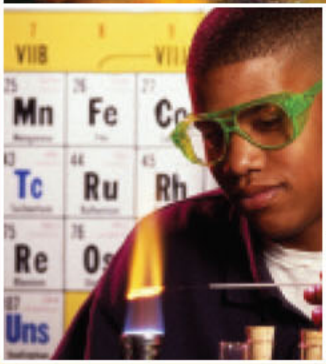
2003 Annual Report



New York City
Transitional Finance Authority

LETTER FROM THE CHAIRMAN

December 5, 2003

I am pleased to present the Fiscal Year 2003 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, 2002.

The TFA is a public benefit corporation whose purpose is to finance a portion of New York City's capital improvement plan. The New York State Legislature approved the law authorizing the creation of the New York City Transitional Finance Authority 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 direct 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 has been determined to be separate from the City and New York State in a bankruptcy analysis and enjoys high coverage of its debt service provided by the Statutory Revenues. The ratings of the TFA bonds are Aa2/AA+/AA+ from Moody's Investors Service, Standard & Poor's and Fitch Ratings, 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.

The TFA is an asset-backed credit, which combines structured finance methods with a traditional revenue source. The strength of the TFA is that it's Statutory Revenues provide high coverage and are legally separate from New York City, enabling it to earn high bond ratings and low interest costs.

Bonds issued by the TFA are formally known as Future Tax Secured Bonds, referencing the Statutory Revenues. The Statutory Revenues, formerly City tax revenues, were transformed by the Act into revenues of the TFA. 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.

The New York State constitution limits the amount of debt a municipality may incur to a value not greater than 10 percent of the five-year average full value of taxable real estate in its jurisdiction. The City and the State developed the TFA in an effort to address the City's ongoing need for continued capital borrowing beyond the general obligation financing capacity. At the time that the constitutional debt limit became law in New York State, property taxes represented approximately 95% of all revenues in New York City. With the changes in tax law and diversification of revenue sources that occurred in the ensuing decades, property taxes now represent about one-third of the City's tax revenues. Yet the debt limit of a different era remains in effect under New York State law. This limit is defined as $35.993 billion for New York City in Fiscal Year 2003, the reporting year.

The TFA will complete its currently authorized borrowing of $11.5 billion in program bonds in Fiscal Year 2004. 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 five fiscal years, the TFA has proven a successful borrowing vehicle for New York City's capital program, and continues to play 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

FINANCIAL HIGHLIGHTS:

The TFA's first bond sale in FY2003, Fiscal 2003 Series A, was issued on July 2, 2002, and included $1.28 billion of fixed-rate and step-coupon tax-exempt refunding bonds. Yields ranged from 1.13% in the 2002 maturity to 4.44% in the 2014 maturity.

On July 11, 2002, the TFA issued $480 million of tax-exempt variable-rate new money New York City Recovery Bonds at an initial yield of 1.20%.

The TFA's third transaction of the fiscal year was the issuance of Fiscal 2003 Series B bonds with a total par amount of $750 million on August 28, 2002. The tax-exempt fixed-rate and step-coupon refunding bonds had yields ranging from 1.15% in 2003 to 4.19% in 2015.

The TFA's fourth transaction of the year was the variable-rate Fiscal 2003 Series 2 New York City Recovery Bonds, with a total par amount of $520 million, issued on September 10, 2003, at an average yield of 1.34% initially.

The TFA's fifth transaction of the year was the $1.027 billion Fiscal 2003 Series 3 New York City Recovery bonds, which permanently financed previously issued and outstanding New York City Recovery BANs, and which included $883 million in tax-exempt VRDBs and $143 million in tax exempt fixed-rate bonds. The Series 3 fixed-rate bonds had yields ranging from 1.66% in 2004 to 2.56% in 2007 and were issued on October 1, 2002. The VRDBs had an initial yield of 1.70%.

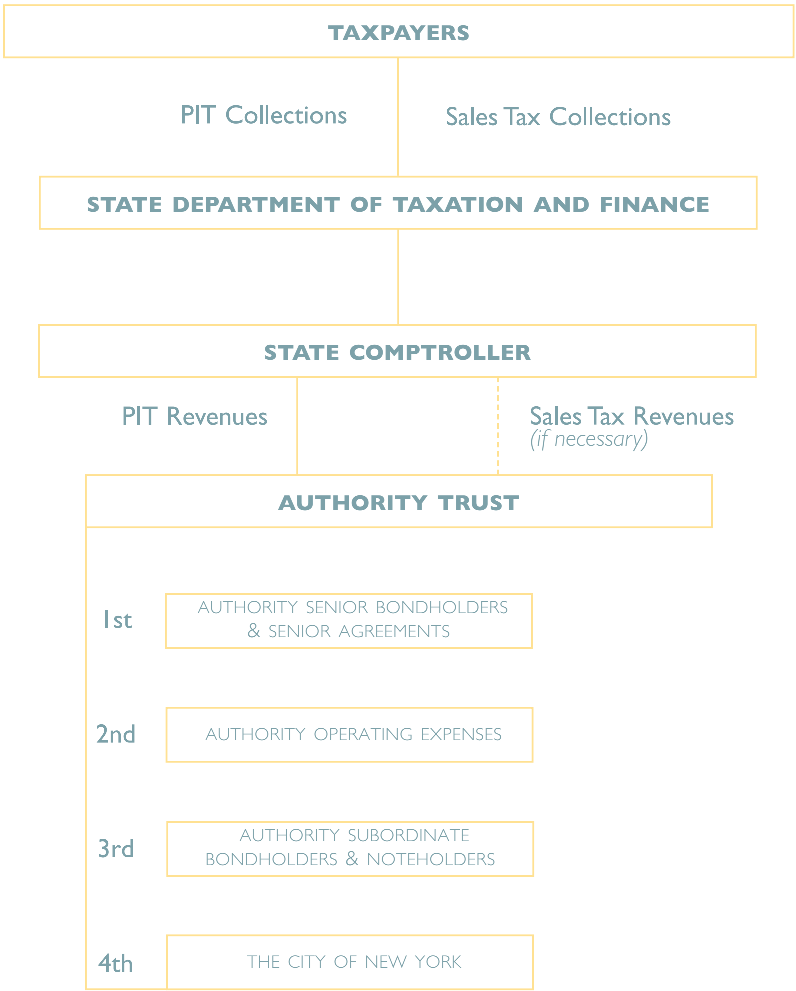
The TFA's sixth transaction of the year was $592 million of Fiscal 2003 Series C bonds, issued on November 7, 2002. The tax-exempt fixed-rate Series C bonds permanently financed outstanding BANs, with yields ranged from 1.62% in 2003 to 5.00% in 2025.

The TFA's seventh transaction of the year was the Fiscal 2003 Series 1 new money BAN issue, which included $555 million of tax-exempt fixed-rate BANs. The BANs were sold competitively and issued on November 7, 2002 at a TIC of 1.63%.

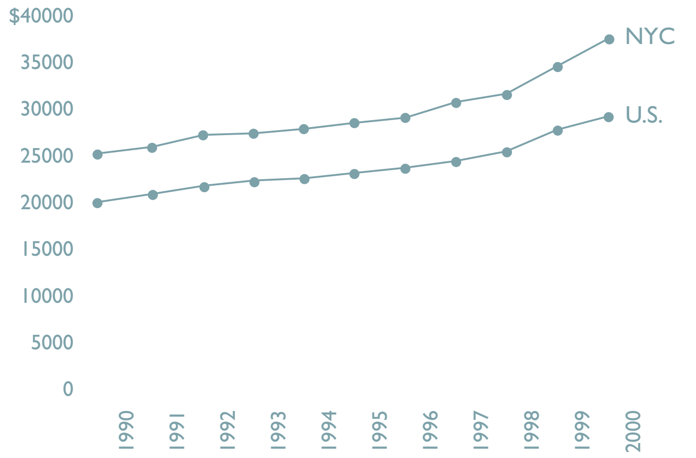
On February 20, 2003, the TFA issued $604 million of Fiscal 2003 Series D bonds to permanently finance outstanding BANs, including $501 million in tax-exempt fixed-rate bonds and $103 million of taxable bonds. Yields ranged from 1.09% in 2004 to 5.04% in 2031.

Also on February 20, 2003, the TFA issued $555 million of Fiscal 2003 Series 2 new money tax-exempt fixed rate BANs competitively at a TIC of 1.06%.

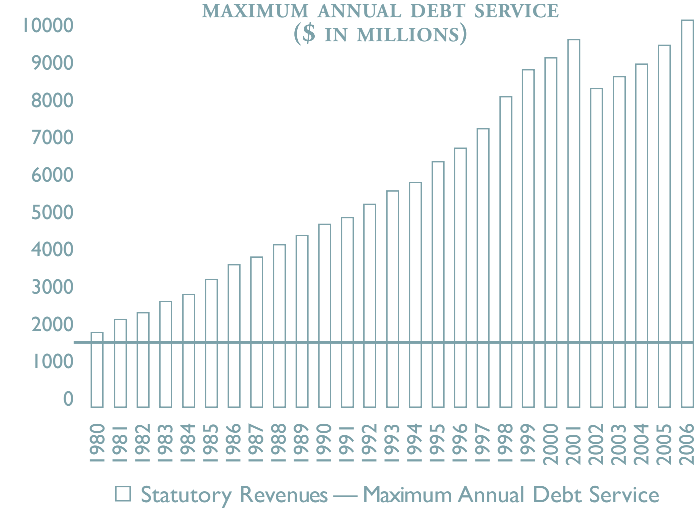
On April 10, 2003, the TFA issued $550 million of Fiscal 2003 Series E new money fixed-rate tax-exempt bonds. Yields ranged from 1.49% in 2005 to 4.92% in 2033.



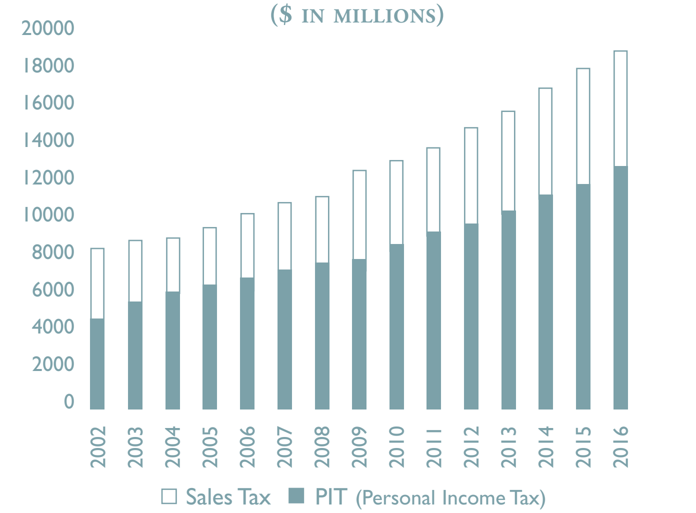
PERSONAL INCOME
NYC PER CAPITA V.S. U.S. AVERAGE



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



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



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, 2003 and 2002, 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, 2003 and 2002, 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 5, 2003

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, 2003. Please read it in conjunction with the Authority's financial statements, which begin on page 14.

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") Statement No. 34, *Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments*. 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 funds 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.

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

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - ENTITY-WIDE FINANCIAL STATEMENTS

Total assets increased by $119 million. Restricted cash and cash equivalents decreased by $587 million, restricted investments increased by $117 million, unrestricted cash and cash equivalents increased by $624 million and other assets decreased by $35 million.

$479 million of the $587 million decrease in restricted cash and cash equivalents is due to the timing of the issuance of bonds or bond anticipation notes by the Authority and the timing of the Authority's payments to New York City for capital projects and for recovery costs relating to and arising from the events on September 11, 2001. Thus, at June 30, 2003, the amount available to transfer to New York City was $479 million less than at June 30, 2002. $108 million of the decrease represents debt service funds which were cash and cash equivalents at June 30, 2002, but at June 30, 2003 the debt service funds were in restricted investments having an original maturity date of more than three months.

An unrestricted $624 million grant from New York City on June 30, 2003 is in unrestricted cash and cash equivalents.

Total liabilities increased by $2.6 billion (24%). Long-term bonds payable increased by $3.7 billion and short-term bonds payable decreased by $1.1 billion. The increase in long-term bonds payable is from issuance of $5.8 billion of bonds during the fiscal year ended June 30, 2003, of which $2.2 billion was used to pay off bond anticipation notes, $2.0 billion was issued to advance refund bonds and $1.6 billion was issued for reimbursement to New York City for capital project costs and recovery costs. The decrease in short-term debt was comprised of repayment of $2.2 billion of bond anticipation notes and the issuance of $1.1 billion of new bond anticipation notes for reimbursement to New York City for capital projects.

Total general revenues increased by $706 million (150%). $624 million of the increase was from an unrestricted grant from New York City, $86 million was an increase of personal income taxes retained for increased costs, investment earnings decreased by $13 million and income from sale of rate cap increased by $9 million. The decrease in investment earnings is from lower interest rates during the year ended June 30, 2003 and less investments during 2003.

Total program expenses increased by $617 million (20%). The distributions to New York City for its capital program decreased by $594 million, and the distribution for recovery costs increased by $1.107 billion. Interest expense increased by $85 million due to the increased debt outstanding, general and administrative expenses increased by $5 million mainly for liquidity and remarketing fees, and other expenses increased by $14 million.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Total assets increased by $104 million. Restricted cash and cash equivalents decreased by $587 million, restricted investments increased by $117 million, unrestricted cash and cash equivalents increased by $624 million and other assets decreased by $49 million.

Total liabilities decreased by $1.149 billion (50%), of which $1.090 billion was the reduction in bond anticipation notes that were paid with the proceeds from the issuance of long-term debt and other liabilities decreased by $59 million.

Total revenues increased by $697 million (148%). $624 million of the increase was from an unrestricted grant from New York City, $86 million was an increase of personal income taxes retained for increased costs, and investment earnings decreased by $13 million.

Expenditures increased by $633 million (20%). The distributions to New York City for its capital program decreased by $594 million, and the distribution for recovery costs increased by $1.107 billion. Interest expense increased by $101 million, general and administrative expenses increased by $5 million and other expenses increased by $14 million.

Other financing sources increased by $2.8 billion primarily due to the principal amount of bonds issued in fiscal year 2003.

New York City Transitional Finance Authority

STATEMENTS OF NET ASSETS (DEFICIT)

JUNE 30 (IN THOUSANDS)

	2003	2002
ASSETS		
Restricted cash and cash equivalents	$ 137,543	$ 724,843
Restricted investments	116,702	–
Unrestricted cash and cash equivalents	624,000	–
Personal income tax receivable	15,949	65,011
Unamortized bond issuance costs	59,777	45,325
Total assets	953,971	835,179
LIABILITIES		
Distributions payable to New York City capital program	2,695	17,025
Personal income tax payable to New York City	15,949	62,136
Accrued expenses	2,541	963
Accrued interest payable	129,680	124,334
Bond anticipation notes payable	1,110,000	2,200,000
Deferred interest rate cap revenue	13,720	23,092
Bonds payable		
Portion due within one year	184,925	178,185
Portion due after one year	11,839,335	8,110,480
Unamortized deferred bond refunding costs	(137,214)	–
Unamortized bond premium	204,754	50,197
Total liabilities	13,366,385	10,766,412
NET ASSETS (DEFICIT)		
Restricted for capital program	134,754	599,805
Deficit	(12,547,168)	(10,531,038)
Total deficit	$ (12,412,414)	$ (9,931,233)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30 (IN THOUSANDS)

	2003	2002
EXPENSES		
General and administrative expenses	$ 9,390	$ 4,038
Distributions to New York City for		
Capital program	1,592,932	2,186,665
Recovery costs	1,564,884	457,832
Amortization of deferred bond refunding costs	12,529	–
Interest expense	471,420	386,670
Amortization of debt issuance expense	5,953	4,940
Total program expenses	3,657,108	3,040,145
GENERAL REVENUES		
Personal income tax revenue	4,455,749	4,444,921
Less remittances to New York City	(3,918,947)	(3,994,374)
Personal income tax revenue retained	536,802	450,547
Unrestricted grant from New York City	624,000	–
Income from sale of rate cap	9,372	–
Investment earnings	5,753	19,239
Total general revenues	1,175,927	469,786
Change in net assets	(2,481,181)	(2,570,359)
DEFICIT - BEGINNING OF YEAR	(9,931,233)	(7,360,874)
DEFICIT - END OF YEAR	$ (12,412,414)	$ (9,931,233)

The accompanying notes are an integral part of these statements.

New York City Transitional Finance Authority

BALANCE SHEET

Governmental Funds

JUNE 30, 2003 (IN THOUSANDS)

	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ 137,449	$ 94	$ 137,543
Unrestricted cash and cash equivalents	–	624,000	624,000
Restricted investments	–	116,702	116,702
Personal income tax receivable	–	15,949	15,949
Total assets	$ 137,449	$ 756,745	$ 894,194
LIABILITIES AND FUND BALANCES			
Liabilities			
Bond anticipation notes payable	$ 1,110,000	–	$ 1,110,000
Distributions payable to New York City capital program	2,695	–	2,695
Accrued expenses	2,541	–	2,541
Personal income tax payable to New York City	–	15,949	15,949
Total liabilities	1,115,236	15,949	1,131,185
Fund balances			
Deficit	(977,787)	–	(977,787)
Reserved for debt service	–	116,796	116,796
Unrestricted funds	–	624,000	624,000
Total fund balance (deficit)	(977,787)	740,796	(236,991)
Total liabilities and fund balances	$ 137,449	$ 756,745	$ 894,194

The accompanying notes are an integral part of this statement.

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

STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES

Governmental Funds

YEAR ENDED JUNE 30, 2003 (IN THOUSANDS)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ –	$ 4,489,749	$ 4,489,749
Less remittances to New York City	–	(3,952,947)	(3,952,947)
Personal income tax revenue retained	–	536,802	536,802
Unrestricted grant from New York City	–	624,000	624,000
Investment earnings	3,155	2,598	5,753
Total revenues	3,155	1,163,400	1,166,555
EXPENDITURES			
Interest expense	–	467,803	467,803
Principal amount of bonds retired	–	107,875	107,875
Costs of debt issuance	20,460	-	20,460
Refunding bond issuance costs	-	11,658	11,658
Distributions to New York City for			
Capital program	1,592,932	–	1,592,932
Recovery costs	1,564,884	–	1,564,884
General and administrative expenses	9,390	–	9,390
Total expenditures	3,187,666	587,336	3,775,002
Excess of expenditures over revenues	3,184,511	(576,064)	2,608,447
OTHER FINANCING SOURCES (USES)			
Principal amount of bonds issued	3,772,565	–	3,772,565
Bond premium, net of discount	75,765	–	75,765
Refunding bond proceeds	–	2,142,187	2,142,187
Payments to refunded bond escrow holder	–	(2,128,791)	(2,128,791)
Transfers in (out)	(40,448)	40,448	–
Total other financing sources	3,807,882	53,844	3,861,726
Net change in fund balances	623,371	629,908	1,253,279
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	(1,601,158)	110,888	(1,490,270)
FUND BALANCES (DEFICIT) - END OF YEAR	$ (977,787)	$ 740,796	$(236,991)

The accompanying notes are an integral part of this statement.

New York City Transitional Finance Authority

STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES

Governmental Funds

YEAR ENDED JUNE 30, 2002 (IN THOUSANDS)

	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ –	$ 4,529,921	$ 4,529,921
Less remittances to New York City	–	(4,079,374)	(4,079,374)
Personal income tax revenue 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	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.

RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET ASSETS (DEFICIT)

JUNE 30 (IN THOUSANDS)

	2003	2002
Total fund balance (deficit) - governmental funds	$ (236,991)	$ (1,490,270)
Amounts reported for governmental activities in the statements of net assets (deficit)are different because:		
Costs of debt issuance are reported as expenditures in governmental funds financial statements. However, in the statements of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the lives of the debt.	59,777	45,325
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.	(204,754)	(50,197)
Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), this amount is considered deferred revenue and is reported at fair value.	(13,720)	(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 funds financial statements but are reported in the statements of net assets (deficit). Those liabilities consist of:		
Bonds payable	(12,024,260)	(8,288,665)
Accrued interest on bonds	(129,680)	(124,334)
Costs of bond refunding are reported as expenditures in governmental funds financial statements. However, in the statements 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.	137,214	–
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 sheets. In the statements of net assets (deficit) 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 statements of net assets (deficit) for this reason.		
Personal income tax payable to New York City	–	(16,000)
Deferred personal income tax revenue	–	16,000
Net assets (deficit) of government activities	$ (12,412,414)	$ (9,931,233)

The accompanying notes are an integral part of these statements.

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

YEARS ENDED JUNE 30 (IN THOUSANDS)

	2003	2002
Net change in fund balances - total governmental funds	$ 1,253,279	$(1,586,049)
Amounts reported for governmental activities in the statements of activities are different because:		
Bond refunding proceeds and payments to refunding 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).	(13,396)	–
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.	(871)	–
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statements of net assets (deficit).	(3,772,565)	(1,020,190)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statements of net assets (deficit).	107,875	117,535
Governmental funds report costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the lives of the debt.	14,507	3,814
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 debt as interest expense.	(47,132)	(23,287)
Governmental funds report revenue received from the sale of rate cap as other financing sources. However, in the statements of activities, this amount is considered deferred revenue until valuations allow for reporting of income.	9,372	(23,092)
Interest expense is reported in the statements of activities on the accrual basis, but interest is reported as an expenditure in governmental funds when outlay of financial resources is required.	(32,250)	(39,090)
Change in net assets of governmental activities	$ (2,481,181)	$ (2,570,359)

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 Governmental Accounting Standards Board Statement 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. Certain reclassifications have been made to the 2002 amounts to conform with the classifications in the statement of net assets for 2003.

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 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 Recovery Costs and supports the operations of the Authority, and consist of 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.

Deferred bond refunding costs represent the accounting loss incurred in advance refundings of outstanding bonds. The deferred bond refunding costs are amortized over the lesser of the remaining life of the old debt or the life of the new debt.

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

Deferred revenue from sales of interest rate cap agreements reported in the statements of net assets (deficit) are adjusted to their fair value at June 30 each year and the change in their fair value is reported as revenue or expense in the statements of activities. Any amounts paid under the agreements will be reported as an expense/expenditure in the statements of activities and the governmental funds statements of revenues, expenditures and changes in fund balances.

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 and have outstanding $11.5 billion of bonds and notes for capital purposes ("Future Tax Secured Bonds" and "Bond Anticipation Notes," respectively). As of June 30, 2003, the Authority has outstanding debt of $11.1 billion comprised of $10 billion of Future Tax Secured Bonds and $1.1 billion of Bond Anticipation Notes.

In addition, the Act permits the Authority to have outstanding $2.5 billion of bonds ("Recovery 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, 2003, the Authority has outstanding $2 billion of Recovery Bonds. As of June 30, 2002, the Authority had 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 2003 and 2002.

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

	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
	{in thousands}			
1998 FISCAL SERIES A				
4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 601,195	$ –	$ (357,455)	$ 243,740
1998 FISCAL SERIES B				
4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	613,730	–	(13,075)	600,655
1998 FISCAL SERIES C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	634,540	–	(34,625)	599,915
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	69,580	–	–	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 invarying installments through 2016	340,035	–	(10,595)	329,440
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	30,540	–	(5,105)	25,435
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026 (b)	–	222,500	–	222,500
Variable rate tax-exempt bonds due in 2028 (a) (b)	500,000	(222,500)	–	277,500

NOTE C (CONTINUED)	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
	{in thousands}			
1999 FISCAL SERIES B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	$399,030	$ –	$ (6,640)	$ 392,390
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	32,775	–	(3,305)	29,470
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027 (b)	–	100,000	–	100,000
Variable rate tax-exempt bonds due in 2028 (a) (b)	150,000	(100,000)	–	50,000
1999 FISCAL SERIES C				
3.50% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	449,285	–	(138,885)	310,400
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	36,270	–	(3,850)	32,420
2000 FISCAL SERIES A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	560,000	–	(462,770)	97,230
6.00% to 6.75% serial taxable bonds maturing in varying installments through 2003	28,865	–	(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	–	(354,765)	205,235
5.90% to 7.125% serial taxable bonds maturing in varying installments through 2003	30,245	–	(29,290)	955
2000 FISCAL SERIES C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	568,470	–	(148,140)	420,330
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	35,955	–	(28,480)	7,475

NOTE C (CONTINUED)	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
	{in thousands}			
2001 FISCAL SERIES A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	$ 408,800	$ –	$ (180,185)	$ 228,615
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	–	(129,235)	285,765
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	–	(72,205)	331,955
Variable rate tax-exempt bonds due in 2032 (a)	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	150,000	–	(2,245)	147,755
2002 FISCAL SERIES B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	419,235	–	(8,090)	411,145
3.40% serial taxable bonds maturing in 2003	955	–	(955)	–
Variable rate taxable bonds due in 2030 (a)	200,000	–	(5,495)	194,505
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
2003 FISCAL SERIES A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (c)	–	1,277,260	(22,985)	1,254,275

NOTE C (CONTINUED)	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
	{in thousands}			
2003 FISCAL SERIES B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (d)	$ –	$ 673,830	$ (3,600)	$ 670,230
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	–	76,170	(13,390)	62,780
2003 FISCAL SERIES C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	–	441,735	–	441,735
Variable rate tax-exempt bonds due in 2031 (a)	–	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	–	500,910	–	500,910
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	–	103,215	–	103,215
2003 FISCAL SERIES E				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	–	550,000	–	550,000
TOTAL BONDS PAYABLE, EXCLUDING RECOVERY BONDS	8,288,665	3,773,120	(2,064,230)	9,997,555
2003 SERIES 1 RECOVERY BONDS				
Variable rate tax-exempt bonds due in 2022 (a)	–	480,000	–	480,000
2003 SERIES 2 RECOVERY BONDS				
Variable rate tax-exempt bonds due in 2022 (a)	–	520,000	–	520,000
2003 SERIES 3 RECOVERY BONDS				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	–	143,505	–	143,505
Variable rate tax-exempt bonds due in 2022 (a)	–	883,200	–	883,200
TOTAL RECOVERY BONDS PAYABLE	–	2,026,705	–	2,026,705
TOTAL BONDS PAYABLE	8,288,665	$5,799,825	$(2,064,230)	12,024,260
LESS CURRENT PORTION OF BONDS PAYABLE	178,185			184,925
BONDS PAYABLE DUE AFTER ONE YEAR	$8,110,480			$ 11,839,335

NOTE C (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) On July 11, 2002, the Authority reoffered $222,500,000 of the fiscal 1999 Series A and $100,000,000 of the fiscal 1999 Series B Tax-Exempt Adjustable Rate Bonds, converting them to Tax-Exempt Fixed Rate Bonds.

(c) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are $659,770,000 maturing on November 1, 2026 and $122,500,000 maturing on November 1, 2028. Capital appreciation bonds (accreted value of $112,365,000 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 anytime, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(d) $482,490,000 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.

On July 2, 2002, the Authority issued $1,277,260,000 of Fiscal 2003 Series A Bonds to advance refund $1,229,090,000 of its outstanding bonds. On August 28, 2002, the Authority issued $750,000,000 of Fiscal 2003 Series B Bonds and used $3,790,378 of current revenue to advance refund $727,265,000 of outstanding bonds and to retire $5,495,000 of outstanding bonds. In each refunding, the proceeds, net of costs of issuance, were invested in U.S. Government securities and were deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the bonds advance refunded.

The refunded bonds of $1,956,355,000 are considered defeased, and the liability has been removed from the debt of the Authority. As of June 30, 2003, $1,845,770,000 of the defeased bonds are still outstanding. These advance refundings resulted in an accounting loss of $149 million. The Authority in effect reduced the aggregate debt service by $226 million and obtained an economic benefit of $148 million.

Debt service requirements at June 30, 2003, for bonds payable to maturity are as follows:

	Principal	Interest (a)	Total
		{in thousands}	
Year ended June 30,			
2004	$ 184,925	$ 477,302	$ 662,227
2005	335,990	475,302	811,292
2006	346,185	462,747	808,932
2007	360,675	448,870	809,545
2008	382,990	433,886	816,876
2009 to 2013	2,220,555	2,076,593	4,297,148
2014 to 2018	2,688,630	1,875,637	4,564,267
2019 to 2023	2,834,225	1,163,024	3,997,249
2024 to 2028	1,987,470	502,853	2,490,323
2029 to 2033	682,615	49,743	732,358
	$ 12,024,260	$ 7,965,957	$ 19,990,217

NOTE C (CONTINUED)

(a) Actual variable rates at June 30, 2003 averaged approximately 1.23%, 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 interest would be increased to a total of $10,088,577 from the $7,965,958. 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 callable 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.

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, 2003 and 2002, the Authority maintained its required debt service accounts totaling $116,413,000 and $106,013,000, respectively, of which $18,855,000 and $29,415,000 were for principal retirement, respectively, and $97,558,000 and $76,598,000 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:

	Balance at June 30, 2002	Issued	Retired	Balance at June 30, 2003
	{in thousands}			
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 3				
2.75% tax-exempt bond anticipation notes maturing November 13, 2002	600,000	–	(600,000)	–
2002 FISCAL SERIES 4				
2.50% tax-exempt bond anticipation notes maturing February 26, 2003	500,000	–	(500,000)	–
2002 FISCAL SERIES 5				
3.00% taxable bond anticipation notes maturing February 26, 2003	100,000	–	(100,000)	–
2003 FISCAL SERIES 1				
2.50% tax-exempt bond anticipation notes maturing November 6, 2003	–	555,000	–	555,000
2003 FISCAL SERIES 2				
2.00% tax-exempt bond anticipation notes maturing February 19, 2004	–	555,000	–	555,000
TOTAL BOND ANTICIPATION NOTES PAYABLE	$2,200,000	$1,110,000	$(2,200,000)	$1,110,000

NOTE E - CASH AND CASH EQUIVALENTS

At June 30, 2003, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $1,534,000 and commercial paper of approximately $136,009,000. At June 30, 2002, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $280,000 and commercial paper of approximately $724,563,000. At June 30, 2003, unrestricted cash and cash equivalents consisted of a reverse repurchase agreement of $624,000,000. The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less. The Authority values those investments at cost plus accrued interest, which approximates market.

The Authority's investments in commercial paper and reverse repurchase agreement are held by the Authority's agent in the Authority's name. At June 30, 2003 and 2002, the carrying amounts of bank deposits were approximately $1,534,000 and $280,000, respectively, and the bank balances were approximately $1,556,000 and $370,000, respectively. At June 30, 2003 and 2002, $194,000 and $100,000, respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

NOTE F - RESTRICTED INVESTMENTS

The Authority's restricted investments were in commercial paper having an original maturity date of more than three months (maturities are in August 2003). The Authority values those investments at cost plus accrued interest, which approximates market. The commercial paper held had a rating of A-1 and P-1 or better at June 30, 2003.

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority received an unrestricted grant of $624,000,000 from New York City on June 30, 2003.

NOTE H - 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, 2003 and 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, 2003 and 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, 2003, the Rate Cap Agreements were estimated to have a market value of $13.72 million by the Authority's swap advisor (a reduction of $9.372 million). The valuation was based on an option valuation model using market interest rates and volatilities as at June 30, 2003.

This valuation at June 30, 2003 reduced deferred interest rate cap revenue in the statement of net assets (deficit) and is shown as revenue in the statement of activities. At June 30, 2002, the $23.092 million received from HDC for these agreements was reported as deferred revenue in the Authority's statement of net assets and as other financing source in the governmental funds statement of revenues, expenditures and changes in fund balances.

In future years, the carrying amounts of these agreements reported in the statement of net assets will continue to 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 I - 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 J - SUBSEQUENT EVENTS

On September 4, 2003, the Authority issued $145,000,000 of its 2004 Series A bonds.

Subsequent to June 30, 2003, the Authority used a portion of the unrestricted grant from the City to fund debt service and administrative expenses, rather than retaining personal income tax revenues for that purpose.

DIRECTORS

Mark Page, Chairperson { *Director of Management and Budget of the City*

Martha E. Stark { *Commissioner of Finance of the City*

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 City Council*

OFFICERS OF THE AUTHORITY

Mark Page { *Executive Director*

Alan L. Anders { *Treasurer*

Marjorie E. Henning { *Secretary*

Prescott D. Ulrey { *General Counsel*

Lawrence R. Glantz { *Comptroller*

Wei-Li Pai { *Deputy Treasurer*

F. Jay Olson { *Assistant Treasurer*

Raymond J. Orlando { *Manager of Investor Relations*

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