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), as amended, the Authority is authorized to issue \$13.5 billion Future Tax Secured Bonds. The Authority had issued \$13.5 billion of Future Tax Secured Bonds as of June 30, 2008. As of June 30, 2008 and 2007, the Authority had outstanding debt of \$11.3 billion and \$11.5 billion of Future Tax Secured Bonds, respectively, including \$32 million and \$234 million of economically defeased Future Tax Secured Bonds, respectively. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

The Act also permits the Authority to have outstanding \$2.5 billion of Recovery Bonds. As of June 30, 2008 and 2007, the Authority had outstanding \$1.52 billion and \$1.77 billion of Recovery Bonds, respectively.

The Authority funds its debt service requirements for Future Tax Secured Bonds and Recovery Bonds and certain operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during the fiscal years ending June 30, 2008 and 2007.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

All City personal income tax is paid by the State to the Authority. The Authority has pledged the personal income tax as collateral to secure its Future Tax Secured Bonds and Recovery Bonds. The Authority retains personal income taxes in an amount sufficient to pay debt service on its Future Tax Secured Bonds and Recovery Bonds and to pay certain operating expenditures, and remits the difference to the City. The Authority has no taxing power.

Legislation enacted in April 2006 enables the Authority to have outstanding up to \$9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system and certain operating expenditures. As of June 30, 2008 and 2007, the Authority had \$2.00 billion and \$1.30 billion of BARBs, respectively, outstanding.

Under the legislation, the BARBs are payable from the State Building Aid payable by the State and assigned to the Authority. These State aid payments are subject to annual appropriation from the State. In accordance with the legislation and the Indenture, BARBs do not have a claim on the personal income tax revenues or sales tax revenues.

Bonds are recorded at the principal amount outstanding and consist of the following:

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
	----- (in thousands) -----						
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	\$ 190,485	\$ -	\$ (13,540)	\$ 176,945	\$ -	\$ (176,945)	\$ -
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	441,395	-	(38,870)	402,525	-	-	402,525
1998 Fiscal Series C 4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	282,665	-	(57,110)	225,555	-	-	225,555
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	-	(29,975)	33,025	-	-	33,025

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
----- (in thousands) -----							
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	100,000	-	-	100,000
1999 Fiscal Series A 4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016	70,985	-	(4,925)	66,060	-	-	66,060
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	7,265	-	(7,265)	-	-	-	-
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	189,180	-	(44,540)	144,640	-	-	144,640
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	277,500	-	-	277,500	-	-	277,500
1999 Fiscal Series B 3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	270,550	-	(11,175)	259,375	-	-	259,375
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	2,555	-	(2,555)	-	-	-	-
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	-	-	100,000	-	-	100,000
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	50,000	-	-	50,000	-	-	50,000
1999 Fiscal Series C 3.50% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	82,315	-	(28,280)	54,035	-	-	54,035
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	-	(14,945)	13,180	-	-	13,180
2000 Fiscal Series A 4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	35,865	-	-	35,865	-	(4,250)	31,615

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
	----- (in thousands) -----						
2000 Fiscal Series B 4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	9,470	-	-	9,470	-	-	9,470
2000 Fiscal Series C 4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	28,400	-	(7,820)	20,580	-	-	20,580
2001 Fiscal Series A 4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	49,285	-	(29,975)	19,310	-	(745)	18,565
Variable rate tax-exempt bonds maturing in varying installments through 2030 (a)	100,000	-	-	100,000	-	-	100,000
2001 Fiscal Series B 3.75% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2020	228,120	-	(31,890)	196,230	-	(4,880)	191,350
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	100,000	-	-	100,000	-	-	100,000
2001 Fiscal Series C 3.65% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2022	274,695	-	(17,760)	256,935	-	(23,545)	233,390
Variable rate tax-exempt bonds maturing in varying installments through 2032 (a)	100,000	-	-	100,000	-	-	100,000
2002 Fiscal Series A 4.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	107,585	-	(27,110)	80,475	-	(3,215)	77,260
2002 Fiscal Series B 3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	326,435	-	(19,090)	307,345	-	-	307,345
Variable rate taxable bonds maturing in varying installments through 2030 (a)	177,165	-	(45)	177,120	-	(50)	177,070

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
----- (in thousands) -----							
2002 Fiscal Series C 4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	199,235	-	(30,695)	168,540	-	-	168,540
2003 Fiscal Series A 3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,151,240	-	(86,165)	1,065,075	-	-	1,065,075
2003 Fiscal Series B 3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	650,360	-	(15,485)	634,875	-	-	634,875
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	15,900	-	(15,900)	-	-	-	-
2003 Fiscal Series C 2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	356,350	-	(28,220)	328,130	-	(13,195)	314,935
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	-	-	150,000	-	-	150,000
2003 Fiscal Series D 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	467,060	-	(6,005)	461,055	-	-	461,055
2.65% to 4.80% serial taxable bonds maturing in varying installments throughout 2013	84,185	-	(37,285)	46,900	-	-	46,900
2003 Fiscal Series E 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	498,590	-	(45,410)	453,180	-	-	453,180
2004 Fiscal Series A 3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	138,960	-	(15,465)	123,495	-	(1,765)	121,730
2004 Fiscal Series B 2.00% to 5.25% serial and term varying installments through 2032	496,135	-	(25,790)	470,345	-	(7,245)	463,100

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
----- (in thousands) -----							
2004 Fiscal Series C 2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	492,320	-	(16,530)	475,790	-	-	475,790
2004 Fiscal Series D 2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	558,410	-	(165,205)	393,205	-	-	393,205
2005 Fiscal Series A 2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	859,805	-	(141,370)	718,435	-	-	718,435
2005 Fiscal Series B 2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	6,810	-	(365)	6,445	-	-	6,445
2006 Fiscal Series A 3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	573,255	-	(67,845)	505,410	-	-	505,410
2007 Fiscal Series A 3.375% to 5.25% serial tax-exempt bonds maturing in varying installments through 2022	-	500,000	-	500,000	-	-	500,000
5.13% to 6.24% serial taxable bonds maturing in varying installments through 2018	-	200,000	-	200,000	-	-	200,000
Variable rate tax-exempt bonds maturing in varying installments through 2023 (a)	-	100,000	-	100,000	-	-	100,000
2007 Fiscal Series B 4.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	-	900,000	(54,655)	845,345	-	-	845,345
2007 Fiscal Series C 3.60% to 5.00% serial tax-exempt bonds maturing in varying installments through 2027	-	366,970	-	366,970	-	-	366,970
Variable rate tax-exempt bonds maturing in varying installments through 2027 (d) maximum rate 12%	-	111,200	-	111,200	-	-	111,200
Variable rate tax-exempt bonds maturing in varying installments through 2027 (d) maximum rate 12%	-	111,200	-	111,200	-	-	111,200
Total bonds payable, excluding recovery bonds	\$ 10,391,655	\$ 2,289,370	\$ (1,139,260)	\$ 11,541,765	\$ -	\$ (235,835)	\$ 11,305,930

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

	<u>Balance</u> <u>June 30, 2006</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Bonds</u> <u>Issued</u>	<u>Retired or</u> <u>Defeased</u>	<u>Balance</u> <u>June 30, 2008</u>
----- (in thousands) -----							
2003 Series 1 Recovery Bonds							
Variable rate tax-exempt							
bonds maturing in varying							
installments through 2022 (a)	\$ 424,600	\$ -	\$ (18,700)	\$ 405,900	\$ -	\$ (47,400)	\$ 358,500
2003 Series 2 Recovery Bonds							
Variable rate tax-exempt							
bonds maturing in varying							
installments through 2022 (a)	458,800	-	(20,700)	438,100	-	(54,800)	383,300
2003 Series 3 Recovery Bonds							
2.00% to 5.00% serial tax-							
exempt bonds maturing in							
varying installments through							
2007	74,290	-	(36,430)	37,860	-	(37,860)	-
Variable rate tax-exempt							
bonds maturing in varying							
installments through 2022 (a)	<u>883,200</u>	<u>-</u>	<u>-</u>	<u>883,200</u>	<u>-</u>	<u>(103,100)</u>	<u>780,100</u>
Total recovery bonds payable	<u>1,840,890</u>	<u>-</u>	<u>(75,830)</u>	<u>1,765,060</u>	<u>-</u>	<u>(243,160)</u>	<u>1,521,900</u>
Total tax secured bonds payable	<u>12,232,545</u>	<u>2,289,370</u>	<u>(1,215,090)</u>	<u>13,306,825</u>	<u>-</u>	<u>(478,995)</u>	<u>12,827,830</u>
2007 Series S-1 Building Aid							
Revenue 3.50% to 5.00%							
serial tax-exempt bonds							
maturing in varying							
installments through 2036	-	650,000	-	650,000	-	-	650,000
2007 Series S-2 Building Aid							
Revenue 3.50% to 5.00%							
serial tax-exempt bonds							
maturing in varying							
installments through 2037	-	650,000	-	650,000	-	-	650,000
2008 Series S-1 Building Aid							
Revenue 3.00% to 5.00%							
serial and term bonds							
maturing in varying							
installments through 2038	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>700,000</u>	<u>-</u>	<u>700,000</u>
Total building aid revenue bonds	<u>-</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>	<u>700,000</u>	<u>-</u>	<u>2,000,000</u>
payable							
Total bonds payable	12,232,545	<u>3,589,370</u>	<u>(1,215,090)</u>	<u>14,606,825</u>	<u>700,000</u>	<u>(478,995)</u>	14,827,830
Less: current portion of bonds							
payable	<u>(368,660)</u>			<u>(105,905)</u>			<u>(175,600)</u>
Bonds payable due after one							
year	\$ <u>11,863,885</u>			\$ <u>14,500,920</u>			\$ <u>14,652,230</u>

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

- (a) Variable rates are adjusted daily or weekly and represent the lowest rate of interest that would cause the adjustable rate bonds to have a market value equal to the principal amount. The rates cannot exceed 9%.
- (b) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are \$659.77 million maturing on November 1, 2026 and \$122.50 million maturing on November 1, 2028. Capital appreciation bonds (accrued value of \$112.36 million on November 1, 2011), maturing on November 1, 2029, are also callable. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 14% per annum. The callable bonds are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning November 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.
- (c) \$482.49 million of Fiscal 2003 Series B term bonds maturing on February 1, 2029 are callable on February 1, 2011. If these bonds are not called on February 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 10% per annum. Other bonds in this series callable on February 1, 2012 or later are those that mature on February 1, 2013, 2014 and 2015 with no change to the interest rate if not called. The Fiscal 2003 Series B Bonds maturing on February 1, 2029 are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning on February 1, 2011 at the option of the Authority in whole or in part at any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.
- (d) Auction rates are set weekly through auction. The rates cannot exceed 12%.

Included in bonds payable on June 30, 2008 and 2007 were \$32 million and \$234 million, respectively, of Future Tax Secured Bonds that were economically defeased on March 24, 2004, and the escrow deposited with the Authority's Trustee is recorded as an asset. These amounts were funded from the proceeds of the sale of Fiscal 2004 Series D Future Tax Secured Bonds.

On February 22, 2007, the Authority issued \$300 million of Fiscal 2007 Series B Future Tax Secured Bonds (refunding portion) and made an equity contribution from current revenue of \$4.9 million to advance refund \$309.14 million of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of \$10.8 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by \$18.3 million and obtained an economic benefit of \$12.4 million.

On June 28, 2007, the Authority defeased \$537.3 million of outstanding Future Tax Secured Bonds with current revenue of \$546.3 million. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral (as defined in the Authority's indenture) to provide for all future debt service on the defeased bonds. Refundings using Defeasance Collateral result in the refunded bonds being removed from reported bonds outstanding. This refunding resulted in an accounting gain of \$19.6 million.

On February 15, 2008, the Authority defeased \$745.0 thousand of outstanding Future Tax Secured Bonds with current revenue of \$723.02 thousand. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral (as defined in the Authority's indenture) to provide for all future debt service on the defeased bonds. The refunding using Defeasance Collateral resulted in the refunded bonds being removed from reported bonds outstanding. This refunding resulted in an accounting gain of \$22 thousand.

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The bonds refunded with Defeasance Collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2008 and 2007, the Authority had bonds refunded with Defeasance Collateral totaling \$5.07 and \$5.07 billion, respectively, of which \$3.38 billion and \$4.55 billion, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

NOTE 5 – BONDS PAYABLE (Continued)

Debt service requirements as of June 30, 2008, for future tax secured bonds, including recovery bonds, payable to their maturity are as follows:

	<u>Principal</u>	<u>Interest (a)</u>	<u>Total</u>
	----- (in thousands) -----		
Year ended June 30,			
2009	\$ 156,780	\$ 573,440	\$ 730,220
2010	153,915	566,617	720,532
2011	492,230	553,672	1,045,902
2012	597,860	591,735	1,189,595
2013	631,230	605,046	1,236,276
2014 to 2018	3,370,825	2,552,175	5,923,000
2019 to 2023	3,689,475	1,611,336	5,300,811
2024 to 2028	2,672,505	718,100	3,390,605
2929 to 2033	1,055,530	106,001	1,161,531
2034	<u>7,480</u>	<u>192</u>	<u>7,672</u>
	<u>\$ 12,827,830</u>	<u>\$ 7,878,314</u>	<u>\$20,706,144</u>

(a) Interest on the callable Fiscal 2003 Series A and Fiscal 2003 Series B term bonds which would convert to 14% and 10%, respectively, on the call date if not called, and interest on the callable Fiscal 2003 Series A capital appreciation bonds which would convert to 14% per annum if not called, are computed in this table at the 14% or 10% rates, as if those bonds were not called. Actual variable rates at June 30, 2008 averaged approximately 2.714% on tax-exempt bonds, 4.270% on taxable bonds and 3.348% on auction bonds, which are the rates used in this table. If variable interest is calculated at 5.00% on tax-exempt and 7.00% on taxable per annum (which are the rates utilized for retention), total interest would be increased to \$8.73 billion from the \$7.88 billion in the above table.

Debt service accounts have been established under the Authority's Indenture to provide security for the payment of interest on and principal of bonds outstanding. The principal and interest required to be paid are deposited into the applicable debt service account in the quarter preceding the payment due date.

Debt service requirements at June 30, 2008, for building aid revenue bonds payable to maturity are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
	----- (in thousands) -----		
Year ended June 30,			
2009	\$ 18,820	\$ 80,878	\$ 99,698
2010	30,025	94,159	124,184
2011	31,100	93,050	124,150
2012	36,405	91,709	128,114
2013	39,950	90,258	130,208
2014 to 2018	227,355	423,312	650,667
2019 to 2023	286,705	363,364	650,068
2024 to 2028	364,940	284,450	649,390
2929 to 2033	463,800	184,766	648,566
2034 to 2038	<u>500,900</u>	<u>62,690</u>	<u>563,590</u>
	<u>\$ 2,000,000</u>	<u>\$ 1,768,635</u>	<u>\$ 3,768,635</u>

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 5 – BONDS PAYABLE (Continued)

As of June 30, 2008 and 2007, the Authority maintained its required debt service accounts as follows:

	<u>June 30, 2008</u>		<u>June 30, 2007</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Required for future tax secured bonds	\$ 32,545	\$ 138,032	\$ 9,010	\$ 125,341
Required for BARBs	\$ 18,820	\$ 80,878	\$ -	\$ 62,208

The Authority held approximately \$ 542.68 million and \$785.21 million in excess of amounts required to be retained for future tax-secured bond debt service under the Indenture as of June 30, 2008 and 2007, respectively. The Authority held approximately \$145.65 million in excess of amounts required to be retained for future building aid bond debt service under the Indenture as of June 30, 2008. There was no excess held as of June 30, 2007.

NOTE 6 – BOND ANTICIPATION NOTES PAYABLE

Bond anticipation notes are recorded at the principal amount outstanding. During the fiscal year ended June 30, 2007, the Authority issued and retired \$600,000 of 2007 Fiscal Series 1 4.25% tax-exempt bond anticipation notes that matured June 20, 2007.

NOTE 7 – UNRESTRICTED GRANT FROM THE CITY OF NEW YORK

In fiscal year 2008, the Authority received an unrestricted grant from the City in the amount of \$545.75 million on June 30, 2008. These funds will be used to fund debt service requirements for future tax secured debt during the fiscal year ending June 30, 2009.

In fiscal year 2007, the Authority received an unrestricted grant from the City in the amount of \$1.26 billion on June 28, 2007. These funds were used to fund debt service requirements for future tax secured debt during the year ending June 30, 2008 to fund the cash defeasance escrow of \$546.33 million (used to defease \$537.30 million of tax secured bonds on June 28, 2007); for the early retirement of \$170.30 million of tax secured variable rate debt on September 4, 2007; and for the early retirement of tax secured variable rate debt on June 24, 2008.

NOTE 8 – IMPLEMENTATION OF GASB 48

The Authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues* ("GASB 48") in fiscal year 2008. GASB 48 establishes accounting and financial reporting standards for governmental entities that have exchanged an interest in expected cash flows from collecting specific receivables or specific future revenues, and established the criteria that are used to ascertain whether the exchange should be reported as a sale or as a collateralized borrowing.

The implementation of GASB 48 changed the accounting and financial reporting for the Authority's disbursements of BARBs proceeds to the City and receipt of building aid from New York State ("State") to the Authority pursuant to the assignment to the Authority by the City in fiscal year 2007 of building aid payments from the State to the Authority. The Authority retains sufficient building aid revenue to service the BARBs debt and to pay certain of its administrative expenses. Under the criteria established under GASB 48, this assignment of building aid revenue by the City to the Authority is considered a collateralized borrowing, due to the City's continuing involvement necessary for collection of the building aid. As a result of the provision of GASB 48, requiring retroactive application of its requirements to prior years, the Authority's fiscal year 2007 financial statements have been restated, resulting in a increase in the Authority's net assets as of June 30, 2007 of \$686.13 million as a result of the Authority reporting as an asset (Due from New York City - Future Building Aid) the cumulative amount it has distributed to the City for the educational facilities capital plan net of the cumulative amount of building aid it has retained. The effect of the implementation of GASB 48 on the fund financial statements is to report distributions to the City for its educational facilities capital program as an other financing use of funds, rather than as an expenditure, as these distributions are now considered as repayments of a borrowing, which are reported as an other financing use of funds.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**

NOTE 9 – ADMINISTRATIVE COSTS

The Authority's salaries, rent and expenditures related to carrying out the Authority's duties, including remarketing and liquidity fees not funded from bond proceeds or investment earnings, are funded from the personal income taxes and building aid revenue flowing through the Authority's accounts.

NOTE 10 – SUBSEQUENT EVENTS

- A. At its September 29, 2008 meeting, the Authority's Board of Directors passed a resolution authorizing the issuance of up to \$800 million of Building Aid Revenue Bonds, Fiscal 2009 Series S-1.
- B. The credit markets in the United States are experiencing a period of volatility and instability. Certain adjustable rate debt instruments issued by the Authority contain provisions that allow holders of the instruments to put the instruments back to the Authority. The Authority relies on its remarketing agents to remarket this debt and should the agent be unable to remarket this debt, the Authority has in place liquidity facilities from banks to support this debt. Through September 30, 2008, the Authority's liquidity facilities have not been drawn upon.