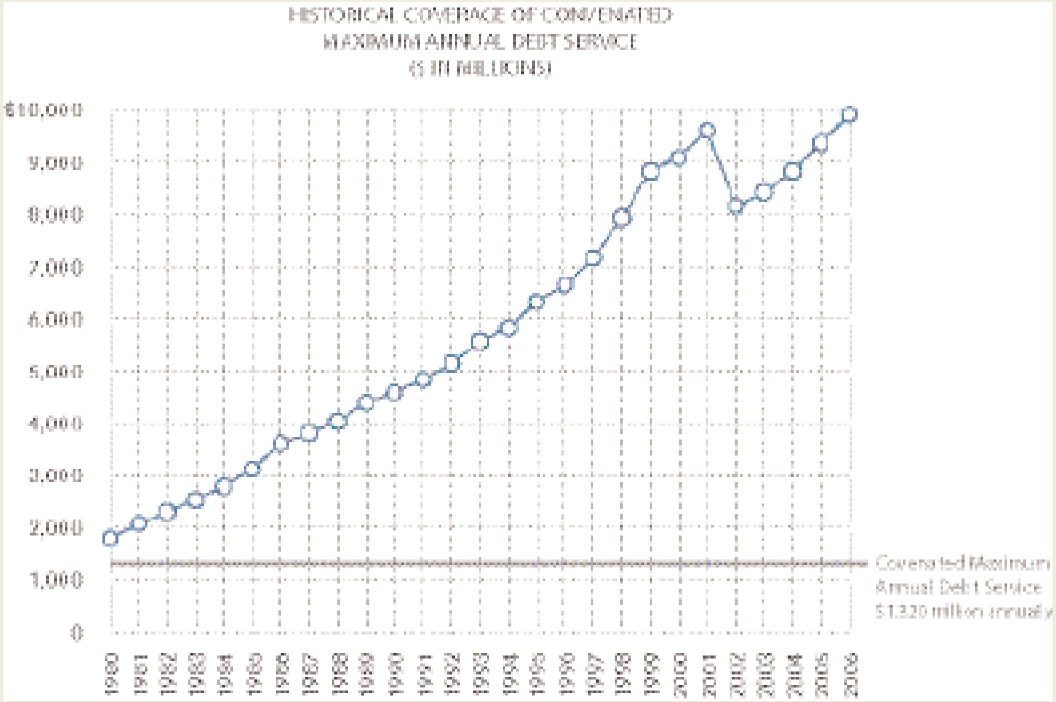
TFA New York City Transitional Finance Authority

2005 Annual Report


Success

Over the past seven fiscal years, the TFA has proved to be a very successful borrowing vehicle for the City's capital program.

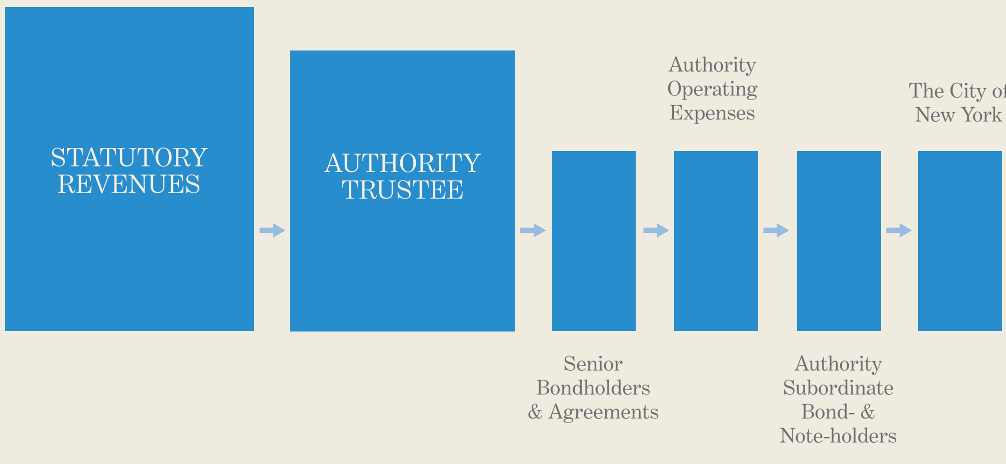
Fig. 1

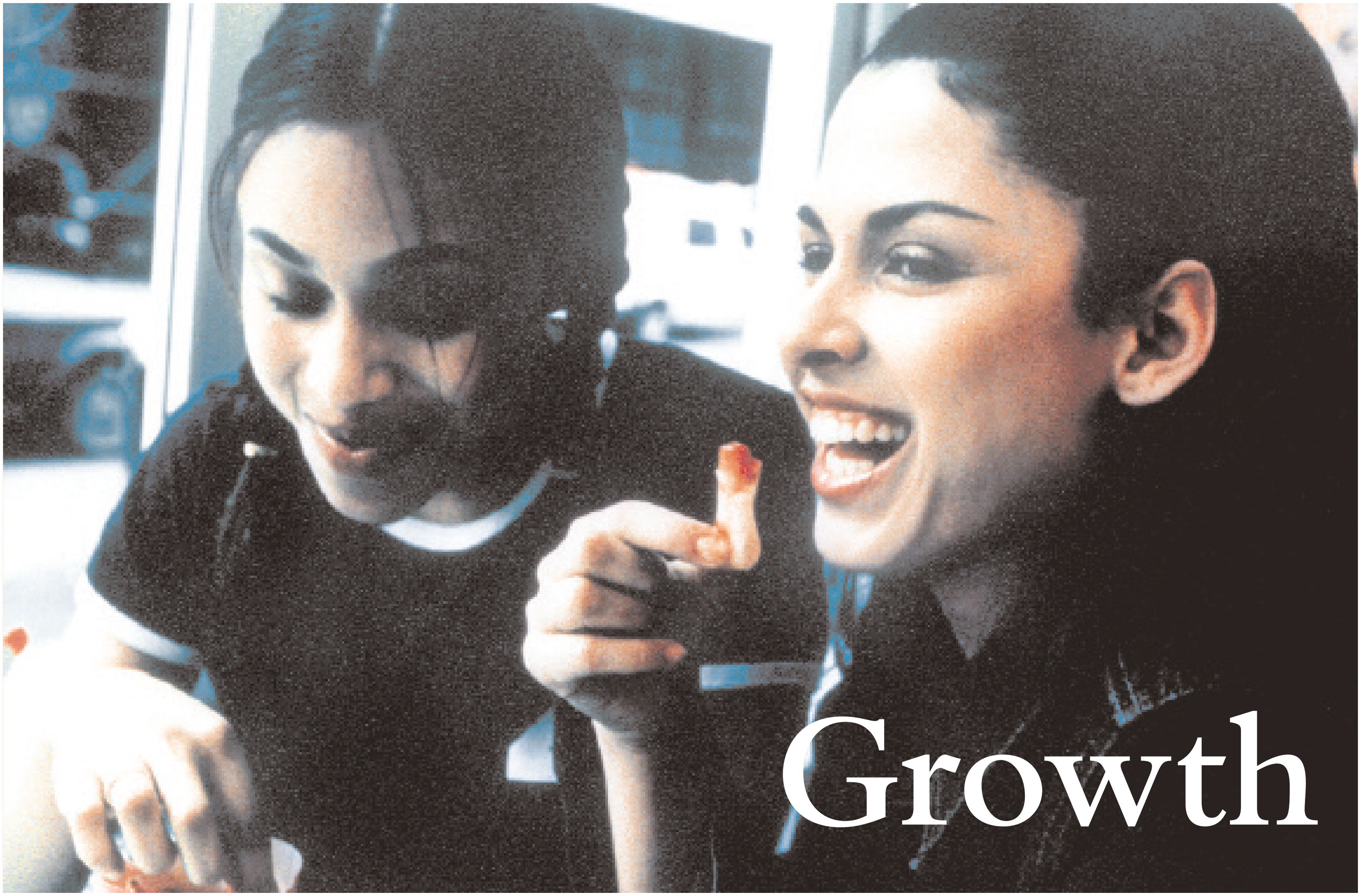


Prosperity

The existence of the TFA has allowed the City to continue its capital program. Without it, the constitutional debt limit would have forced the City to stop entering into additional contracts for the improvements of its infrastructure.

Fig. 2

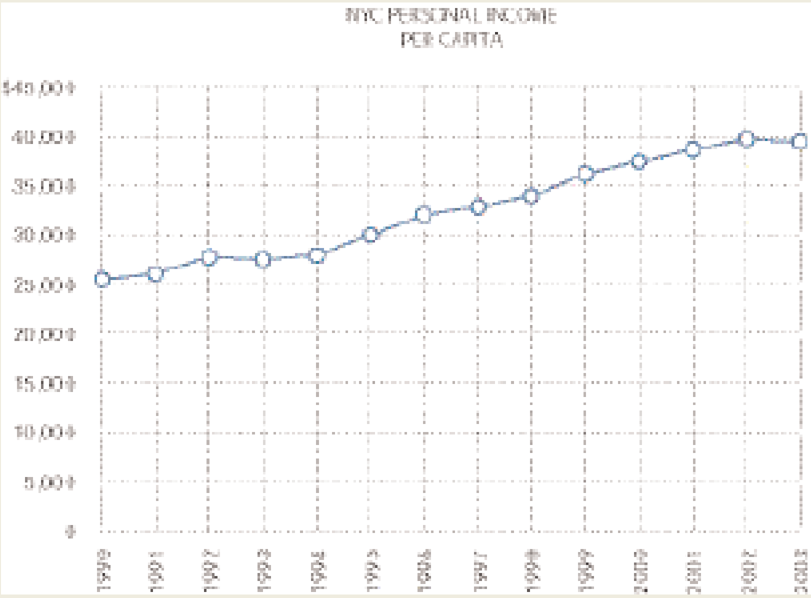


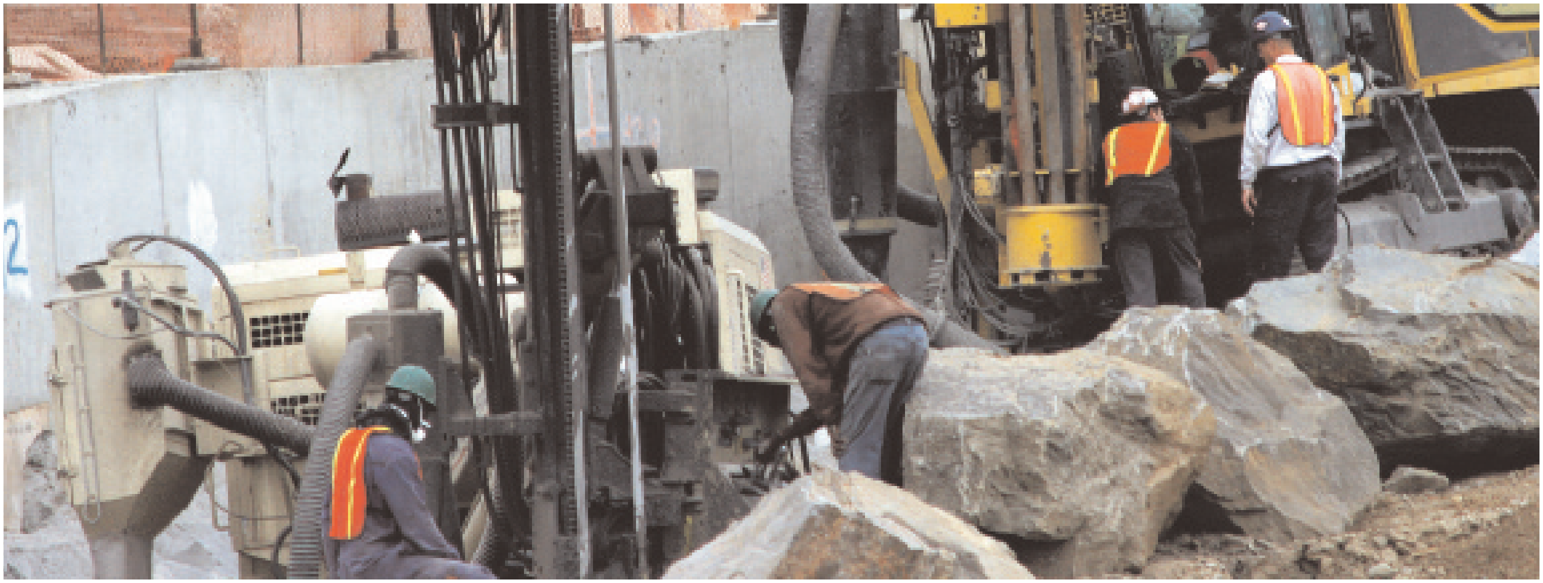


Growth

TFA bonds are payable from personal income tax revenues and, if needed, a portion of sales tax revenues collected in the City.

Fig. 3





Future

Financing a portion of New York City's
Capital Program




Letter from the Executive Director

It is my pleasure to present the Fiscal Year 2005 Annual Report of the New York City Transitional Finance Authority (the "TFA"). Herein you will find the complete audited financial information for the eighth year of TFA's operations.

The TFA is a public benefit corporation whose primary purpose is to finance a portion of New York City's (the "City's") capital program. The New York State Legislature approved the law authorizing the creation of the NYC 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, and completed that level of borrowing in Fiscal Year 2004. 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 costs related to or arising from the terrorist attack on the City on September 11, 2001. The TFA has issued $2 billion of subordinate debt to pay such costs.

The TFA is an asset-backed credit, which combines structured finance methods with a traditional governmental revenue source. TFA bonds are payable from personal income tax revenues and, if needed, sales tax revenue collections in the City. These revenues are collectively referred to as the "Statutory Revenues." Personal income tax revenues are paid directly to the TFA. Payment of such 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 TFA enjoys high coverage of its debt service provided by the Statutory Revenues, which has enabled it to earn high ratings and achieve low interest costs. The ratings of the TFA senior debt are Aa1/AAA/AA+ from Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively. Standard & Poor's and Fitch rate TFA's subordinated debt the same as its senior debt while Moody's rates the subordinated debt Aa2.

The existence of the TFA allowed the City to continue its capital program. Without it, the constitutional debt limit would have forced the City to stop entering into additional contracts for the improvement of its infrastructure. During its first seven years in existence, TFA proved to be a very successful borrowing vehicle for the City's capital program. Therefore, the City will continue to pursue an amendment to the Act to permit additional borrowing by the TFA for the City's capital program.

Respectfully submitted,

Mark Page,

Executive Director

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, 2005 and 2004, 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits 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, 2005 and 2004, 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 16, 2005

Management's Discussion and Analysis

Overview of Financial Statements

The annual financial statements of the New York City Transitional Finance Authority (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 Authority provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the Authority's financial statements, which begin on page 13.

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.

The Authority is a component unit of New York City (the "City") and, accordingly, is included in the City's financial statements. The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for capital purposes ("Future Tax Secured Bonds") to $11.5 billion. During the fiscal year ended June 30, 2004, the Authority reached its statutory limit on Future Tax Secured Bonds. In addition, the Authority is authorized to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack ("Recovery Costs"). The Authority had, as of June 30, 2005, $1.96 billion of Recovery Bonds outstanding.

Management's Discussion and Analysis (continued)

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements

During fiscal year 2005 total assets increased by $543 million. Restricted cash and cash equivalents decreased by $23 million, restricted investments decreased by $10 million, unrestricted cash and cash equivalents increased by $747 million, restricted investments held for economic defeasance decreased by $7 million, personal income taxes receivable decreased by $165 million and other assets increased by $1 million.

At June 30, 2005, the decrease of $23 million in restricted cash and cash equivalents and the decrease of $10 million in restricted investments are primarily due to a decrease in required retention for principal payments that are payable in August 2005.

The $747 million increase in unrestricted cash and cash equivalents reflects the increase of the unrestricted grant received by the Authority from the City in the fiscal year ended June 30, 2005. The $7 million decrease in restricted investments held in the economic defeasance escrow is primarily due to payment of debt service on the economically defeased bonds.

Total liabilities decreased by $571 million in fiscal year 2005. The primary changes were that the long-term portion of bonds payable decreased by $371 million, the current portion of bonds payable decreased by $16 million and personal income taxes payable to the City decreased by $165 million. The decrease in bonds payable reflects the principal payments of $389 million made on Future Tax Secured Bonds by the Authority during the fiscal year 2005 and the issuance of $920 million of Future Tax Secured Bonds during the fiscal year ended June 30, 2005 which was used for defeasance of Future Tax Secured Bonds totaling $918 million.

Total general revenues increased by $1,164 million in fiscal 2005. The primary components of this increase were an increase of $747 million in the unrestricted grant received from the City and a $388 million increase in personal income taxes retained by the Authority. The additional retention of personal income taxes was primarily due to an increase of debt service principal payments in the fiscal year ended 2005 and a decrease of unrestricted grant funds available during the fiscal year ended 2005.

Total program expenses decreased by $247 million in fiscal 2005. The primary components of this decrease were a decrease of $279 million in distributions to the City for its capital program and an increase of $18 million of interest expense and a $14 million increase of amortization of deferred bond refunding costs.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets increased by $548 million in fiscal 2005. Restricted cash and cash equivalents decreased by $23 million, restricted investments decreased by $10 million, unrestricted cash and cash equivalents increased by $747 million, restricted investments held for economic defeasance decreased by $7 million and personal income tax receivable decreased by $159 million.

Total liabilities decreased by $159 million in fiscal year 2005 which reflects the reduction of $112 million of deferred personal income tax revenue and a reduction of personal income taxes payable of $47 million at June 30, 2005.

Total revenues increased by $1,151 million in fiscal year 2005. The primary components of the increase were a $747 million increase in an unrestricted grant received from the City and a $388 million increase in personal income taxes retained.

Expenditures decreased by $31 million in fiscal year 2005. The components of this decrease were the distributions to the City for its capital program decreased by $279 million, interest expense increased by $44 million, principal amount of debt retired increased by $210 million and other expenditures decreased by $6 million.

Statements of Net Assets (Deficit)

June 30 (in thousands)	2005	2004
ASSETS		
Restricted cash and cash equivalents	$ 130,637	$ 153,632
Restricted cash escrow for economic defeasance	681	708
Restricted investments	5,985	16,448
Restricted investments escrow for economic defeasance	306,332	312,879
Unrestricted cash and cash equivalents	1,147,242	400,014
Personal income tax receivable	—	165,229
Personal income tax receivable from New York City - net	6,301	—
Unamortized bond issuance costs	58,767	63,557
Total assets	1,655,945	1,112,467
LIABILITIES		
Personal income tax payable to New York City	—	165,229
Personal income tax refunds payable - net	6,301	—
Accrued expenses	2,034	2,532
Accrued interest payable	135,500	143,525
Interest rate cap obligation	6,140	16,060
Bonds payable		
Portion due within one year	373,245	389,260
Portion due after one year	12,603,370	12,974,625
Unamortized deferred bond refunding costs	(193,717)	(162,856)
Unamortized bond premium	318,406	293,459
Total liabilities	13,251,279	13,821,834
NET ASSETS (DEFICIT)		
Restricted for capital program	—	2,539
Restricted for economic defeasance	11,484	13,193
Deficit	(11,606,818)	(12,725,099)
Total deficit	$ (11,595,334)	$(12,709,367)

The accompanying notes are an integral part of these statements.

Statements of Activities

Year ended June 30 (in thousands)	2005	2004
EXPENSES		
General and administrative expenses	$ 11,509	$ 11,328
Distributions to New York City for capital program	—	278,715
Amortization of deferred bond refunding costs	30,677	16,511
Interest expense	507,636	489,798
Amortization of debt issuance costs	5,376	5,731
Total program expenses	555,198	802,083
GENERAL REVENUES		
Personal income tax revenue	6,480,398	5,693,704
Less remittances to New York City	(5,983,304)	(5,584,876)
Personal income tax revenue retained	497,094	108,828
Unrestricted grant from New York City	1,147,242	400,000
Unrealized loss on economic defeasance investments	(1,182)	(9,044)
Change in value of interest rate cap obligation	9,920	(2,340)
Investment earnings	16,157	7,686
Total general revenues	1,669,231	505,130
Change in net assets	1,114,033	(296,953)
DEFICIT - beginning of year	(12,709,367)	(12,412,414)
DEFICIT - end of year	$(11,595,334)	$(12,709,367)

The accompanying notes are an integral part of these statements.

Balance Sheet

Governmental Funds

June 30, 2005 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ –	$ 130,637	$ 130,637
Restricted cash escrow for economic defeasance	–	681	681
Unrestricted cash and cash equivalents	–	1,147,242	1,147,242
Restricted investments	–	5,985	5,985
Restricted investments escrow for economic defeasance	–	306,332	306,332
Personal income tax receivable from New York City - net	–	6,301	6,301
Total assets	$ –	$ 1,597,178	$ 1,597,178
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ –	$ 2,034	$ 2,034
Personal income tax refunds payable - net	–	6,301	6,301
Total liabilities	–	8,335	8,335
Fund balances			
Reserved for debt service	–	134,588	134,588
Reserved for economic defeasance	–	307,013	307,013
Unreserved funds	–	1,147,242	1,147,242
Total fund balance	–	1,588,843	1,588,843
Total liabilities and fund balances	$ –	$ 1,597,178	$ 1,597,178

The accompanying notes are an integral part of this statement.

Balance Sheet

Governmental Funds

June 30, 2004 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ 5,071	$ 148,561	$ 153,632
Restricted cash escrow for economic defeasance	–	708	708
Unrestricted cash and cash equivalents	–	400,014	400,014
Restricted investments	–	16,448	16,448
Restricted investments escrow for economic defeasance	–	312,879	312,879
Personal income tax receivable - net	–	165,229	165,229
Total assets	$ 5,071	$ 1,043,839	$ 1,048,910
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ 2,532	$ –	$ 2,532
Personal income tax payable to New York City - net	–	52,933	52,933
Deferred personal income tax revenue	–	112,296	112,296
Total liabilities	2,532	165,229	167,761
Fund balances			
Reserved for capital projects	2,539	–	2,539
Reserved for debt service	–	165,009	165,009
Reserved for economic defeasance	–	313,587	313,587
Unreserved funds	–	400,014	400,014
Total fund balance	2,539	878,610	881,149
Total liabilities and fund balances	$ 5,071	$ 1,043,839	$ 1,048,910

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2005 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ –	$ 6,521,398	$ 6,521,398
Less remittances to New York City	–	(6,024,304)	(6,024,304)
Personal income tax revenue retained	–	497,094	497,094
Unrestricted grant from New York City	–	1,147,242	1,147,242
Investment earnings	–	16,157	16,157
Unrealized loss on economic defeasance investments	–	(1,182)	(1,182)
Total revenues	–	1,659,311	1,659,311
EXPENDITURES			
Interest expense	–	552,283	552,283
Principal amount of bonds retired	–	389,260	389,260
Refunding bond issuance costs	–	5,601	5,601
General and administrative expenses	–	11,509	11,509
Total expenditures	–	958,653	958,653
Excess of revenues over expenditures	–	700,658	700,658
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	–	980,239	980,239
Payments to refunded bond escrow holder	–	(974,638)	(974,638)
Gain from restructure of 2004 defeasance escrow	–	1,435	1,435
Transfers in (out)	(2,539)	2,539	–
Total other financing sources and uses	(2,539)	9,575	7,036
Net change in fund balances	(2,539)	710,233	707,694
FUND BALANCES - beginning of year	2,539	878,610	881,149
FUND BALANCES - end of year	$ –	$ 1,588,843	$ 1,588,843

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2004 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ –	$ 5,581,408	$ 5,581,408
Less remittances to New York City	–	(5,472,580)	(5,472,580)
Personal income tax revenue retained	–	108,828	108,828
Unrestricted grant from New York City	–	400,000	400,000
Investment earnings	346	7,340	7,686
Unrealized loss on economic defeasance investments	–	(9,044)	(9,044)
Total revenues	346	507,124	507,470
EXPENDITURES			
Interest expense	–	508,033	508,033
Principal amount of bonds retired	–	179,510	179,510
Costs of debt issuance	8,489	–	8,489
Refunding bond issuance costs	–	2,129	2,129
Economic refunding bond issuance costs	–	1,476	1,476
Distributions to New York City for Capital Program	278,715	–	278,715
General and administrative expenses	11,328	–	11,328
Total expenditures	298,532	691,148	989,680
Excess of expenditures over revenues	(298,186)	(184,024)	(482,210)
OTHER FINANCING SOURCES (USES)			
Principal amount of bonds issued	1,231,620	–	1,231,620
Bond premium, net of discount	44,895	–	44,895
Refunding bond proceeds	–	463,190	463,190
Payments to refunded bond escrow holder	–	(460,493)	(460,493)
Economic refunding bond proceeds	–	321,138	321,138
Transfers in (out)	1,997	(1,997)	–
Total other financing sources and uses	1,278,512	321,838	1,600,350
Net change in fund balances	980,326	137,814	1,118,140
FUND BALANCES (DEFICIT) - beginning of year	(977,787)	740,796	(236,991)
FUND BALANCES (DEFICIT) - end of year	$ 2,539	$ 878,610	$ 881,149

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)	2005	2004
Total fund balance (deficit) - governmental funds	$ 1,588,843	$ 881,149
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.	58,767	63,557
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.	(318,406)	(293,459)
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 a liability and is reported at fair value.	(6,140)	(16,060)
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	(12,976,615)	(13,363,885)
Accrued interest on bonds	(135,500)	(143,525)
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.	193,717	162,856
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	–	(112,296)
Deferred personal income tax revenue	–	112,296
Net assets (deficit) of government activities	$ (11,595,334)	$ (12,709,367)

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

Year ended June 30, (in thousands)	2005	2004
Net change in fund balances - total governmental funds	$ 707,694	$ 1,118,140
Amounts reported for governmental activities in the statements of activities are different because:		
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	(5,601)	(2,697)
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.	(26,510)	(14,382)
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statements of net assets (deficit).	–	(1,231,620)
Bond proceeds used to fund the economic defeasance escrow are current financial resources to governmental funds but debt issued increases long-term liabilities in the statements of net assets (deficit).	–	(319,662)
Repayment of bond principal is an expenditure in the governmentalfunds, but the repayment reduces long-term liabilities in the statements of net assets (deficit).	389,260	179,510
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.	(5,376)	2,758
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.	32,316	(12,815)
Governmental funds report revenue received from the sale of rate cap as other financing sources. However, the statements of activities report changes in the fair value of the agreement.	9,920	(2,340)
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.	12,330	(13,845)
Change in net assets of governmental activities	$ 1,114,033	$ (296,953)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

June 30, 2005 and 2004

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 to $11.5 billion the Authority's capacity to issue bonds and notes for capital purposes ("Future Tax Secured Bonds"). The State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from $750 million to $2.3 billion. On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center ("Recovery Costs"). As of June 30, 2004, the Authority had issued its statutory limit of $11.5 billion of Future Tax Secured Bonds.

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

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.

The Authority's governmental fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due. For the year ended June 30, 2005, since the Authority issued its statutory limit of bonds and notes for capital purposes in the prior year, the governmental fund consists only of the Debt Service Fund. For the year ended June 30, 2004, the governmental funds consist of the (a) Capital Projects Fund, which accounts for resources to be transferred to the City for its capital program and Recovery Costs and for the operations of the Authority, and (b) 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

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE B (continued)

issuance costs, during the current period. The face amount of debt issued and premium received are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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 governmental fund financial statements.

Interest rate cap obligations, which originated from the sale of interest rate cap agreements, are reported in the statements of net assets (deficit) and 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 its administrative expenses. Funds for bond debt service are required to be set aside 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 date 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 Future Tax Secured Bonds. The Authority had issued $11.5 billion of Future Tax Secured Bonds as of June 30, 2004. As of June 30, 2005 and 2004, the Authority had outstanding debt of $11.0 billion and $11.3 billion of Future Tax Secured Bonds, respectively, including $292 million and $295 million of economically defeased Future Tax Secured Bonds, respectively. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

In addition, the Act permits the Authority to have outstanding $2.5 billion of Recovery Bonds for Recovery Costs. As of June 30, 2005 and 2004, the Authority had outstanding $1.96 billion and $2.03 billion of Recovery Bonds, respectively.

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 for the City of New York are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during fiscal years 2005 and 2004.

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.

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

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

(in thousands)	Balance at June 30, 2004	Issued	Retired/ Defeased	Balance at June 30, 2005
1998 Fiscal Series A				
4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 243,740	$ –	$ (17,550)	$ 226,190
1998 Fiscal Series B				
4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	533,660	–	(49,995)	483,665
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	383,130	–	(25,455)	357,675
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	–	–	63,000
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	315,495	–	(223,645)	91,850
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	19,235	–	(6,525)	12,710
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	–	–	222,500
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	277,500	–	–	277,500

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

(in thousands)	Balance at June 30, 2004	Issued	Retired/ Defeased	Balance at June 30, 2005
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 376,425	$ –	$ (83,825)	$ 292,600
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	26,595	–	(12,280)	14,315
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	–	–	100,000
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	50,000	–	–	50,000
1999 Fiscal Series C				
3.50% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2028	272,030	–	(83,210)	188,820
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	32,420	–	(4,295)	28,125
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	62,715	–	(7,710)	55,005
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	197,730	–	(181,915)	15,815

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

(in thousands)	Balance at June 30, 2004	Issued	Retired/ Defeased	Balance at June 30, 2005
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 414,955	$ –	$ (287,900)	$ 127,055
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	7,475	–	(5,825)	1,650
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	214,140	–	(26,455)	187,685
Variable rate tax-exempt bonds maturing in varying installments through 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	274,500	–	(10,025)	264,475
Variable rate tax-exempt bonds maturing in varying installments through 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	329,990	–	(21,175)	308,815
Variable rate tax-exempt bonds maturing in varying installments through 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	145,420	–	(5,930)	139,490

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

(in thousands)	Balance at June 30, 2004	Issued	Retired/ Defeased	Balance at June 30, 2005
2002 Fiscal Series B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 376,760	$ —	$ (15,810)	$ 360,950
Variable rate taxable bonds maturing in varying installments through 2030 (a)	194,505	—	(13,155)	181,350
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	240,290	—	(10,100)	230,190
2003 Fiscal Series A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,231,565	—	(23,350)	1,208,215
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	665,765	—	(3,135)	662,630
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	53,245	—	(13,670)	39,575
2003 Fiscal Series C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	380,625	—	(11,960)	368,665
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	—	—	150,000

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

(in thousands)	Balance at June 30, 2004	Issued	Retired/ Defeased	Balance at June 30, 2005
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 487,695	$ –	$ (12,000)	$ 475,695
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	–	(12,035)	537,965
2004 Fiscal Series A				
3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	145,000	–	–	145,000
2004 Fiscal Series B				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2032	545,620	–	(10,365)	535,255
2004 Fiscal Series C				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	541,000	–	(9,635)	531,365
2004 Fiscal Series D				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	709,240	–	(47,230)	662,010
2005 Fiscal Series A				
2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	–	913,110	–	913,110

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

(in thousands)	Balance at June 30, 2004	Issued	Retired\ Defeased	Balance at June 30, 2005
2005 Fiscal Series B				
2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	$ –	$ 7,535	$ –	$ 7,535
Total bonds payable, excluding Recovery Bonds	11,337,180	920,645	(1,236,160)	11,021,665
2003 Series 1 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	480,000	–	(17,900)	462,100
2003 Series 2 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	520,000	–	(19,800)	500,200
2003 Series 3 Recovery Bonds				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	143,505	–	(34,055)	109,450
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	–	–	883,200
Total Recovery Bonds payable	2,026,705	–	(71,755)	1,954,950
Total bonds payable	13,363,885	$ 920,645	$ (1,307,915)	12,976,615
Less current portion of bonds payable	389,260			373,245
Bonds payable due after one year	$ 12,974,625			$ 12,603,370

Notes to Financial Statements (continued)

June 30, 2005 and 2004

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) 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 any time, at a price of 100% of their principal amount plus accrued interest to the redemption date.

(c) $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 November 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.

Included as outstanding on June 30, 2005 and 2004 were $292,755,000 and $295,180,000, respectively, of bonds that were economically defeased on March 24, 2004, and included as an asset was the escrow account that is held by the Authority's Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D.

On April 1, 2005, the Authority issued $913,111,000 and $7,535,000 of Fiscal 2005 Series A and B Future Tax Secured Bonds to advance refund $918,655,000 of its outstanding Future Tax Secured Bonds. This refunding resulted in a legal defeasance of the refunded bonds. In a legal defeasance, the proceeds, net of costs of issuance, are invested in Defeasance Collateral (as defined in the Authority's indenture) consisting of U.S. Government securities and are deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the legally defeased bonds.

On March 24, 2004, the Authority issued $709,240,000 of Fiscal 2004 Series D Future Tax Secured Bonds to advance refund $716,905,000 of its outstanding Future Tax Secured Bonds. $421,725,000 of the advanced refunded bonds were legally defeased and $295,180,000 of the advanced refunded bonds were economically defeased. In this economic defeasance, the proceeds, net of costs of issuance, were invested in U.S. Government securities as well as Federal agency bonds and STRIPS and were deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the economically defeased bonds.

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. Legally defeased bonds are not entitled to any benefit or security under the Authority's indenture and are payable from amounts on deposit in the escrow established for those bonds. The legally defeased bonds have been removed from the financial statements as a liability of the Authority. As of June 30, 2005 and 2004, the Authority had legally defeased bonds totaling $3,296,735,000 and $2,378,080,000, respectively, of which $3,041,695,000 and $2,176,790,000, respectively, are still outstanding.

The advance refunding in April 2005 resulted in an accounting loss of $59.2 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $34.7 million and obtained an economic benefit of $29.1 million. The advance refunding in the fiscal year ended June 30, 2004 resulted in an accounting loss of $38.8 million and the Authority in effect reduced the aggregate debt service by $36.9 million and obtained an economic benefit of $23.7 million.

Debt service requirements at June 30, 2005, for bonds payable to their maturity are as follows:

(in thousands)	Principal	Interest (a)	Total
Year ended June 30,			
2006	$ 373,245	$ 571,863	$ 945,108
2007	397,940	553,621	951,561
2008	446,115	534,403	980,518
2009	431,770	516,771	948,541
2010	459,450	494,857	954,307
2011 to 2015	2,741,680	2,376,545	5,118,225
2016 to 2020	3,077,405	1,752,491	4,829,896
2021 to 2025	2,711,520	985,545	3,697,065
2026 to 2030	1,977,135	334,632	2,311,767
2031 to 2035	360,355	25,902	386,257
	$ 12,976,615	$ 8,146,630	$ 21,123,245

(a) Interest on the callable Fiscal 2003 Series A and Fiscal 2003 Series B term bonds which would convert to 14% and 10%, respectively, on the call date if not called and interest on the callable Fiscal 2003 Series A capital appreciation bonds which would convert to 14% per annum if not called are computed in this table at the 14% or 10% rates, as if those bonds were not called. Actual variable rates at June 30, 2005 averaged approximately 1.813%, which is the rate used in this table. If variable interest is calculated at 5.00% per annum (which is the rate utilized for retention), total interest would be increased to $9,472,590 from the $8,146,630 in the above table.

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE C (continued)

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

At June 30, 2005 and 2004, the Authority maintained its required debt service accounts totaling $133,285,000 and $164,775,000, respectively, of which $13,060,000 and $47,205,000 were for principal retirement, respectively, and $120,225,000 and $117,570,000 were for interest payments, respectively.

NOTE D - CASH AND CASH EQUIVALENTS

At June 30, 2005, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $2,852,000 and commercial paper of $127,785,000. At June 30, 2004, the Authority's restricted cash and cash equivalents consisted of bank deposits of $5,071,000 and commercial paper of approximately $148,561,000.

At June 30, 2005, the Authority's unrestricted cash and cash equivalents consisted of cash of $1,147,242,000 which was not collateralized. $1,147,000,000 was held by the Authority's Trustee in the Authority's name and the balance was a deposit in-transit. At June 30, 2004, unrestricted cash and cash equivalents consisted of cash of $5,000 and commercial paper of $400,009,000 held by the Authority's Trustee in the Authority's name.

All of the commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

At June 30, 2005 and 2004, the Authority's restricted cash - economic defeasance consisted of cash held by the escrow agent in the economic defeasance account.

At June 30, 2005 and 2004, the carrying amounts of bank deposits were $2,852,000 and $5,071,000, respectively, and the bank balances were $2,815,000 and $4,982,000, respectively. At June 30, 2005 and 2004, $100,000 of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

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 are held by the Authority's Trustee in the Authority's name. See Note E below for the Authority's investment policy.

NOTE E - RESTRICTED INVESTMENTS

Pursuant to its Indenture and Investment Guidelines, the Authority is generally permitted to invest in obligations of, or guaranteed by, the U.S. Government; certain highly rated certificates of deposit (or similar instruments); certain highly rated obligations of, or guaranteed by, a state; certain highly rated commercial paper (or similar instruments); certain investment agreements with highly rated institutions; certain repurchase obligations with highly rated institutions; certain highly rated corporate securities (that do not exceed 20% of its investments); and certain highly rated taxable money market funds. The Authority is also authorized to make certain other investments authorized pursuant to a supplemental indenture and to enter into the interest rate cap agreement described below.

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE E (continued)

At June 30, 2005 and 2004, the Authority's restricted investments of $5,985,000 and $16,448,000, respectively, were invested in commercial paper having an original maturity date of more than three months. The Authority values these investments at cost plus accrued interest, which approximates market. At June 30, 2005 and 2004, the above-referenced commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services, respectively.

At June 30, 2005 and 2004, the Authority's restricted investments in the economic defeasance escrow account at the Authority's trustee were invested in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; and United States bonds, notes and STRIPS. The Authority valued these investments at market, which resulted in an unrealized loss of approximately $1,182,000 at June 30, 2005 and an unrealized loss of approximately $9,044,000 at June 30, 2004. The investments included purchases of securities at a premium, resulting in higher interest bearing investments and this was included in the verification agent's computations to assure that the escrow fund provides for all future debt service on the economically defeased bonds.

NOTE F - INTEREST RATE CAP OBLIGATIONS

On June 20, 2002, the Authority entered into three interest rate cap agreements (the "Interest Rate Cap Agreements") with the New York City Housing Development Corporation ("HDC") (a component unit of the City) 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 as of June 30, 2005 and 2004 of $198,535,000 and $198,995,000, respectively. 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 as of June 30, 2005 and 2004. Notional amounts will amortize over the life of the Interest Rate Cap Agreements by scheduled principal payments on the HDC bonds. The HDC bonds covered by the agreements mature serially through November 2032.

At June 30, 2005 and 2004, the Interest Rate Cap Agreements were estimated to have a market value of $6.14 million and $16.06 million, respectively, by the Authority's Swap Advisor. The valuations were based on an option valuation model using market interest rates and volatilities as of June 30 of each year.

The valuation at June 30, 2005 reduced the interest rate cap obligation in the statement of net assets (deficit) and was reported as revenue in the statement of activities. The valuation at June 30, 2004 increased the interest rate cap obligation in the statement of net assets and resulted in an expense in the statement of activities.

In future years, the carrying amounts of these Interest Rate Cap 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 Interest Rate Cap Agreements will be reported as an expense in the statement of activities and will be reported as an expenditure in the governmental funds statement of revenues, expenditures and changes in fund balances.

Notes to Financial Statements (continued)

June 30, 2005 and 2004

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority received an unrestricted grant from the City of $1,147,242,000 on June 30, 2005. These funds were received by the Authority's Trustee too late on June 30 to be invested on June 30, 2005; thus, the funds were held as cash overnight.

The Authority received an unrestricted grant from the City of $400,000,000 on June 29, 2004. The Authority used the entire unrestricted grant received from the City on June 29, 2004 to fund debt service and administrative expenses during the year ended June 30, 2005, rather than retaining personal income tax revenues for those purposes.

NOTE H - 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 or investment earnings, are funded from the personal income taxes flowing through the Authority's accounts.

NOTE I - SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Authority invested the entire $1,147,242,000 unrestricted grant received from the City to fund debt service and administrative expenses. The initial investments were in Federal discount notes and commercial paper which matured on July 12, 2005. On July 12, 2005, $1,076,273,000 of the funds was invested in interest-bearing U.S. Treasury Slugs at varying maturity dates to coincide with the Indenture's required debt service retention dates and amounts; $63,000,000 was invested in Federal discount notes and the balance including interest earned was invested in commercial paper.

It is anticipated that these investments will fund all required debt service and administrative expenses through and including August 2007. Thus, the Authority anticipates that it will not be retaining personal income tax revenues for funding of debt service and operational expenditures until the second quarter of fiscal year 2007.

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