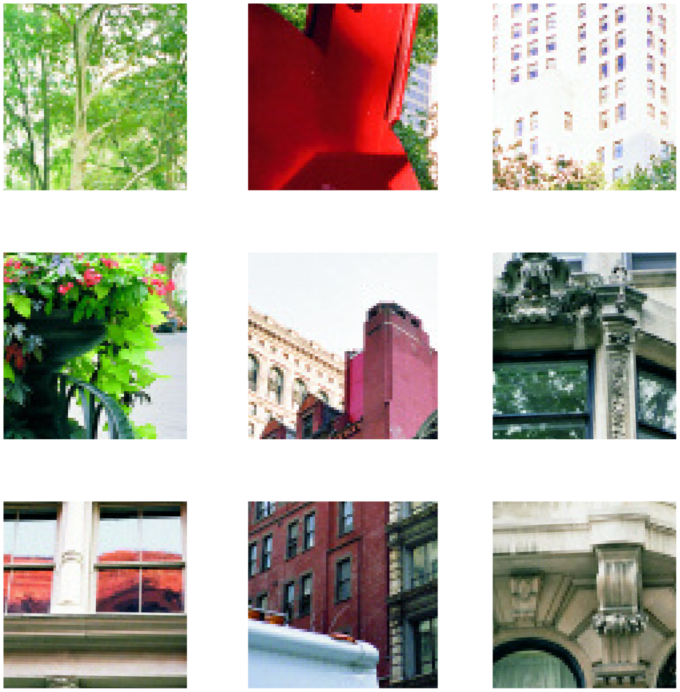
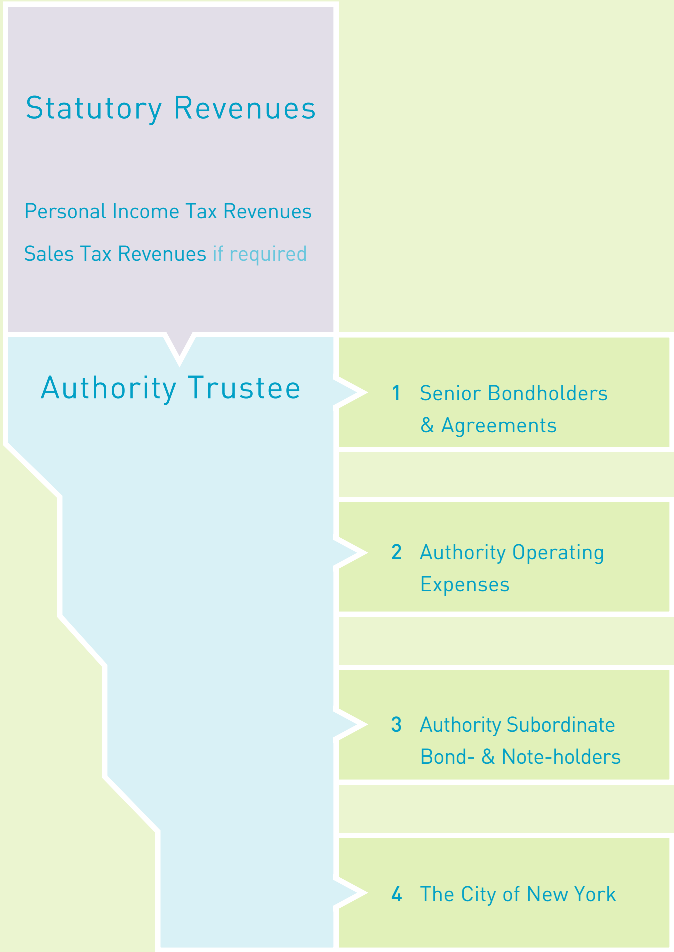
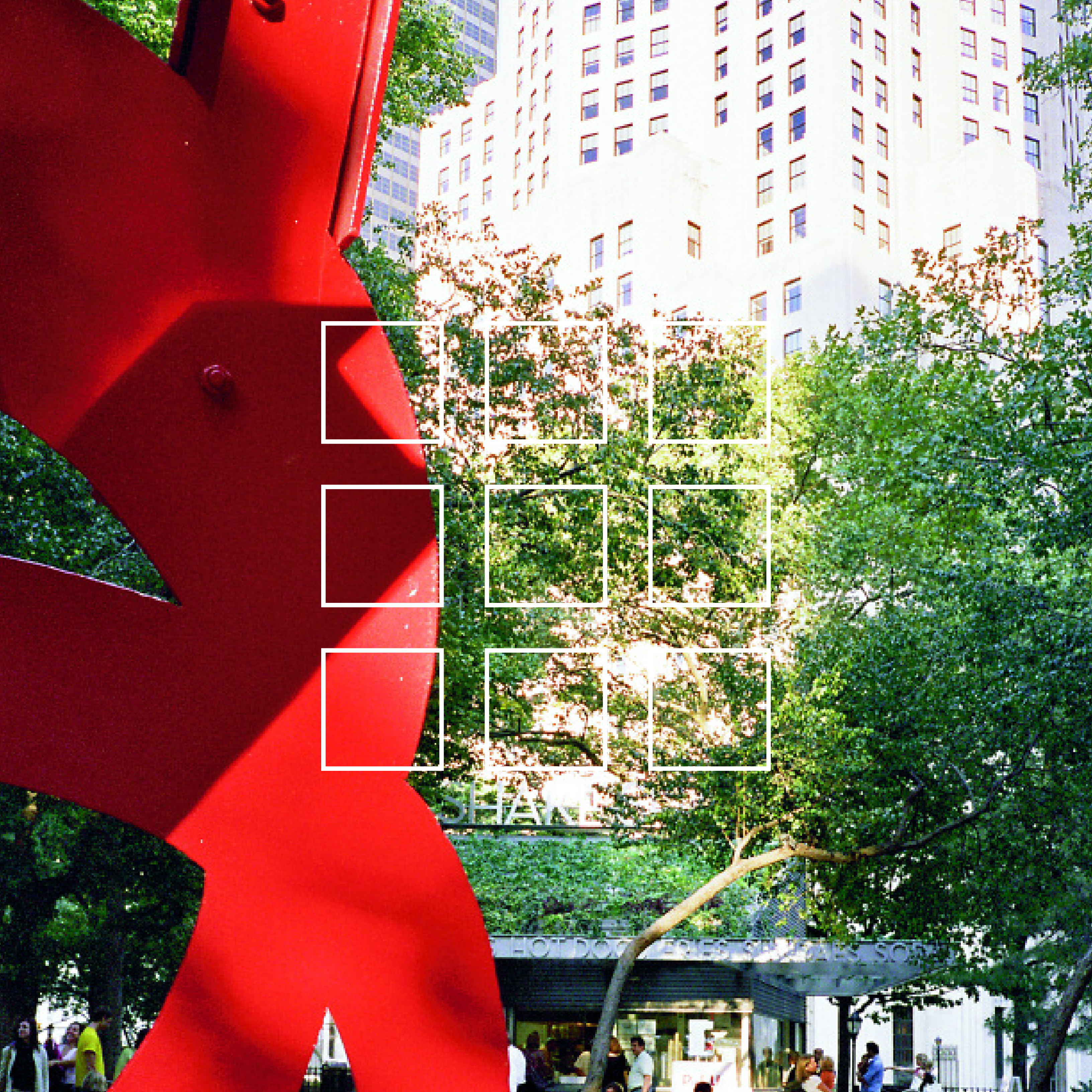
New York City
Transitional Finance Authority



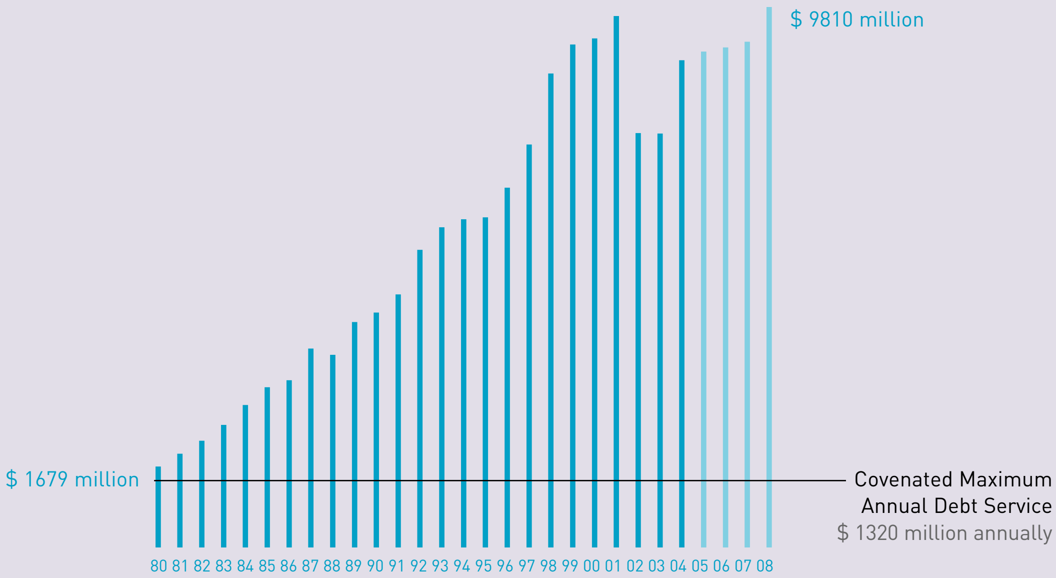
2004 Annual Report

Collection & Application of Revenues




SHAKE

New York City
Statutory Revenues

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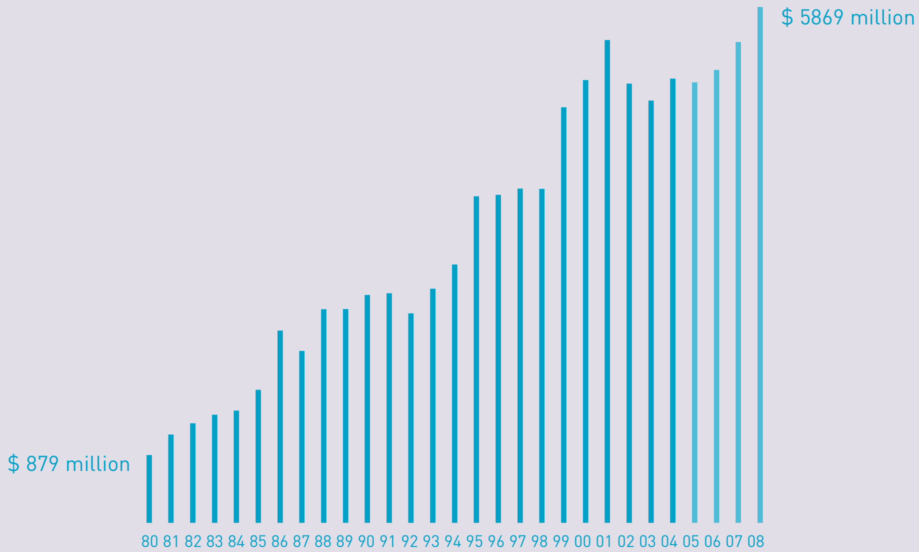
New York City
Personal Income Tax Revenues



TFA

Financing a portion of New York City's Capital Program

Letter from the Executive Director

I am pleased to present the Fiscal Year 2004 Annual Report of the New York City Transitional Finance Authority (the "TFA"). This report contains complete audited financial information for the TFA's seventh fiscal year of operation, which began on July 1, 2003.

The TFA is a public benefit corporation whose primary purpose is to finance a portion of New York City's (the "City's") capital program. The New York State Legislature approved the law authorizing the creation of the NYC Transitional Finance Authority on March 5, 1997 (Chapter 16 of the Laws of 1997, the "Act"). The Act included governance by a Board of five directors consisting of the following officials of the City: the Director of Management & Budget (who also serves as Chairperson), the Commissioner of Finance, the Commissioner of Design & Construction, the Comptroller, and the Speaker of the City Council.

The TFA is authorized to borrow up to $11.5 billion through the issuance of bonds for capital purposes. In addition, the Act was amended in September 2001 to permit the TFA to have outstanding an additional $2.5 billion of its bonds and notes to pay for costs related to or arising from the terrorist attack on the City on September 11, 2001. The TFA has issued $2 billion of subordinate debt to pay such costs. This subordinate debt achieved ratings of the same level as the TFA's senior bonds. The TFA completed its authorized borrowing of $11.5 billion in bonds for capital purposes in Fiscal Year 2004.

TFA bonds are payable from personal income tax revenues and, if needed, a portion of sales tax revenues collected in the City. These revenues are collectively referred to as the "Statutory Revenues." The TFA enjoys high coverage of its debt service provided by the Statutory Revenues. The ratings of the TFA are Aa2/AA+/AA+ from Moody's Investors Service, Standard & Poor's and Fitch Ratings, respectively.

The TFA is an asset-backed credit, which combines structured finance methods with a traditional revenue source. The high coverage provided by the Statutory Revenues and the TFA's legal separation from the City have enabled it to earn high bond ratings and to achieve low interest costs. Personal income tax revenues are paid directly to the TFA. Payment of such revenues to the city is made by the TFA only after and to the extent that the TFA determines revenues to be in excess of its needs. Sales tax revenues are available to the TFA if required.

The existence of the TFA has allowed the City to continue its capital program. Without it, the constitutional debt limit would have forced the City to stop entering into additional contracts for the improvements of its infrastructure. Over the last seven fiscal years, the TFA has proved to be a very successful borrowing vehicle for the City's capital program.

Respectfully submitted,

Mark Page,
Executive Director

Report of Independent Certified Public Accountants

To the Board of Directors of New York City Transitional Finance Authority

We have audited the accompanying financial statements of the governmental activities, the capital projects fund and the debt service fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of the City of New York, New York, as of and for the years ended June 30, 2004 and 2003, 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, 2004 and 2003, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Grant Thornton LLP

New York, New York
September 8, 2004

Management's Discussion and Analysis

Overview of Financial Statements
The annual financial statements of the New York City Transitional Finance Authority (the "Authority") consist of two parts - management's discussion and analysis (this section) and the basic financial statements.

Our discussion and analysis of the financial performance of the Authority provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Authority's financial statements, which begin on page 12.

The entity-wide financial statements of the Authority, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements and Management's Discussion & Analysis for State and Local Governments. The statements of net assets (deficit) and the statements of activities are prepared using the economic resources measurement focus and the accrual basis of accounting. All revenues and expenses are taken into account regardless of when cash is paid or received.

The Authority's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period.

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

The Authority is a component unit of New York City (the "City") and, accordingly, is included in the City's financial statements. The Authority's authorizing legislation limits the amount of Authority bonds and notes issued for capital purposes ("Future Tax Secured Bonds") to $11.5 billion. The Authority has reached its statutory limit on Future Tax Secured Bonds. In addition, the Authority is authorized to have outstanding $2.5 billion of bonds and notes ("Recovery Bonds") to pay costs related to or arising from the World Trade Center attack ("Recovery Costs"). The Authority had, as of June 30, 2004, $2 billion of Recovery Bonds outstanding.

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements
During fiscal year 2004 total assets increased by $158 million. Restricted cash and cash equivalents increased by $16 million, restricted investments decreased by $100 million, unrestricted cash and cash equivalents decreased by $224 million, restricted cash for economic defeasance increased by $0.7 million, restricted investments held for economic defeasance increased by $313 million, personal income taxes receivable increased by $149 million and other assets increased by $4 million.

The increase of $16 million at June 30, 2004 in restricted cash and cash equivalents is comprised of an increase of $100 million in investments having an original maturity date of less than three months (thus a cash equivalent), an increase of $48 million in required debt service and a $132 million decrease in restricted cash and cash equivalents used to reimburse the City for capital projects.

The $224 million decrease in unrestricted cash and cash equivalents reflects the reduction of unrestricted grants received by the Authority from the City in the fiscal year ended June 30, 2004. The decrease in restricted investments held for debt service is primarily due to the funds being invested for less than three months at June 30, 2004.

Management's Discussion and Analysis (continued)

Financial Highlights and Overall Analysis - Entity-Wide Financial Statements (continued)

The economic defeasance of $295 million of the Authority's Future Tax Secured Bonds in the year ended June 30, 2004 increased assets held in escrow by the Authority's Trustee by $314 million. Because this transaction was an economic defeasance, and not a legal defeasance, 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. The liability for those economically defeased bonds is included in bonds payable on the books of the Authority.

Total liabilities increased by $455 million in fiscal year 2004. The primary changes were that long-term bonds payable increased by $1.1 billion, short-term debt payable decreased by $906 million and personal income taxes payable to the City increased by $149 million. The increase in long-term bonds payable reflects issuance of $1.9 billion of Future Tax Secured Bonds during the fiscal year ended June 30, 2004, of which $1.1 billion was used to pay bond anticipation notes, $145 million was used to reimburse the City for capital project costs and $709 million was used for defeasance of Future Tax Secured Bonds totaling $717 million. $295 million of the defeased Future Tax Secured Bonds were economically defeased and remain as a liability on the Authority's books while $422 million were legally defeased and were eliminated from the Authority's liabilities.

Total general revenues decreased by $671 million in fiscal 2004. The primary components of this decrease were a decrease of $224 million in the unrestricted grant received from the City, a $428 million decrease in personal income taxes retained due to (a) utilization of the unrestricted grant from the City, which was received in the fiscal year ended June 30, 2003, and (b) increased debt service including principal payments on bonds in fiscal year ended June 30, 2004.

Total program expenses decreased by $2.9 billion in fiscal 2004. The primary components of this decrease were a decrease of $1.3 billion in distributions to the City for its capital program, and a decrease of $1.6 billion in distributions to the City for Recovery Costs. In addition, interest expense increased by $18 million due to increased debt outstanding, and general and administrative expenses increased by $1.9 million primarily for liquidity and remarketing fees.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

Total assets increased by $155 million in fiscal 2004. Restricted cash and cash equivalents increased by $16 million, restricted investments decreased by $100 million, unrestricted cash and cash equivalents decreased by $224 million, restricted cash for economic defeasance increased by $0.7 million, restricted investments held for economic defeasance increased by $313 million and personal income tax receivable increased by $149 million.

Total liabilities decreased by $963 million in fiscal year 2004 which reflects the reduction in bond anticipation notes that were paid with the proceeds from the issuance of long-term debt and the increase of $112 million of deferred personal income tax revenue at June 30, 2004.

Total revenues decreased by $659 million in fiscal year 2004. The primary components of the decrease were a $224 million decrease in an unrestricted grant received from the City and a $428 million decrease in personal income taxes retained.

Expenditures decreased by $2.8 billion in fiscal year 2004. The primary components of this decrease were the distributions to the City for its capital program decreased by $1.3 billion, the distribution to the City for Recovery Costs decreased by $1.6 billion, interest expense increased by $40 million, principal amount of debt retired increased by $72 million, and general and administrative expenses increased by $1.9 million.

Other financing sources decreased by $2.3 billion primarily due to the decrease in the principal amount of bonds issued in fiscal year 2004.

Statements of Net Assets (Deficit)

June 30, (in thousands)	2004	2003
ASSETS		
Restricted cash and cash equivalents	$ 153,632	$ 137,543
Restricted cash escrow for economic defeasance	708	-
Restricted investments	16,448	116,702
Restricted investments escrow for economic defeasance	312,879	-
Unrestricted cash and cash equivalents	400,014	624,000
Personal income tax receivable	165,229	15,949
Unamortized bond issuance costs	63,557	59,777
Total assets	1,112,467	953,971
LIABILITIES		
Distributions payable to New York City capital program	-	2,695
Personal income tax payable to New York City	165,229	15,949
Accrued expenses	2,532	2,541
Accrued interest payable	143,525	129,680
Bond anticipation notes payable	-	1,110,000
Interest rate cap obligation	16,060	13,720
Bonds payable		
Portion due within one year	389,260	184,925
Portion due after one year	12,974,625	11,839,335
Unamortized deferred bond refunding costs	(162,856)	(137,214)
Unamortized bond premium	293,459	204,754
Total liabilities	13,821,834	13,366,385
NET ASSETS (DEFICIT)		
Restricted for capital program	2,539	134,754
Restricted for economic defeasance	313,587	-
Deficit	(13,025,493)	(12,547,168)
Total deficit	$(12,709,367)	$(12,412,414)

The accompanying notes are an integral part of these statements.

Statements of Activities

Year ended June 30, (in thousands)	2004	2003
EXPENSES		
General and administrative expenses	$ 11,328	$ 9,390
Distributions to New York City for		
Capital program	278,715	1,592,932
Recovery costs	-	1,564,884
Amortization of deferred bond refunding costs	16,511	12,529
Interest expense	489,798	471,420
Amortization of debt issuance expense	5,731	5,953
Total program expenses	802,083	3,657,108
GENERAL REVENUES		
Personal income tax revenue	5,693,704	4,455,749
Less remittances to New York City	(5,584,876)	(3,918,947)
Personal income tax revenue retained	108,828	536,802
Unrestricted grant from New York City	400,000	624,000
Unrealized loss on economic defeasance investments	(9,044)	-
Change in value of interest rate cap obligation	(2,340)	9,372
Investment earnings	7,686	5,753
Total general revenues	505,130	1,175,927
Change in net assets	(296,953)	(2,481,181)
DEFICIT - BEGINNING OF YEAR	(12,412,414)	(9,931,233)
DEFICIT - END OF YEAR	$ (12,709,367)	$ (12,412,414)

The accompanying notes are an integral part of these statements.

Balance Sheet

Governmental Funds

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

The accompanying notes are an integral part of this statement.

Balance Sheet

Governmental Funds

June 30, 2003 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
ASSETS			
Restricted cash and cash equivalents	$ 137,449	$ 94	$ 137,543
Unrestricted cash and cash equivalents	-	624,000	624,000
Restricted investments	-	116,702	116,702
Personal income tax receivable	-	15,949	15,949
Total assets	$ 137,449	$756,745	$ 894,194
LIABILITIES AND FUND BALANCES			
Liabilities			
Bond anticipation notes payable	$ 1,110,000	$ -	$ 1,110,000
Distributions payable to New York City capital program	2,695	-	2,695
Accrued expenses	2,541	-	2,541
Personal income tax payable to New York City	-	15,949	15,949
Total liabilities	1,115,236	15,949	1,131,185
Fund balances			
Deficit	(977,787)	-	(977,787)
Reserved for debt service	-	116,796	116,796
Unrestricted funds	-	624,000	624,000
Total fund balance (deficit)	(977,787)	740,796	(236,991)
Total liabilities and fund balances	$ 137,449	$ 756,745	$ 894,194

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

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

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year ended June 30, 2003 (in thousands)	Capital Projects	Debt Service	Total Governmental Funds
REVENUES			
Personal income tax revenue	$ -	$ 4,489,749	$ 4,489,749
Less remittances to New York City	-	(3,952,947)	(3,952,947)
Personal income tax revenue retained	-	536,802	536,802
Unrestricted grant from New York City	-	624,000	624,000
Investment earnings	3,155	2,598	5,753
Total revenues	3,155	1,163,400	1,166,555
EXPENDITURES			
Interest expense	-	467,803	467,803
Principal amount of bonds retired	-	107,875	107,875
Costs of debt issuance	20,460	-	20,460
Refunding bond issuance costs	-	11,658	11,658
Distributions to New York City for			
Capital program	1,592,932	-	1,592,932
Recovery costs	1,564,884	-	1,564,884
General and administrative expenses	9,390	-	9,390
Total expenditures	3,187,666	587,336	3,775,002
Excess of expenditures over revenues	3,184,511	(576,064)	2,608,447
OTHER FINANCING SOURCES (USES)			
Principal amount of bonds issued	3,772,565	-	3,772,565
Bond premium, net of discount	75,765	-	75,765
Refunding bond proceeds	-	2,142,187	2,142,187
Payments to refunded bond escrow holder	-	(2,128,791)	(2,128,791)
Transfers in (out)	(40,448)	40,448	-
Total other financing sources and uses	3,807,882	53,844	3,861,726
Net change in fund balances	623,371	629,908	1,253,279
FUND BALANCES (DEFICIT) - BEGINNING OF YEAR	(1,601,158)	110,888	(1,490,270)
FUND BALANCES (DEFICIT) - END OF YEAR	$ (977,787)	$ 740,796	$ (236,991)

The accompanying notes are an integral part of this statement.

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

June 30, (in thousands)	2004	2003
Total fund balance (deficit) - governmental funds	$ 881,149	$ (236,991)
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.	63,557	59,777
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.	(293,459)	(204,754)
Proceeds from interest rate cap agreements are currently available financial resources and are recognized as other financing sources in the governmental funds financial statements. However, in the statements of net assets (deficit), this amount is considered a liability and is reported at fair value.	(16,060)	(13,720)
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	(13,363,885)	(12,024,260)
Accrued interest on bonds	(143,525)	(129,680)
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.	162,856	137,214
Personal income taxes due to the Authority at year-end but not collected within sixty days of year-end are recognized as deferred revenue in the governmental funds balance sheets. In the statements of net assets (deficit) and changes in net assets, all personal income tax receivables are recognized as revenue and are included in net assets. The corresponding amount of personal income taxes payable to the City of New York is higher in the statements of net assets (deficit) for this reason.		
Personal income tax payable to New York City	(112,296)	-
Deferred personal income tax revenue	112,296	-
Net assets (deficit) of government activities	$(12,709,367)	$(12,412,414)

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)	2004	2003
Net change in fund balances - total governmental funds	$ 1,118,140	$ 1,253,279
Amounts reported for governmental activities in the statements of activities are different because:		
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds, but increase and decrease long-term liabilities in the statements of net assets (deficit).	(2,697)	(13,396)
Governmental funds report costs of bond refunding 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.	(14,382)	(871)
Bond proceeds provide current financial resources to governmental funds, but debt issued increases long-term liabilities in the statements of net assets (deficit).	(1,231,620)	(3,772,565)
Bond proceeds used to fund the economic defeasance escrow are current financial resources to governmental funds but debt issued increases long-term liabilities in the statements of net assets.	(319,662)	-
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).	179,510	107,875
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.	2,758	14,507
Governmental funds report bond premiums/discounts as other financing sources. However, in the statements of activities, bond premiums/ discounts are amortized over the lives of the debt as interest expense.	(12,815)	(47,132)
Governmental funds report revenue received from the sale of interest rate cap agreements as other financing sources. However, statements of activities report changes in the fair value of the agreements.	(2,340)	9,372
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.	(13,845)	(32,250)
Change in net assets of governmental activities	$ (296,953)	$ (2,481,181)

The accompanying notes are an integral part of these statements.

Notes to Financial Statements

June 30, 2004 and 2003

NOTE A - ORGANIZATION

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

The Authority was created by State legislation enacted in 1997 to issue and sell up to $7.5 billion in bonds and notes to fund a portion of the capital program of the City, the purpose of which is to maintain, rebuild and expand the infrastructure of the City. In June 2000, the State Legislature increased to $11.5 billion the Authority's capacity to issue bonds and notes for capital purposes ("Future Tax Secured Bonds"). The State Legislature also increased the amount of Future Tax Secured Bonds which may be issued as variable rate debt from $750 million to $2.3 billion. On September 13, 2001, the State Legislature authorized the Authority to have outstanding an additional $2.5 billion of bonds and notes ("Recovery Bonds") to fund the City's costs related to and arising from events on September 11, 2001 at the World Trade Center ("Recovery Costs"). The Authority has issued its statutory limit of $11.5 billion of Future Tax Secured Bonds.

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 unmatured interest on bonds payable, which is recognized when due. The governmental funds consist of the (a) Capital Projects Fund, which accounts for resources to be transferred to the City for its capital program and Recovery Costs and for the operations of the Authority, and (b) the Debt Service Fund, which accounts for the accumulation of resources for payment of principal and interest on long-term debt and certain interest on short-term debt.

Bond and bond anticipation note premiums, discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The governmental fund financial statements recognize the premiums, discounts, as well as debt 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.

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 individual governmental fund financial statements.

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

The Authority receives City personal income taxes, imposed pursuant to State law and collected on behalf of the Authority by the State, to service its debt and pay its administrative expenses. Funds for bond debt service are required to be set aside prior to the due date of the principal and interest. Unused personal income taxes are remitted to the City.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires the Authority's management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the dates of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C - BONDS PAYABLE

Pursuant to the New York City Transitional Finance Authority Act (the "Act"), the Authority is authorized to issue $11.5 billion of Future Tax Secured Bonds. The Authority has issued $11.5 billion of Future Tax Secured Bonds and as of June 30, 2004, the Authority had outstanding debt of $11.3 billion of Future Tax Secured Bonds, including $295 million of economically defeased Future Tax Secured Bonds. The Authority includes the escrow funds for the economically defeased bonds in its assets and those funds provide for all future debt service on the economically defeased bonds.

In addition, the Act permits the Authority to have outstanding $2.5 billion of Recovery Bonds for Recovery Costs. As of June 30, 2004 and 2003, the Authority had outstanding $2 billion of Recovery Bonds.

The Authority funds its debt service requirements and operating expenditures from personal income taxes collected on its behalf by the State and, under certain circumstances, sales taxes. Sales taxes are only available to the Authority after such amounts required by the Municipal Assistance Corporation for the City of New York are deducted and if the amounts of personal income tax revenues fall below statutorily specified debt service coverage levels. No sales tax revenues were received or required during fiscal years 2004 and 2003.

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

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

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

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
1998 Fiscal Series A - 4.20% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2023	$ 243,740	$ -	$ -	$ 243,740
1998 Fiscal Series B - 4.00% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2027	600,655	-	(66,995)	533,660
1998 Fiscal Series C				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2026	599,915	-	(216,785)	383,130
5.80% to 6.375% serial taxable bonds maturing in varying installments through 2014	69,580	-	(6,580)	63,000
Variable rate tax-exempt bonds due in 2028 (a)	100,000	-	-	100,000
1999 Fiscal Series A				
4.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2016	329,440	-	(13,945)	315,495
5.30% to 5.80% serial taxable bonds maturing in varying installments through 2006	25,435	-	(6,200)	19,235
5.00% to 5.50% serial tax-exempt bonds maturing in varying installments through 2026	222,500	-	-	222,500
Variable rate tax-exempt bonds due in 2028 (a)	277,500	-	-	277,500

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
1999 Fiscal Series B				
3.25% to 5.125% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 392,390	$ -	$ (15,965)	$ 376,425
5.45% to 5.85% serial taxable bonds maturing in varying installments through 2006	29,470	-	(2,875)	26,595
5.00% to 5.20% serial tax-exempt bonds maturing in varying installments through 2027	100,000	-	-	100,000
Variable rate tax-exempt bonds due in 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	310,400	-	(38,370)	272,030
5.75% to 6.50% serial taxable bonds maturing in varying installments through 2011	32,420	-	-	32,420
2000 Fiscal Series A				
4.25% to 6.00% serial and term tax-exempt bonds maturing in varying installments through 2017	97,230	-	(34,515)	62,715
2000 Fiscal Series B				
4.50% to 6.25% serial and term tax-exempt bonds maturing in varying installments through 2021	205,235	-	(7,505)	197,730
5.90% to 7.125% serial taxable bonds maturing in varying installments through 2003	955	-	(955)	-

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
2000 Fiscal Series C				
4.20% to 5.875% serial and term tax-exempt bonds maturing in varying installments through 2024	$ 420,330	$ -	$ (5,375)	$ 414,955
6.875% to 7.125% serial taxable bonds maturing in varying installments through 2005	7,475	-	-	7,475
2001 Fiscal Series A				
4.25% to 5.75% serial and term tax-exempt bonds maturing in varying installments through 2020	228,615	-	(14,475)	214,140
Variable rate tax-exempt bonds due in 2030 (a)	100,000	-	-	100,000
2001 Fiscal Series B				
3.75% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2020	285,765	-	(11,265)	274,500
Variable rate tax-exempt bonds due in 2031 (a)	100,000	-	-	100,000
2001 Fiscal Series C				
3.65% to 5.50% serial and term tax-exempt bonds maturing in varying installments through 2022	331,955	-	(1,965)	329,990
Variable rate tax-exempt bonds due in 2032 (a)	100,000	-	-	100,000
2002 Fiscal Series A				
4% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2031	147,755	-	(2,335)	145,420

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
2002 Fiscal Series B				
3.5% to 5% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 411,145	$ -	$ (34,385)	$ 376,760
Variable rate taxable bonds due in 2030 (a)	194,505	-	-	194,505
2002 Fiscal Series C				
4.25% to 5.50% serial tax-exempt bonds maturing in varying installments through 2032	250,000	-	(9,710)	240,290
2003 Fiscal Series A				
3.00% to 6.00% serial term and capital appreciation tax-exempt bonds maturing in varying installments through 2029 (b)	1,254,275	-	(22,710)	1,231,565
2003 Fiscal Series B				
3.00% to 5.375% serial and term tax-exempt bonds maturing in varying installments through 2029 (c)	670,230	-	(4,465)	665,765
1.75% to 4.00% serial and term taxable bonds maturing in varying installments through 2008	62,780	-	(9,535)	53,245
2003 Fiscal Series C				
2.50% to 5.250% serial tax-exempt bonds maturing in varying installments through 2025	441,735	-	(61,110)	380,625
Variable rate tax-exempt bonds due in 2031 (a)	150,000	-	-	150,000

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
2003 Fiscal Series D				
2.00% to 5.25% serial and term tax-exempt bonds maturing in varying installments through 2031	$ 500,910	$ -	$ (13,215)	$ 487,695
2.65% to 4.80% serial taxable bonds maturing in varying installments through 2013	103,215	-	-	103,215
2003 Fiscal Series E				
2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033	550,000	-	-	550,000
2004 Fiscal Series A				
3.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033	-	145,000	-	145,000
2004 Fiscal Series B				
2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2032	-	545,620	-	545,620
2004 Fiscal Series C				
2.00% to 5.250% serial and term tax-exempt bonds maturing in varying installments through 2033	-	541,000	-	541,000
2004 Fiscal Series D				
2.00% to 5.000% serial tax-exempt bonds maturing in varying installments through 2017	-	709,240	-	709,240
Total bonds payable, excluding Recovery Bonds	9,997,555	1,940,860	(601,235)	11,337,180

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
2003 Series 1 Recovery Bonds				
Variable rate tax-exempt bonds due in 2022 (a)	$ 480,000	$ -	$ -	$ 480,000
2003 Series 2 Recovery Bonds				
Variable rate tax-exempt bonds due in 2022 (a)	520,000	-	-	520,000
2003 Series 3 Recovery Bonds				
2.00% to 5.00% serial tax-exempt bonds maturing in varying installments through 2007	143,505	-	-	143,505
Variable rate tax-exempt bonds due in 2022 (a)	883,200	-	-	883,200
Total Recovery Bonds payable	2,026,705	-	-	2,026,705
Total bonds payable	12,024,260	$ 1,940,860	$ (601,235)	13,363,885
Less current portion of bonds payable	184,925			389,260
Bonds payable due after one year	$ 11,839,335			$ 12,974,625

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

(a) Variable rates are adjusted daily or weekly and represent the lowest rate of interest that would cause the adjustable rate bonds to have a market value equal to the principal amount. The rates cannot exceed 9%.

(b) Fiscal 2003 Series A bonds include bonds callable on November 1, 2011. The callable term bonds are $659,770,000 maturing on November 1, 2026 and $122,500,000 maturing on November 1, 2028. Capital appreciation bonds (accreted value of $112,365,000 on November 1, 2011), maturing on November 1, 2029, are also callable. If these bonds are not called on November 1, 2011, the interest to be paid to the bondholders converts, without further notice to bondholders, to 14% per annum. The callable bonds are subject to redemption prior to maturity or, if a liquidity facility has been provided, purchase in lieu thereof, on 30 days' notice, beginning November 1, 2011 at the option of the Authority in whole or in part at anytime, 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.

(d) $295,180,000 of bonds shown as outstanding on June 30, 2004 were economically defeased on March 24, 2004 and an escrow account is held by the Authority Trustee, funded from the proceeds of the sale of Fiscal 2004 Series D.

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

Bonds economically defeased remain a liability and the escrow deposited with the Authority's Trustee is an asset on the Authority's records. The legally defeased bonds of $421,725,000 are not entitled to any benefit or security under the Authority's indenture and are payable from amounts on deposit in the escrow established for those bonds. The legally defeased bonds have been removed from the financial statements as a liability of the Authority. As of June 30, 2004 and 2003, the Authority had legally defeased bonds of $2,378,080,000 and $1,956,355,000 respectively, of which $2,176,790,000 and $1,845,770,000, respectively, are still outstanding.

The advance refunding in March 2004 resulted in an accounting loss of $38.8 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 $36.9 million and obtained an economic benefit of $23.7 million. The advance refunding in the fiscal year ended June 30, 2003 resulted in an accounting loss of $149 million and the Authority in effect reduced the aggregate debt service by $226 million and obtained an economic benefit of $148 million.

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE C - BONDS PAYABLE (continued)

Debt service requirements at June 30, 2004, for bonds payable to their maturity are as follows:

(in thousands)	Principal	Interest (a)	Total
Year ended June 30,			
2005	$ 389,260	$ 535,785	$ 925,045
2006	379,615	522,674	902,289
2007	415,750	508,195	923,945
2008	443,030	491,441	934,471
2009	428,920	474,451	903,371
2010 to 2014	2,599,330	2,254,069	4,853,399
2015 to 2019	3,015,890	1,770,559	4,786,449
2020 to 2024	2,911,350	1,052,844	3,964,194
2025 to 2029	2,176,500	418,904	2,595,404
2030 to 2034	604,240	46,865	651,105
	$ 13,363,885	$ 8,075,787	$ 21,439,672

(a) Actual variable rates at June 30, 2004 averaged approximately 0.95%, which is the rate used in this table. If variable interest is calculated at 5.00% per annum (which is the rate utilized for retention), total interest would be increased to $10,189,359 from the $8,075,787. 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.

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

At June 30, 2004 and 2003, the Authority maintained its required debt service accounts totaling $164,775,000 and $116,413,000, respectively, of which $47,205,000 and $18,855,000 were for principal retirement, respectively, and $117,570,000 and $97,558,000 were for interest payments, respectively.

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE D - BOND ANTICIPATION NOTES PAYABLE

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

(in thousands)	Balance at June 30, 2003	Issued	Retired	Balance at June 30, 2004
2003 Fiscal Series 1				
2.5% tax-exempt bond anticipation notes maturing November 6, 2003	$ 555,000	$ -	$ (555,000)	$ -
2003 Fiscal Series 2				
2.0% tax-exempt bond anticipation notes maturing February 19, 2004	555,000	-	(555,000)	-
Total bond anticipation notes payable	$ 1,110,000	$ -	$(1,110,000)	$ -

NOTE E - CASH AND CASH EQUIVALENTS

At June 30, 2004, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $5,071,000 and commercial paper of approximately $148,561,000. At June 30, 2003, the Authority's restricted cash and cash equivalents consisted of bank deposits of approximately $1,534,000 and commercial paper of approximately $136,009,000.

At June 30, 2004, unrestricted cash and cash equivalents consisted of cash of $5,000 and commercial paper of approximately $400,009,000. At June 30, 2003, unrestricted cash and cash equivalents consisted of a reverse repurchase agreement of $624,000,000.

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

The Authority's investments classified as cash and cash equivalents have an original maturity date of three months or less. The Authority values those investments at cost plus accrued interest, which approximates market. The Authority's investments in commercial paper are held by the Authority's Trustee in the Authority's name.

At June 30, 2004 and 2003, the carrying amounts of bank deposits were approximately $5,071,000 and $1,534,000 respectively, and the bank balances were approximately $4,982,000 and $1,556,000, respectively. At June 30, 2004 and 2003, $100,000 and $194,000 respectively, of the bank deposits were insured by the Federal Deposit Insurance Corporation. The remaining balances were not collateralized.

Notes to Financial Statements (continued)

June 30, 2004 and 2003

NOTE F - RESTRICTED INVESTMENTS

At June 30, 2004 and 2003, the Authority's restricted investments of $16,448,000 and $116,702,000, respectively, were in commercial paper having an original maturity date of more than three months. The Authority values those investments at cost plus accrued interest, which approximates market. The commercial paper held had a rating of A-1 and P-1 or better at June 30, 2004 and 2003, respectively.

At June 30, 2004, the Authority's restricted investments in the economic defeasance escrow account at the Authority's Trustee were invested in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association bonds, notes and STRIPS; and United States bonds, notes and STRIPS. At June 30, 2004, the Authority valued these investments at market, which resulted in an unrealized loss of approximately $9,044,000. 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 does provide for all future debt service on the economically defeased bonds.

NOTE G - INTEREST RATE CAP OBLIGATIONS

On June 20, 2002, the Authority entered into three interest rate cap agreements (the "Interest Rate Cap Agreements") with the New York City Housing Development Corporation ("HDC") (a component unit of the City) relating to certain variable rate bonds issued by HDC. Under the agreements, the Authority will pay to HDC the amount by which the three-month LIBOR rate exceeds 7.35%, up to 14.85% (a maximum exposure of 7.50%), on a notional amount of $198,995,000 as of June 30, 2004 and 2003. The Authority will also pay to HDC the amount by which the three-month LIBOR rate exceeds 4.85% through April 30, 2007 and 7.35% thereafter (but not in excess of 14.85%), on a notional amount of $135,400,000 as of June 30, 2004 and 2003. Notional amounts will amortize over the life of the Interest Rate Cap Agreements by scheduled principal payments on the HDC bonds. The HDC bonds covered by the agreements mature serially through November 2032.

At June 30, 2004 and 2003, the Interest Rate Cap Agreements were estimated to have a market value of $16.06 million and $13.72 million, respectively, by the Authority's Swap Advisor. The valuations were based on an option valuation model using market interest rates and volatilities as of June 30 of each year.

The valuation at June 30, 2004 increased the interest rate cap obligation in the statement of net assets and resulted in an expense in the statement of activities. The valuation at June 30, 2003 reduced the interest rate cap obligation in the statement of net assets (deficit) and was reported as revenue in the statement of activities.

In future years, the carrying amounts of these Interest Rate Cap Agreements reported in the statement of net assets will continue to be adjusted to their fair value and the change will be reported as revenue or expense in the statement of activities. Any amounts paid under the Interest Rate Cap Agreements will be reported as an expense in the statement of activities and will be reported as an expenditure in the governmental funds statement of revenues, expenditures and changes in fund balances.

NOTE H - UNRESTRICTED GRANT FROM NEW YORK CITY

The Authority received an unrestricted grant from the City of $400,000,000 on June 29, 2004 and $624,000,000 on June 30, 2003.

NOTE I - ADMINISTRATIVE COSTS

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

NOTE J - SUBSEQUENT EVENTS

Subsequent to June 30, 2004, the Authority used the entire unrestricted grant received from the City to fund debt service and administrative expenses, rather than retaining personal income tax revenues for those purposes.

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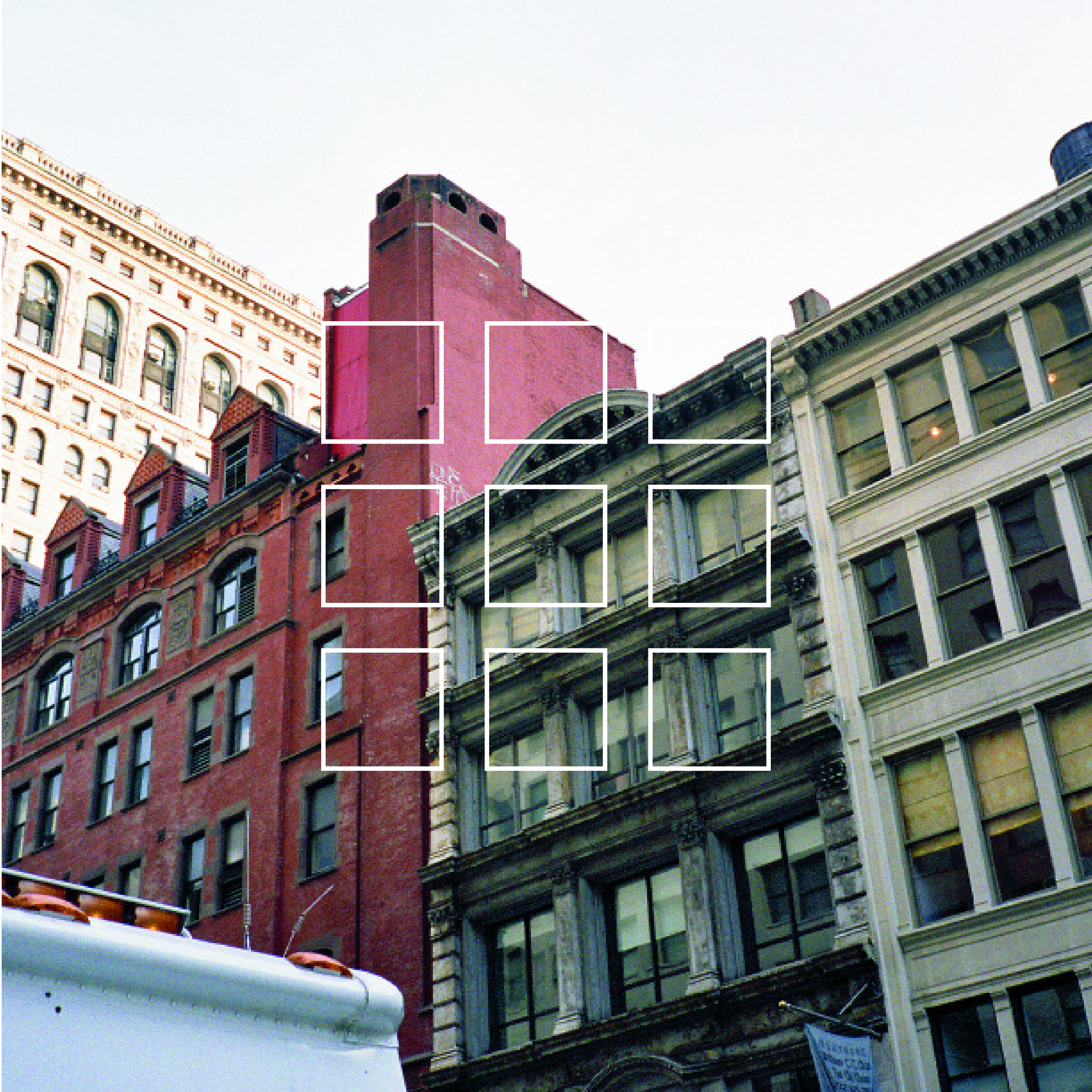

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