2006 Annual Report

New York City Transitional Finance Authority

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Front Cover (left to right)
Engine Co. 277, Brooklyn Children's Museum, Bronx Museum of the Arts, Williamsburg Day Care, New York Hall of Science

Letter from the Chairman

December 5th, 2006

I am pleased to present the Fiscal Year 2006 annual report of the New York City Transitional Finance Authority (the "TFA"). This report contains complete audited financial information for this fiscal year, which began on July 1, 2005.

The TFA is a public benefit corporation whose primary 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 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.

As of June 30, 2004, the Authority had issued $11.5 billion of bonds for general City capital purposes, the maximum amount permitted under then current law. Subsequent to June 30, 2006, the statutory capacity to issue bonds and notes for general City capital purposes was increased by $2 billion to $13.5 billion.

Legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system to be paid for from New York State Building Aid to be received by the Authority subject to annual appropriation by the New York State Legislature. As of June 30, 2006 these obligations were not issued. On November 16, 2006, the Authority issued $650 million of its Building Aid Revenue Bonds.

Respectfully submitted,

Mark Page,
Chairman

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, 2006 and 2005, 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, 2006 and 2005, 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
October 17, 2006

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, 2006. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

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, as amended. 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 general City capital purposes ("Future Tax Secured Bonds") to $11.5 billion as of June 30, 2006, which limit was reached during the fiscal year ended June 30, 2004. In July 2006, legislation increased the limit by $2 billion to $13.5 billion.

In addition, legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system, which have not been issued as of June 30, 2006.

The Authority is also authorized to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack. The Authority had as of June 30, 2006 and 2005, $1.84 billion and $1.96 billion, respectively, of Recovery Bonds outstanding.

Management's Discussion and Analysis (continued)

Financial Highlights and Overall Analysis – Entity-Wide Financial Statements

During fiscal year 2006, total assets decreased by $459 million. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million, personal income taxes receivable increased by $499 million and other assets decreased by $6 million.

At June 30, 2006, a decrease of $126 million in restricted cash and cash equivalents from the June 30, 2005 balance reflects the longer term of securities held for restricted purposes, and is offset by an increase of $361 million in restricted investments, resulting in a net increase of $235 million in restricted assets. This net increase in restricted assets has occurred because the grant funds received at June 30, 2005 and remaining on hand at June 30, 2006 are restricted for debt service payments, whereas grant proceeds on hand at June 30, 2005 were unrestricted.

The $1,147 million decrease in unrestricted cash and cash equivalents reflects the decrease in unrestricted grant proceeds from the City held at year-end. The $40 million decrease in restricted investments held in the economic defeasance escrow resulted primarily from the payment of debt service on the economically defeased bonds.

Income taxes receivable at each fiscal year-end are based on estimates of taxable personal income earned during the fiscal year, including during the period January 1 to June 30, for which taxes will be collected after year-end. The $499 million increase in personal income taxes receivable at June 30, 2006 compared to 2005 is the result of higher estimated total taxable personal income for the fiscal year ended June 30, 2006 to be subsequently collected than was estimated as of the prior year-end.

Total liabilities decreased by $252 million in fiscal year 2006. The primary changes were that the long-term portion of bonds payable decreased by $739 million, the current portion of bonds payable decreased by $5 million and personal income taxes payable to the City increased by $505 million. The decrease in bonds payable reflects the principal payments of $724 million made on Future Tax Secured Bonds by the Authority during the fiscal year 2006 and the issuance of $597 million of Future Tax Secured Bonds during the fiscal year ended June 30, 2006 which was used for defeasance of Future Tax Secured Bonds totaling $617 million.

Total general revenues decreased by $1,286 million in fiscal 2006. The primary components of this decrease were a decrease of $1,147 million as no unrestricted grant was received from the City in fiscal 2006 and a $147 million decrease in personal income taxes retained by the Authority. The $147 million decrease in personal income taxes is primarily due to a $1,320 increase in personal income tax revenue and an increase of $1,467 of personal income taxes remitted to the City during the fiscal year ended 2006. As discussed above, personal income tax revenues include estimates of amounts earned during the period to be received after year-end. The Authority paid its debt service during the year ended June 30, 2006, using the unrestricted grant received from the City at June 30, 2005, and retained $350 million of personal income taxes to defease bonds on June 26, 2006.

Total program expenses increased by $35 million in fiscal 2006, primarily from increased variable rate interest expense.

Financial Highlights and Overall Analysis – Governmental Funds Financial Statements

Total assets decreased by $453 million in fiscal 2006. Restricted cash and cash equivalents decreased by $126 million, restricted investments increased by $361 million, unrestricted cash and cash equivalents decreased by $1,147 million, restricted investments held for economic defeasance decreased by $40 million and personal income tax receivable increased by $499 million.

Total liabilities increased by $499 million in fiscal year 2006, which reflects the increase of $467 million of deferred personal income tax revenue and an increase of personal income taxes payable of $32 million at June 30, 2006.

Total revenues decreased by $1,275 million in fiscal year 2006. The primary components of the decrease was the $1,147 million unrestricted grant received from the City in fiscal 2005 but not in fiscal 2006, and a $147 million decrease in personal income taxes retained.

Expenditures increased by $352 million in fiscal year 2006. The primary components of this increase were interest expense increased by $20 million and principal amount of debt retired increased by $335 million.

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Statements Of Net Assets (Deficit)

June 30 (in thousands)	2006	2005
ASSETS		
Restricted cash and cash equivalents	$ 4,041	$ 130,637
Restricted cash escrow for economic defeasance	681	681
Restricted investments	367,477	5,985
Restricted investments escrow for economic defeasance	266,351	306,332
Unrestricted cash and cash equivalents	–	1,147,242
Personal income tax receivable	505,475	–
Personal income tax receivable from New York City - net	–	6,301
Unamortized bond issuance costs	52,914	58,767
Total assets	1,196,939	1,655,945
LIABILITIES		
Personal income tax payable to New York City	505,475	–
Personal income tax refunds payable - net	–	6,301
Accrued expenses	1,657	2,034
Accrued interest payable	130,853	135,500
Interest rate cap obligation	–	6,140
Bonds payable		
Portion due within one year	368,660	373,245
Portion due after one year	11,863,885	12,603,370
Unamortized deferred bond refunding costs	(172,928)	(193,717)
Unamortized bond premium	301,735	318,406
Total liabilities	12,999,337	13,251,279
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	1,640	11,484
Deficit	(11,804,038)	(11,606,818)
Total deficit	$ (11,802,398)	$ (11,595,334)

The accompanying notes are an integral part of these statements.

Statements Of Activities

Year ended June 30 (in thousands)	2006	2005
EXPENSES		
General and administrative expenses	$ 9,595	$ 11,509
Amortization of deferred bond refunding costs	31,198	30,677
Interest expense	544,379	507,636
Amortization of debt issuance costs	4,979	5,376
Total program expenses	590,151	555,198
GENERAL REVENUES		
Personal income tax revenue	7,800,813	6,480,398
Less remittances to New York City	(7,450,813)	(5,983,304)
Personal income tax revenue retained	350,000	497,094
Unrestricted grant from New York City	–	1,147,242
Unrealized loss on economic defeasance investments	(4,384)	(1,182)
Cost of rate cap termination	(1,135)	–
Change in value of interest rate cap obligation	–	9,920
Investment earnings	38,606	16,157
Total general revenues	383,087	1,669,231
Change in net assets	(207,064)	1,114,033
DEFICIT - beginning of year	(11,595,334)	(12,709,367)
DEFICIT - end of year	$ (11,802,398)	$ (11,595,334)

The accompanying notes are an integral part of these statements.

Balance Sheet
Governmental Funds

June 30, 2006 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ –	$ 4,041	$ 4,041
Restricted cash escrow for economic defeasance	–	681	681
Unrestricted cash and cash equivalents	–	–	–
Restricted investments	–	367,477	367,477
Restricted investments escrow for economic defeasance	–	266,351	266,351
Personal income tax receivable	–	505,475	505,475
Total assets	$ –	$ 1,144,025	$ 1,144,025
LIABILITIES AND FUND BALANCES			
Liabilities			
Accrued expenses	$ –	$ 1,657	$ 1,657
Personal income tax payable to New York City	–	38,475	38,475
Deferred personal income tax revenue	–	467,000	467,000
Total liabilities	–	507,132	507,132
Fund balances			
Reserved for debt service	–	369,861	369,861
Reserved for economic defeasance	–	267,032	267,032
Unreserved funds	–	–	–
Total fund balances	–	636,893	636,893
Total liabilities and fund balances	$ –	$ 1,144,025	$ 1,144,025

The accompanying notes are an integral part of this statement.

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 balances	–	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.

Statement Of Revenues, Expenditures, and Changes In Fund Balances Governmental Funds

Year ended June 30, 2006 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ –	$ 7,333,813	$ 7,333,813
Less remittances to New York City	–	(6,983,813)	(6,983,813)
Personal income tax revenue retained	–	350,000	350,000
Investment earnings	–	38,606	38,606
Unrealized loss on economic defeasance investments	–	(4,384)	(4,384)
Total revenues	–	348,222	348,222
EXPENDITURES			
Interest expense	–	572,723	572,723
Principal amount of bonds retired	–	724,015	724,015
Refunding bond issuance costs	–	4,083	4,083
General and administrative expenses	–	9,595	9,595
Total expenditures	–	1,310,416	1,310,416
Excess of revenues over expenditures	–	(926,194)	(926,194)
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	–	627,984	627,984
Payments to refunded bond escrow holder	–	(646,465)	(646,465)
Cost of termination of rate cap obligation	–	(7,275)	(7,275)
Total other financing sources and uses	–	(25,756)	(25,756)
Net change in fund balances	–	(951,950)	(951,950)
FUND BALANCES - beginning of year	–	1,588,843	1,588,843
FUND BALANCES - end of year	$ –	$ 636,893	$ 636,893

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.

Reconciliations of The Governmental Funds Balance Sheets to The Statements of Net Assets (Deficit)

June 30 (in thousands)	2006	2005
TOTAL FUND BALANCE - governmental funds	$ 636,893	$ 1,588,843
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.	52,914	58,767
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.	(301,735)	(318,406)
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)
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	(12,232,545)	(12,976,615)
Accrued interest on bonds	(130,853)	(130,500)
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.	172,928	193,717
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	(467,000)	–
Deferred personal income tax revenue	467,000	–
NET ASSETS (DEFICIT) of government activities	$ (11,802,398)	$ (11,595,334)

The accompanying notes are an integral part of these statements.

Reconciliations of The Statements of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to The Statements of Activities

Year ended June 30 (in thousands)	2006	2005
NET CHANGE IN FUND BALANCES - total governmental funds	$ (951,950)	$ 707,694
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).	18,480	(5,601)
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.	(27,115)	(26,510)
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).	724,015	389,260
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.	(4,979)	(5,376)
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.	29,929	32,316
Governmental funds report the cost of termination of the interest rate cap as other financing uses. However, the statements of activities report cost of the termination net of carrying fair value of the agreement.	6,140	9,920
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.	(1,584)	12,330
CHANGE IN NET ASSETS of governmental activities	$ (207,064)	$ 1,114,033

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

June 30, 2006 and 2005

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 ("Future Tax Secured Bonds") to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State Legislature increased to $11.5 billion the Authority's capacity to issue bonds and notes for general City capital purposes. In June 2000, the State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from $750 million to $2.3 billion. As of June 30, 2004, the Authority had issued its statutory limit of $11.5 billion of Future Tax Secured Bonds. Subsequent to June 30, 2006, the capacity limit to issue bonds and notes for general City capital purposes was increased by $2 billion to $13.5 billion and the limit on Future Tax Secured Bonds that may be issued as variable rate debt was increased to $2.7 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.

Legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of bonds, notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system; none of those obligations have been issued as of June 30, 2006.

The Authority does not have any employees; its affairs are administered by employees of the City and another component unit of the City, for which the Authority pays a management fee 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 years ended

NOTE B (continued)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

June 30, 2006 and 2005, since the Authority issued its statutory limit of bonds and notes for general City capital purposes in 2004, the governmental fund consists only of the Debt Service Fund. The Debt Service Fund accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt and is used for the operations of the Authority.

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 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 refunding 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, were terminated during the year ended June 30, 2006. The amount paid, net of the obligation at June 30, 2005 in the statement of net assets (deficit), is reported in the statements of activities and is shown as an expenditure in the governmental funds statements of revenues, expenditures, and changes in fund balances. In years prior to June 30, 2006, the interest rate cap obligations were reported in the statements of net assets (deficit) and were adjusted to their fair value at June 30 each year and the change in their fair value was reported as revenue or expense in the statements of activities.

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. During the year ended June 30, 2006, debt service was funded by an Unrestricted Grant received from the City on June 30, 2005. The Authority retained $350,000,000 of personal income taxes for a cash defeasance on June 26, 2006.

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"), as amended subsequent to June 30, 2006, the Authority is authorized to issue $13.5 billion Future Tax Secured Bonds. The Authority had issued $11.5 billion Future Tax Secured Bonds as of June 30, 2004. As of June 30, 2006 and 2005, the Authority had outstanding debt of $10.4 billion and $11.0 billion of Future Tax Secured Bonds, respectively, including $260 million and $292 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. As of June 30, 2006 and 2005, the Authority had outstanding $1.84 billion and $1.96 billion of Recovery Bonds, respectively.

The Authority funds its debt service requirements for Future Tax Secured Bonds and Recovery Bonds and certain operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority 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 2006 and 2005.

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

NOTE C (continued)

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

(in thousands)	Balance at June 30, 2005	Issued	Retired/ Defeased	Balance at June 30, 2006
1998 FISCAL SERIES A				
4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 226,190	$ –	$ (35,705)	$ 190,485
1998 FISCAL SERIES B				
4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	483,665	–	(42,270)	441,395
1998 FISCAL SERIES C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	357,675	–	(75,010)	282,665
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	91,850	–	(20,865)	70,985
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	12,710	–	(5,445)	7,265
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	–	(33,320)	189,180
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	277,500	–	–	277,500

Notes to Financial Statements (continued)
June 30, 2006 and 2005

NOTE C (continued)

(in thousands)	Balance at June 30, 2005	Issued	Retired/ Defeased	Balance at June 30, 2006
1999 FISCAL SERIES B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 292,600	$ –	$ (22,050)	$ 270,550
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	14,315	–	(11,760)	2,555
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	188,820	–	(106,505)	82,315
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	–	–	28,125
2000 FISCAL SERIES A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	55,005	–	(19,140)	35,865
2000 FISCAL SERIES B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	15,815	–	(6,345)	9,470

NOTE C (continued)

(in thousands)	Balance at June 30, 2005	Issued	Retired/ Defeased	Balance at June 30, 2006
2000 FISCAL SERIES C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 127,055	$ –	$ (98,655)	$ 28,400
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	1,650	–	(1,650)	–
2001 FISCAL SERIES A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	187,685	–	(138,400)	49,285
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	264,475	–	(36,355)	288,120
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	308,815	–	(34,120)	274,695
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	139,490	–	(31,905)	107,585

NOTE C (continued)

(in thousands)	Balance at June 30, 2005	Issued	Retired/ Defeased	Balance at June 30, 2006
2002 FISCAL SERIES B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 360,950	$ –	$ (34,515)	$ 326,435
Variable rate taxable bonds maturing in varying installments through 2030 (a)	181,350	–	(4,185)	177,165
2002 FISCAL SERIES C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	230,190	–	(30,955)	199,235
2003 FISCAL SERIES A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,208,215	–	(56,975)	1,151,240
2003 FISCAL SERIES B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	662,630	–	(12,270)	650,360
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	39,575	–	(23,675)	15,900
2003 FISCAL SERIES C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	368,665	–	(12,315)	356,350
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	–	–	150,000

Notes to Financial Statements (continued)
June 30, 2006 and 2005

NOTE C (continued)

(in thousands)	Balance at June 30, 2005	Issued	Retired/ Defeased	Balance at June 30, 2006
2003 FISCAL SERIES D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 475,695	$ –	$ (8,635)	$ 467,060
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	103,215	–	(19,030)	84,185
2003 FISCAL SERIES E				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	537,965	–	(39,375)	498,590
2004 FISCAL SERIES A				
3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	145,000	–	(6,040)	138,960
2004 FISCAL SERIES B				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2032	535,255	–	(39,120)	496,135
2004 FISCAL SERIES C				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	531,365	–	(39,045)	492,320
2004 FISCAL SERIES D				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	662,010	–	(103,600)	558,410
2005 FISCAL SERIES A				
2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	913,110	–	(53,305)	859,805

NOTE C (continued)

(in thousands)	Balance at June 30, 2005	Issued	Retired/ Defeased	Balance at June 30, 2006
2005 FISCAL SERIES B				
2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	$ 7,535	$ –	$ (725)	$ 6,810
2006 FISCAL SERIES A				
3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	–	597,235	(23,980)	573,255
TOTAL BONDS PAYABLE, EXCLUDING RECOVERY BONDS	11,021,665	597,235	(1,227,245)	10,391,655
2003 SERIES 1 RECOVERY BONDS				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	462,100	–	(37,500)	424,600
2003 SERIES 2 RECOVERY BONDS				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	500,200	–	(41,400)	458,800
2003 SERIES 3 RECOVERY BONDS				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	109,450	–	(35,160)	74,290
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	–	–	883,200
TOTAL RECOVERY BONDS PAYABLE	1,954,950	–	(114,060)	1,840,890
TOTAL BONDS PAYABLE	12,976,615	$ 597,235	$ (1,341,305)	12,323,545
Less current portion of bonds payable	373,245			368,660
BONDS PAYABLE DUE AFTER ONE YEAR	$ 12,603,370			$ 11,863,885

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, 2006 and 2005 were $260,655,000 and $292,755,000, respectively, of Future Tax Secured Bonds that were economically defeased on March 24, 2004, and included as an asset is the escrow account that is held by the Authority's Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D Future Tax Secured Bonds.

On November 3, 2005, the Authority issued $597,235,000 of Fiscal 2006 Series A Future Tax Secured Bonds and made an equity contribution from current revenue of $22,560,000 to advance refund $617,290,000 of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of $24.4 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 $31.5 million and obtained an economic benefit of $20.6 million. In this defeasance, the proceeds, net of costs of issuance, were invested in Defeasance Collateral (as defined in the Authority's indenture) that was deposited in an escrow account with the Authority's Trustee to provide for all future debt service on the defeased bonds. Refundings using Defeasance Collateral result in the refunded bonds being removed from bonds outstanding.

On June 26, 2006, the Authority advance refunded $310,270,000 of outstanding Future Tax Secured Bonds with current revenue of $311,473,000. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This refunding resulted in an accounting gain of $14 million.

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. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral. This advance refunding resulted in an accounting loss of

NOTE C (continued)

$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.

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The bonds refunded with Defeasance Collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2006 and 2005, the Authority had bonds refunded with Defeasance Collateral totaling $4,224,295,000 and $3,296,735,000, respectively, of which $3,885,205,000 and $3,041,695,000, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

Debt service requirements at June 30, 2006, for bonds payable to their maturity are as follows:

Year ended June 30 (in thousands)	Principal	Interest (a)	Total
2007	$ 368,660	$ 544,722	$ 913,382
2008	105,905	534,936	640,841
2009	425,175	526,165	951,340
2010	460,815	506,911	967,726
2011	462,285	485,756	948,041
2012 to 2016	2,875,890	2,529,911	5,405,801
2017 to 2021	3,102,540	1,785,078	4,887,618
2022 to 2026	2,546,940	961,393	3,508,333
2027 to 2031	1,694,795	265,344	1,960,139
2032 to 2034	189,540	11,011	200,551
	$ 12,232,545	$ 8,151,227	$ 20,383,772

(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, 2006 averaged approximately 2.928% on tax-exempt bonds and 4.291% on taxable bonds, which are the rates used in this table. If variable interest is calculated at 5.00% on tax-exempt and 7.00% on taxable per annum (which are the rates utilized for retention), total interest would be increased to $8,971,560 from the $8,151,227 in the above table.

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. During the year ended June 30, 2006, debt service was funded by the Unrestricted Grant received from the City on June 30, 2005.

At June 30, 2006 and 2005, the Authority maintained its required debt service accounts totaling $123,480,000 and $133,285,000, respectively, of which $13,350,000 and $13,060,000 were for principal retirement, respectively, and $110,130,000 and $120,225,000 were for interest payments, respectively. The Authority held approximately $243,997,000 in excess of required retention at June 30, 2006.

NOTE D - CASH AND CASH EQUIVALENTS

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

June 30 (in thousands)	2006	2005
Restricted cash and cash equivalents		
Cash	$ 16	$ 2,852
Commercial paper	–	127,785
U.S. Government securities	4,025	–
	$ 4,041	$ 130,637
Restricted cash in escrow for economic defeasance	$ 681	$ 681
Unrestricted cash	$ –	$ 1,147,242

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

At June 30, 2006 and 2005, the carrying amounts of bank deposits were $16,000 and $2,852,000, respectively, and the bank balances were $19,000 and $2,815,000, respectively. At June 30, 2006 and 2005, $19,000 and $100,000, respectively, 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. See Note E below for the Authority's investment policy.

Notes to Financial Statements (continued)

June 30, 2006 and 2005

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. All holdings having an original maturity of more than three months are carried as investments.

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

The Authority values commercial paper at cost plus accrued interest, which approximates market. At June 30, 2005, the below-referenced commercial paper was rated A1+ by Standard & Poor's Rating Services and P1 by Moody's Investor Services.

The Authority's restricted investments in the economic defeasance escrow account at the Authority's trustee were valued at market, which resulted in an unrealized loss of approximately $4,384,000 at June 30, 2006 and an unrealized loss of approximately $1,182,000 at June 30, 2005. The investments included purchases of securities at a premium, resulting in higher interest-bearing investments and this was included in the verification agent's computations to assure that the escrow fund provides for all future debt service on the economically defeased bonds.

The Authority's restricted investments are as follows:

June 30 (in thousands)	2006	2005
Restricted investments		
Commercial paper	$ –	$ 5,985
U.S. Government securities	367,477	–
	$ 367,477	$ 5,985
Restricted investments for economic defeasance		
Federal Home Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; United States bonds, notes and STRIPS	$ 266,351	$ 306,332

NOTE F - INTEREST RATE CAP OBLIGATIONS

In June 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. In December 2005, the Authority paid $7,274,400 to HDC to terminate three Interest Rate Cap Agreements. The cost of termination of $1,135,000 included in the statement of activities for the year ended June 30, 2006 consists of the $7,274,400 termination payment reduced by the elimination of the interest rate cap obligation liability of $6,140,000. The termination payment of $7,274,400 is shown as an expenditure in the governmental funds statement of revenues, expenditures, and changes in fund balances.

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

NOTE G - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority did not receive a grant from the City during the year ended June 30, 2006.

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. Those funds were invested in July 2005 and were used to fund debt service requirements and administrative expenses during the year ended June 30, 2006 and into the year ended June 30, 2007.

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

On October 16, 2006, the Authority issued $500,000,000 of Future Tax Secured Bonds, Series 2007 A-1, tax-exempt fixed rate; $200,000,000 Future Tax Secured Bonds, Series 2007 A-2, taxable fixed rate; and $100,000,000 Future Tax Secured Bonds, Series 2007 A-3, tax-exempt variable rate.

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