NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

ANNUAL REPORT 2002

STRENGTH STABILITY SECURITY

THE TRANSITIONAL FINANCE AUTHORITY FINANCES
A PORTION OF NEW YORK CITY'S CAPITAL IMPROVEMENT PLAN


WE ARE AUTHORIZED TO BORROW UP TO $11.5 BILLION

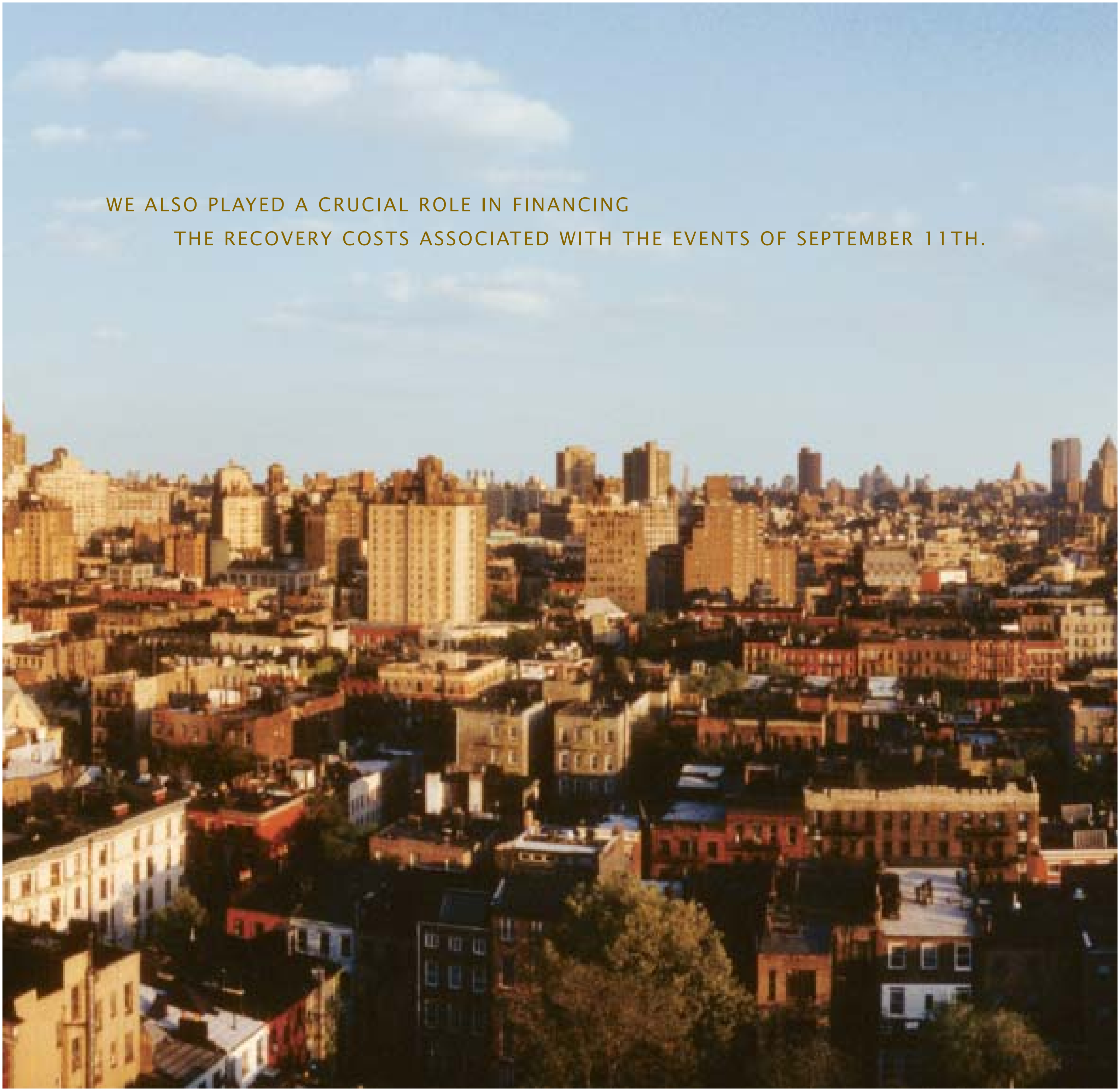
THROUGH THE ISSUANCE OF BONDS FOR CAPITAL PURPOSES

OUR STATUTORY REVENUES PROVIDE HIGH COVERAGE — APPROXIMATELY 6.8X

OVER THE YEARS, THE TFA HAS PROVEN TO BE A SUCCESSFUL BORROWING VEHICLE FOR NYC'S CAPITAL PROGRAM

BOND PROCEEDS ARE USED TO FUND THE ONGOING
CAPITAL PROGRAM OF NEW YORK CITY

WE ALSO PLAYED A CRUCIAL ROLE IN FINANCING
THE RECOVERY COSTS ASSOCIATED WITH THE EVENTS OF SEPTEMBER 11TH.



LETTER FROM OUR CHAIRMAN:

December 9, 2002

I am pleased to present the Fiscal Year 2002 annual report of the New York City Transitional Finance Authority (the "TFA"). This report contains complete audited financial information for the TFA's fifth fiscal year of operation, which began on July 1, 2001.

The TFA is a public benefit corporation which finances a portion of New York City's capital improvement plan. The law authorizing the creation of the NYC Transitional Finance Authority was enacted on March 5, 1997 (Chapter 16 of the Laws of 1997, the "Act"). The Act included governance by a Board of five directors consisting of the following officials of the City: the Director of Management & Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design & Construction, the Comptroller, and the Speaker of the City Council.

The TFA is authorized to borrow up to $11.5 billion through the issuance of bonds for capital purposes. In addition, the Act was amended in September, 2001 to permit the TFA to have outstanding an additional $2.5 billion of its bonds and notes to pay for any and all expenses related to the terrorist attack on New York City on September 11, 2001.

TFA bonds are payable from personal income tax revenues and if needed a portion of sales tax revenues collected in New York City. These revenues are collectively referred to as the "Statutory Revenues".

The TFA is an asset-backed credit, which combines structured finance methods with a traditional revenue source. The TFA's Statutory Revenues provide high debt service coverage and are legally separate from New York City, resulting in its high bond ratings and low interest costs.

The ratings of the TFA are Aa2/AA+/AA+ from Moody's Investors Service, Standard & Poor's and Fitch, Inc., respectively. As a result, the City's cost of financing its capital program has been reduced when compared to a similar amount of financing through its general obligation credit.

Bonds issued by the TFA are formally known as Future Tax Secured Bonds, referencing the Statutory Revenues. The Statutory Revenues, formerly City tax revenues, became revenues of the TFA pursuant to the Act. Personal income tax payments are now paid directly to the TFA. Payment of these revenues to the City is made by the TFA only after and to the extent that the TFA determines revenues to be in excess of its needs. Sales tax revenues are available to the TFA if required.

In October 2001, the TFA sold $1 billion in New York City Recovery Notes for costs related to or arising from the terrorist attack on New York City (the "City") of September 11, 2001. These one-year tax-exempt fixed-rate notes were permanently financed with TFA New York City Recovery Bonds in September 2002. In addition, in July 2002, the TFA sold an additional $1 billion in tax-exempt variable-rate New York City Recovery Bonds. Additional information about TFA activities subsequent to the end of Fiscal Year 2002 is included in the following Financial Highlights.

The City has used all of the proceeds from these sales to pay for costs relating to the events of September 11, 2001, including $1.5 billion of the proceeds in Fiscal Year 2003 for replacement of revenue losses from the terrorist attack on the City.

The TFA will complete its currently authorized borrowing of $11.5 billion in program bonds in Fiscal Year 2004. This includes the issuance of $1.2 billion of bonds to pay previously issued Bond Anticipation Notes (BANs) and $1.1 billion of new BANs in Fiscal 2003. The TFA indenture allows for additional issuance capacity for parity debt of $0.5 billion of program bonds, which would however require legislative approval. This amount does not include the $2.5 billion recovery bond capacity.

The TFA benefits City taxpayers through the low borrowing costs it brings the City. The asset-backed nature of the credit makes it stronger and higher-rated than the City general obligation debt, and the fact that it is legally separate decreases market saturation with New York City general obligation debt. In the last four fiscal years, the TFA has proven a successful borrowing vehicle for New York City's capital program, and has played a crucial role in financing the recovery costs associated with the terrorist attack on the City on September 11, 2001.

Respectfully submitted,

MARK PAGE
Chairman

SECURITIZATION FRAMEWORK

TAXPAYERS

PIT Collections | Sales Tax Collections

STATE DEPARTMENT OF TAXATION AND FINANCE

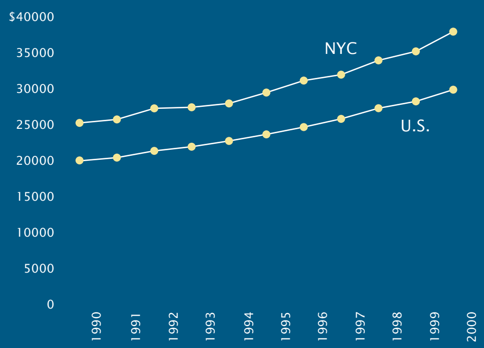
STATE COMPTROLLER

PIT Revenues | Sales Tax Revenues *(if necessary)*

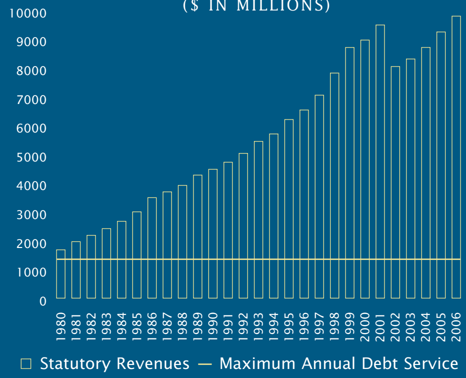
AUTHORITY TRUST

1ST	AUTHORITY SENIOR BONDHOLDERS & SENIOR AGREEMENTS
2ND	AUTHORITY OPERATING EXPENSES
3RD	AUTHORITY SUBORDINATE BONDHOLDERS & NOTEHOLDERS
4TH	THE CITY OF NEW YORK

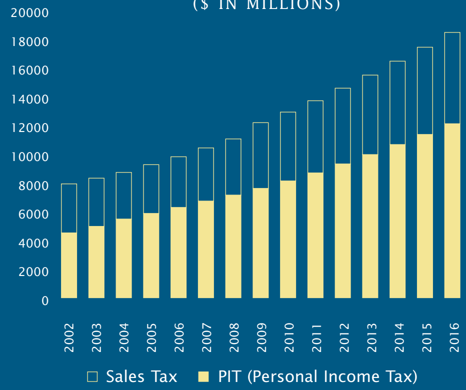
PERSONAL INCOME
NYC PER CAPITA V.S. U.S. AVERAGE



HISTORICAL COVERAGE OF COVENANTED
MAXIMUM ANNUAL DEBT SERVICE
($ IN MILLIONS)



STATUTORY REVENUES
UPDATED FOR ADOPTED BUDGET 2003
($ IN MILLIONS)



FINANCIAL HIGHLIGHTS:

In its fifth fiscal year of operation, the TFA issued $1 billion in tax-exempt and taxable fixed-rate and floating-rate bonds and $1.8 billion of Bond Anticipation Notes (BANs). Of the total $2.8 billion issued, $2.18 billion was sold competitively and $620 million was sold on a negotiated basis through its underwriting syndicate. Of the $1 billion in bonds issued, $200 million of bonds were taxable variable-rate bonds, and the remaining $800 million of bonds were tax-exempt fixed-rate bonds. In addition, the TFA issued $1 billion of New York City Recovery Notes. These one-year notes were sold on a negotiated basis through the TFA's underwriting syndicate.

The TFA's first bond sale in FY2002, Series A, was issued on July 10, 2001, and included $150 million of fixed-rate tax-exempt bonds. Yields ranged from 3.06% in the 2003 maturity to 5.30% in the 2031 maturity. This was the TFA's first competitive bond sale in its history.

In August, 2001, the TFA issued $600 million of BANs on a competitive basis. The 2002 Series 1 and 2 BANs included $400 million in tax-exempt fixed-rate notes and $200 million in taxable fixed-rate notes. The tax-exempt Series 1 BANs had a true interest cost (TIC) of 2.47% and the taxable Series 2 BANs had a TIC of 3.73%. These BANs matured on November 30, 2001.

Within weeks of the terrorist attack on New York City, the TFA issued $1 billion in New York City Recovery Notes. These notes received the highest retail participation of any New York City-related issue, with almost 40% of the notes sold during the retail order period. The Recovery Notes were sold on a negotiated basis at a yield of 2.13%.

The TFA's fourth transaction of the fiscal year was the issuance of FY 2002 Series 3 BANs, with a total par amount of $600 million on November 14, 2001. The tax-exempt fixed-rate Series 3 BANs were sold competitively at a TIC of 1.75% and matured on November 13, 2002.

The TFA's Fiscal 2002 Series B bond issue, with a total par amount of $620 million, was also issued on November 14, 2001. The Series B sale included $420 million fixed-rate tax-exempt bonds and $200 million variable-rate taxable bonds. Yields on this issue ranged from 2.25% in the 2003 serial maturity to 5.06% (insured) in the 2031 maturity.

The TFA's sixth transaction was the Fiscal 2002 Series 4 and 5 BANs, which included $500 million in tax-exempt notes and $100 million in taxable notes. The Series 4 tax-exempt notes were sold competitively at a TIC of 1.42% and the Series 5 taxable BANs were sold at a TIC of 2.47%.

The TFA's final transaction during Fiscal Year 2002 was the Fiscal 2002 Series C bond issue, which included $250 million of tax-exempt fixed-rate bonds and was sold competitively. Yields ranged from 2.73% in 2004 to 5.22% (insured) in 2032.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

**TO THE BOARD OF DIRECTORS OF
NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**

We have audited the accompanying financial statements of the governmental activities, the capital projects fund and the debt service fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2002 and 2001, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the capital projects fund and the debt service fund of the Authority as of June 30, 2002 and 2001, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis 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.

Grant Thornton LLP

New York, New York

September 20, 2002 (except for Note H, as to which the date is October 1, 2002)

OVERVIEW OF FINANCIAL STATEMENTS

The annual financial statements of the Authority consist of two parts—management's discussion and analysis (this section) and the basic financial statements.

Our discussion and analysis of the financial performance of the New York City Transitional Finance Authority (the "Authority") provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2002. Please read it in conjunction with the Authority's financial statements, which begin on page 15.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) 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") No. 34. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues and expenses are taken into account regardless of when cash is paid or received.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. They recognize revenue when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS

Restricted cash and cash equivalents increased by $614 million (554%), other assets decreased by $41 million (27%) and total assets increased by $573 million (219%). The increase in restricted cash and cash equivalents is due to the timing of the issuance of bonds or bond anticipation notes by the Authority and due to the timing of the Authority's payments to New York City for capital projects and for recovery costs related to and arising from the events on September 11, 2001. Thus at June 30, 2002, restricted funds available to transfer to New York City were $599 million more than at June 30, 2001.

Long-term liabilities increased by $888 million (12%), short-term liabilities increased by $2.255 billion (687%) and total liabilities payable increased by $3.143 billion (41%). The increase in long-term liabilities is from issuance of bonds during the fiscal year ended June 30, 2002. The increase in short-term debt was mainly from the issuance of bond anticipation notes, including $1 billion of "recovery notes" that was outstanding at June 30, 2002.

Personal income tax revenue decreased by $1.102 billion (20%) and investment earnings decreased by $0.9 million (4%). The decrease in personal income tax revenue is due to the general economic downturn and the economic effects of the events on September 11, 2001. The decrease in investment earnings is from lower interest rates during the year ended June 30, 2002.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF NET ASSETS (DEFICIT)
June 30, (in thousands)

	2002	2001
ASSETS		
Restricted cash and cash equivalents	$ 724,843	$ 110,911
Personal income tax receivable	65,011	110,181
Bond issue costs, net of amortization	45,325	41,511
Total assets	835,179	262,603
LIABILITIES		
Distributions payable to New York City capital program	17,025	13,975
Personal income tax payable to New York City	62,136	110,181
Accrued expenses	963	1,157
Accrued interest payable	124,334	85,244
Bond anticipation notes payable	2,200,000	—
Deferred interest rate cap revenue	23,092	—
Bonds payable		
Portion due within one year	178,185	117,535
Portion due after one year	8,110,480	7,268,475
Unamortized bond premium	50,197	26,910
Total liabilities	10,766,412	7,623,477
NET ASSETS (DEFICIT)		
Restricted for capital program	—	2,899
Restricted for debt service	110,888	92,880
Unrestricted deficit	(10,042,121)	(7,456,653)
Total deficit	$ (9,931,233)	$ (7,360,874)

The accompanying notes are an integral part of these statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF ACTIVITIES
Year ended June 30, (in thousands)

	2002	2001
Expenses		
General and administrative expenses	$ 4,038	$ 3,102
Distributions to New York City for		
Capital program	2,186,665	1,576,954
Recovery costs	457,832	—
Interest expense	386,670	344,385
Debt issue expense	4,940	3,226
Total expenditures	3,040,145	1,927,667
General Revenues		
Personal income tax revenues	4,444,921	5,546,545
Less remittances to New York City	(3,994,374)	(5,139,103)
Personal income tax revenues retained	450,547	407,442
Investment earnings	19,239	20,120
Total general revenues	469,786	427,562
Change in net assets	(2,570,359)	(1,500,105)
Deficit – beginning of year	(7,360,874)	(5,860,769)
Deficit – end of year	$ (9,931,233)	$ (7,360,874)

The accompanying notes are an integral part of these statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

BALANCE SHEET

Governmental Funds

June 30, 2002 (in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ 616,830	$ 108,013	$ 724,843
Personal income tax receivable	—	65,011	65,011
Total assets	$ 616,830	$ 173,024	$ 789,854
LIABILITIES AND FUND BALANCES			
Liabilities			
Bond anticipation notes payable	$ 2,200,000	$ —	$ 2,200,000
Distributions payable to New York City capital program	17,025	—	17,025
Accrued expenses	963	—	963
Personal income tax payable to New York City	—	46,136	46,136
Deferred personal income tax revenue	—	16,000	16,000
Total liabilities	2,217,988	62,136	2,280,124
Fund balances			
Deficit	(1,601,158)	—	(1,601,158)
Reserved for debt service	—	110,888	110,888
Total fund balance (deficit)	(1,601,158)	110,888	(1,490,270)
Total liabilities and fund balances	$ 616,830	$ 173,024	$ 789,854

The accompanying notes are an integral part of this statement.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
BALANCE SHEET
Governmental Funds
June 30, 2001 (in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ 18,031	$ 92,880	$ 110,911
Personal income tax receivable	—	110,181	110,181
Total assets	$ 18,031	$ 203,061	$ 221,092
LIABILITIES AND FUND BALANCES			
Liabilities			
Distributions payable to New York City capital program	$ 13,975	$ —	$ 13,975
Accrued expenses	1,157	—	1,157
Personal income tax payable to New York City	—	9,181	9,181
Deferred personal income tax revenue	—	101,000	101,000
Total liabilities	15,132	110,181	125,313
Fund balances			
Reserved for capital program	2,899	—	2,899
Reserved for debt service	—	92,880	92,880
Total fund balances	2,899	92,880	95,779
Total liabilities and fund balances	$ 18,031	$ 203,061	$ 221,092

The accompanying notes are an integral part of this statement.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year ended June 30, 2002 (in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
Revenues			
Personal income tax revenues	$ —	$ 4,529,921	$ 4,529,921
Less remittances to New York City	—	(4,079,374)	(4,079,374)
Personal income tax revenues retained	—	450,547	450,547
Investment earnings	16,460	2,779	19,239
Total revenues	16,460	453,326	469,786
Expenditures			
Interest expense	—	367,029	367,029
Principal amount of bonds retired	—	117,535	117,535
Costs of debt issuance	8,754	—	8,754
Distributions to New York City for			
Capital program	2,186,665	—	2,186,665
Recovery costs	457,832	—	457,832
General and administrative expenses	4,038	—	4,038
Total expenditures	2,657,289	484,564	3,141,853
Excess of expenditures over revenues	2,640,829	31,238	2,672,067
Other financing sources (uses)			
Principal amount of bonds issued	1,020,190	—	1,020,190
Bond premium, net of discount	42,736	—	42,736
Income from sale of interest rate cap	—	23,092	23,092
Transfers in (out)	(26,154)	26,154	—
Total other financing sources and uses	1,036,772	49,246	1,086,018
Net change in fund balances	(1,604,057)	18,008	(1,586,049)
Fund balances – beginning of year	2,899	92,880	95,779
Fund balances (deficit) – end of year	$ (1,601,158)	$ 110,888	$ (1,490,270)

The accompanying notes are an integral part of this statement.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
Governmental Funds
Year ended June 30, 2001 (in thousands)

	Capital Projects	Debt Service	Total Governmental Funds
Revenues			
Personal income tax revenues	$ —	$ 5,582,545	$ 5,582,545
Less remittances to New York City	—	(5,175,103)	(5,175,103)
Personal income tax revenues retained	—	407,442	407,442
Investment earnings	13,956	6,164	20,120
Total revenues	13,956	413,606	427,562
Expenditures			
Interest expense	—	344,428	344,428
Principal amount of bonds retired	—	73,970	73,970
Costs of debt issuance	9,502	—	9,502
Distributions to New York City for capital program	1,576,954	—	1,576,954
General and administrative expenses	3,102	—	3,102
Total expenditures	1,589,558	418,398	2,007,956
Excess of expenditures over revenues	(1,575,602)	(4,792)	(1,580,394)
Other financing sources (uses)			
Principal amount of bonds issued	1,536,825	—	1,536,825
Bond premium, net of discount	51,339	—	51,339
Transfers in (out)	(37,366)	37,366	—
Total other financing sources and uses	1,550,798	37,366	1,588,164
Net change in fund balances	(24,804)	32,574	7,770
Fund balances – beginning of year	27,703	60,306	88,009
Fund balances – end of year	$ 2,899	$ 92,880	$ 95,779

The accompanying notes are an integral part of this statement.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
RECONCILIATIONS OF THE STATEMENT OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, (in thousands)

	2002	2001
Total fund balance (deficit) – governmental funds	$ (1,490,270)	$ 95,779
Amounts reported for governmental activities in the statement of net assets are different because:		
Costs of debt issuance are reported as expenditures in governmental fund financial statements. However, in the statement of net assets, the costs of debt issuance are reported as capitalized assets and amortized over the lives of the debt.	45,325	41,511
Bond premiums are reported as other financing sources in the governmental financial statements. However, in the statement of net assets, bond premiums are reported as a component of bonds payable and amortized over the lives of the related debt.	(50,197)	(26,910)
Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental fund financial statements. However, in the statement of net assets, this amount is considered deferred revenue and is reported at fair value.	(23,092)	—
Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental fund financial statements but are reported in the statement of net assets. Those liabilities consist of:		
Bonds payable	(8,288,665)	(7,386,010)
Accrued interest on bonds	(124,334)	(85,244)
Personal income taxes due to the Authority at year-end but not collected within sixty days of year-end are recognized as deferred revenue in the governmental funds balance sheet. In the statements of net assets and changes in net assets, all personal income tax receivables are recognized as revenue and are included in net assets. The corresponding amount of personal income taxes payable to the City of New York is higher in the statement of net assets for this reason.		
Personal income tax payable to New York City	(16,000)	(101,000)
Deferred personal income tax revenue	16,000	101,000
Net assets (deficit) of governmental activities	$ (9,931,233)	$ (7,360,874)

The accompanying notes are an integral part of these statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

RECONCILIATIONS OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Years ended June 30, (in thousands)

	2002	2001
Net change in fund balances – total governmental funds	$ (1,586,049)	$ 7,770
Amounts reported for governmental activities in the statement of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statement of net assets.	(1,020,190)	(1,536,825)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	117,535	73,970
Governmental funds report costs of debt issuance as expenditures. However, in the statement of activities, the cost of debt issuance is amortized over the lives of the debt.	3,814	6,276
Governmental funds report bond premiums/discounts as other financing sources/uses. However, in the statement of activities, bond premiums/discounts are amortized over the lives of the debt as interest expense.	(23,287)	(44,831)
Governmental funds report revenue received from the sale of rate cap as other financing sources. However, in the statement of activities, this amount is considered deferred revenue until valuations allow for reporting of income.	(23,092)	—
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required.	(39,090)	(6,465)
Change in net assets of governmental activities	$ (2,570,359)	$ (1,500,105)

The accompanying notes are an integral part of these statements.

NOTE A – ORGANIZATION

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental agency 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, accordingly, is included in the City's financial statements.

The Authority was created by State legislation enacted in 1997 to issue and sell up to $7.5 billion in bonds and notes 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 the debt authorization by $4 billion to an aggregate amount of $11.5 billion and increased the amount of allowable variable rate debt from $750 million to $2.3 billion. On September 13, 2001, the State Legislature increased the financing capacity of the Authority by $2.5 billion to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center ("Recovery Costs"). The State Legislature has authorized the Authority to issue debt payable solely from State or Federal aid received on account of the disaster that is not limited in principal amount.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB No. 34. The statements of net assets (deficit) and the statements 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. They recognize revenue 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 unmatured interest on bonds payable, which is recognized when due. The governmental funds consist of the Capital Projects Fund, which accounts for resources to be transferred to the City's capital program and supports the operations of the Authority, and the Debt Service Fund, which accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt.

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, discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is 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.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the individual governmental fund financial statements.

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 debt and pay administrative expenses. Funds for Bond debt service are required to be set aside for debt service prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City.

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 and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C – BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), the Authority is authorized to issue $11.5 billion of bonds and notes for capital purposes ("Future Tax Secured Bonds" and "Bond Anticipation Notes," respectively). As of June 30, 2002, the Authority has issued $9.695 billion of Future Tax Secured Bonds and Bond Anticipation Notes for capital purposes. As of such date, the Authority has outstanding $8,288,665 of Future Tax Secured Bonds and $1.2 billion of Bond Anticipation Notes.

In addition, the Act permits the Authority to have outstanding $2.5 billion of bonds and notes ("Recovery Notes") for costs related to or arising from the September 11, 2001 attack on the World Trade Center. As of June 30, 2002, the Authority has outstanding $1 billion of Recovery Notes.

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 bonds. The Authority retains personal income taxes in an amount sufficient to service its debt and pay its operating expenditures, and remits the difference to the City. The Authority has no taxing power.

The Authority funds its debt service requirements and 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 after such amounts required by the Municipal Assistance Corporation are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. The Authority periodically certifies to its bond trustee the amount of funding it requires. Net collections of personal income taxes not required by the Authority are paid by the Authority to the City. No sales tax revenues were received or required during fiscal 2002 and 2001.

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

(in thousands)	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
1998 Fiscal Series A				
4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	$ 618,105	$ —	$ (16,910)	$ 601,195
1998 Fiscal Series B				
4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	626,295	—	(12,565)	613,730
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	648,660	—	(14,120)	634,540
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	71,540	—	(1,960)	69,580
Variable rate tax-exempt bonds due in 2028 (a)	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	350,255	—	(10,220)	340,035
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	35,385	—	(4,845)	30,540
Variable rate tax-exempt bonds due in 2028 (a)	500,000	—	—	500,000

NOTE C (continued)

(in thousands)	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 405,460	$ —	$ (6,430)	$ 399,030
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	35,635	—	(2,860)	32,775
Variable rate tax-exempt bonds due in 2028 (a)	150,000	—	—	150,000
1999 Fiscal Series C				
3.5% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2029	454,145	—	(4,860)	449,285
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	38,765	—	(2,495)	36,270
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2019	560,000	—	—	560,000
6.00% to 6.75% serial taxable bonds maturing in varying installments through 2005	40,000	—	(11,135)	28,865
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	560,000	—	—	560,000
5.90% to 7.125% serial taxable bonds maturing in varying installments through 2005	40,000	—	(9,755)	30,245
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2020	573,405	—	(4,935)	568,470
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2006	41,535	—	(5,580)	35,955
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2024	417,665	—	(8,865)	408,800
Variable rate tax-exempt bonds due in 2030 (a)	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	415,000	—	—	415,000
Variable rate tax-exempt bonds due in 2031 (a)	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	404,160	—	—	404,160
Variable rate tax-exempt bonds due in 2032 (a)	100,000	—	—	100,000

NOTE C (continued)

(in thousands)	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
2002 Fiscal Series A				
4% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	$ —	$ 150,000	$ —	$ 150,000
2002 Fiscal Series B				
3.5% to 5% serial and term tax-exempt bonds maturing in varying installments through 2031	—	419,235	—	419,235
3.4% to 3.52% serial and term taxable bonds maturing in varying installments through 2004	—	955	—	955
Variable rate taxable bonds due in 2032 (a)	—	200,000	—	200,000
2002 Fiscal Series C				
4.25% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2032	—	250,000	—	250,000
Total bonds payable	$ 7,386,010	$ 1,020,190	$ (117,535)	$ 8,288,665

(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%.

Debt service requirements at June 30, 2002, for bonds payable to maturity are as follows:

(in thousands)	Principal	Interest (b)	Total
Year ended June 30,			
2003	$ 178,185	$ 379,544	$ 557,729
2004	207,150	373,335	580,485
2005	222,460	363,263	585,723
2006	232,680	352,437	585,117
2007	247,645	341,232	588,877
2008 to 2012	1,439,120	1,505,200	2,944,320
2013 to 2017	1,686,740	1,091,046	2,777,786
2018 to 2022	1,697,655	660,059	2,357,714
2023 to 2027	1,541,935	317,995	1,859,930
2028 to 2032	835,095	52,209	887,304
	$ 8,288,665	$ 5,436,320	$ 13,724,985

(b) Actual variable rates at June 30, 2002 averaged approximately 1.5%, which is the rate used in this table. If variable interest is calculated at 5% per annum, which is the rate utilized for retention, the total interest would be $6,487,225.

NOTE C (continued)

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

At June 30, 2002 and 2001, the Authority maintained its required debt service accounts totaling $106,013,000 and $92,880,000, respectively, of which $29,415,000 and $28,045,000 were for principal retirement, respectively, and $76,598,000 and $64,835,000 were for interest payments, respectively.

In addition, at June 30, 2002, $2,000,000 was retained for cost of issuance expenditures.

NOTE D – BOND ANTICIPATION NOTES PAYABLE

Bond anticipation notes are recorded at the principal amount outstanding and consist of the following:

(in thousands)	Balance at June 30, 2001	Issued	Retired	Balance at June 30, 2002
2002 Series A Recovery Notes				
3.25% tax-exempt bond anticipation notes maturing October 2, 2002	$ —	$ 1,000,000	$ —	$ 1,000,000
2002 Fiscal Series 1				
5% tax-exempt bond anticipation notes maturing November 30, 2001	—	400,000	(400,000)	—
2002 Fiscal Series 2				
4% taxable bond anticipation notes maturing November 30, 2001	—	200,000	(200,000)	—
2002 Fiscal Series 3				
2.75% tax-exempt bond anticipation notes maturing November 13, 2002	—	600,000	—	600,000
2002 Fiscal Series 4				
2.5% tax-exempt bond anticipation notes maturing February 26, 2003	—	500,000	—	500,000
2002 Fiscal Series 5				
3% taxable bond anticipation notes maturing February 26, 2003	—	100,000	—	100,000
Total bond anticipation notes payable	$ —	$ 2,800,000	$ (600,000)	$ 2,200,000

NOTE E – CASH AND CASH EQUIVALENTS

The Authority's cash and cash equivalents are currently limited to bank deposits and commercial paper. At June 30, 2002, the Authority's cash and cash equivalents consisted of bank deposits of approximately $280,000 and commercial paper of approximately $724,563,000. At June 30, 2001, the Authority's cash and cash equivalents consisted of bank deposits of approximately $643,000 and commercial paper of approximately $110,268,000. All of the Authority's investments are classified as cash and cash equivalents because they have an original maturity date of three months or less. Accordingly, the Authority values its investments at cost plus accrued interest, which approximates market.

The Authority's commercial paper is held by the Authority's agent in the Authority's name. Bank deposits up to $100,000 were insured by the Federal Deposit Insurance Corporation. At June 30, 2002 and 2001, the carrying amounts of bank deposits were approximately $280,000 and $643,000, respectively, and the bank balances were approximately $370,000 and $845,000, respectively.

NOTE F – DEFERRED INTEREST RATE CAP REVENUE

On June 20, 2002, the Authority entered into three interest rate cap agreements with the New York City Housing Development Corporation ("HDC") (a component unit of the City of New York) relating to certain variable rate bonds issued by HDC. Under the agreements, the Authority will pay to HDC the amount by which the three-month LIBOR rate exceeds 7.35%, up to 14.85% (a maximum exposure of 7.50%), on a notional amount of $198,995,000 at June 30, 2002. The Authority will also pay to HDC the amount by which the three-month LIBOR rate exceeds 4.85% through April 30, 2007 and 7.35% thereafter (but not in excess of 14.85%), on a notional amount of $135,400,000 at June 30, 2002. Notional amounts will amortize over the life of the interest rate cap agreements by scheduled principal payments on the bonds. The bonds covered by the agreements mature serially through November 2032.

At June 30, 2002, the $23.092 million received from HDC for these agreements has been reported as deferred revenue in the Authority's statement of net assets and as an other financing source in the governmental funds' statement of revenues, expenditures and changes in fund balances. In future years, the carrying amount of these agreements reported in the statement of net assets will be adjusted to their fair value and the change will be reported as revenue or expense in the statement of activities. Any amounts paid under the agreements will be reported as an expense/expenditure in the statement of activities and the governmental funds' statement of revenues, expenditures and changes in fund balances.

NOTE G – 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 cost of issuance, are funded from the personal income taxes flowing through the Authority's accounts.

NOTE H – SUBSEQUENT EVENTS

On July 2, 2002, the Authority issued $1,239,894,143 of its Series 2003A bonds. Proceeds of those bonds were used to defease $1,229,090,000 of bonds which were outstanding at June 30, 2002.

On July 11, 2002, the Authority converted $322,500,000 of Series 1999A&B bonds from floating rate to fixed coupon bonds.

On July 11, 2002, the Authority issued $480,000,000 of its New York City Recovery Bonds, Series 2003-1. On September 10, 2002, the Authority issued $520,000,000 of its New York City Recovery Bonds, Series 2003-2.

On August 28, 2002, the Authority issued $750,000,000 Series 2003B Bonds ($673,830,000 Tax Exempt and $76,170,000 Taxable). Those funds were used to defease $732,760,000 of bonds which were outstanding at June 30, 2002.

On October 1, 2002, the Authority issued $1,028,705,000 of its New York City Recovery Bonds, Series 2003-3 which were used to refund the $1 billion of its New York City Recovery Notes maturing October 2, 2002.

DIRECTORS

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William C. Thompson, Jr. *Comptroller of the City*

Kenneth R. Holden *Commissioner of the Department of Design and Construction of the City*

A. Gifford Miller *Speaker of the Council*

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Alan L. Anders *Treasurer*

Marjorie E. Henning *Secretary*

Prescott D. Ulrey *General Counsel*

Lawrence R. Glantz *Comptroller*

Wei-Li Pai *Deputy Treasurer*

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