New York City Transitional Finance Authority

2010 Annual Report

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Central Park

Letter from the Chairman

I am pleased to present the Fiscal Year 2010 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, 2009.

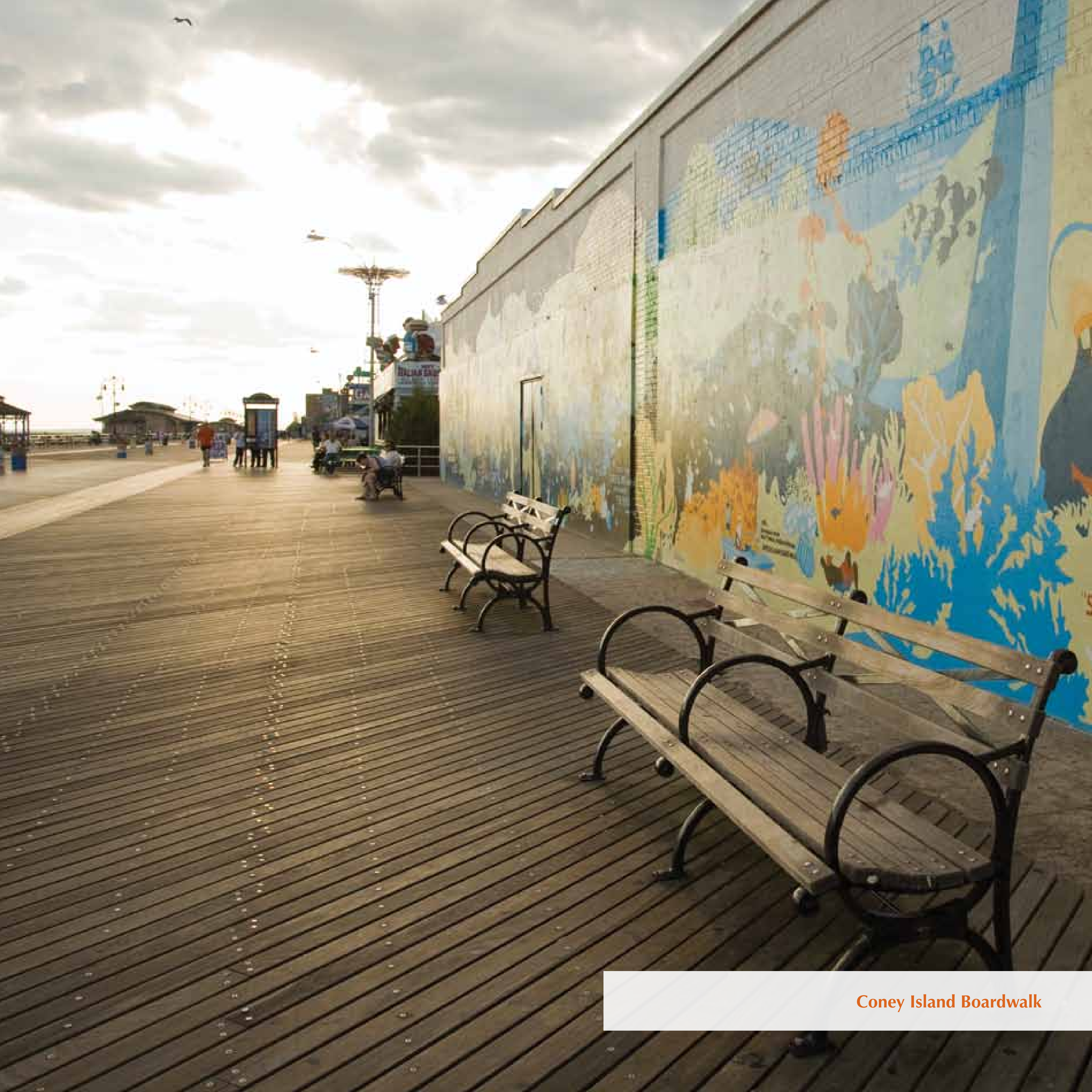
The TFA is a public benefit corporation whose primary purpose is to finance a portion of New York City's capital improvement plan. The New York State Legislature approved the law authorizing the creation of the NYC Transitional Finance Authority on March 5, 1997 (Chapter 16 of the Laws of 1997, the "Act"). 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.

The Act has been amended several times to increase the amount of debt the TFA is authorized to issue. Most recently, the Act was amended last year which permitted the TFA to have outstanding $13.5 billion of Future Tax Secured Bonds. In addition, the TFA may now issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City of New York, does not exceed the debt limit of the City of New York. As of July 1, 2010, the City's debt-incurring margin within the debt limit of the City was $26.3 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, which are 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.

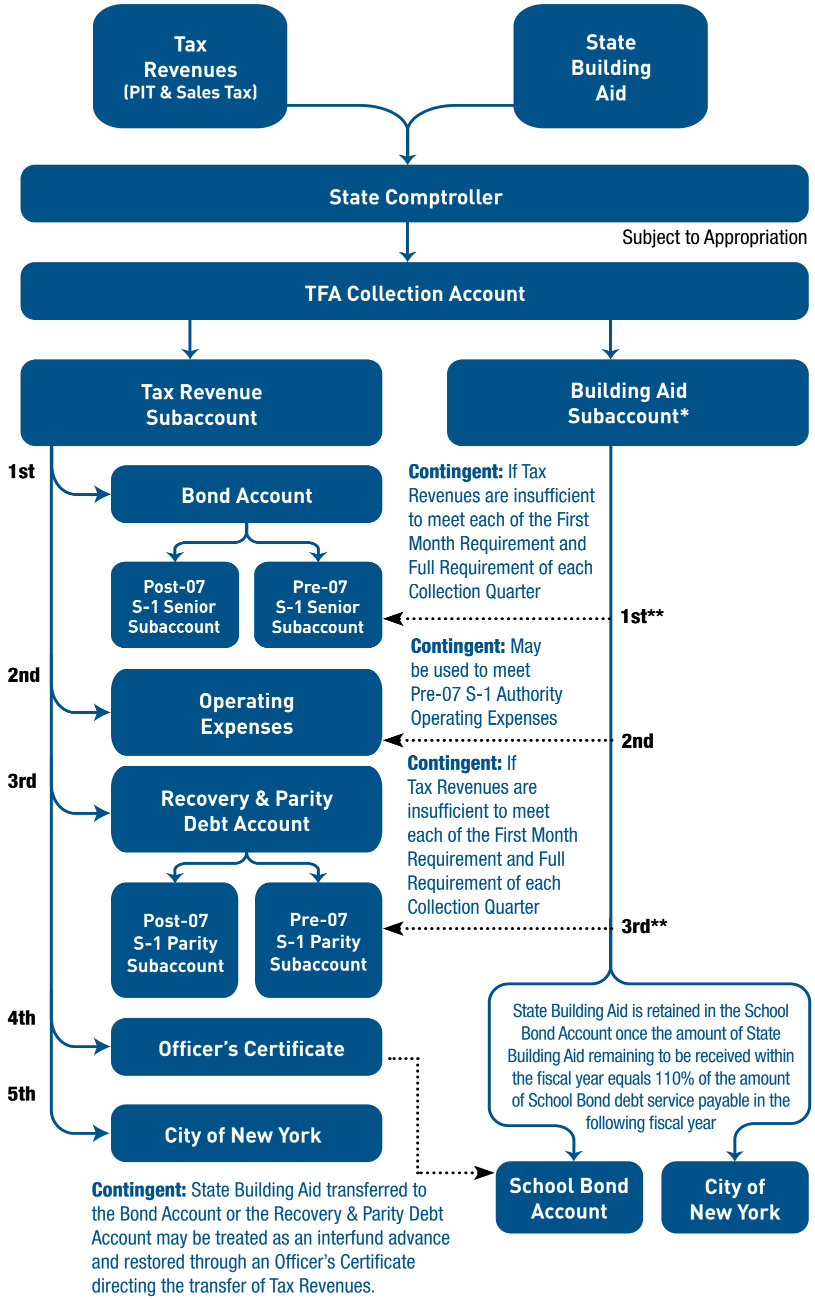
Respectfully submitted,

Mark Page
Chairman



Coney Island Boardwalk

Summary of Collection and Application of Revenues

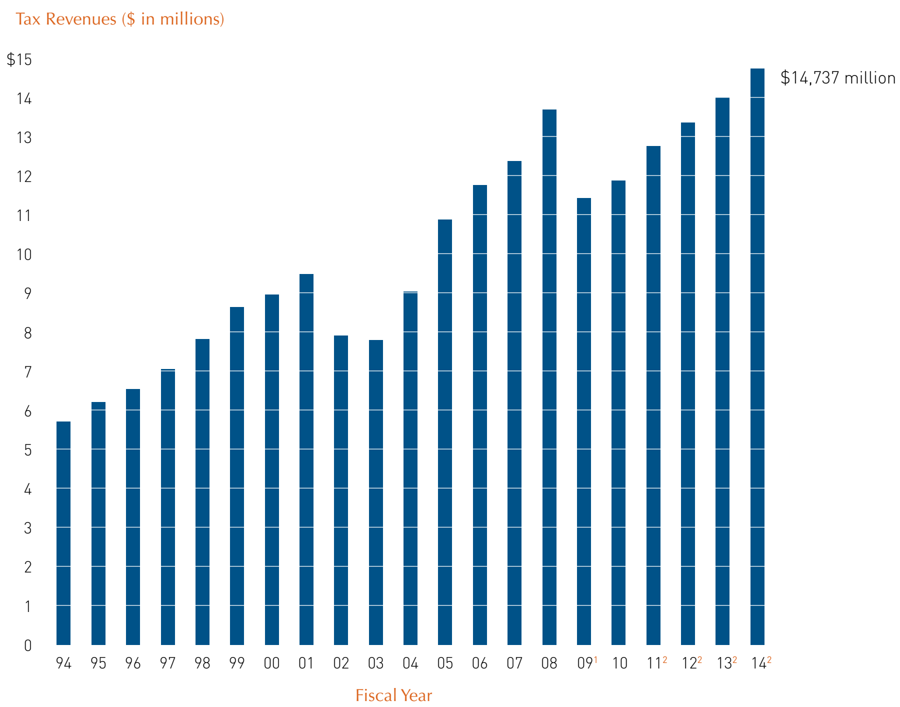


* State Building Aid is initially available to pay debt service coming due and payable but not already provided for with respect to Senior Bonds and Parity Debt, issued prior to the Fiscal 2007 Series S-1 Building Aid Revenue Bonds.

** 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.

Conservatory at the New York Botanical Garden

HISTORICAL AND FORECASTED AMOUNTS OF TAX REVENUES

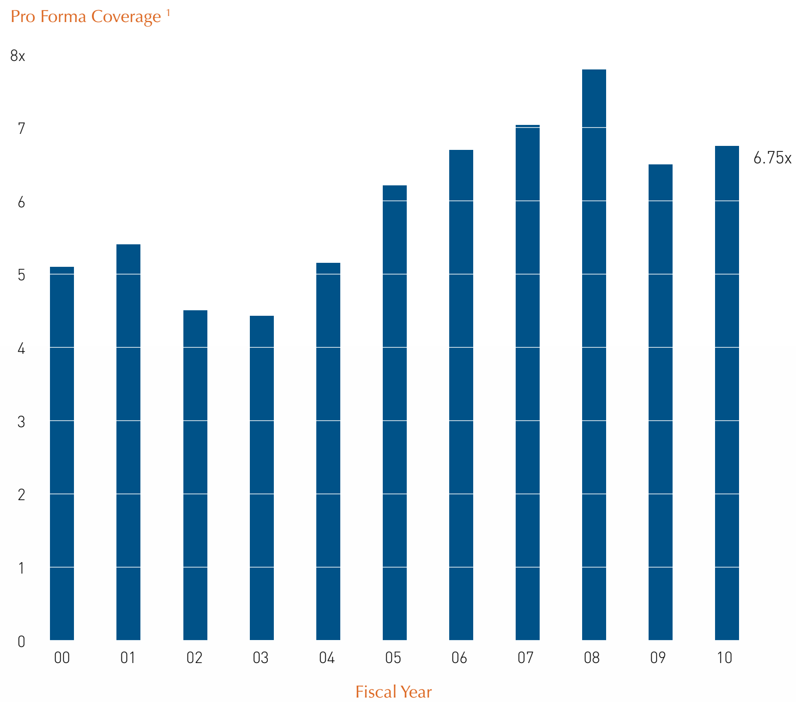


Source: NYC OMB. All figures shown herein are calculated on a cash basis.

1 The decrease in Tax Revenues from fiscal year 2008 to fiscal year 2009 is attributable, in part, to an adjustment in fiscal year 2009 by the State for overpayments of Personal Income Tax Revenues in fiscal years 2002 through 2009 in the amount of $597.3 million and, in part, to the economic recession.

2 Figures do not reflect legislative changes expected in net increases to Tax Revenues of approximately $206 million, $217 million, $219 million and $222 million in fiscal years 2011 through 2014, respectively.

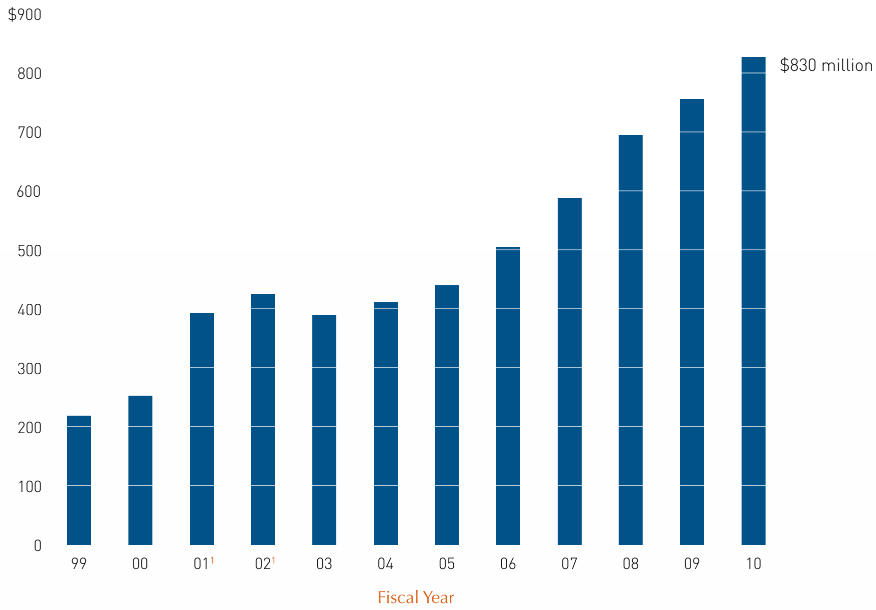
DEBT SERVICE COVERAGE FOR OUTSTANDING FUTURE TAX SECURED BONDS BY HISTORICAL TAX REVENUES



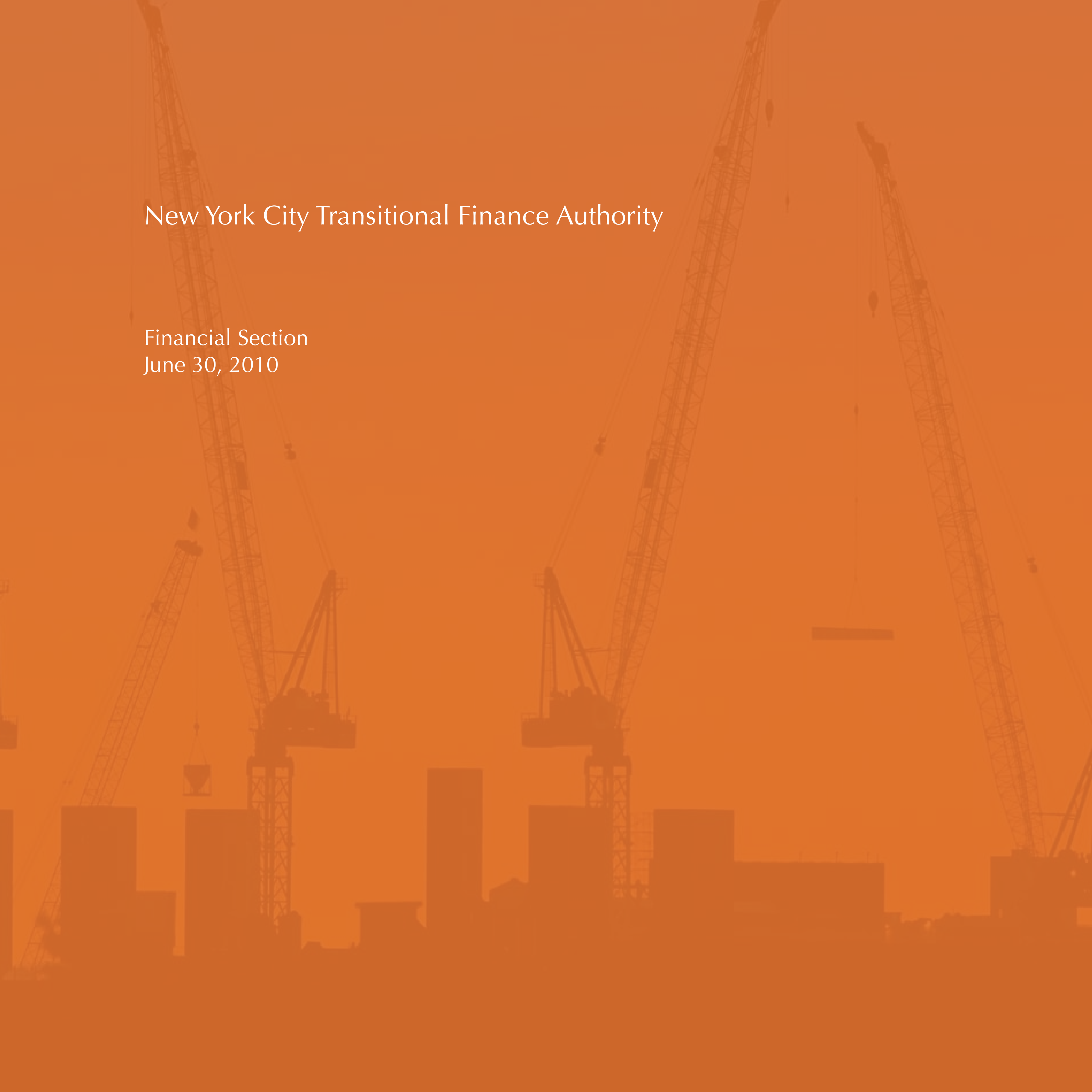
1 Calculated based on maximum annual debt service of $1,757,928,149 on Outstanding Future Tax Secured Bonds including Senior Bonds and Parity Debt (assuming that floating rate bonds bear interest at their maximum rate).

HISTORIC STATE BUILDING AID

State Building Aid ($ in millions)



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.



New York City Transitional Finance Authority

Financial Section
June 30, 2010

Marks Paneth & Shron LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of the New York City Transitional Finance Authority (the "Authority"), a component unit of The City of New York, as of and for the years ended June 30, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the governmental activities of the Authority as of June 30, 2010 and 2009 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 on pages 12 – 18 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.

Marks Paneth & Shron LLP

New York, New York
September 29, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010 AND 2009

The following is a narrative overview and analysis of the financial activities of the New York City Transitional Finance Authority (the "Authority") for the fiscal years ended June 30, 2010 and 2009. It should be read in conjunction with the Authority's government-wide financial statements, governmental fund financial statements and the notes to the financial statements.

The annual financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; and (3) the governmental fund financial statements.

The government-wide financial statements of the Authority, which include the statements of net assets (deficits) 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") standards.

The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The Authority's governmental fund financial statements (capital and debt service funds) 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. Revenues are considered available if received within two months after the fiscal year end. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

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

The Authority's authorizing legislation limited the amount of Authority bonds and notes issued for The City of New York's (the "City") general capital purposes ("Future Tax Secured Bonds" or "FTS Bonds") to $13.5 billion, (excluding Recovery Bonds, discussed below) as of June 30, 2009. On July 11, 2009 authorizing legislation was enacted under Chapter 182 of the Laws of New York, 2009, which permits the Authority to have outstanding $13.5 billion of FTS Bonds, (excluding Recovery Bonds). In addition, Chapter 182 permits the Authority to issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As of July 1, 2010, the City's and the Authority's combined debt-incurring capacity was approximately $26.3 billion. In fiscal year 2010, the Authority issued $5.35 billion of FTS Bonds. The Authority had FTS Senior Bonds outstanding of $6.59 billion and $8.44 billion and Subordinate Bonds (excluding Recovery Bonds) of $7.82 billion and $2.70 billion as of June 30, 2010 and 2009, respectively.

In April 2010, Moody's Investors Service upgraded its rating on the Authority's FTS Senior Bonds from Aa1 to Aaa and upgraded its rating on the Authority's FTS Subordinate Bonds from Aa2 to Aa1. Fitch Ratings upgraded its bond rating on FTS Bonds from AA+ to AAA. Standard & Poor's Ratings Services maintained its AAA rating on the Authority's FTS Bonds.

The Authority is also authorized to have outstanding $2.5 billion of bonds and notes to pay costs related to or arising from the World Trade Center attack on September 11, 2001 ("Recovery Bonds"). The Authority had Recovery Bonds outstanding as of June 30, 2010 and 2009 of $1.47 billion and $1.52 billion, respectively.

Of the $5.35 billion FTS Bonds issued in fiscal year 2010, $1.73 billion were Build America Bonds ("BABs") and $250.0 million were Qualified School Construction Bonds ("QSCBs"). The BABs and the QSCBs were created under the American Recovery and Reinvestment Act of 2009 ("ARRA" or "Stimulus Act"). The BABs and QSCBs are taxable bonds for which the Authority receives a cash subsidy payment from the United States Treasury. In fiscal year 2010, the Authority earned subsidy payments of $13.88 million on its BABs and $1.0 million on its QSCBs. The proceeds of the BABs are used to finance general City capital expenditures and the QSCBs proceeds are used to finance the City's educational facilities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2010 AND 2009

In fiscal years 2010 and 2009, the changes in FTS Bonds payable were as follows:

	Balance June 30, 2008	Bonds Issued	Retired or Defeased	Balance June 30, 2009	Bonds Issued	Retired or Defeased	Balance June 30, 2010
				(in thousands)			
Senior FTS Bonds	$ 8,557,965	$ 219,300	$ (334,840)	$ 8,442,425	$ —	$ (1,852,560)	$ 6,589,865
Subordinate Bonds:							
Recovery Bonds	1,521,900	—	—	1,521,900	81,000	(136,700)	1,466,200
Parity Bonds	2,747,965	—	(50,110)	2,697,855	3,283,755	(146,420)	5,835,190
Build America Bonds	—	—	—	—	1,731,240	—	1,731,240
Qualified School Construction Bonds	—	—	—	—	250,000	—	250,000
Total Subordinate FTS Bonds	4,269,865		(50,110)	4,219,755	5,345,995	(283,120)	9,282,630
Total FTS Bonds Payable	**$ 12,827,830**	**$ 219,300**	**$ (384,950)**	**$ 12,662,180**	**$ 5,345,995**	**$ (2,135,680)**	**$ 15,872,495**

The Authority is also authorized to have outstanding up to $9.4 billion of Building Aid Revenue Bonds, notes or other obligations ("BARBs"), secured by building aid from New York State ("State") that is received by the Authority pursuant to the assignment to the Authority by the City in fiscal year 2007 (the "Assignment"). The City assigned its building aid, which is subject to annual appropriation by the State, to the Authority for the purpose of funding costs of the five-year educational facilities capital plan for the City school system and to pay its administrative expenses. The Authority had BARBs outstanding as of June 30, 2010 and 2009 of $4.22 billion and $4.25 billion, respectively.

In accordance with GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity—Transfers of Assets and Future Revenues ("GASB 48"), the building aid revenue is treated, for reporting purposes, as City revenue pledged to the Authority, as discussed below. The implementation of GASB 48 changed the accounting and financial reporting for the Authority's disbursements of BARBs proceeds to the City and receipt of building aid from the State to the Authority pursuant to the Assignment. The Authority retains sufficient building aid revenue to service the BARBs debt and to pay its administrative expenses. Under the criteria established by GASB 48 the assignment of building aid revenue by the City to the Authority is considered a collateralized borrowing, due to the City's continuing involvement necessary for collection of the building aid. The Authority reports as an asset (Due from New York City—future State building aid) the cumulative amount it has distributed to the City for the educational facilities capital plan, net of the cumulative amount of building aid it has retained. On the fund financial statements the distributions to the City for its educational facilities capital program are reported as an other financing use of funds. Building aid retained by the Authority is treated as an other financing source as the amount retained is accounted for as a repayment of the amounts loaned to the City.

The Authority did not issue BARBs in fiscal year 2010 and issued $2.27 billion in fiscal year 2009. There was approximately $279 thousand of fiscal year 2009 BARBs proceeds and interest earnings remaining in fiscal year 2010 which was distributed to the City in fiscal year 2010. In fiscal year 2009, the Authority distributed $2.31 billion of the BARB proceeds to the City.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2010 AND 2009

In fiscal years 2010 and 2009, the changes in BARBs payable were as follows:

	Balance June 30, 2008	Bonds Issued	Retired or Defeased	Balance June 30, 2009	Bonds Issued	Retired or Defeased	Balance June 30, 2010
				(in thousands)			
Building Aid Revenue							
Total Bonds Payable	**$ 2,000,000**	**$ 2,270,000**	**$ (18,820)**	**$ 4,251,180**	**$ —**	**$ (30,025)**	**$ 4,221,155**

In April 2010, Moody's Investors Service, Inc. upgraded its rating on the Authority's BARBs from A1 to Aa3 and Fitch Ratings upgraded the Authority's BARBs from A+ to AA-. Standard & Poor's Ratings Services maintained its AA- rating on the Authority's BARBs.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS—GOVERNMENT-WIDE FINANCIAL STATEMENTS

The following summarizes the activities of the Authority for the years ended June 30,

	2010	2009	2008	VARIANCE 2010 / 2009	VARIANCE 2009 / 2008
		(in thousands)		(in thousands)	
EXPENSES:					
Distributions to New York City for general capital program	$ 3,146,860	$ 11,448	$ 412,488	$ 3,135,412	$ (401,040)
Interest expense	721,707	651,003	592,285	70,704	58,718
Other	35,158	33,352	39,727	1,806	(6,375)
Total expenses	3,903,725	695,803	1,044,500	3,207,922	(348,697)
REVENUES:					
Personal income tax retained	190,646	138,274	163,756	52,372	(25,482)
Unrestricted grant from New York City	370,524	645,747	545,747	(275,223)	100,000
Federal subsidy	14,885	—	—	14,885	—
Investment earnings	3,307	11,257	43,718	(7,950)	(32,461)
Total revenues	579,362	795,278	753,221	(215,916)	42,057
Change in net assets	(3,324,363)	99,475	(291,279)	(3,423,838)	390,754
Net deficit, beginning of year	(12,275,166)	(12,374,641)	(12,083,362)	99,475	(291,279)
Net deficit, end of year	**$ (15,599,529)**	**$ (12,275,166)**	**$ (12,374,641)**	**$ (3,324,363)**	**$ 99,475**

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2010 AND 2009

Total expenses increased due to the Authority issuing $3.56 billion in new money FTS Bonds in fiscal year 2010 of which $3.15 billion was distributed to the City for its capital programs. Due to the timing of the bond issuances and the City's incurrence of capital expenditures, the remaining FTS Bond proceeds will be distributed to the City in fiscal year 2011.

In fiscal year 2007, as the Authority had reached its statutory debt limitation, no additional new money FTS Bonds were issued in fiscal years 2009 and 2008. The distributions to the City in fiscal years 2009 and 2008 were the remaining bond proceeds from the fiscal year 2007 bond issuances and the related interest earnings on these proceeds.

Other expenses consist primarily of amortization of costs of issuance related to the Authority's issuance of debt and the Authority's administrative expenses.

In fiscal year 2010, Personal Income Tax ("PIT") increased $1.02 billion or 16.58% over fiscal year 2009 due to the City's improving economy. In fiscal year 2009, PIT decreased by $2.54 billion or 29.25% from fiscal year 2008. The decrease in PIT in fiscal year 2009 can be attributed to the recession. The Authority received $7.18 billion, $6.16 billion and $8.70 billion of PIT in fiscal years 2010, 2009 and 2008, respectively.

The Authority received City grants of $370.52 million, $645.75 million and $545.75 million in June 2010, 2009 and 2008, respectively. The receipt of City grants reduces the amount of PIT needed to be retained by the Authority in future fiscal years for its debt service payments on FTS Bonds and its administrative expenses.

As previously discussed, the Authority issued BABs and QSCBs for the first time in fiscal year 2010. As a result of the issuance of these taxable bonds, the Authority earned $14.88 million in Federal interest subsidies.

The continuing decrease in investment earnings is due to the lower interest rate environment and the timing of the distributions to the City for its capital programs, which reduces the amount available for the Authority to invest.

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

				VARIANCE	
	2010	2009	2008	2010 / 2009	2009 / 2008
		(in thousands)		(in thousands)	
ASSETS:					
Total assets	**$ 5,374,891**	**$ 5,306,497**	**$ 3,473,776**	**$ 68,394**	**$ 1,832,721**
LIABILITIES:					
Current liabilities	1,015,544	587,865	924,807	427,679	(336,942)
Non-current liabilities	19,958,876	16,993,798	14,923,610	2,965,078	2,070,188
Total liabilities	20,974,420	17,581,663	15,848,417	3,392,757	1,733,246
NET ASSETS (DEFICITS):					
Restricted	437,286	619	11,440	436,667	(10,821)
Unrestricted	(16,036,815)	(12,275,785)	(12,386,081)	(3,761,030)	110,296
Total deficit, end of year	**$ (15,599,529)**	**$ (12,275,166)**	**$ (12,374,641)**	**$ 3,324,363**	**$ 99,475**

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2010 AND 2009

Total assets increased in fiscal year 2010 primarily due to the PIT receivable from the State of $313.75 million. In fiscal year 2009, a receivable of $12.24 million was due from the City for projected PIT refunds due to taxpayers at fiscal year 2009 year end.

The amount Due from New York City—future State building aid decreased in fiscal year 2010 as the Authority did not issue any BARBs in fiscal year 2010 and therefore no bond proceeds were transferred to the City, except for $279 thousand remaining from the fiscal year 2009 bond proceeds and related interest earnings, while the Authority retained $380.27 million in fiscal year 2010 for its debt service and administrative expenses. The effect of this activity is reflected as a net decrease in amount Due from New York City—future State building aid in fiscal year 2010 over fiscal year 2009.

Liabilities increased primarily due to the issuance of $5.35 billion of FTS Bonds, $3.57 billion of new money bonds and $1.78 billion in refunding bonds, in fiscal year 2010 compared to issuing no new money FTS Bonds in fiscal years 2009 and 2008, as discussed previously.

In fiscal years 2009 and 2008, the Authority distributed $2.31 billion and $1.24 billion, respectively, to the City for its capital educational facilities program and retained $226.71 million and $213.05 million, respectively, for its debt service and administrative expenses. The effect of this activity is reflected as a net increase in amount Due from New York City—future State building aid in fiscal year 2009 over fiscal year 2008.

Below is a table summarizing the total building aid revenues from the State, remittances to the City and the balances retained by the Authority for the fiscal years ending June 30,

	2010	2009	2008
		(in thousands)	
Building aid received from New York State	$ 829,949	$ 757,199	$ 696,566
Building aid remitted to the City	(449,675)	(530,490)	(483,519)
Total retained for BARBs debt service and operating expenses	**$ 380,274**	**$ 226,709**	**$ 213,047**

The changes in the amount due to the City for reimbursement of its capital expenses is a result of timing differences between the City's incurrence of the capital expenditures and requesting reimbursement from the Authority.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2010 AND 2009

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS–GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

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

The following summarizes the BARBs CPF activities of the Authority for the years ended June 30,

	2010	2009	2008	VARIANCE 2010 / 2009	VARIANCE 2009 / 2008
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ 56	$ 69,665	$ 631,444	$ (69,609)	$ (561,779)
Revenues	280	881	11,686	(601)	(10,805)
Expenditures	(279)	(16,669)	(4,618)	16,390	(12,051)
Other financing sources (uses), net	(57)	(53,821)	(568,847)	53,764	515,026
Fund balance, end of year	**$ —**	**$ 56**	**$ 69,665**	**$ (56)**	**$ (69,609)**

The Authority's bond proceeds and distributions to the City are reported as other financing sources (uses) in the governmental funds. As previously discussed, the Authority did not issue any BARBs in fiscal year 2010. The remaining fiscal year 2009 BARBs proceeds and related interest earnings were distributed to the City in fiscal year 2010. In fiscal years 2009 and 2008, the Authority issued $2.27 billion and $700 million, respectively, of BARBs and distributed $2.31 billion and $1.24 billion, respectively, in BARB proceeds to the City to finance its educational facilities capital program.

Expenditures consist of costs of issuances related to the BARBs issued in fiscal years 2009 and 2008.

The following summarizes the FTS Bonds CPF activities of the Authority for the years ended June 30,

	2010	2009	2008	VARIANCE 2010 / 2009	VARIANCE 2009 / 2008
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ —	$ 30,411	$ 443,777	$ (30,411)	$ (413,366)
Revenues	613	252	7,381	361	(7,129)
Expenditures	(3,166,235)	(11,448)	(412,488)	(3,154,787)	401,040
Other financing sources (uses), net	3,602,425	(19,215)	(8,259)	3,621,640	(10,956)
Fund balance, end of year	**$ 436,803**	**$ —**	**$ 30,411**	**$ 436,803**	**$ (30,411)**

Expenditures increased in fiscal year 2010 due to the Authority's distribution of $3.15 billion to the City for its capital programs. These distributions were financed from the Authority's issuance of $3.56 billion of new money FTS Bonds which are recorded as an other financing source. The remaining balance of bonds proceeds are available to be transferred to the City in fiscal year 2011.

No new money FTS Bonds were issued in fiscal years 2009 and 2008, as the Authority had reached it statutory debt limit in fiscal year 2007. The remaining balance from fiscal year 2007 bond issuances and interest earnings on this balance were transferred to the City in fiscal years 2009 and 2008.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

JUNE 30, 2010 AND 2009

The following summarizes the BARBs DSF activities of the Authority for the years ended June 30,

	2010	2009	2008	VARIANCE 2010 / 2009	VARIANCE 2009 / 2008
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ 368,980	$ 245,542	$ 62,743	$ 123,438	$ 182,799
Revenues	1,205	3,371	1,558	(2,166)	1,813
Expenditures	(225,130)	(107,660)	(62,318)	(117,470)	(45,342)
Other financing sources	380,331	227,727	243,559	152,604	(15,832)
Fund balance, end of year	**$ 525,386**	**$ 368,980**	**$ 245,542**	**$ 156,406**	**$ 123,438**

Expenditures in the BARBs DSF are primarily the debt service payments on outstanding BARBs. The other financing sources consist primarily of $380.27 million, $226.71 million and $213.05 million of State building aid retained by the Authority in fiscal years 2010, 2009 and 2008, respectively.

The following summarizes the FTS Bonds DSF activities of the Authority for the years ended June 30,

	2010	2009	2008	VARIANCE 2010 / 2009	VARIANCE 2009 / 2008
	(in thousands)			(in thousands)	
Fund balance, beginning of year	$ 850,975	$ 749,404	$ 1,094,289	$ 101,571	$ (344,885)
Revenues	566,411	790,774	732,596	(224,363)	58,178
Expenditures	(870,892)	(710,230)	(1,085,711)	(160,662)	375,481
Other financing sources (uses), net	20,324	21,027	8,230	(703)	12,797
Fund balance, end of year	**$ 566,818**	**$ 850,975**	**$ 749,404**	**$ (284,157)**	**$ 101,571**

The FTS Bonds DSF revenue consists primarily of grants from the City and PIT retained by the Authority. The Authority received unrestricted grants from the City of $370.52 million, $645.75 million and $545.75 million in fiscal years 2010, 2009 and 2008, respectively. These grants and the PIT retained are used to service the Authority's FTS Bonds debt service and its administrative expenses.

Other financing sources (uses) consist primarily of the proceeds from FTS Bonds issued for the refunding of prior years' FTS Bonds and the payment to the escrow agent for the refunded bonds.

Expenditures increased in fiscal year 2010 over fiscal year 2009 due to the increase in debt service payments on the FTS Bonds. Expenditures decreased in fiscal year 2009 over fiscal year 2008 due to the retirement of approximately $200 million of economic defeased bonds.

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Raymond Orlando, Manager of Investor Relations, the New York City Transitional Finance Authority, 75 Park Place, New York, NY 10007.

* * * * *

STATEMENTS OF NET ASSETS (DEFICIT)

AS OF JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
ASSETS:		
Unrestricted cash and cash equivalents	$ 13,910	$ 11,487
Restricted cash and cash equivalents	950,701	329,546
Restricted cash in escrow for economic defeasance	2	22,369
Restricted investments	570,480	1,030,327
Restricted investments in escrow for economic defeasance	481	10,932
Personal income tax receivable from New York State	313,747	—
Personal income tax receivable from New York City - net	—	12,239
Due from New York City - future State building aid	3,420,798	3,800,793
Unamortized bond issuance costs	93,353	79,377
Other	11,419	9,427
Total Assets	5,374,891	5,306,497
LIABILITIES:		
Personal income tax payable to New York City	313,747	—
Personal income tax refunds payable - net	—	12,239
Distributions payable to New York City capital programs	3,505	182,055
Accrued expenses	3,062	2,595
Accrued interest payable	253,249	207,729
Bonds payable		
Portion due within one year	441,665	173,820
Portion due after one year	19,651,985	16,739,540
Unamortized deferred bond refunding costs	(174,278)	(100,170)
Unamortized bond premium	481,169	354,428
Other	316	9,427
Total Liabilities	20,974,420	17,581,663
NET ASSETS (DEFICIT):		
Restricted for economic defeasance	483	563
Restricted for capital projects	436,803	56
Deficit	(16,036,815)	(12,275,785)
TOTAL DEFICIT	**$ (15,599,529)**	**$ (12,275,166)**

The accompanying notes are an integral part of these statements.

STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
EXPENSES:		
General and administrative expenses	$ 11,977	$ 8,409
Distributions to New York City for general capital program	3,146,860	11,448
Distributions of Federal interest subsidy to City	3,782	—
Amortization of deferred bond refunding costs	10,648	17,895
Interest expense	721,707	651,003
Amortization of debt issuance costs	8,751	7,048
Total Expenses	3,903,725	695,803
REVENUES:		
Personal income tax revenue	7,176,992	6,156,177
Less remittances to New York City	(6,986,346)	(6,017,903)
Personal income tax revenue retained	190,646	138,274
Unrestricted grant from New York City	370,524	645,747
Federal interest subsidy	14,885	—
Investment earnings	3,307	11,257
Total Revenues	579,362	795,278
CHANGE IN DEFICIT	(3,324,363)	99,475
Deficit - beginning of year	(12,275,166)	(12,374,641)
DEFICIT - END OF YEAR	**$ (15,599,529)**	**$ (12,275,166)**

The accompanying notes are an integral part of these statements.

GOVERNMENTAL FUNDS BALANCE SHEETS

JUNE 30, 2010

	(in thousands)				
	Capital Projects		Debt Services		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
ASSETS:					
Unrestricted cash and cash equivalents	$ —	$ —	$ —	$ 13,910	$ 13,910
Restricted cash and cash equivalents	279	440,668	326,586	183,168	950,701
Restricted cash in escrow for economic defeasance	—	—	—	2	2
Restricted investments	—	—	199,116	371,364	570,480
Restricted investments in escrow for economic defeasance	—	—	—	481	481
Personal income tax receivable from New York State	—	—	—	313,747	313,747
Other	—	—	—	316	316
TOTAL ASSETS	**$ 279**	**$ 440,668**	**$ 525,702**	**$ 882,988**	**$ 1,849,637**
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Accrued expenses	$ —	$ 639	$ —	$ 2,423	$ 3,062
Distributions payable to New York City for capital programs	279	3,226	—	—	3,505
Deferred personal income tax revenue	—	—	—	261,000	261,000
Personal income tax payable to the City	—	—	—	52,747	52,747
Other	—	—	316	—	316
Total Liabilities	279	3,865	316	316,170	320,630
FUND BALANCES					
Restricted for capital projects	—	436,803	—	—	436,803
Restricted for debt service	—	—	525,386	554,532	1,079,918
Reserved for economic defeasance	—	—	—	483	483
Unreserved	—	—	—	11,803	11,803
Total Fund Balances	—	436,803	525,386	566,818	1,529,007
TOTAL LIABILITIES AND FUND BALANCES	**$ 279**	**$ 440,668**	**$ 525,702**	**$ 882,988**	**$ 1,849,637**

The accompanying notes are an integral part of these statements.

GOVERNMENTAL FUNDS BALANCE SHEETS

JUNE 30, 2009

(in thousands)

	Capital Projects		Debt Services		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
ASSETS:					
Unrestricted cash and cash equivalents	$ —	$ —	$ —	$ 11,487	$ 11,487
Restricted cash and cash equivalents	182,843	—	2	146,701	329,546
Restricted cash in escrow for economic defeasance	—	—	—	22,369	22,369
Restricted investments	—	—	369,172	661,155	1,030,327
Restricted investments in escrow for economic defeasance	—	—	—	10,932	10,932
Personal income tax receivable from New York City - net	—	—	—	12,239	12,239
Other	—	—	9,233	194	9,427
TOTAL ASSETS	**$ 182,843**	**$ —**	**$ 378,407**	**$ 865,077**	**$ 1,426,327**
LIABILITIES AND FUND BALANCES:					
LIABILITIES					
Accrued expenses	$ 732	$ —	$ —	$ 1,863	$ 2,595
Distributions payable to New York City for capital programs	182,055	—	—	—	182,055
Personal income tax refund payable - net	—	—	—	12,239	12,239
Other	—	—	9,427	—	9,427
Total Liabilities	182,787	—	9,427	14,102	206,316
FUND BALANCES					
Restricted for capital projects	56	—	—	—	56
Restricted for debt service	—	—	368,980	806,187	1,175,167
Reserved for economic defeasance	—	—	—	33,301	33,301
Unreserved	—	—	—	11,487	11,487
Total Fund Balances	56	—	368,980	850,975	1,220,011
TOTAL LIABILITIES AND FUND BALANCES	**$ 182,843**	**$ —**	**$ 378,407**	**$ 865,077**	**$ 1,426,327**

The accompanying notes are an integral part of these statements.

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

AS OF JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
Total fund balances - governmental funds	$ 1,529,007	$ 1,220,011
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of debt issuance are expenditures in governmental funds financial statements. However, in the statement of net assets (deficit), the costs of debt issuance are reported as capitalized assets and amortized over the life of the related asset.	93,353	79,377
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.	(481,169)	(354,428)
Federal interest subsidy on BABs and QSCBs is recognized when the related bond interest is reported. On the statements of net assets (deficit), the amount of the subsidy applicable to the accrued bond interest is receivable as of fiscal year end. However, in the governmental funds balance sheet where no bond interest is reported as payable until due, no subsidy receivable is reported.	11,103	—
Distributions to the City's educational facilities capital program from BARBs proceeds are reported as an other financing source in the governmental funds financial statements. However, in the statement of net assets (deficit), they are reported as due from the City.	3,420,798	3,800,793
Some liabilities are not due and payable in the current period from currently available financial resources and therefore are not reported in the governmental funds financial statements but are reported in the statements of net assets (deficit). These liabilities consist of:		
Bonds payable	(20,093,650)	(16,913,360)
Accrued interest on bonds	(253,249)	(207,729)
Costs of bond refundings are reported as expenditures in governmental funds financial statements. However, in the statement 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.	174,278	100,170
Net assets (deficit) of government activities	**$ (15,599,529)**	**$ (12,275,166)**

The accompanying notes are an integral part of these statements.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

JUNE 30, 2010

	Capital Projects		Debt Service		
(in thousands)	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
REVENUES:					
Personal income tax revenue	$ —	$ —	$ —	$ 6,874,992	$ 6,874,992
Less remittances to New York City	—	—	—	(6,684,346)	(6,684,346)
Personal income tax revenue retained	—	—	—	190,646	190,646
Unrestricted grant from New York City	—	—	—	370,524	370,524
Federal interest subsidy	—	—	—	3,782	3,782
Investment earnings	30	613	1,205	1,459	3,307
Other	250	—	—	—	250
Total Revenues	280	613	1,205	566,411	568,509
EXPENDITURES:					
Interest expense	—	—	194,789	516,895	711,684
Interest expense economic defeasance	—	—	—	1,219	1,219
Costs of debt issuance	—	19,375	—	—	19,375
Distributions to New York City for general capital program	—	3,146,860	—	—	3,146,860
Distribution of Federal interest subsidy to the City	—	—	—	3,782	3,782
Principal amounts of bonds retired	—	—	30,025	295,260	325,285
Principal amount of economic defeased bonds retired	—	—	—	31,615	31,615
Refunding bond issuance costs	—	—	—	10,460	10,460
General and administrative expenses	—	—	316	11,661	11,977
Total Expenditures	—	3,166,235	225,130	870,892	4,262,257
Excess (deficiency) of revenues over expenditures	280	(3,165,622)	(223,925)	(304,481)	(3,693,748)
OTHER FINANCING SOURCES (USES):					
Principal amount of bonds issued	—	3,565,000	—	—	3,565,000
Distributions to New York City for educational facilities capital program	(279)	—	—	—	(279)
Refunding bond proceeds	—	—	—	1,780,995	1,780,995
Bond premium, net of discount	—	29,532	—	174,074	203,606
Payments to refunded bond escrow holder	—	—	—	(1,926,852)	(1,926,852)
Transfer from New York City - building aid	—	—	380,274	—	380,274
Transfers in (out)	(57)	7,893	57	(7,893)	—
Total Other Financing Sources (Uses)	(336)	3,602,425	380,331	20,324	4,002,744
Net changes in fund balances	(56)	436,803	156,406	(284,157)	308,996
Fund Balances - beginning of year	56	—	368,980	850,975	1,220,011
FUND BALANCES - END OF YEAR	**$ —**	**$ 436,803**	**$ 525,386**	**$ 566,818**	**$ 1,529,007**

The accompanying notes are an integral part of these statements.

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENT FUNDS

JUNE 30, 2009

	Capital Projects (in thousands)		Debt Service		
	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	Total Governmental Funds
REVENUES:					
Personal income tax revenue	$ —	$ —	$ —	$ 6,618,177	$ 6,618,177
Less remittances to New York City	—	—	—	(6,479,903)	(6,479,903)
Personal income tax revenue retained	—	—	—	138,274	138,274
Unrestricted grant from New York City	—	—	—	645,747	645,747
Investment earnings	881	252	3,371	6,753	11,257
Total Revenues	881	252	3,371	790,774	795,278
EXPENDITURES:					
Interest expense	—	—	88,646	541,641	630,287
Interest expense economic defeasance	—	—	—	1,782	1,782
Costs of debt issuance	16,669	—	—	—	16,669
Distributions to New York City for general capital program	—	11,448	—	—	11,448
Principal amounts of bonds retired	—	—	18,820	156,780	175,600
Refunding bond issuance costs	—	—	—	1,812	1,812
General and administrative expenses	—	—	194	8,215	8,409
Total Expenditures	16,669	11,448	107,660	710,230	846,007
Excess (deficiency) of revenues over expenditures	(15,788)	(11,196)	(104,289)	80,544	(50,729)
OTHER FINANCING SOURCES (USES):					
Principal amount of bonds issued	2,270,000	—	—	—	2,270,000
Distributions to New York City for educational facilities capital program	(2,310,502)	—	—	—	(2,310,502)
Refunding bond proceeds	—	—	—	219,300	219,300
Bond premium, net of discount	(12,301)	—	—	15,391	3,090
Payments to refunded bond escrow holder	—	—	—	(232,879)	(232,879)
Transfer from New York City - building aid	—	—	226,709	—	226,709
Transfers in (out)	(1,018)	(19,215)	1,018	19,215	—
Total Other Financing Sources (Uses)	(53,821)	(19,215)	227,727	21,027	175,718
Net changes in fund balances	(69,609)	(30,411)	123,438	101,571	124,989
Fund balances - beginning of year	69,665	30,411	245,542	749,404	1,095,022
FUND BALANCES - END OF YEAR	**$ 56**	**$ —**	**$ 368,980**	**$ 850,975**	**$ 1,220,011**

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

FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
	(in thousands)	
Net changes in fund balances - total governmental funds	$ 308,996	$ 124,989
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).	(3,565,000)	(2,270,000)
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).	145,857	13,579
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.	(188)	(16,083)
Repayment (including defeasance) of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets (deficit).	356,900	175,600
Governmental funds report the costs of debt issuance as expenditures. However, in the statements of activities, the cost of debt issuance is amortized over the life of the related debt.	10,624	9,621
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 related debt as interest expense.	(141,481)	29,613
Distributions to the City's educational facilities capital program from BARBs proceeds are reported as an other financing use in governmental funds. However, in the statements of activities, distributions of BARBs proceeds are reported as due from New York City-future State building aid.	279	2,310,502
Retention of building aid is reported similar to a transfer from the City, as an other financing source in the governmental funds. However, in the statements of activities, building aid retained is reported as a reduction of the amount due from New York City-future State building aid.	(380,274)	(226,709)
Federal interest subsidy on BABs and QSCBs is recognized when the related bond interest cost is reported. On the statement of activities, the subsidy revenue in the amount applicable to the accrued bond interest expense is accrued as of fiscal year end. However, in the governmental funds where interest expenditure is reported when due, no subsidy revenue is accrued as of year end.	11,103	—
Interest expense is reported in the statement of activities on the accrual basis, but interest is reported as an expenditure in the governmental funds when the outlay of financing resources is required.	(70,929)	(51,637)
Other	(250)	—
Change in net (deficit) assets of governmental activities	**$ (3,324,363)**	**$ 99,475**

The accompanying notes are an integral part of these statements.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010 AND 2009

NOTE 1—ORGANIZATION AND NATURE OF ACTIVITIES

The New York City Transitional Finance Authority (the "Authority") is a corporate governmental entity 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 financing instrumentality of the City and is included in the City's financial statements as a blended component unit, in accordance with the Governmental Accounting Standards Board ("GASB") standards.

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" or "FTS 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 and to pay the Authority's administrative expenses.

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. Within the $11.5 billion, the State Legislature increased the amount of FTS 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 general capital purposes of the City was increased by $2 billion; as of June 30, 2007, the Authority had issued its statutory limit of $13.5 billion of FTS Bonds. In July 2009 authorizing legislation was enacted under Chapter 182 of the Laws of New York, 2009 which permits the Authority to have outstanding $13.5 billion of FTS Bonds. In addition, Chapter 182 permits the Authority to issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As of July 1, 2010, the City's and the Authority's combined debt-incurring capacity was approximately $26.3 billion.

On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center, not withstanding the limits discussed above.

Legislation enacted in April 2006 additionally enables the Authority to have outstanding up to $9.4 billion of Building Aid Revenue Bonds ("BARBs"), notes or other obligations for purposes of funding costs of the five-year educational facilities capital plan for the City school system and the Authority's administrative expenses.

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The government-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. 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 (Capital and Debt Service Funds) 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. Revenues are considered available if received within two months after the fiscal year end. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due. The governmental funds

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

consist of four funds: (1) a building aid revenue bonds capital project fund ("BARBs CPF"), (2) a future tax secured bonds capital project fund ("FTS Bonds CPF"), (3) a building aid revenue bonds debt service fund ("BARBs DSF") and (4) a future tax secured bonds debt service fund ("FTS Bonds DSF"). The two capital project funds account for resources to be transferred to the City's capital programs in satisfaction of amounts due to the City 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 to support the operations of the Authority.

B. To maintain the exemption from Federal income tax of interest on bonds issued by the Authority, the Authority will fund amounts required to be rebated to the Federal government pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The Code requires the payment to the United States Treasury of the excess of the amount earned on all obligations over the amount that would have been earned if the gross proceeds of the issue were invested at a rate equal to the yield on the issue, together with any earnings attributable to such excess. Construction funds, debt service funds or any other funds or accounts funded with proceeds of such bonds, including earnings, or pledged to or expected to be used to pay interest on such bonds are subject to this requirement. Payment is to be made after the end of the fifth bond year and after every fifth bond year thereafter, and within 60 days after retirement of the bonds.

The Authority was not required to make an arbitrage rebate payment in fiscal year 2010 and made an arbitrage payment of $177 thousand in fiscal year 2009.

C. 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 government-wide financial statements. The governmental fund financial statements recognize the premiums and 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.

D. Deferred bond refunding costs represent the accounting loss incurred in advance refunding of outstanding bonds. The deferred bond refunding costs are amortized over the shorter of the remaining life of the old debt or the life of the new debt. In the debt service funds, costs of the bond refundings are reported as expenditures when incurred.

E. Interest expense is recognized on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when bond interest is due in the governmental fund financial statements.

F. 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 a portion of its administrative expenses. Funds for FTS Bonds debt service are required to be set aside prior to the due date of the principal and interest. Personal income taxes in excess of amounts needed to pay debt service and administrative expenses of the Authority are available to be remitted to the City. During the years ended June 30, 2010 and 2009, the Authority retained $190.65 million and $138.27 million, respectively of personal income tax to be used for FTS Bonds debt service and its administrative expenses. During fiscal years 2010 and 2009, unrestricted grants were received from the City, as described in Note 6.

G. The Authority receives building aid payments by the State, subject to State annual appropriation, pursuant to the assignment by the City of the building aid payments to the Authority to service its building aid revenue bonds and pay a portion of 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 next fiscal year. Unused building aid is available to be remitted to the City.

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

During the years ended June 30, 2010 and 2009, the Authority retained of $380.27 million and $226.71 million, respectively of building aid to be used for BARBs debt service and its administrative expenses.

H. Newly Adopted Standards and Standards Issued But Not Yet Effective.

As a Component Unit of the City, the Authority implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the new standards which will or may impact the Authority.

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* ("GASB 51"). The statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 was effective for financial statements for periods beginning after June 15, 2009, and was thus implemented by the City for its fiscal year ended June 30, 2010. There was no impact on the Authority's financial statements as a result of implementation of GASB 51.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB 53"). The statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. The requirements for GASB 53 were effective for financial statements for periods beginning after June 15, 2009, and was thus implemented by the City for its fiscal year ended June 30, 2010. There was no impact on the Authority's financial statements as a result of implementation of GASB 53.

Pronouncement to be Implemented

In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). The statement affects the display of fund balances in the financial statements and requires that governments disclose their fund balance classifications, policies and procedures in the Notes. Fund balances will be classified as nonspendable, restricted, committed, assigned, and/or unassigned, depending on the definitions provided in the statement. Additionally, GASB 54 refines the definitions of each of the governmental fund types, such as debt service and capital projects funds. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. GASB 54 will not have any financial impact on the Authority but will change the Authority's governmental fund financial statement presentation.

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

NOTE 3—CASH AND CASH EQUIVALENTS

The Authority's restricted cash and cash equivalents consisted of bank deposits, money market funds, U.S. Treasuries, and securities of government sponsored enterprises held by the Authority's Trustee in the Trustee's name. The Authority's restricted cash escrow is cash held by the escrow agent in the economic defeasance account.

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 3—CASH AND CASH EQUIVALENTS (continued)

The Authority's cash and cash equivalents and those restricted for the economic defeasance as of June 30, 2010 and 2009 are as follows:

	2010	2009
	(in thousands)	
Restricted cash and cash equivalents:		
Cash	$ 96	$ 22,369
Cash equivalents (see Note 4)	950,607	329,546
Total restricted cash and cash equivalents	950,703	351,915
Unrestricted cash and cash equivalents:		
Cash	206	88
Cash equivalents (see Note 4)	13,704	11,399
Total unrestricted cash and cash equivalents	13,910	11,487
Total cash and cash equivalents	**$ 964,613**	**$ 363,402**

As of June 30, 2010 and 2009, the Authority's restricted cash in escrow for economic defeasance consisted of bank deposits. As of June 30, 2010 and 2009, the carrying amounts and bank balances of bank deposits were $2.0 thousand and $22.37 million, respectively. The total restricted cash of $22.37 million as of June 30, 2009 related to the payment of principal and interest due on the economically defeased bonds paid in August 2009.

At June 30, 2009, under the Transaction Account Guarantee Program ("TAGP"), which is part of the Federal Deposit Insurance Corporation's (FDIC) "Temporary Liquidity Guarantee Program", there was an unlimited U.S. Government-backed guarantee on all dollars in non-interest bearing depository transaction accounts held in U.S. offices of FDIC-insured institutions. All of the Authority's cash was on deposit in such institutions in such accounts and was covered under this guarantee. This coverage was provided through December 31, 2009. Effective January 1, 2010, any bank balances over $250,000 were not FDIC insured and are not collateralized.

The Authority's unrestricted cash and cash equivalents consisted of bank deposits, money market funds and securities of government sponsored enterprises held by the Authority's Trustee in the Trustee's name.

As of June 30, 2010 and 2009, the carrying amounts and bank balances of unrestricted bank deposits were $206 thousand and $88 thousand, respectively, and were insured by the FDIC.

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 fair value. See Note 4 below for a discussion of the Authority's investment policy.

NOTE 4—INVESTMENTS

Each account of the Authority that is held pursuant to the Indenture between the Authority and its Trustee, as amended and as restated June 4, 2010, (the "Indenture") may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture.

Custodial credit risk: Is the risk that, in the event of the failure of the custodian, the Authority may 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 Trustee's name by the Trustee.

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 4—INVESTMENTS (continued)

Credit risk: The Authority investments are primarily government-sponsored enterprise discount notes. All commercial paper held by the Authority is non-asset backed commercial paper and is rated A1+ by Standard Poor's Rating Services and P1 by Moody's Investors Services.

Interest rate risk: The Authority's investments, excluding the investments in the economic defeasance escrow account, mature within a year or less thereby limiting its exposure from rising interest.

The Authority's restricted investments in the economic defeasance escrow account held by the Authority's Trustee are reported at fair value.

The Authority's investments, including cash equivalents and those restricted for the economic defeasance, as of June 30, 2010 and 2009 are as follows:

	2010	2009
	(in thousands)	
Restricted including economic defeasance investments		
Money market funds	$ 1,740	$ 1,251
Securities of U.S. government agencies	992,199	1,187,472
U.S. Treasuries	87,694	—
Commercial paper	439,935	182,082
Total restricted investments	1,521,568	1,370,805
Less: amounts reported as cash equivalents	(950,607)	(329,546)
Total restricted investments, including economic defeasance	**$ 570,961**	**$ 1,041,259**
Unrestricted		
Money market funds	$ 1,704	$ 2,136
Securities of U.S. government agencies	12,000	9,263
Total unrestricted investments	13,704	11,399
Less: amounts reported as cash equivalents	(13,704)	(11,399)
Total unrestricted investments	**$ —**	**$ —**

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 5—BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), as amended, the Authority is authorized to have outstanding $13.5 billion of FTS Bonds, excluding Recovery Bonds. In addition, Chapter 182 permits the Authority to issue additional Future Tax Secured Bonds provided that the amount of such additional bonds, together with the amount of indebtedness contracted by the City, does not exceed the debt limit of the City. As of July 1, 2010, the City's and the Authority's combined debt-incurring capacity was approximately $26.3 billion. The Authority is also authorized to have outstanding $2.5 billion of Recovery Bonds and notes to pay costs related to or arising from the World Trade Center attack on September 11, 2001.

The Indenture permits the Authority to issue Senior and Subordinate FTS Bonds which consists of Recovery Bonds, Build America Bonds, Qualified School Construction Bonds, and other parity debt. As of June 30, 2010 and 2009, the Authority had $6.59 billion and $8.44 billion, respectively, of Senior bonds outstanding, including $0.5 million and $32 million, respectively, of economically defeased bonds. The Authority is authorized to issue Senior FTS Bonds in an amount not to exceed $12 billion in outstanding principal and subject to a $330 million limit on quarterly debt service. Subordinate FTS Bonds outstanding as of June 30, 2010 and 2009 was $9.28 billion and $4.22 billion, respectively. Total FTS Bonds outstanding at June 30, 2010 and 2009 was $15.87 billion and $12.66 billion, 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, which are included in the Authority's bonds payables.

In fiscal years 2010 and 2009, the changes in FTS Bonds payable were as follows:

	Balance June 30, 2008	Bonds Issued	Retired or Defeased	Balance June 30, 2009	Bonds Issued	Retired or Defeased	Balance June 30, 2010
				(in thousands)			
Senior FTS Bonds	$ 8,557,965	$ 219,300	$ (334,840)	$ 8,442,425	$ —	$ (1,852,560)	$ 6,589,865
Subordinate Bonds:							
Recovery Bonds	1,521,900	—	—	1,521,900	81,000	(136,700)	1,466,200
Parity Bonds	2,747,965	—	(50,110)	2,697,855	3,283,755	(146,420)	5,835,190
Build America Bonds	—	—	—	—	1,731,240	—	1,731,240
Qualified School Construction Bonds	—	—	—	—	250,000	—	250,000
Total Subordinate FTS Bonds	4,269,865	—	(50,110)	4,219,755	5,345,995	(283,120)	9,282,630
Total FTS Bonds Payable	**$ 12,827,830**	**$ 219,300**	**$ (384,950)**	**$ 12,662,180**	**$ 5,345,995**	**$ (2,135,680)**	**$ 15,872,495**

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 5—BONDS PAYABLE (continued)

The Authority funds its debt service requirements for all FTS Bonds and its administrative expenses from grant money, when available, and personal income taxes collected on its behalf by the State and, under certain circumstances if it were necessary, sales taxes. Sales taxes are only available to the Authority 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 the fiscal years ending June 30, 2010 and 2009. The Authority remits any excess personal income tax not required for its debt service payments and its administrative expenses to the City. The Authority has no taxing power.

On June 30, 2010 and 2009, the Authority had $3.15 billion and $2.89 billion, respectively, of FTS Bonds variable rate bonds outstanding, consisting of $.22 billion of Auction Rate Securities (ARSs) and $2.93 billion and $2.67 billion, respectively, of Variable Rate Demand Bonds (VRDBs). The interest rate on the ARSs is established weekly by an auction agent at the lowest clearing rate based upon bids received from broker dealers. The interest rate on the ARSs cannot exceed 12%. In fiscal years 2010 and 2009, the interest rate on the ARSs averaged .79% and 3.27%, respectively. The VRDBs bear a daily rate, a two-day rate or a weekly rate 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% on tax exempt bonds and 12% on taxable bonds. In fiscal years 2010 and 2009, the VRDB rates averaged .23% and 1.33%, respectively, on tax exempt bonds and .36% and 2.85%, respectively, on taxable bonds.

Included in bonds payable on June 30, 2010 and 2009 were $0.5 million and $32 million, respectively, of FTS Bonds that were economically defeased on March 24, 2004, and the escrow deposited with the Authority's Trustee is recorded as an asset. These amounts were funded from the proceeds of the sale of Fiscal 2004 Series D FTS Bonds.

On August 27, 2009, the Authority issued $800 million, Fiscal 2010 Series B FTS Bonds and together with the premium received of $79.6 million and an equity contribution from current revenue of $42.9 million, current and advanced refunded $876.8 million of its outstanding FTS Bonds. This refunding resulted in an accounting loss of $30.8 million, which is recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced the aggregate debt service by $65.9 million and obtained an economic benefit of $56.1 million.

On January 26, 2010, the Authority issued $500 million, Fiscal 2010 Series D and E FTS Bonds and, together with the premium received of $47.2 million and an equity contribution from current revenue of $22.3 million, current and advanced refunded $523.2 million of its outstanding FTS Bonds. This refunding resulted in an accounting loss of $30.6 million, which is recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced the aggregate debt service by $39.0 million and obtained an economic benefit of $30.1 million.

On June 4, 2010, the Authority issued $399.99 million, Fiscal 2010 Series H and I FTS Bonds and together with premium of $38.87 million and an equity contribution from current revenue of $6.04 million, current and advanced refunded $408.9 million of its outstanding FTS Bonds. This refunding resulted in an accounting loss of $23.3 million, which is recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced its aggregate debt service by $32.02 million and obtained an economic benefit of $25.11 million.

On April 2, 2009, the Authority issued $219.3 million of Fiscal 2009 Series A and B FTS Bonds and together with the premium received of $15.39 million, advanced refunded $228.17 million of its outstanding FTS Bonds. This advance refunding resulted in an accounting loss of $5.0 million, which is recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced the aggregate debt service by $13.1 million and obtained an economic benefit of $10.94 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, 2010 and 2009, the Authority had FTS Bonds refunded with Defeasance Collateral totaling $7.11 billion and $5.30 billion, respectively, of which $1.49 billion and $2.43 billion, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 5—BONDS PAYABLE (continued)

Debt service requirements as of June 30, 2010, for FTS Bonds, including Recovery Bonds, payable to their maturity are as follows:

	Principal	Interest (a)	Total
		(in thousands)	
Year ended June 30,			
2011	$ 376,210	$ 616,384	$ 992,594
2012	594,405	670,355	1,264,760
2013	719,035	686,381	1,405,416
2014	725,075	657,749	1,382,824
2015	733,375	628,002	1,361,377
2016 to 2020	4,033,850	2,610,463	6,644,313
2021 to 2025	3,840,985	1,697,017	5,538,002
2026 to 2030	2,973,675	822,068	3,795,743
2031 to 2035	1,191,790	309,146	1,500,936
2036 to 2040	684,095	101,088	785,183
Total	**$ 15,872,495**	**$ 8,798,653**	**$ 24,671,148**

(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, November 1, 2011 and February 1, 2011, respectively, 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 on its call date, November 1, 2011, are computed in this table at the 14% or 10% rates, as if those bonds were not called. 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 $10.72 billion from the $8.80 billion in the above table.

In addition to the Authority's authorization to issue FTS Bonds, State legislation enacted in April 2006 enables the Authority to have outstanding up to $9.4 billion of Building Aid Revenue Bonds, notes or other obligations (BARBs) for purposes of funding costs of the five-year educational facilities capital plan for the City's school system and certain administrative expenditures. As of June 30, 2010 and 2009, the Authority had $4.22 billion and $4.25 billion, respectively, of BARBs outstanding.

Under this legislation, the BARBs are payable from the State building aid payable by the State and assigned to the Authority by the City. These State aid payments are subject to annual appropriation from the State. In accordance with the legislation and the Indenture, BARB bond holders do not have any right to the personal income tax revenues or sales tax revenues.

In fiscal years 2010 and 2009, the changes in BARBs payable were as follows:

	Balance June 30, 2008	Bonds Issued	Retired or Defeased	Balance June 30, 2009	Bonds Issued	Retired or Defeased	Balance June 30, 2010
				(in thousands)			
Building Aid Revenue Total Bonds Payable	**$ 2,000,000**	**$ 2,270,000**	**$ (18,820)**	**$ 4,251,180**	**$ —**	**$ (30,025)**	**$ 4,221,155**

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 5—BONDS PAYABLE (continued)

Debt service requirements at June 30, 2010, for BARBs payable to maturity are as follows:

	Principal	Interest	Total
	(in thousands)		
Year ended June 30,			
2011	$ 65,455	$ 209,305	$ 274,760
2012	71,190	206,899	278,089
2013	75,850	204,290	280,140
2014	84,845	201,297	286,142
2015	89,590	197,722	287,312
2016 to 2020	513,445	922,386	1,435,831
2021 to 2025	636,690	785,256	1,421,946
2026 to 2030	816,445	604,419	1,420,864
2031 to 2035	1,043,405	372,591	1,415,996
2036 to 2039	824,240	93,106	917,346
Total	**$ 4,221,155**	**$ 3,797,271**	**$ 8,018,426**

As of June 30, 2010 and 2009, the Authority maintained its required debt service accounts as follows:

	June 30, 2010		June 30, 2009	
	(in thousands)			
	Principal	Interest	Principal	Interest
Required for FTS Bonds	$ 37,240	$ 143,164	$ 33,880	$ 124,429
Required for BARBs	$ 65,455	$ 209,305	$ 30,025	$ 194,790

The Authority held approximately $370.52 million and $649.49 million in excess of amounts required to be retained for FTS Bonds debt service under the Indenture as of June 30, 2010 and 2009, respectively. The Authority held approximately $250.61 million and $143.48 million in excess of amounts required to be retained for BARBs debt service under the Indenture as of June 30, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2010 AND 2009

NOTE 6—UNRESTRICTED GRANT FROM THE CITY OF NEW YORK

In fiscal years 2010 and 2009, the Authority received unrestricted grants from the City in the amount of $370.52 million and $645.75 million, respectively. These funds are used to fund debt service requirements for FTS Bonds and administrative expenses during the fiscal years ending June 30, 2011 and 2010, respectively.

NOTE 7—ADMINISTRATIVE COSTS

The Authority's management fee, overhead and expenditures related to carrying out the Authority's duties, including remarketing and liquidity fees not funded from bond proceeds or investment earnings, are funded from the personal income taxes, building aid revenue and grant revenue.

NOTE 8—SUBSEQUENT EVENTS

On August 16, 2010, the Authority issued $1.0 billion, Fiscal 2011 Series A FTS Bonds, comprised of Subseries A-1, $614.40 million of taxable Build America Bonds; Subseries A-2, $147.06 million of taxable Qualified School Construction Bonds; and Subseries A-3 $138.54 million of tax-exempt subordinate bonds, and A-4 $100 million of tax-exempt variable rate bonds. The proceeds of the Fiscal 2011 Series A FTS Bonds will be used for the City's capital programs.

On September 10, 2010, the Authority deposited $81.33 million of retained building aid into an escrow account with the Authority's Trustee for the payment of $75.85 million of BARBs due in fiscal year 2013.

* * * * *

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