New York City
Transitional Finance Authority

2007 Annual Report

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Letter from the Chairman

DECEMBER 5TH, 2007

I am pleased to present the Fiscal Year 2007 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, 2006.

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.

The TFA issued $800 million of Fiscal 2007 Series A new money bonds backed by personal income tax and if necessary sales tax revenues of the City of New York on October 16, 2006. The TFA then issued $600 million of new money bond anticipation notes via competitive bid on November 29, 2006, with a maturity date of June 29, 2007. The TFA issued $600 million of new money bonds and $300 million of refunding bonds on February 22, 2007. The TFA issued $589 million of bonds on June 21, 2007, the proceeds of which were used to repay the bond anticipation notes issued earlier this fiscal year.

The TFA had its inaugural issuance of $650 million of Fiscal 2007 Series S-1 Building Aid Revenue Bonds backed by State building aid on November 16, 2006. The TFA issued an additional $650 million of Fiscal 2007 Series S-2 Building Aid Revenue Bonds on March 15, 2007.

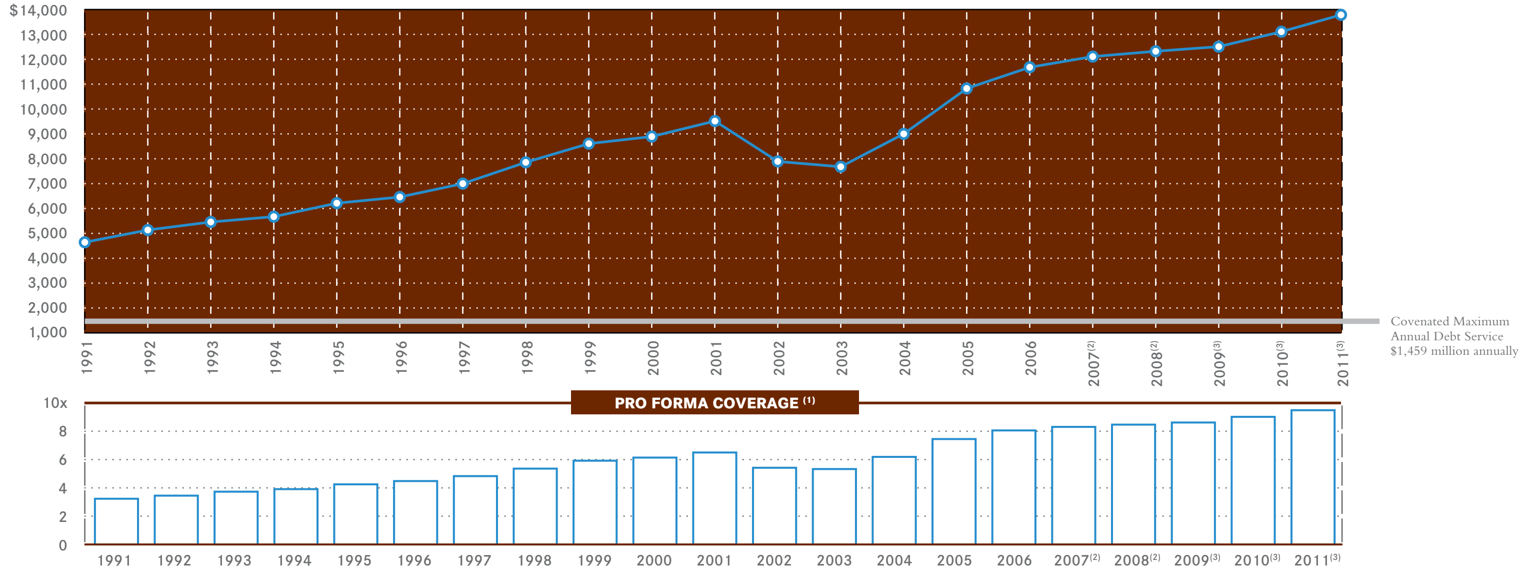
On September 4, 2007, the Authority redeemed $170.3 million Recovery Bonds with debt service funds retained from the New York City Grant received in fiscal 2007. This redemption reduced principal payments of $83.5 million and $86.8 million due in the fiscal years ended June 30, 2009 and 2010, respectively.

Respectfully submitted,

Mark Page,
Chairman

DEBT SERVICE COVERAGE BY HISTORICAL AND FORECASTED TAX REVENUES

($ IN MILLIONS)



Source: NYC OMB. All figures shown herein are calculated on a cash basis as of June 2007.

(1) Calculated based on maximum annual debt service of approximately $1,459 million on Senior Bonds and Parity Debt (assumes that variable rate bonds bear interest at their maximum rate of 9% and that auction rate bonds bear interest at their maximum rate of 12%, and excludes debt service on Series 1 Notes and includes debt service on the Series 2007 C Bonds).

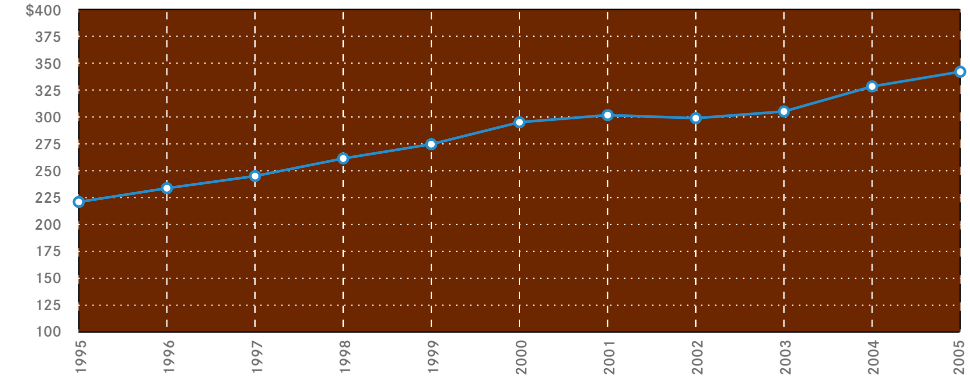
(2) Forecast. Figures do not reflect deductions for MAC Funding Requirements.

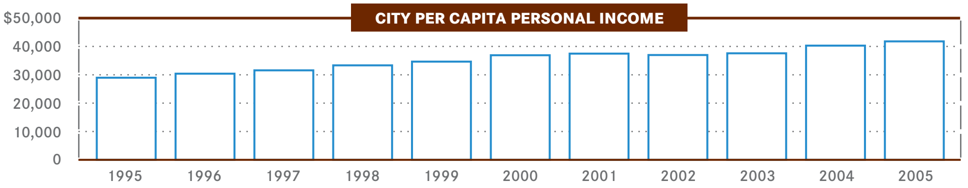
(3) Forecast. Amounts shown assume that the City will be authorized to impose the Sales Tax after July 1, 2008 at the rate of 4%, which will require legislation.

This Page (Left to Right): OEM Headquarters (exterior & interior) — *Swanke Hayden Connell.*

PERSONAL INCOME IN NEW YORK CITY [1]

($ IN BILLIONS)

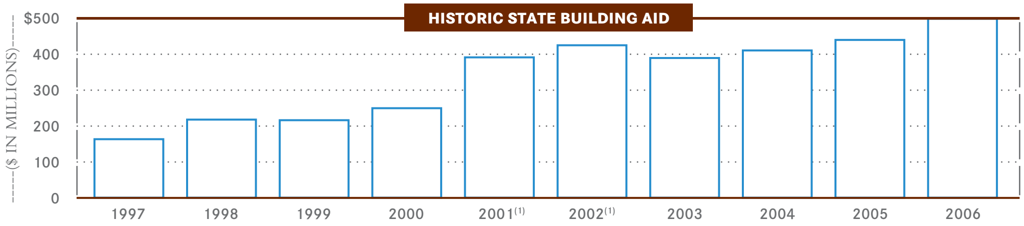




Source: U.S. Department of Commerce, Bureau of Economic Analysis and the Bureau of the Census.

(1) In current dollars. Personal income is based on the place of residence and is measured from income which includes wages and salaries, other labor income, proprietors' income, personal dividend income, personal interest income, rental income of persons, and transfer payments.

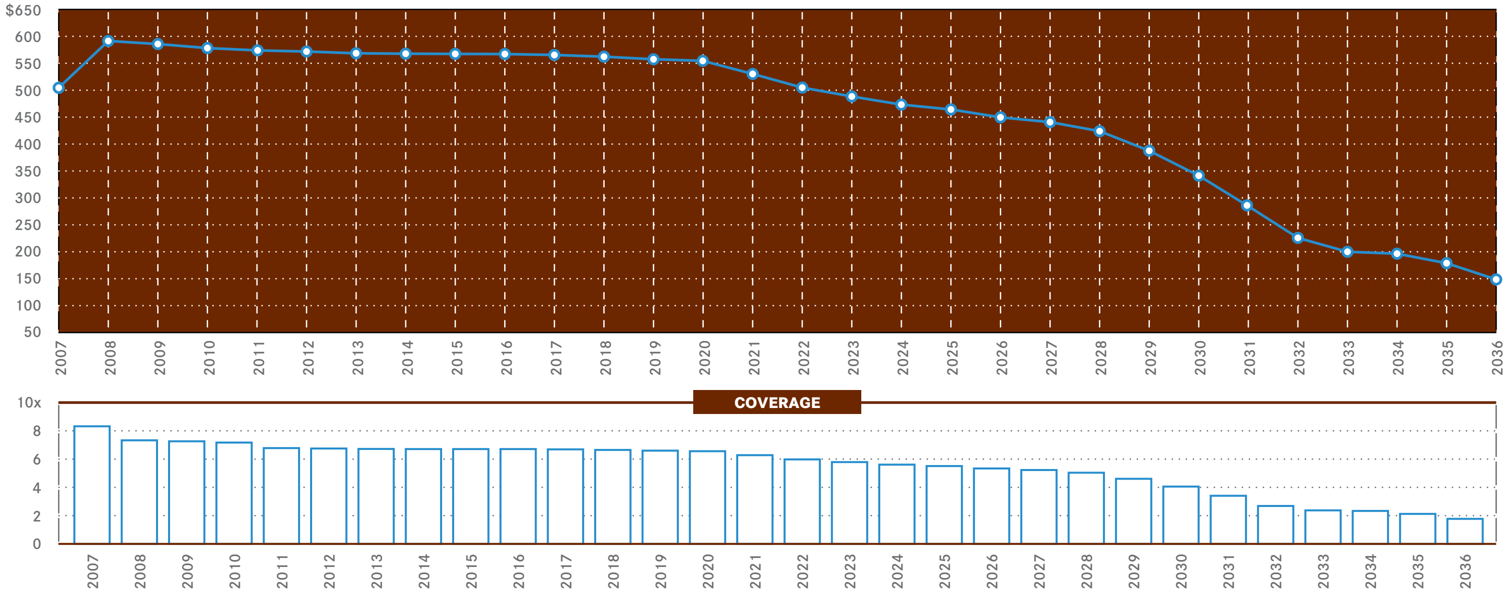
This Page (Top Right): Flight 587 Memorial — *Freddy Rodriguez, Artist.* **(Bottom Left to Right):** Queens Botanical Gardens — *BKSK Architects,* Studio Museum in Harlem — *Rogers Marvel Architects,*



(1) The increase in State Building Aid in fiscal years 2001 and 2002 is largely attributable to the City's use of pay-as-you-go capital in fiscal years 2000 through 2002, the full amount of which was aided in fiscal years 2001 and 2002. Subsequently, the Education Law was changed to provide that projects paid for with pay-as-you-go capital would be aided over a 30-year period rather than in one fiscal year.

DEBT SERVICE COVERAGE FOR BUILDING AID REVENUE BONDS BY CONFIRMED BUILDING AID [1]

($ IN MILLIONS)



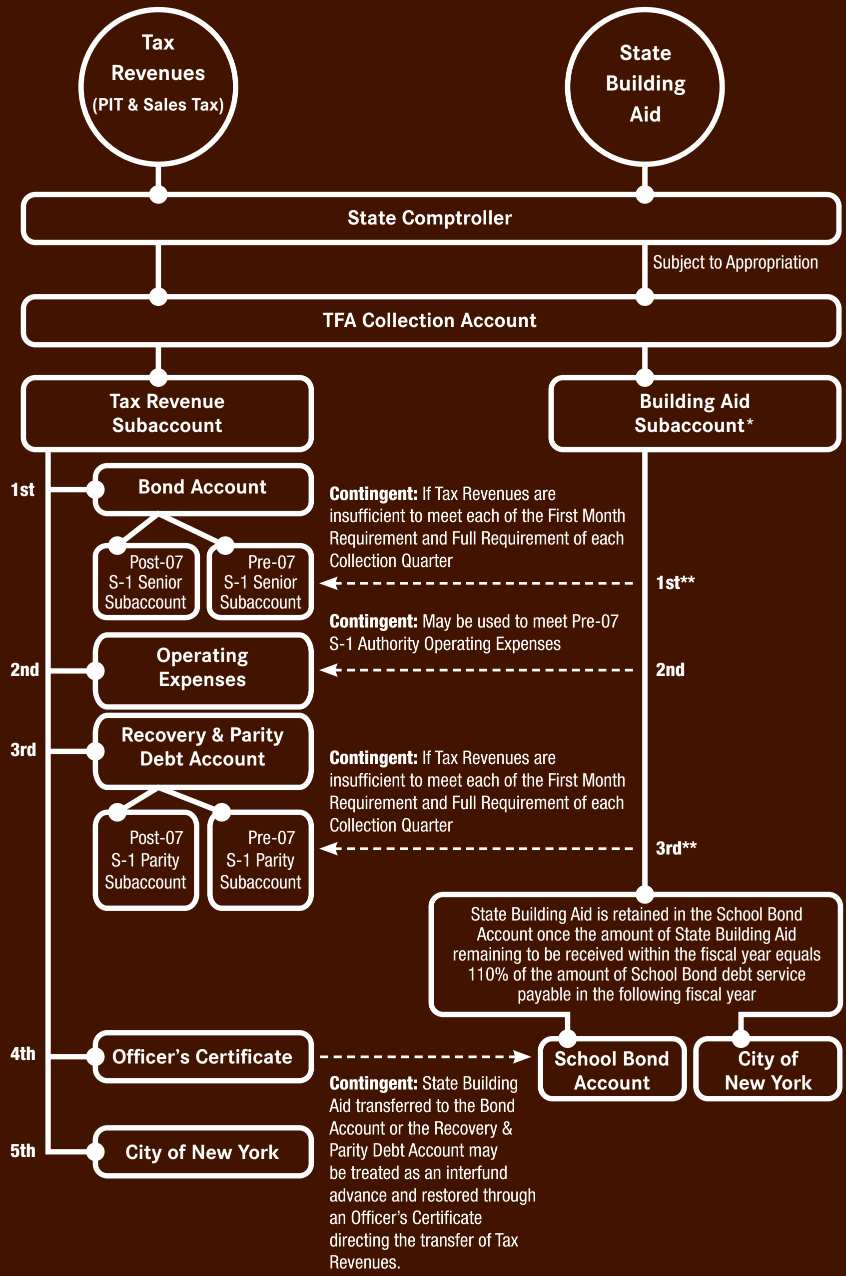
(1) Approximately $82.3 million was received by the City in fiscal year 2007 prior to execution of the Assignment and therefore is not included in 2007 Confirmed Building Aid.

Note: The amount of Confirmed Building Aid payable to the Authority will vary in the future depending on, among other factors, the Selected Building Aid Ratio.

Previous Page (Top Left to Right): Stone Street, Montessori Progressive Learning Center — *Slade Architects,* **(Bottom Left to Right):** Flight 587 Memorial — *Freddy Rodriguez, Artist,* Cambria Heights Library — *Kostow Greenwood Architects.*

This Page (From Left to Right): Bronx Museum of the Arts — *Arquitectonica,* Fort Hamilton Parkway flooding mitigation

Summary of Collection and Application of Revenues



* State Building Aid is initially available to pay debt service coming due and payable but not already provided for with respect to Senior Bonds and Parity Debt, issued prior to the Fiscal 2007 Series S-1 Building Aid Revenue Bonds.

** Within the respective retention period, once each of the First-Month and Full Requirement is satisfied, State Building Aid flows to either the School Bond Account or the City of New York.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

Financial Section
June 30, 2007

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

TO THE AUDIT COMMITTEE AND
BOARD OF DIRECTORS OF THE 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, 2007 and 2006, 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, 2007 and 2006, 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 29, 2007

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 years ended June 30, 2007 and 2006. It should be read in conjunction with the Authority's entity-wide financial statements, governmental funds financial statements, and the notes to the financial statements.

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 entity-wide statements 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. Expenditures are recognized when the related liability is incurred, except for unmatured interest on bonds payable, which is recognized when due.

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

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

The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for general City capital purposes ("Future Tax Secured Bonds") to $13.5 billion as of June 30, 2007, which limit was reached during the fiscal year.

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, of which $1.3 billion was issued and outstanding as of June 30, 2007 and none was 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, 2007 and 2006, $1.77 billion and $1.84 billion, respectively, of Recovery Bonds outstanding.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - ENTITY-WIDE FINANCIAL STATEMENTS

The following summarizes the activities of the Authority for the years ended June 30, 2007 and 2006:

($000's)	2007	2006	Change
REVENUES:			
Personal income tax retained	$ 684,607	$ 350,000	$ 334,607
Building aid retained	62,173	–	62,173
Unrestricted grant from New York City	1,264,215	–	1,264,215
Investment earnings and gains (losses), net	69,430	34,222	35,208
Total revenues	**2,080,425**	**384,222**	**1,696,203**
EXPENSES:			
Distributions to New York City for capital program	2,383,609	–	2,383,609
Interest expense	620,580	544,379	76,201
Other	43,326	46,907	(3,581)
Total expenses	**3,047,515**	**591,286**	**2,456,229**
Change in net assets	(967,090)	(207,064)	(760,026)
Net (deficit) - beginning of period	(11,802,398)	(11,595,334)	(207,064)
Net (deficit) - end of period	**$ (12,769,488)**	**$ (11,802,398)**	**$ (967,090)**

The Authority retained personal income tax during fiscal 2007 for debt service and operations, while in fiscal 2006 debt service was fully funded by a grant received from the City at the end of June 2005. The retention in fiscal 2006 was for the June 26, 2006 cash defeasance of bonds due in fiscal 2008. The Authority retained the requisite building aid payments from the State to fund the debt service on Building Aid Revenue Bonds. The receipt of the building aid payments from the State commenced with the assignment by the City of these State payments to the Authority. The City did not give the Authority a grant in fiscal 2006. The increase of investment earnings is due to the issuance of new money bonds in fiscal 2007 and the investment of those proceeds until distributed to the City for capital purposes which increased the earnings, and also due to an increase of interest rates.

In July 2006, the Authority's statutory capacity to issue bonds and notes for capital purposes of the City was increased by $2 billion. During fiscal 2007, the Authority issued these bonds. In fiscal 2006, no bonds were issued as the Authority had previously reached its then applicable statutory capacity of $11.5 billion. Interest expense increase is due to the additional bonds issued and outstanding as well as an increase of interest rates in fiscal 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - ENTITY-WIDE FINANCIAL STATEMENTS (continued)

The following summarizes the Authority's assets, liabilities, and net assets (deficits) as of June 30, 2007 and 2006:

($000's)	2007	2006	Change
ASSETS:			
Total assets	**$ 3,135,704**	**$ 1,196,939**	**$ 1,938,765**
LIABILITIES:			
Current liabilities	1,127,085	1,006,645	120,440
Non-current liabilities	14,778,107	11,992,692	2,785,415
Total liabilities	**15,905,192**	**12,999,337**	**2,905,855**
NET ASSETS (DEFICIT):			
Restricted	1,075,372	1,640	1,073,732
Unrestricted	(13,844,860)	(11,804,038)	(2,040,822)
Total deficit	**$ (12,769,488)**	**$ (11,802,398)**	**$ (967,090)**

The increase in total assets is due primarily to bond proceeds being held of approximately $1.3 billion included in restricted assets and additional funds (mainly from the City grant) held for debt service of approximately $500 million also included in restricted assets.

The increase in liabilities is primarily caused by the issuance in fiscal 2007 of new money bonds comprised of $1.99 billion of Future Tax Secured Bonds and $1.3 billion of Building Aid Revenue Bonds, reduced by the defeasance of approximately $537 million of bonds on June 28, 2007 using the grant funds received from the City, as well as scheduled principal payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

The following summarizes the changes in BARB CPF balances for the years ended June 30, 2007 and 2006:

($000's)	2007	2006	Change
REVENUES:			
Total revenues - investment income	**$ 19,028**	**$ –**	**$ N/A**
EXPENDITURES:			
Distributions to New York City for capital program	748,299	–	N/A
Costs of debt issuance	15,013	–	N/A
Total expenditures	**763,312**	**–**	**N/A**
Excess of expenditures over revenues	(744,284)	–	N/A
OTHER FINANCING SOURCES (USES):			
Bond issuances, including premium	1,375,763	–	N/A
Transfers (out)	(35)	–	N/A
Total other financing sources	**1,375,728**	**–**	**N/A**
Net change in fund balance	631,444	–	N/A
Fund balance - beginning of period	–	–	N/A
Fund balance - end of period	**$ 631,444**	**$ –**	**$ N/A**

Building aid revenue bonds' initial issuance was on November 16, 2006 and the Authority distributed the requisite funds to the City for qualifying school capital expenditures of the New York City School System.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the changes in FTS CPF balances for the years ended June 30, 2007 and 2006:

($000's)	2007	2006	Change
REVENUES:			
Total revenues - investment income	**$ 24,058**	**$ –**	**$ N/A**
EXPENDITURES:			
Distributions to New York City for capital program	1,635,310	–	N/A
Costs of debt issuance	12,917	–	N/A
Total expenditures	**1,648,227**	**–**	**N/A**
Excess of expenditures over revenues	(1,624,169)	–	N/A
OTHER FINANCING SOURCES (USES):			
Bond issuances, including premium	2,071,632	–	N/A
Transfers (out)	(3,686)	–	N/A
Total other financing sources	**2,067,946**	**–**	**N/A**
Net change in fund balance	443,777	–	N/A
Fund balance - beginning of period	–	–	N/A
Fund balance - end of period	**$ 443,777**	**$ –**	**$ N/A**

During the year ended June 30, 2007, the Authority used its increased borrowing capacity limit to issue bonds for the general capital purposes of the City, and distributed the requisite funds to the City. No bonds were issued in the fiscal year ended June 30, 2006, since as of June 30, 2004, the Authority had issued its then applicable statutory capacity limit of $11.5 billion of Future Tax Secured Bonds.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the changes in the BARB DSF balances for the years ended June 30, 2007 and 2006:

($000's)	2007	2006	Change
REVENUES:			
Building aid revenue retained	$ 62,173	$ –	$ N/A
Investment earnings	536	–	N/A
Total revenues	**62,709**	**–**	**N/A**
EXPENDITURES:			
Total expenditures - general and administrative	**92**	**–**	**N/A**
Excess of revenues over expenditures	62,617	–	N/A
OTHER FINANCING SOURCES:			
Transfers in	126	–	N/A
Total other financing sources	**126**	**–**	**N/A**
Net change in fund balance	62,743	–	N/A
Fund balance - beginning of period	–	–	N/A
Fund balance - end of period	**$ 62,743**	**$ –**	**$ N/A**

Building aid revenue bonds were issued for the first time in 2007. The building aid payments received commenced with the assignment by the City of these State payments to the Authority to fund the debt service on the Building Aid Revenue Bonds. The first State building aid payment was received in November 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the changes in the FTS DSF balances for the years ended June 30, 2007 and 2006:

($000's)	2007	2006	Change
REVENUES:			
Personal income tax revenue retained	$ 684,607	$ 350,000	$ 334,607
Unrestricted grant from New York City	1,264,215	—	1,264,215
Investment earnings and gains	25,808	34,222	(8,414)
Total revenues	1,974,630	384,222	1,590,408
EXPENDITURES:			
Interest expense	592,103	572,723	19,380
Defeasance escrow	546,326	310,270	236,056
Principal amount of bonds retired	368,660	413,745	(45,085)
Cost of termination of rate cap obligation	—	7,275	(7,275)
Refunding bond issuance costs	1,842	4,083	(2,241)
General and administrative	8,848	9,595	(747)
Total expenditures	1,517,779	1,317,691	200,088
Excess (deficiency) of revenues over expenditures	456,851	(933,469)	1,390,320
OTHER FINANCING SOURCES (USES):			
Refunding bond proceeds	321,400	627,984	(306,584)
Payments to refunded bond escrow holder	(324,450)	(646,465)	322,015
Transfers in	3,595	—	3,595
Total other financing sources (uses)	545	(18,481)	19,026
Net change in fund balance	457,396	(951,950)	1,409,346
Fund balance - beginning of period	636,893	1,588,843	(951,950)
Fund balance - end of period	**$ 1,094,289**	**$ 636,893**	**$ 457,396**

The Authority retained personal income tax during 2007 for debt service and operations, while in fiscal 2006 debt service was fully funded by a grant received from the City at the end of June 2005. The retention in fiscal 2006 was for the June 26, 2006 cash defeasance of bonds due in fiscal 2008. The City did not give the Authority a grant in fiscal 2006. The increase of investment earnings is due to the issuance of new money bonds in fiscal 2007 and the investment of those proceeds until distributed to the City for capital purposes which increased the earnings, and also due to an increase of interest rates.

In July 2006, the Authority's statutory capacity to issue bonds and notes for capital purposes of the City was increased by $2 billion. During fiscal year 2007, the Authority issued these bonds. In fiscal 2006, no bonds were issued as the Authority had previously reached its then applicable statutory capacity of $11.5 billion. Interest expense increase is due to additional bonds issued and outstanding, as well as an increase of interest rates in fiscal 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the changes in the BARB CPF Balance Sheets as of June 30, 2007 and 2006:

($000's)	2007	2006	Change
ASSETS:			
Total assets - restricted cash and investments	**$ 758,781**	$ –	$ N/A
LIABILITIES:			
Payable to New York City for capital program	127,232	–	N/A
Accrued expenses	105	–	N/A
Total liabilities	127,337	–	N/A
FUND BALANCE:			
Reserved	631,444	–	N/A
Total fund balance	631,444	–	N/A
Total liabilities and fund balance	**$ 758,781**	**$ –**	**$ N/A**

The increase in total assets is due primarily to approximately $789 million of bond proceeds held for distribution to New York City for school capital expenditures by the City, which are included in cash and investments. The increase in liabilities is due primarily to amounts owed to the City for reimbursement of school capital expenditures. In July 2007, the Authority made a payment of $127 million to the City for qualifying expenditures the City incurred in the year ended June 30, 2007.

The following summarizes the changes in the FTS CPF Balance Sheets as of June 30, 2007 and 2006:

($000's)	2007	2006	Change
ASSETS:			
Total assets - restricted cash and investments	**$ 566,848**	$ –	$ N/A
LIABILITIES:			
Payable to New York City for capital program	122,406	–	N/A
Accrued expenses	665	–	N/A
Total liabilities	123,071	–	N/A
FUND BALANCE:			
Reserved	443,777	–	N/A
Total fund balance	443,777	–	N/A
Total liabilities and fund balance	**$ 566,848**	**$ –**	**$ N/A**

The increase in total assets is due primarily to approximately $567 million of bond proceeds held for distribution to New York City for general capital expenditures of the City, which are included in cash and investments. The increase in liabilities is due primarily to amounts owed to the City for reimbursement of general City capital expenditures. In July 2007, the Authority made payment of $122 million to the City for qualifying expenditures the City incurred in the year ended June 30, 2007.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS - GOVERNMENTAL FUNDS FINANCIAL STATEMENTS (continued)

The following summarizes the changes in the BARB DSF Balance Sheets as of June 30, 2007 and 2006:

($000's)	2007	2006	Change
ASSETS:			
Total assets - restricted cash and investments	$ 62,743	$ –	$ N/A
FUND BALANCE:			
Reserved	62,743	–	N/A
Total fund balance	**$ 62,743**	**$ –**	**$ N/A**

The increase in total assets is due to the retention of building aid payments received by the Authority during the year ended June 30, 2007 to be used for debt service required to be paid in the fiscal year ending June 30, 2008:

The following summarizes the changes in the FTS DSF Balance Sheets as of June 30, 2007 and 2006:

($000's)	2007	2006	Change
ASSETS:			
Restricted cash and investments	$ 1,095,787	$ 638,550	$ 457,237
Personal income tax receivable	580,149	505,475	74,674
Total assets	**$ 1,675,936**	**$ 1,144,025**	**$ 531,911**
LIABILITIES:			
Deferred personal income tax revenue	$ 535,000	$ 467,000	$ 68,000
Personal income tax payable to New York City	45,149	38,475	6,674
Accrued expenses	1,498	1,657	(159)
Total liabilities	581,647	507,132	74,515
FUND BALANCE:			
Reserved	1,094,289	369,861	724,428
Unreserved	–	267,032	(267,032)
Total fund balance	1,094,289	636,893	457,396
Total liabilities and fund balance	**$ 1,675,936**	**$ 1,144,025**	**$ 531,911**

The increase in total assets is due primarily to the additional funds of approximately $500 million (mainly from the City grant) held for debt service, which is included in restricted cash and investments.

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BASIC FINANCIAL STATEMENTS (next page)

STATEMENTS OF NET ASSETS (DEFICIT)

June 30, (in thousands)	2007	2006
ASSETS		
Restricted cash and cash equivalents	$ 977,975	$ 4,041
Restricted cash escrow for economic defeasance	681	681
Restricted investments	1,267,305	367,477
Restricted investments escrow for economic defeasance	238,198	266,351
Personal income tax receivable	580,149	505,475
Unamortized bond issuance costs	71,396	52,914
Total assets	3,135,704	1,196,939
LIABILITIES		
Personal income tax payable to New York City	580,149	505,475
Distributions payable to New York City capital program	249,638	—
Accrued expenses	2,268	1,657
Accrued interest payable	189,125	130,853
Bonds payable		
Portion due within one year	105,905	368,660
Portion due after one year	14,500,920	11,863,885
Unamortized deferred bond refunding costs	(136,767)	(172,928)
Unamortized bond premium	413,954	301,735
Total liabilities	15,905,192	12,999,337
NET ASSETS (DEFICIT)		
Restricted for economic defeasance	151	1,640
Restricted for capital projects	1,075,221	—
Deficit	(13,844,860)	(11,804,038)
Total deficit	**$ (12,769,488)**	**$ (11,802,398)**

The accompanying notes are an integral part of these statements.

STATEMENTS OF ACTIVITIES

Year ended June 30, (in thousands)		2007		2006
EXPENSES				
General and administrative expenses	$	8,940	$	9,595
Distributions to New York City for capital program		2,383,609		–
Amortization of deferred bond refunding costs		27,425		31,198
Interest expense		620,580		544,379
Amortization of debt issuance costs		6,961		4,979
Cost of rate cap termination		–		1,135
Total expenses		3,047,515		591,286
GENERAL REVENUES				
Personal income tax revenue		8,254,777		7,800,813
Less remittances to New York City		(7,570,170)		(7,450,813)
Personal income tax revenue retained		684,607		350,000
Building aid revenue		505,818		–
Less remittances to New York City		(443,645)		–
Building aid revenue retained		62,173		–
Unrestricted grant from New York City		1,264,215		–
Unrealized gain (loss) on economic defeasance investments		3,399		(4,384)
Investment earnings		66,031		38,606
Total general revenues		2,080,425		384,222
Change in net assets		(967,090)		(207,064)
Deficit - beginning of year		(11,802,398)		(11,595,334)
Deficit - end of year	**$**	**(12,769,488)**	**$**	**(11,802,398)**

The accompanying notes are an integral part of these statements.

BALANCE SHEETS

GOVERNMENTAL FUNDS

June 30, 2007 (in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
ASSETS					
Restricted cash and cash equivalents	$ 73,088	$ 566,848	$ 62,743	$ 275,296	$ 977,975
Restricted cash escrow for economic defeasance	–	–	–	681	681
Restricted investments	685,693	–	–	581,612	1,267,305
Restricted investments escrow for economic defeasance	–	–	–	238,198	238,198
Personal income tax receivable	–	–	–	580,149	580,149
Total assets	**$ 758,781**	**$ 566,848**	**$ 62,743**	**$1,675,936**	**$ 3,064,308**
LIABILITIES AND FUND BALANCES					
Liabilities					
Accrued expenses	$ 105	$ 665	$ –	$ 1,498	$ 2,268
Distributions payable to New York City for Capital program	127,232	122,406	–	–	249,638
Personal income tax payable to New York City	–	–	–	45,149	45,149
Deferred personal income tax revenue	–	–	–	535,000	535,000
Total liabilities	127,337	123,071	–	581,647	832,055
Fund balances					
Reserved for capital projects	631,444	443,777	–	–	1,075,221
Reserved for debt service	–	–	62,743	855,410	918,153
Reserved for economic defeasance	–	–	–	238,879	238,879
Total fund balances	631,444	443,777	62,743	1,094,289	2,232,253
Total liabilities and fund balances	**$ 758,781**	**$ 566,848**	**$ 62,743**	**$1,675,936**	**$ 3,064,308**

The accompanying notes are an integral part of this statement.

BALANCE SHEETS
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
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
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.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

Year ended June 30, 2007 (in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
Revenues					
Personal income tax revenue	$ –	$ –	$ –	$ 7,719,777	$ 7,719,777
Less remittances to New York City	–	–	–	(7,035,170)	(7,035,170)
Personal income tax revenue retained	–	–	–	684,607	684,607
Building aid revenue	–	–	505,818	–	505,818
Less remittances to New York City	–	–	(443,645)	–	(443,645)
Building aid revenue retained	–	–	62,173	–	62,173
Total amounts retained	–	–	62,173	684,607	746,780
Unrestricted grant from New York City	–	–	–	1,264,215	1,264,215
Investment earnings	19,028	24,058	536	12,523	56,145
Investment earnings economic defeasance escrow	–	–	–	9,886	9,886
Unrealized gain on economic defeasance investments	–	–	–	3,399	3,399
Total revenues	19,028	24,058	62,709	1,974,630	2,080,425
Expenditures					
Interest expense	–	–	–	579,949	579,949
Interest expense economic defeasance	–	–	–	12,154	12,154
Costs of debt issuance	15,013	12,917	–	–	27,930
Distributions to New York City for capital program	748,299	1,635,310	–	–	2,383,609
Principal amount of bonds retired	–	–	–	339,375	339,375
Defeasance escrow	–	–	–	546,326	546,326
Principal amount of economic defeased bonds retired	–	–	–	29,285	29,285
Refunding bond issuance costs	–	–	–	1,842	1,842
General and administrative expenses	–	–	92	8,848	8,940
Total expenditures	763,312	1,648,227	92	1,517,779	3,929,410
Excess (deficiency) of expenditures over revenues	(744,284)	(1,624,169)	62,617	456,851	(1,848,985)

Continued on the next page

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS (Continued)

Year ended June 30, 2007 (in thousands)

	Capital Projects		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
Other financing sources (uses)					
Principal amount of bonds issued	$ 1,300,000	$ 1,989,370	$ —	$ —	$ 3,289,370
Refunding bond proceeds	—	—	—	321,400	321,400
Bond premium, net of discount	75,763	82,262	—	—	158,025
Payments to refunded bond escrow holder	—	—	—	(324,450)	(324,450)
Transfers in (out)	(35)	(3,686)	126	3,595	—
Total other financing sources	1,375,728	2,067,946	126	545	3,444,345
Net change in fund balances	631,444	443,777	62,743	457,396	1,595,360
Fund balances - beginning of year	—	—	—	636,893	636,893
Fund balances - end of year	**$ 631,444**	**$ 443,777**	**$ 62,743**	**$ 1,094,289**	**$ 2,232,253**

The accompanying notes are an integral part of this statement.

STATEMENTS 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	–	384,222	384,222
EXPENDITURES			
Interest expense	–	572,723	572,723
Principal amount of bonds retired	–	413,745	413,745
Defeasance escrow	–	310,270	310,270
Refunding bond issuance costs	–	4,083	4,083
Cost of termination of rate cap obligation	–	7,275	7,275
General and administrative expenses	–	9,595	9,595
Total expenditures	–	1,317,691	1,317,691
Excess of expenditures over revenues	–	(933,469)	(933,469)
OTHER FINANCING SOURCES (USES)			
Refunding bond proceeds	–	627,984	627,984
Payments to refunded bond escrow holder	–	(646,465)	(646,465)
Total other financing (uses)	–	(18,481)	(18,481)
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.

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

Year ended June 30, (in thousands)	2007	2006
Total fund balance - total governmental funds	$ 2,232,253	$ 636,893
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.	71,396	52,914
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.	(413,954)	(301,735)
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	(14,606,825)	(12,232,545)
Accrued interest on bonds	(189,125)	(130,853)
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.	136,767	172,928
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	(535,000)	(467,000)
Deferred personal income tax revenue	535,000	467,000
Net assets (deficit) of government activities	**$ (12,769,488)**	**$ (11,802,398)**

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)	2007	2006
Net change in fund balances - total governmental funds	$ 1,595,360	$ (951,950)
Amounts reported for governmental activities in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds, but bonds issued increase long-term liabilities on the statements of net assets (deficit).	(3,289,370)	—
Cash defeasances of long-term debt are reported as other expenditures, but decrease long-term liabilities in the statements of net assets (deficit).	546,326	310,270
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	3,050	18,480
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.	(27,425)	(27,115)
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).	368,660	413,745
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.	22,811	(4,979)
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.	(119,635)	29,929
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
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.	(66,867)	(1,584)
Change in net assets of governmental activities	**$ (967,090)**	**$ (207,064)**

The accompanying notes are an integral part of these statements.

NOTE A - ORGANIZATION

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

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

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

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

The Authority does not have any employees; its affairs are administered by employees of the City and another component unit of the City, for which the Authority pays a management fee 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, 2007, the governmental funds consist of four funds: (1) a building aid revenue bonds capital project fund (BARB CPF), (2) a future tax

NOTE B (CONTINUED)

secured capital project fund (FTS CPF), (3) a building aid revenue bonds debt service fund (BARB DSF) and (4) a future tax secured debt service fund (FTS DSF). The two capital projects funds account for resources to be transferred to the City's capital program and the two debt service funds account for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt, and support the operations of the Authority. For the year ended June 30, 2006, since the Authority had previously issued its statutory limit of bonds and notes for City capital purposes in 2004, the governmental fund consisted only of one debt service fund.

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 arose under 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 future tax secured debt and pay its administrative expenses. Funds for future tax secured bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City. During the year ended June 30, 2006, debt service was funded from 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 Authority receives building aid payable by the State pursuant to the assignments by the City of the building aid payments to TFA to service its building aid revenue bonds and pay its administrative expenses. Funds for building aid revenue bond debt service are required to be retained when the projected remaining building aid to be received by the Authority reaches 110% of the unfunded debt service for the current and the next fiscal year. Unused building aid is remitted to the City. During the year ended June 30, 2007, the Authority retained $62.7 million of building aid to be used for debt service to be paid in the year ending June 30, 2008.

NOTE B (CONTINUED)

In September 2006, the Governmental Accounting Standards Board ("GASB") issued Statement No. 48 ("GASB 48"), "Sales and Pledges of Receivables and Future Revenues." GASB 48 established criteria that governmental entities will use to ascertain whether the proceeds received (or paid) in exchange for an interest in expected cash flows from collections of specific receivables or specific future revenues should be reported as revenue (expense/expenditure) or as a liability (asset). The Authority has not completed the process of evaluating the impact, if any, from adopting GASB 48; therefore, the Authority is unable to disclose the impact adopting this statement will have on its financial statements. This statement is effective for fiscal periods beginning after December 15, 2006, which will be for the Authority's fiscal year ending June 30, 2008.

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, the Authority is authorized to issue $13.5 billion Future Tax Secured Bonds. The Authority had issued $13.5 billion Future Tax Secured Bonds as of June 30, 2007. As of June 30, 2007 and 2006, the Authority had outstanding debt of $11.5 billion and $10.4 billion of Future Tax Secured Bonds, respectively, including $234 million and $260 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, 2007 and 2006, the Authority had outstanding $1.77 billion and $1.84 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 2007 and 2006.

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.

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. In the fiscal year ended June 30, 2007, $1.3 billion of BARBs were issued and all are outstanding at June 30, 2007.

NOTE C (CONTINUED)

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

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

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 190,485	$ —	$ (13,540)	$ 176,945
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	441,395	—	(38,870)	402,525
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	282,665	—	(57,110)	225,555
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	63,000	—	(29,975)	33,025
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	70,985	—	(4,925)	66,060
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	7,265	—	(7,265)	—
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	189,180	—	(44,540)	144,640

NOTE C (CONTINUED)

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
1999 Fiscal Series A (continued)				
Variable rate tax-exempt bonds maturing in varying installments through 2028 (a)	$ 277,500	$ —	$ —	$ 277,500
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	270,550	—	(11,175)	259,375
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	2,555	—	(2,555)	—
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	—	—	100,000
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	82,315	—	(28,280)	54,035
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	28,125	—	(14,945)	13,180
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	35,865	—	—	35,865
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	9,470	—	—	9,470

NOTE C (CONTINUED)

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 28,400	$ —	$ (7,820)	$ 20,580
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	49,285	—	(29,975)	19,310
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	228,120	—	(31,890)	196,230
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	274,695	—	(17,760)	256,935
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	107,585	—	(27,110)	80,475

NOTE C (CONTINUED)

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
2002 Fiscal Series B				
3.50% to 5.00% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 326,435	$ —	$ (19,090)	$ 307,345
Variable rate taxable bonds maturing in varying installments through 2030 (a)	177,165	—	(45)	177,120
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	199,235	—	(30,695)	168,540
2003 Fiscal Series A				
3.00% to 6.00% serial, term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,151,240	—	(86,165)	1,065,075
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	650,360	—	(15,485)	634,875
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	15,900	—	(15,900)	—
2003 Fiscal Series C				
2.50% to 5.25% serial tax-exempt bonds maturing in varying installments through 2025	356,350	—	(28,220)	328,130
Variable rate tax-exempt bonds maturing in varying installments through 2031 (a)	150,000	—	—	150,000

NOTE C (CONTINUED)

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 467,060	$ —	$ (6,005)	$ 461,055
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	84,185	—	(37,285)	46,900
2003 Fiscal Series E				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	498,590	—	(45,410)	453,180
2004 Fiscal Series A				
3.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	138,960	—	(15,465)	123,495
2004 Fiscal Series B				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2032	496,135	—	(25,790)	470,345
2004 Fiscal Series C				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2033	492,320	—	(16,530)	475,790
2004 Fiscal Series D				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2017	558,410	—	(165,205)	393,205
2005 Fiscal Series A				
2.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2024	859,805	—	(141,370)	718,435

NOTE C (CONTINUED)

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
2005 Fiscal Series B				
2.50% to 4.125% serial tax-exempt bonds maturing in varying installments through 2020	$ 6,810	$ —	$ (365)	$ 6,445
2006 Fiscal Series A				
3.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	573,255	—	(67,845)	505,410
2007 Fiscal Series A				
3.375% to 5.25% serial tax-exempt bonds maturing in varying installments through 2022	—	500,000	—	500,000
5.13% to 6.24% serial taxable bonds maturing in varying installments through 2018	—	200,000	—	200,000
Variable rate tax-exempt bonds maturing in varying installments through 2023 (a)	—	100,000	—	100,000
2007 Fiscal Series B				
4.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2030	—	900,000	(54,655)	845,345
2007 Fiscal Series C				
3.60% to 5.00% serial tax-exempt bonds maturing in varying installments through 2027	—	366,970	—	366,970
Variable rate tax-exempt bonds maturing in varying installments through 2027 (a) maximum rate 12%	—	111,200	—	111,200
Variable rate tax-exempt bonds maturing in varying installments through 2027 (a) maximum rate 12%	—	111,200	—	111,200
Total bonds payable, excluding Recovery Bonds	10,391,655	2,289,370	(1,139,260)	11,541,765

NOTE C (CONTINUED)

	Balance at June 30, 2006	Issued	Retired/ Defeased	Balance at June 30, 2007
	(in thousands)			
2003 Series 1 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	$ 424,600	$ —	$ (18,700)	$ 405,900
2003 Series 2 Recovery Bonds				
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	458,800	—	(20,700)	438,100
2003 Series 3 Recovery Bonds				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	74,290	—	(36,430)	37,860
Variable rate tax-exempt bonds maturing in varying installments through 2022 (a)	883,200	—	—	883,200
Total Recovery Bonds payable	1,840,890	—	(75,830)	1,765,060
Total tax secured bonds payable	12,232,545	2,289,370	(1,215,090)	13,306,825
2007 Series S-1 Building Aid Revenue				
3.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2036	—	650,000	—	650,000
2007 Series S-2 Building Aid Revenue				
3.50% to 5.00% serial tax-exempt bonds maturing in varying installments through 2037	—	650,000	—	650,000
Total Building Aid Revenue bonds payable	**—**	**1,300,000**	**—**	**1,300,000**
Total bonds payable	12,232,545	**$ 3,589,370**	**$ (1,215,090)**	14,606,825
Less current portion of bonds payable	368,660			105,905
Bonds payable due after one year	**$ 11,863,885**			**$ 14,500,920**

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%, except as stated elsewhere.

(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, 2007 and 2006 were $234,430,000 and $260,655,000, 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 February 22, 2007, the Authority issued $300,000,000 of Fiscal 2007 Series B Future Tax Secured Bonds (refunding portion) and made an equity contribution from current revenue of $4,906,873 to advance refund $309,135,000 of its outstanding Future Tax Secured Bonds. This advance refunding resulted in an accounting loss of $10.8 million, which is recorded as deferred bond refunding costs on the statement of net assets. The Authority in effect reduced the aggregate debt service by $18.3 million and obtained an economic benefit of $12.4 million.

On June 28, 2007, the Authority defeased $537,295,000 of outstanding Future Tax Secured Bonds with current revenue of $546,326,347. The escrow deposited with the Authority's Trustee was funded with 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. This refunding resulted in an accounting gain of $19.6 million.

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

NOTE C (CONTINUED)

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.

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.

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, 2007 and 2006, the Authority had bonds refunded with Defeasance Collateral totaling $5,070,725,000 and $4,224,295,000, respectively, of which $4,553,810,000 and $3,885,205,000, 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, 2007, for future tax secured bonds payable to their maturity are as follows:

	Principal	Interest (a)	Total
	(in thousands)		
Year ended June 30,			
2008	$ 105,905	$ 615,290	$ 721,195
2009	241,025	612,378	853,403
2010	240,715	602,454	843,169
2011	527,230	587,033	1,114,263
2012	603,660	623,638	1,227,298
2013 to 2017	3,423,535	2,844,781	6,268,316
2018 to 2022	3,686,890	1,881,190	5,568,080
2023 to 2027	2,898,070	917,183	3,815,253
2028 to 2032	1,498,380	190,132	1,688,512
2033 to 2034	81,415	3,436	84,851
	$ 13,306,825	**$ 8,877,515**	**$ 22,184,340**

NOTE C (CONTINUED)

(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, 2007 averaged approximately 3.600% on tax-exempt bonds and 5.365% 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 $9,458,162 from the $8,877,515 in the above table.

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

Debt service requirements at June 30, 2007, for building aid revenue bonds payable to their maturity are as follows:

	Principal	Interest	Total
	(in thousands)		
Year ended June 30,			
2008	$ —	$ 62,208	$ 62,208
2009	18,820	61,980	80,800
2010	19,495	61,293	80,788
2011	20,200	60,551	80,751
2012	25,120	59,597	84,717
2013 to 2017	143,285	280,112	423,397
2018 to 2022	180,785	241,997	422,782
2023 to 2027	230,360	191,772	422,132
2028 to 2032	293,005	128,334	421,339
2033 to 2037	368,930	51,418	420,348
	$ 1,300,000	**$ 1,199,262**	**$ 2,499,262**

At June 30, 2007 and 2006, the Authority maintained its required debt service accounts as follows:

	June 30, 2007		June 30, 2006	
	Principal	Interest	Principal	Interest
	(in thousands)			
Required for Future Tax Secured bonds	$ 9,010	$ 125,431	$ 13,060	$ 110,130
Required for BARBs	$ —	$ 62,208	$ —	$ —

The Authority held approximately $785,210,000 and $243,997,000 in excess of amounts required to be retained for future tax-secured bond debt service under the indenture at June 30, 2007 and 2006, respectively.

NOTE D - BOND ANTICIPATION NOTES PAYABLE

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

	Balance at June 30, 2006	Issued	Retired	Balance at June 30, 2007
	(in thousands)			
2007 Fiscal Series 1				
4.25% tax-exempt bond anticipation notes maturing June 29, 2007	$ —	$ 600,000	$ (600,000)	$ —
Total bond anticipation notes payable	**$ —**	**$ 600,000**	**$(600,000)**	**$ —**

NOTE E - 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,	
	2007	2006
	(in thousands)	
Restricted cash and cash equivalents		
Cash	$ 132	$ 16
Commercial paper	737,988	—
U.S. Government securities	239,855	4,025
	$ 977,975	**$ 4,041**
Restricted cash in escrow for economic defeasance	**$ 681**	**$ 681**

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

NOTE E (CONTINUED)

At June 30, 2007 and 2006, the carrying amounts of bank deposits were $132,000 and $16,000, respectively, and the bank balances were $127,000 and $19,000, respectively. At June 30, 2007 and 2006, $100,000 and $19,000, 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 from the date of purchase. The Authority values those investments at cost plus accrued interest, which approximates market. See Note F below for the Authority's investment policy.

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

The Authority values commercial paper at cost plus accrued interest, which approximates market. At June 30, 2007, 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 gain of approximately $3,399,000 at June 30, 2007 and an unrealized loss of approximately $4,384,000 at June 30, 2006. 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 (CONTINUED)

The Authority's restricted investments are as follows:

	June 30, 2007	June 30, 2006
	(in thousands)	
Restricted investments		
Commercial paper	$ 277,102	$ —
U.S. Government securities	990,203	367,477
Total restricted investments	**$ 1,267,305**	**$ 367,477**
Restricted investments for economic defeasance		
Federal Home Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; United States bonds, notes and STRIPS	**$ 238,198**	**$ 266,351**

NOTE G - 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 consisted 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 expenditure in the governmental funds statement of revenues, expenditures, and changes in fund balances.

NOTE H - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority received an unrestricted grant from the City of $1,264,215,000 on June 28, 2007. These funds were used to fund debt service requirements for future tax secured debt during the year ending June 30, 2008; to fund the cash defeasance escrow of $546,326,000 (used to defease $537,295,000 of tax secured bonds on June 28, 2007); and for the early retirement of $170,300,000 of tax secured variable rate debt on September 4, 2007.

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

NOTE I - ADMINISTRATIVE COSTS

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

NOTE J - SUBSEQUENT EVENTS

On September 4, 2007, the Authority redeemed $170.3 million Recovery Bonds with debt service funds retained from the New York City Grant received in fiscal 2007. This redemption reduced principal payments of $83.5 million and $86.8 million due in the fiscal years ended June 30, 2009 and 2010, respectively.

* * * * *

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