

New York City Transitional Finance Authority

A Component Unit of The City of New York

Financial Statements as of and for the
Years Ended June 30, 2012 and 2011, and
Independent Auditors' Report

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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INDEPENDENT AUDITORS' REPORT

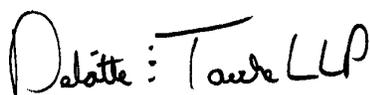
To the Board of Directors of the
New York City Transitional Finance Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the New York City Transitional Finance Authority (the "Authority"), a component unit of The City of New York, as of and for the year ended June 30, 2012, which collectively comprise the basic financial statements 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 audit. The financial statements of the Authority for the year ended June 30, 2011, were audited by other auditors whose report, dated September 28, 2011, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the adoption of Governmental Accounting Standards Board Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

We conducted our audit 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2012 financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Authority as of June 30, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.



September 27, 2012

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

The following is a narrative overview and analysis of the financial activities of the New York City Transitional Finance Authority (the "Authority") as of June 30, 2012 and 2011 and for the years then ended. It should be read in conjunction with the Authority's government-wide financial statements, governmental funds financial statements and the notes to the financial statements. The annual financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements, (3) the governmental funds financial statements; and (4) the notes to the 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. This is to provide the reader with a broad overview of the Authority's finances. 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 funds financial statements (general, 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 principal and interest on bonds payable and liabilities on arbitrage rebate payable, which is recognized when due.

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

Future Tax Secured Bonds

The Authority's authorizing legislation limited the amount of Authority bonds and notes issued for The City of New York's ("The City's") 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. At the end of fiscal year 2012, The City's and the Authority's combined debt-incurring capacity was approximately \$22.8 billion. In fiscal years 2012 and 2011, the Authority issued \$4.98 billion and \$4.25 billion, respectively of FTS Bonds. The Authority had Future Tax Secured Senior Bonds outstanding of \$3.58 billion and \$5.22 billion and Subordinate bonds (excluding Recovery Bonds) of \$16.01 billion and \$12.41 billion as of June 30, 2012 and 2011, respectively.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

Future Tax Secured Bonds (continued)

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, 2012 and 2011 of \$1.37 billion and \$1.47 billion, respectively.

Of the \$4.98 billion and \$4.25 billion FTS Bonds issued in fiscal years 2012 and 2011, \$0 and \$1.31 billion, respectively were Build America Bonds ("BABs") and \$300.0 million and \$147.0 million, respectively 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 years 2012 and 2011, the Authority earned subsidy payments of \$57.81 million and \$51.84 million on its BABs and \$24.11 million and \$19.61 million on its QSCBs. The proceeds of the BABs were used to finance The City's capital expenditures and the QSCBs proceeds are used to finance The City's educational facilities.

The following summarizes the debt service activity for FTS Bonds in fiscal year 2012:

	Outstanding Principal Balance at June 30, 2011	Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2012	Total Interest Payments FY 2012
	(in thousands)					
Senior FTS Bonds	\$ 5,216,175	\$ 300,000	\$ (1,272,320)	\$ (662,915)	\$ 3,580,940	\$ 160,893
Subordinate FTS Bonds:						
Recovery Bonds	1,466,200	74,600	(169,100)	-	1,371,700	8,677
Parity Bonds	8,964,845	4,304,210	(760,790)	(244,920)	12,263,345	420,386
Build America Bonds	3,045,645	-	-	-	3,045,645	165,184
Qualified School Construction Bonds	397,060	300,000	-	-	697,060	20,532
Total Subordinate FTS Bonds	13,873,750	4,678,810	(929,890)	(244,920)	17,377,750	614,779
Total FTS Bonds Payable	\$ 19,089,925	\$ 4,978,810	\$ (2,202,210)	\$ (907,835)	\$ 20,958,690	\$ 775,672

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

Future Tax Secured Bonds (continued)

The following summarizes the debt service activity for FTS Bonds in fiscal year 2011:

	Outstanding Principal Balance at June 30, <u>2010</u>	Issued/ <u>Converted</u>	Principal <u>Retired</u>	Principal <u>Defeased</u>	Outstanding Principal Balance at June 30, <u>2011</u>	Total Interest Payments <u>FY 2011</u>
	(in thousands)					
Senior FTS Bonds	\$ 6,589,865	\$ (482,490)	\$ (261,255)	\$ (629,945)	\$ 5,216,175	\$ 227,167
Subordinate FTS Bonds:						
Recovery Bonds	1,466,200	-	-	-	1,466,200	7,338
Parity Bonds	5,835,190	3,270,450	(115,415)	(25,380)	8,964,845	298,863
Build America Bonds	1,731,240	1,314,405	-	-	3,045,645	122,897
Qualified School Construction Bonds	250,000	147,060	-	-	397,060	15,336
Total Subordinate FTS Bonds	9,282,630	4,731,915	(115,415)	(25,380)	13,873,750	444,434
Total FTS Bonds Payable	\$ 15,872,495	\$ 4,249,425	\$ (376,670)	\$ (655,325)	\$ 19,089,925	\$ 671,601

Building Aid Revenue Bonds

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 the State of New York (the "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 issued \$650.0 million of BARBs in fiscal year 2012 and \$650.0 million of BARBs in fiscal year 2011. The Authority had BARBs outstanding as of June 30, 2012 and 2011 of \$5.31 billion and \$4.73 billion, respectively.

Of the \$650.0 million BARBs issued in each of fiscal years 2012 and 2011, \$295.75 million were Build America Bonds ("BABs") in 2011 and \$100.0 million were Qualified School Construction Bonds ("QSCBs") issued in each fiscal year. The BABs and QSCBs are taxable bonds for which the Authority receives cash subsidy payment from the United States Treasury. In fiscal years 2012 and 2011, the Authority earned subsidy payments of \$7.01 million and \$4.52 million on its BABs and \$7.70 million and \$26.5 thousand on its QSCBs. The proceeds of the BABs are used to finance The City's capital expenditures and the QSCBs proceeds are used to finance The City's educational facilities.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

Building Aid Revenue Bonds (continued)

The following summarizes the debt service activity for BARBs in fiscal year 2012:

	Outstanding Principal Balance at June 30, 2011				Issued/Converted		Principal Retired		Principal Defeased		Outstanding Principal Balance at June 30, 2012	Total Interest Payments FY 2012
	(in thousands)											
Tax-exempt Bonds	\$ 4,334,100	\$ 550,000	\$ (71,190)	\$ -	\$ -	\$ 4,812,910	\$ 211,898					
Build America Bonds	295,750	-	-	-	295,750	22,909						
Qualified School Construction Bonds	100,000	100,000	-	-	200,000	2,613						
Total BARBs Payable	\$ 4,729,850	\$ 650,000	\$ (71,190)	\$ -	\$ 5,308,660	\$ 237,420						

The following summarizes the debt service activity for BARBs in fiscal year 2011:

	Outstanding Principal Balance at June 30, 2010				Issued/Converted		Principal Retired		Principal Defeased		Outstanding Principal Balance at June 30, 2011	Total Interest Payments FY 2011
	(in thousands)											
Tax-exempt Bonds	\$ 4,221,155	\$ 254,250	\$ (65,455)	\$ (75,850)	\$ 4,334,100	\$ 207,838						
Build America Bonds	-	295,750	-	-	295,750	-						
Qualified School Construction Bonds	-	100,000	-	-	100,000	-						
Total BARBs Payable	\$ 4,221,155	\$ 650,000	\$ (65,455)	\$ (75,850)	\$ 4,729,850	\$ 207,838						

In accordance with GASB standards, the building aid revenue is treated, for reporting purposes, as City revenue pledged to the Authority. The Authority retains sufficient building aid revenue to service the BARBs debt and to pay its administrative expenses. Under the criteria established by GASB, 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 any other financing use of funds. Building aid retained by the Authority is treated as any other financing source as the amount retained is accounted for as a repayment of the amounts loaned to The City.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

Building Aid Revenue Bonds (continued)

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,

	<u>2012</u>	<u>2011</u>	<u>2010</u>
	-----in thousands-----		
Building aid received from New York State	\$ 906,746	\$ 894,478	\$ 829,949
Building aid remitted to New York City	<u>(698,047)</u>	<u>(478,126)</u>	<u>(449,675)</u>
Total retained for BARBs debt service and operating expenses	<u>\$ 208,699</u>	<u>\$ 416,352</u>	<u>\$ 380,274</u>

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	<u>2012</u>	<u>2011</u>	<u>2010</u>	Variance	
	-----in thousands-----			-----in thousands-----	
				<u>2012/2011</u>	<u>2011/2010</u>
Revenues:					
Personal income tax retained	\$ 616,864	\$ 695,044	\$ 190,646	\$ (78,180)	\$ 504,398
Unrestricted grant from New York City	878,884	789,697	370,524	89,187	419,173
Federal subsidy	96,630	75,991	14,885	20,639	61,106
Investment earnings	<u>2,220</u>	<u>1,357</u>	<u>3,307</u>	<u>863</u>	<u>(1,950)</u>
Total revenues	<u>1,594,598</u>	<u>1,562,089</u>	<u>579,362</u>	<u>32,509</u>	<u>982,727</u>
Expenses:					
Distributions to New York City for general capital program	2,330,776	3,469,002	3,146,860	(1,138,226)	322,142
Interest expense	888,087	870,183	721,707	17,904	148,476
Other	<u>150,779</u>	<u>108,482</u>	<u>35,158</u>	<u>42,297</u>	<u>73,324</u>
Total expenses	<u>3,369,642</u>	<u>4,447,667</u>	<u>3,903,725</u>	<u>(1,078,025)</u>	<u>543,942</u>
Change in net assets	(1,775,044)	(2,885,578)	(3,324,363)	1,110,534	438,785
Net deficit, beginning of year	<u>(18,485,107)</u>	<u>(15,599,529)</u>	<u>(12,275,166)</u>	<u>(2,885,578)</u>	<u>(3,324,363)</u>
Net deficit, end of year	<u>\$ (20,260,151)</u>	<u>\$ (18,485,107)</u>	<u>\$ (15,599,529)</u>	<u>\$ (1,775,044)</u>	<u>\$ (2,885,578)</u>

The Authority received City grants of \$878.88 million and \$789.70 million in June 2012 and 2011, 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.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

As previously discussed, the Authority issued BABs and QSCBs for the first time in fiscal year 2010. The Authority earned \$96.63 million and \$75.99 million in Federal interest subsidies in June 30, 2012 and June 30, 2011, respectively. The increased subsidy revenue in fiscal years 2012 and 2011 was due to the additional issuance of these taxable bonds.

Investment earnings are primarily based on capital project holdings, debt service holdings and interest rate fluctuations during the fiscal year. As such, the increase in investment earnings in fiscal year 2012 compared to fiscal year 2011 was primarily due the increased capital project and debt service holdings during fiscal year 2012.

Total fiscal year 2012 expenses decreased mainly because of the decreased issuance of the Authority's capital project bonds when compared to the bonds the Authority issued in 2011. This decrease resulted in less bond proceeds available for transfer to The City.

Interest expense increased in fiscal years 2012 and 2011 by \$17.90 million and \$148.48 million due to the increase in outstanding bonds.

Other expenses consist primarily of amortization costs related to the issuance of debt, the Authority's administrative expenses, and federal subsidies transferred to The City. The increase of \$42.30 million in other expenses in fiscal year 2012 was primarily due to the transfer of \$20.64 million more of federal subsidies to The City.

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

	2012	2011	2010	Variance	
	2012	2011	2010	2012/2011	2011/2010
	-----in thousands-----			-----in thousands-----	
Assets:					
Total assets	\$ 7,746,581	\$ 6,551,298	\$ 5,374,891	\$ 1,195,283	\$ 1,176,407
Liabilities:					
Current liabilities	1,692,502	1,552,029	1,015,544	140,473	536,485
Non-current liabilities:	26,314,230	23,484,376	19,958,876	2,829,854	3,525,500
Total liabilities	28,006,732	25,036,405	20,974,420	2,970,327	4,061,985
Net assets (deficits):					
Restricted	1,336,945	745,643	437,286	591,302	308,357
Unrestricted	(21,597,096)	(19,230,750)	(16,036,815)	(2,366,346)	(3,193,935)
Total deficit, end of year	<u>\$ (20,260,151)</u>	<u>\$ (18,485,107)</u>	<u>\$ (15,599,529)</u>	<u>\$ (1,775,044)</u>	<u>\$ (2,885,578)</u>

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENT-WIDE FINANCIAL STATEMENTS (continued)

Total assets increased in fiscal year 2012 by \$1.2 billion when compared to fiscal year 2011 mainly because there was approximately \$636 million more in amount due from The City for collateralized borrowing as previously discussed. In addition, in fiscal year 2012 there was an increase of capital bond proceeds holdings of approximately \$616 million, which will be available to transfer to The City in fiscal year 2013.

Total liabilities increased by approximately \$3.0 billion primarily because in fiscal year 2012 the Authority had approximately \$2.4 billion more in outstanding bonds.

FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

The Authority uses five governmental funds for reporting its activities: (1) a general fund, (2) a building aid revenue bonds capital project fund ("BARBs CPF"), (3) a future tax secured bonds capital project fund ("FTS Bonds CPF"), (4) a building aid revenue bonds debt service fund ("BARBs DSF"), and (5) a future tax secured bonds debt service fund ("FTS Bonds DSF"). In fiscal year 2011, the Authority implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* ("GASB 54"). GASB 54 resulted in the creation of a general fund and the restatement of those activities that were formerly presented in the debt service funds and now reported under a general fund. The Authority now accounts for and reports in the general fund its administrative and operating expenditures along with the resources used or held for use to pay for those operating activities, pursuant to the Indenture.

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

	2012	2011	2010	Variance	
	2012/2011	2011/2010			
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 16,423	\$ 11,984	\$ 9,941	\$ 4,439	\$ 2,043
Revenues	117,565	84,989	13,704	32,576	71,285
Expenditures	(113,624)	(80,870)	(11,661)	(32,754)	(69,209)
Other financing sources (uses), net	182	320	-	(138)	320
Fund balance, end of year	<u>\$ 20,546</u>	<u>\$ 16,423</u>	<u>\$ 11,984</u>	<u>\$ 4,123</u>	<u>\$ 4,439</u>

The increase in revenues in fiscal year 2012 was primarily due to the Authority receiving \$29.3 million more of Federal interest subsidies when compared to the amount of subsidies received in fiscal year 2011. In fiscal year 2011, the Authority received \$59.1 million more in interest subsidies than in fiscal year 2010. As previously discussed, the Authority issued BABs and QSCBs for the first time in fiscal year 2010. The increased subsidy revenue in fiscal years 2012 and 2011 was due to the additional issuance of these taxable bonds.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

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

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

	2012	2011	2010	Variance	
	-----in thousands-----			2012/2011	2011/2010
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 143,948	\$ -	56	\$ 143,948	\$ (56)
Revenues	158	36	280	122	(244)
Expenditures	(849,568)	(515,081)	(279)	(334,487)	(514,802)
Other financing sources (uses), net	<u>705,462</u>	<u>658,993</u>	<u>(57)</u>	<u>46,469</u>	<u>659,050</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 143,948</u>	<u>\$ -</u>	<u>\$ (143,948)</u>	<u>\$ 143,948</u>

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 issued BARBs in fiscal year 2012 and distributed those proceeds and the \$143.9 million on hand from fiscal year 2011 to The City to finance its educational facilities capital program. The total fiscal year 2012 distribution resulted in a \$0 fund balance.

As the Authority did not issue any BARBs in fiscal year 2010, approximately \$279 thousand of remaining fiscal year 2009 BARBs proceeds and related interest earnings were distributed to The City in fiscal year 2010, resulting in a \$0 fund balance.

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

	2012	2011	2010	Variance	
	-----in thousands-----			2012/2011	2011/2010
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 601,695	\$ 436,803	\$ -	\$ 164,892	\$ 436,803
Revenues	598	1,767	613	(1,169)	1,154
Expenditures	(2,345,052)	(3,490,940)	(3,166,235)	1,145,888	(324,705)
Other financing sources (uses), net	<u>3,079,704</u>	<u>3,654,065</u>	<u>3,602,425</u>	<u>(574,361)</u>	<u>51,640</u>
Fund balance, end of year	<u>\$ 1,336,945</u>	<u>\$ 601,695</u>	<u>\$ 436,803</u>	<u>\$ 735,250</u>	<u>\$ 164,892</u>

Total fiscal year 2012 expenditures decreased primarily because of the decreased issuance of the Authority's capital project bonds when compared to the bonds the Authority issued in 2011. This decrease resulted in less bond proceeds available for transfer to The City. The fiscal year 2012 net decrease of other financing sources and uses was also due to the issuance of less FTS capital project debt.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012 AND 2011

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

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

				Variance	
	2012	2011	2010	2012/2011	2011/2010
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 585,994	\$ 525,386	\$ 368,980	\$ 60,608	\$ 156,406
Revenues	1,277	(822)	1,205	2,099	(2,027)
Expenditures	(308,610)	(273,293)	(225,130)	(35,317)	(48,163)
Other financing sources (uses), net	208,476	334,723	380,331	(126,247)	(45,608)
Fund balance, end of year	<u>\$ 487,137</u>	<u>\$ 585,994</u>	<u>\$ 525,386</u>	<u>\$ (98,857)</u>	<u>\$ 60,608</u>

Expenditures in the BARBs DSF are primarily the debt service payments on outstanding BARBs. The other financing sources uses net, consist primarily of State building aid retained by the Authority in fiscal years 2012, 2011 and 2010, respectively.

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

				Variance	
	2012	2011	2010	2012/2011	2011/2010
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 966,871	\$ 554,834	\$ 841,034	\$ 412,037	\$ (286,200)
Revenues	1,470,650	1,462,993	552,707	7,657	910,286
Expenditures	(3,158,468)	(1,051,712)	(859,231)	(2,106,756)	(192,481)
Other financing sources (uses), net	1,605,573	756	20,324	1,604,817	(19,568)
Fund balance, end of year	<u>\$ 884,626</u>	<u>\$ 966,871</u>	<u>\$ 554,834</u>	<u>\$ (82,245)</u>	<u>\$ 412,037</u>

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 \$878.88 million and \$789.70 million in fiscal years 2012 and 2011, respectively. These grants and the PIT retained are used to service the Authority's FTS Bonds debt service and its administrative expenses.

Expenditures increased in fiscal year 2012 over fiscal year 2011 due primarily to the reoffering of approximately \$1.6 billion of FTS Bonds. The increased expenditure is offset with reoffered bond proceeds reported in the other financing sources. Other financing sources (uses) consist primarily of the proceeds from FTS Bonds issued for the refunding of FTS Bonds, proceeds from reoffered FTS Bonds and the payment to the escrow agent for the refunded 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, 255 Greenwich Street, New York, NY 10007.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2012 AND 2011**

	2012	2011
	(in thousands)	
ASSETS:		
Unrestricted cash and cash equivalents	\$ 22,881	\$ 18,832
Restricted cash and cash equivalents	1,832,410	1,165,997
Restricted investments	1,168,942	1,420,967
Personal income tax receivable from New York State	404,831	297,023
Due from New York City - future State building aid	4,151,937	3,515,027
Unamortized bond issuance costs	117,728	108,903
Other	47,852	24,549
	\$ 7,746,581	\$ 6,551,298
LIABILITIES:		
Personal income tax payable to New York City	\$ 404,831	\$ 297,023
Distribution payable to New York City capital programs	310,282	286,727
Accrued expenses	3,970	4,458
Accrued interest payable	327,099	301,706
Bonds payable		
Portion due within one year	646,320	662,115
Portion due after one year	25,621,030	23,157,660
Unamortized deferred bond refunding costs	(210,994)	(198,080)
Unamortized bond premium	904,194	524,796
	28,006,732	25,036,405
NET ASSETS (DEFICIT):		
Restricted for capital projects	1,336,945	745,643
Unrestricted	(21,597,096)	(19,230,750)
	\$ (20,260,151)	\$ (18,485,107)

The accompanying notes are an integral part of these financial statements.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012	2011
	(in thousands)	
REVENUES:		
Personal income tax revenue	\$ 8,144,202	\$ 7,601,070
Less remittances to New York City	(7,527,338)	(6,906,026)
Personal income tax revenue retained	616,864	695,044
Unrestricted grant from New York City	878,884	789,697
Federal interest subsidy	96,630	75,991
Investment earnings	2,220	1,357
TOTAL REVENUES	1,594,598	1,562,089
EXPENSES:		
General and administrative expenses	21,344	18,005
Distribution to New York City for general capital program	2,330,776	3,469,002
Distribution of federal interest subsidy to New York City	92,280	62,865
Amortization of deferred bond refunding costs	22,184	17,776
Interest expense	888,087	870,183
Amortization of debt issuance costs	14,971	9,836
TOTAL EXPENSES	3,369,642	4,447,667
CHANGE IN DEFICIT	(1,775,044)	(2,885,578)
DEFICIT - beginning of year	(18,485,107)	(15,599,529)
DEFICIT - end of year	\$ (20,260,151)	\$ (18,485,107)

The accompanying notes are an integral part of these financial statements.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEETS
AS OF JUNE 30, 2012**

(in thousands)

	(in thousands)					Total Governmental Funds
	General Fund	Capital Projects		Debt Service		
		Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	
ASSETS:						
Unrestricted cash and cash equivalents	\$ 22,881	\$ -	\$ -	\$ -	\$ -	\$ 22,881
Restricted cash and cash equivalents	-	13	1,647,951	76,804	107,642	1,832,410
Restricted investments	-	-	-	391,826	777,116	1,168,942
Personal income tax receivable from New York State	-	-	-	-	404,831	404,831
Other	447	-	-	18,826	-	19,273
	-	-	-	-	-	-
TOTAL ASSETS	\$ 23,328	\$ 13	\$ 1,647,951	\$ 487,456	\$ 1,289,589	\$ 3,448,337
LIABILITIES AND FUND BALANCES:						
LIABILITIES:						
Accrued expenses	\$ 2,782	\$ 13	\$ 724	\$ 319	\$ 132	\$ 3,970
Distribution payable to New York City for capital programs	-	-	310,282	-	-	310,282
Deferred personal income tax revenue	-	-	-	-	355,000	355,000
Personal income tax payable to New York City	-	-	-	-	49,831	49,831
TOTAL LIABILITIES	2,782	13	311,006	319	404,963	719,083
FUND BALANCES:						
Restricted for:						
Capital distribution to New York City	-	-	1,336,945	-	-	1,336,945
Debt service	-	-	-	487,137	884,626	1,371,763
Unassigned	20,546	-	-	-	-	20,546
TOTAL FUND BALANCES	20,546	-	1,336,945	487,137	884,626	2,729,254
TOTAL LIABILITIES AND FUND BALANCES	\$ 23,328	\$ 13	\$ 1,647,951	\$ 487,456	\$ 1,289,589	\$ 3,448,337

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS BALANCE SHEETS
AS OF JUNE 30, 2011

(in thousands)

	General Fund	Capital Projects		Debt Service		Total Governmental Funds
		Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	
ASSETS:						
Unrestricted cash and cash equivalents	\$ 18,832	\$ -	\$ -	\$ -	\$ -	\$ 18,832
Restricted cash and cash equivalents	-	303,516	730,046	20,152	112,283	1,165,997
Restricted investments	-	-	-	566,162	854,805	1,420,967
Personal income tax receivable from New York State	-	-	-	-	297,023	297,023
Other	320	-	-	-	-	320
TOTAL ASSETS	<u>\$ 19,152</u>	<u>\$ 303,516</u>	<u>\$ 730,046</u>	<u>\$ 586,314</u>	<u>\$ 1,264,111</u>	<u>\$ 2,903,139</u>
LIABILITIES AND FUND BALANCES:						
LIABILITIES:						
Accrued expenses	\$ 2,729	\$ 568	\$ 624	\$ 320	\$ 217	\$ 4,458
Distribution payable to New York City for capital programs	-	159,000	127,727	-	-	286,727
Deferred personal income tax revenue	-	-	-	-	190,000	190,000
Personal income tax payable to New York City	-	-	-	-	107,023	107,023
TOTAL LIABILITIES	<u>2,729</u>	<u>159,568</u>	<u>128,351</u>	<u>320</u>	<u>297,240</u>	<u>588,208</u>
FUND BALANCES:						
Restricted for:						
Capital distribution to New York City	-	143,948	601,695	-	-	745,643
Debt service	-	-	-	585,994	966,871	1,552,865
Unassigned	16,423	-	-	-	-	16,423
TOTAL FUND BALANCES	<u>16,423</u>	<u>143,948</u>	<u>601,695</u>	<u>585,994</u>	<u>966,871</u>	<u>2,314,931</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 19,152</u>	<u>\$ 303,516</u>	<u>\$ 730,046</u>	<u>\$ 586,314</u>	<u>\$ 1,264,111</u>	<u>\$ 2,903,139</u>

The accompanying notes are an integral part of these financial statements.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS
TO THE STATEMENTS OF NET ASSETS (DEFICIT)
AS OF JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Total fund balances - governmental funds	\$ 2,729,254	\$ 2,314,931
Amounts reported for governmental activities in the statements of net assets (deficit) are different because:		
Costs of bond issuance are reported as expenditures in governmental funds financial statements upon issuance. However, in the statements of net assets (deficit), the costs of bond issuance are reported as capitalized assets and amortized over the life of the bonds.	117,728	108,903
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 life of the bonds.	(904,194)	(524,796)
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.	28,579	24,229
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.	4,151,937	3,515,027
Some liabilities are not due and payable in the current period from financial resources available currently at year-end 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	(26,267,350)	(23,819,775)
Accrued interest payable	(327,099)	(301,706)
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.	<u>210,994</u>	<u>198,080</u>
Net assets (deficit) of governmental activities	<u>\$ (20,260,151)</u>	<u>\$ (18,485,107)</u>

The accompanying notes are an integral part of these financial statements.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

(in thousands)

	Capital Projects		Debt Service		Total Governmental Funds	
	General Fund	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds		Future Tax Secured
REVENUES:						
Personal income tax revenue	\$ 25,279	\$ -	\$ -	\$ -	\$ 7,953,923	\$ 7,979,202
Less remittances to New York City	-	-	-	-	(7,362,338)	(7,362,338)
Personal income tax revenue retained	25,279	-	-	-	591,585	616,864
Unrestricted grant from New York City	-	-	-	-	878,884	878,884
Federal interest subsidy	92,280	-	-	-	-	92,280
Investment earnings	6	158	598	1,277	181	2,220
TOTAL REVENUES	117,565	158	598	1,277	1,470,650	1,590,248
EXPENDITURES:						
Interest expense	-	-	-	237,420	775,672	1,013,092
Interest expense economic defeasance	-	-	-	-	-	-
Costs of debt issuance	-	3,959	14,276	-	-	18,235
Distributions to New York City for general capital program	-	-	2,330,776	-	-	2,330,776
Distributions of federal interest subsidy to New York City	92,280	-	-	-	-	92,280
Principal amounts of bonds retired	-	-	-	71,190	2,202,210	2,273,400
Defeasance Escrow	-	-	-	-	170,391	170,391
Principal amounts of economic defeased bonds retired	-	-	-	-	-	-
Refunding bond issuance costs	-	-	-	-	10,195	10,195
General and administrative expenses	21,344	-	-	-	-	21,344
TOTAL EXPENDITURES	113,624	3,959	2,345,052	308,610	3,158,468	5,929,713
Excess (deficiency) of revenues over expenditures	3,941	(3,801)	(2,344,454)	(307,333)	(1,687,818)	(4,339,465)
OTHER FINANCING SOURCES (USES):						
Principal amount of bonds issued	-	650,000	2,800,000	-	-	3,450,000
Distributions to New York City for educational facilities capital programs	-	(845,609)	-	-	-	(845,609)
Refunding bond proceeds	-	-	-	-	2,178,810	2,178,810
Bond premium, net of discount	-	55,558	280,828	-	225,420	561,806
Payments of refunded bonds	-	-	-	-	(799,918)	(799,918)
Transfer from New York City - building aid	-	-	-	208,699	-	208,699
Transfers in (out)	182	(96)	(1,124)	(223)	1,261	-
TOTAL OTHER FINANCING SOURCES (USES)	182	(140,147)	3,079,704	208,476	1,605,573	4,753,788
NET CHANGES IN FUND BALANCES	4,123	(143,948)	735,250	(98,857)	(82,245)	414,323
Fund Balances - beginning of year	16,423	143,948	601,695	585,994	966,871	2,314,931
FUND BALANCES - end of year	\$ 20,546	\$ -	\$ 1,336,945	\$ 487,137	\$ 884,626	\$ 2,729,254

The accompanying notes are an integral part of these financial statements.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
GOVERNMENTAL FUNDS
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2011**

(in thousands)

	Capital Projects		Debt Service		Total Governmental Funds	
	General Fund	Building Aid Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds		Future Tax Secured
REVENUES:						
Personal income tax revenue	\$ 22,120	\$ -	\$ -	\$ -	\$ 7,649,950	\$ 7,672,070
Less remittances to New York City	-	-	-	-	(6,977,026)	(6,977,026)
Personal income tax revenue retained	22,120	-	-	-	672,924	695,044
Unrestricted grant from New York City	-	-	-	-	789,697	789,697
Federal interest subsidy	62,865	-	-	-	-	62,865
Investment earnings	4	36	1,767	(822)	372	1,357
TOTAL REVENUES	84,989	36	1,767	(822)	1,462,993	1,548,963
EXPENDITURES:						
Interest expense	-	-	-	207,838	671,577	879,415
Interest expense economic defeasance	-	-	-	-	24	24
Costs of debt issuance	-	4,501	21,938	-	-	26,439
Distributions to New York City for general capital program	-	-	3,469,002	-	-	3,469,002
Distributions of federal interest subsidy to New York City	62,865	-	-	-	-	62,865
Principal amounts of bonds retired	-	-	-	65,455	376,210	441,665
Principal amounts of economic defeased bonds retired	-	-	-	-	460	460
Refunding bond issuance costs	-	-	-	-	3,441	3,441
General and administrative expenses	18,005	-	-	-	-	18,005
TOTAL EXPENDITURES	80,870	4,501	3,490,940	273,293	1,051,712	4,901,316
Excess (deficiency) of revenues over expenditures	4,119	(4,465)	(3,489,173)	(274,115)	411,281	(3,352,353)
OTHER FINANCING SOURCES (USES):						
Principal amount of bonds issued	-	650,000	3,600,000	-	-	4,250,000
Distributions to New York City for educational facilities capital program	-	(510,580)	-	-	-	(510,580)
Refunding bond proceeds	-	-	-	-	649,425	649,425
Bond premium, net of discount	-	9,018	54,275	-	64,829	128,122
Payments of refunded bonds	-	-	-	(81,334)	(713,708)	(795,042)
Transfer from New York City - building aid	-	-	-	416,352	-	416,352
Transfers in (out)	320	(25)	(210)	(295)	210	-
TOTAL OTHER FINANCING SOURCES (USES)	320	148,413	3,654,065	334,723	756	4,138,277
NET CHANGES IN FUND BALANCES	4,439	143,948	164,892	60,608	412,037	785,924
Fund Balances - beginning of year	11,984	-	436,803	525,386	554,834	1,529,007
FUND BALANCES - end of year	\$ 16,423	\$ 143,948	\$ 601,695	\$ 585,994	\$ 966,871	\$ 2,314,931

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY
RECONCILIATIONS OF THE GOVERNMENTAL FUNDS STATEMENTS OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
	(in thousands)	
Net changes in fund balances - total governmental funds	\$ 414,323	\$ 785,924
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).	(5,628,810)	(4,899,425)
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).	970,309	795,042
The 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.	(11,989)	(14,335)
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).	2,273,400	442,125
The 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.	3,264	16,603
The 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.	(403,319)	(60,922)
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.	845,609	510,580
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.	(208,699)	(416,352)
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.	4,350	13,126
Interest is reported on the statement of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds when the outlay of financial resources is due.	(33,482)	(57,944)
Other (bond discount)	-	-
Change in net assets (deficit) - governmental activities	\$ (1,775,044)	\$ (2,885,578)

The accompanying notes are an integral part of these financial statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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 June 30, 2012, The City’s and the Authority’s combined debt-incurring capacity was approximately \$22.8 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, notwithstanding the limits discussed above.

State 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.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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 Governmental Accounting Standard Board (“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. Revenues are recorded 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 (general, 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 principal and interest on bonds payable and liabilities on arbitrage rebate payable, which is recognized when due.

The Authority uses five governmental funds for reporting its activities: (1) a general fund, (2) a building aid revenue bonds capital project fund (“BARBs CPF”), (3) a future tax secured bonds capital project fund (“FTS Bonds CPF”), (4) a building aid revenue bonds debt service fund (“BARBs DSF”), and (5) 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. The General Fund accounts for and reports all financial resources not accounted for in the capital and debt service funds, including the Authority’s administrative expenses.

- B. Fund balances are classified as either: 1) nonspendable, 2) restricted, or 3) unrestricted. Unrestricted fund balance is further classified as: (a) committed, (b) assigned, or (c) unassigned.

The Board of Directors of the Authority (the “Board”) constitutes the Authority’s highest level of decision-making authority and resolutions adopted by the Board that constrain fund balances for a specific purpose are accounted for and reported as committed for such purpose unless and until a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of the Authority duly authorized under its bond indenture to direct the movement of such funds are accounted for and reported as assigned for such purpose, unless or until a subsequent authorized action by the same or another duly authorized officer, or by the Board, is taken which removes or changes the assignment. When both restricted and unrestricted resources are available for use for a specific purpose, it is the Authority’s policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for us for a specific purpose, it is the Authority’s policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Resources constrained for debt service or redemption in accordance with the Authority's Indenture is classified as restricted on the statements of net assets (deficit) and the governmental funds balance sheets.

- 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 refunding 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 The 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 fiscal years 2012 and 2011, 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. Due to The City's continuing involvement necessary for the collection of the building aid, this assignment is considered a collateralized borrowing between The City and the Authority. The Authority reports, on its statement of net assets, an asset (Due from New York City — future State building aid) representing 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 another 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. During the years ended June 30, 2012 and 2011, the Authority retained \$208.70 million and \$416.35 million, respectively of State building aid to be used for BARBs debt service and its administrative expenses.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- H. 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 years 2012 and 2011.

The Authority receives a subsidy from the United States Treasury due to the Authority’s issuance of taxable Build America Bonds (“BABs”) and taxable Qualified School Construction Bonds (“QSCBs”) under the American Recovery and Reinvestment Act of 2009. This subsidy is recognized when the related bond interest is reported. On the statements of net assets, the amount of the subsidy related to the accrued bond interest is reported as a receivable at year end, while in the governmental funds balance sheets where no bond interest is reported as payable until due, no subsidy receivable is reported.

I. 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 standards requiring implementation in the current year and standards which will or may impact the Authority future years.

- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* (“GASB 60”). GASB 60 establishes the financial reporting for service concession agreements, which are a type of public-private or public-public partnership. GASB 60 is effective for financial statements for periods beginning after December 15, 2011. As the Authority has not entered into any service concession agreements, GASB 60 is not expected to have an impact on the Authority’s financial statements.
- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus — An Amendment of GASB Statement No. 14 and No. 34* (“GASB 61”). GASB 61 amends existing standards relating to the composition and reporting of the governmental financial reporting entity. GASB 61 is effective for financial statements for periods beginning after June 15, 2012, but is not expected to have an impact on the Authority or its status because it is a blended component unit of The City.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements* (“GASB 62”). GASB 62 incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for U.S. state and local governments. GASB 62 is effective for financial statements for periods beginning after December 15, 2011. The Authority has not completed the process of evaluation GASB 62, but does not expect it to have an impact on its financial statements.
- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”). GASB 63 establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. GASB 63 is effective for financial statements for periods beginning after December 15, 2011. The Authority has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of the Authority’s statement of position and components thereof, with no overall financial impact.
- In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* (“GASB 64”). GASB 64 clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty’s credit support provider. GASB 64 is effective for financial statements for periods beginning after June 15, 2011. As the Authority has not entered into any such agreements, GASB 64 does not have an impact on its financial statements.
- In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”). GASB 65 establishes accounting and reporting standards that reclassify certain items that are currently reported as assets and liabilities to deferred outflows of resources or deferred inflows of resources and recognize certain items currently being reported as assets and liabilities as outflows and inflow of resources. In addition, it limits the use of the term deferred in the financial statement presentation. The provisions of GASB 65 are effective for financial statements for periods beginning after December 15, 2012. The Authority has not completed the process of evaluating GASB 65, but it expects to have an accounting change on how debt issuance cost is recognized and reporting the government wide financial statements in that the carrying value of cost of issuance will not be reported on the statement of net assets, resulting in a restatement of beginning net assets.
- In March 2012, GASB issued Statement No. 66, *Technical Corrections-2012 an amendment of GASB Statements No. 10 and No. 62* (“GASB 66”). GASB 66 resolves conflicting accounting and reporting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of GASB 66 are effective for financial statements for periods beginning after December 15, 2012. The Authority has not completed the process of evaluating GASB 66, but does not expect it to have an impact on its financial statements.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”). GASB 68 establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions provided to the employees of state and local governmental employers. The requirements of GASB 68 are effective for financial statements for periods beginning after June 15, 2014. The Authority has not completed the process of evaluating GASB 68, but does not expect it to have an impact on its financial statements.
- J. 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.

3. CASH AND CASH EQUIVALENTS

The Authority’s cash and cash equivalents as of June 30, 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Restricted cash and cash equivalents:		
Cash	\$ 524	\$ 333
Cash equivalents (see Note 4)	<u>1,831,886</u>	<u>1,165,664</u>
Total restricted cash and cash equivalents	<u>1,832,410</u>	<u>1,165,997</u>
Unrestricted cash and cash equivalents:		
Cash	117	210
Cash equivalents (see Note 4)	<u>22,764</u>	<u>18,622</u>
Total unrestricted cash and cash equivalents	<u>22,881</u>	<u>18,832</u>
Total cash and cash equivalents	<u><u>\$ 1,855,291</u></u>	<u><u>\$ 1,184,829</u></u>

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

3. CASH AND CASH EQUIVALENTS (continued)

As of June 30, 2012 and 2011, 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.

As of June 30, 2012 and 2011, 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, 2012 and 2011, the carrying amounts and bank balances of unrestricted bank deposits were \$117 thousand and \$210 thousand, respectively, and were insured by the FDIC.

The Authority's investments classified as cash equivalents consisted of U.S. Government Securities and Commercial Paper that has an original maturity date of 90 days 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).

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 December 1, 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. All investments are held in the Trustee's name by the Trustee.

Credit Risk — The Authority's 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 Investor Services.

Interest Rate Risk — Substantially all of the Authority's investments mature in one year or less. Investments with longer term maturities are not expected to be liquidated prior to maturity, thereby limiting exposure from rising interest rates.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

4. INVESTMENTS (continued)

The Authority's investments, including cash equivalents as of June 30, 2012 and 2011, are as follows:

	<u>2012</u>	<u>2011</u>
	(in thousands)	
Restricted investments		
Money market funds	\$ 63,877	\$ 1,689
Securities of U.S. government agencies	1,290,247	1,552,904
Commercial paper	<u>1,646,704</u>	<u>1,032,038</u>
Total restricted investments	3,000,828	2,586,631
Less: amounts reported as cash equivalents	<u>(1,831,886)</u>	<u>(1,165,664)</u>
Total restricted investments	<u>\$ 1,168,942</u>	<u>\$ 1,420,967</u>
Unrestricted:		
Money market funds	513	1,622
Securities of U.S. government agencies	<u>22,251</u>	<u>17,000</u>
Total unrestricted investments	22,764	18,622
Less: amounts reported as cash equivalents	<u>(22,764)</u>	<u>(18,622)</u>
Total unrestricted investments	<u>\$ -</u>	<u>\$ -</u>

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 June 30, 2012, The City's and the Authority's combined debt-incurring capacity was approximately \$22.8 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.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

5. BONDS PAYABLE (continued)

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, 2012 and 2011, the Authority had \$3.58 billion and \$5.22 billion, respectively, of Senior bonds outstanding. 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, 2012 and 2011, were \$17.38 billion and \$13.87 billion, respectively. Total FTS Bonds outstanding at June 30, 2012 and 2011 was \$20.96 billion and \$19.09 billion, respectively.

In fiscal years 2012 and 2011, the changes in FTS Bonds payable were as follows:

	Outstanding Principal Balance at June 30, 2011				Outstanding Principal Balance at June 30, 2012		Total Interest Payments FY 2012
	Issued/Converted	Principal Retired	Principal Defeased				
	(in thousands)						
Senior FTS Bonds	\$ 300,000	\$ (1,272,320)	\$ (662,915)	\$ 5,216,175	\$ 3,580,940	\$ 160,893	
Subordinate FTS Bonds:							
Recovery Bonds	74,600	(169,100)	-	1,466,200	1,371,700	8,677	
Parity Bonds	4,304,210	(760,790)	(244,920)	8,964,845	12,263,345	420,386	
Build America Bonds	-	-	-	3,045,645	3,045,645	165,184	
Qualified School Construction Bonds	300,000	-	-	397,060	697,060	20,532	
Total Subordinate FTS Bonds	4,678,810	(929,890)	(244,920)	13,873,750	17,377,750	614,779	
Total FTS Bonds Payable	\$ 4,978,810	\$ (2,202,210)	\$ (907,835)	\$ 19,089,925	\$ 20,958,690	\$ 775,672	
	Outstanding Principal Balance at June 30, 2010				Outstanding Principal Balance at June 30, 2011		Total Interest Payments FY 2011
	Issued/Converted	Principal Retired	Principal Defeased				
	(in thousands)						
Senior FTS Bonds	\$ (482,490)	\$ (261,255)	\$ (629,945)	\$ 6,589,865	\$ 5,216,175	\$ 227,167	
Subordinate FTS Bonds:							
Recovery Bonds	-	-	-	1,466,200	1,466,200	7,338	
Parity Bonds	3,270,450	(115,415)	(25,380)	5,835,190	8,964,845	298,863	
Build America Bonds	1,314,405	-	-	1,731,240	3,045,645	122,897	
Qualified School Construction Bonds	147,060	-	-	250,000	397,060	15,336	
Total Subordinate FTS Bonds	4,731,915	(115,415)	(25,380)	9,282,630	13,873,750	444,434	
Total FTS Bonds Payable	\$ 4,249,425	\$ (376,670)	\$ (655,325)	\$ 15,872,495	\$ 19,089,925	\$ 671,601	

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

5. BONDS PAYABLE (continued)

As of June 30, 2012, the interest rates on the Authority's outstanding FTS fixed rate bonds ranged from 1.50% to 5.50% on tax-exempt bonds and .60% to 6.27% on taxable bonds.

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, 2012 and 2011. 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, 2012 and 2011, the Authority had \$3.30 billion and \$3.74 billion, respectively, of FTS Bonds variable rate bonds outstanding, consisting of \$222.4 million of Auction Rate Securities ("ARSs") and \$3.08 billion and \$3.52 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 2012 and 2011, the interest rate on the ARSs averaged .53% and .49%, 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 2012 and 2011, the VRDB rates averaged .45% and .32%, respectively, on tax exempt bonds and .28% and .39%, respectively, on taxable bonds.

On August 23, 2011, the Authority issued \$450 million, Fiscal 2012 Series A FTS Bonds and together with the premium received of \$62.77 million and an equity contribution from current revenue of \$11.81 million, current and advance refunded \$484.88 million of its outstanding FTS Bonds. This refunding resulted in an accounting loss of \$ 25.52 million, which was recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced the aggregate debt service by \$41.81 million and obtained an economic benefit of \$34.06 million. The Authority also reoffered \$482.49 million of the fiscal 2003 Series B Bonds, \$171.97 million of the fiscal 2002 Series B Bonds and \$74.60 million of the fiscal 2003 Series 1B Recovery Bonds.

On November 1, 2011, the Authority issued \$250 million, Fiscal 2012 Series B and C FTS Bonds and together with the premium received of \$25.38 million and an equity contribution from current revenue of \$4.45 million, current and advance refunded \$256.5 million of its outstanding FTS Bonds. This refunding resulted in an accounting loss of \$13.91 million, which was recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced the aggregate debt service by \$16.95 million and obtained an economic benefit of \$12.83 million. The Authority also reoffered \$882.22 million of the fiscal 2003 Series A Bonds.

On June 22, 2012, the Authority defeased \$166.45 million of outstanding FTS Bonds with current revenue of \$170.39 million. The escrow deposited with the Authority's Trustee was funded with Defeasance Collateral (as defined in the Authority's Indenture) to provide for all future debt service on the defeased bonds. The refunding using Defeasance Collateral resulted in the refunded bonds being removed from reported bonds outstanding. This refunding resulted in accounting gain of \$4.32 million.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

5. BONDS PAYABLE (continued)

On February 1, 2011, the Authority reoffered \$482.49 million of Fiscal 2003 B Term Bonds as floating rate bonds, thus avoiding the interest rate being converted to 10%. These bonds were subsequently reoffered as fixed rate in August 2011.

On April 25, 2011, the Authority issued \$649.43 million, Fiscal 2011 Series E and F FTS Bonds and together with the premium received of \$64.8 million, current and advanced refunded \$655.33 million of its outstanding FTS Bonds. This refunding resulted in an accounting loss of \$37.2 million, which was recorded as deferred bond refunding costs on the statement of net assets (deficit). The Authority in effect reduced the aggregate debt service by \$40.32 million and obtained an economic benefit of \$31.18 million.

The bonds refunded with Defeasance Collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2012 and 2011, the Authority had FTS Bonds refunded with Defeasance Collateral totaling \$8.75 billion and \$7.76 billion, respectively, of which \$1.85 billion and \$1.40 billion, respectively, are still to be paid from the Defeasance Collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

Debt service requirements as of June 30, 2012, for FTS Bonds, including Recovery Bonds, payable to their maturity are as follows:

	<u>SENIOR</u>			<u>SUBORDINATE</u>			<u>Total</u>
	<u>Principal</u>	<u>Interest (a)</u>	<u>Total</u>	<u>Principal</u>	<u>Interest (a)</u>	<u>Total</u>	<u>Debt Service</u>
	(in thousands)						
Year ending June 30,							
2013	\$ 198,215	118,464	\$ 316,679	\$ 438,225	\$ 722,072	\$ 1,160,297	\$ 1,476,976
2014	200,470	108,213	308,683	590,780	721,413	1,312,193	1,620,876
2015	198,725	97,953	296,678	673,630	698,716	1,372,346	1,669,024
2016	88,765	90,224	178,989	819,105	671,665	1,490,770	1,669,759
2017	75,730	86,307	162,037	863,590	639,606	1,503,196	1,665,233
2018 to 2022	475,825	384,249	860,074	4,502,555	2,701,490	7,204,045	8,064,119
2023 to 2027	1,121,405	266,890	1,388,295	3,360,195	1,938,831	5,299,026	6,687,321
2028 to 2032	1,140,465	86,249	1,226,714	2,534,345	1,219,720	3,754,065	4,980,779
2033 to 2037	81,340	3,435	84,775	2,385,895	640,856	3,026,751	3,111,526
2038 to 2042	-	-	-	1,209,430	98,838	1,308,268	1,308,268
Total	<u>\$3,580,940</u>	<u>\$1,241,984</u>	<u>\$ 4,822,924</u>	<u>\$17,377,750</u>	<u>\$10,053,207</u>	<u>\$27,430,957</u>	<u>\$32,253,881</u>

- (a) The variable interest rates used in this table were .29% on tax-exempt bonds and .45% on auction bonds, if variable interest is calculated at 5.00% on tax-exempt and auction bonds per annum (which are the rates utilized for retention), the total interest would increase to \$13.12 billion from the \$11.30 billion in the above table.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

5. BONDS PAYABLE (continued)

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, 2012 and 2011, the Authority had \$5.31 billion and \$4.73 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, BARBs bond holders do not have any right to the personal income tax revenues or sales tax revenues.

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.

In fiscal years 2012 and 2011, the changes in BARBs payable were as follows:

	Outstanding Principal Balance at June 30, 2011				Outstanding Principal Balance at June 30, 2012		Total Interest Payments FY 2012
	Issued/Converted	Principal Retired	Principal Defeased				
	(in thousands)						
Tax-exempt Bonds	\$ 4,334,100	\$ 550,000	\$ (71,190)	\$ -	\$ 4,812,910	\$ 211,898	
Build America Bonds	295,750	-	-	-	295,750	22,909	
Qualified School Construction Bonds	100,000	100,000	-	-	200,000	2,613	
Total BARBs Payable	\$ 4,729,850	\$ 650,000	\$ (71,190)	\$ -	\$ 5,308,660	\$ 237,420	

	Outstanding Principal Balance at June 30, 2010				Outstanding Principal Balance at June 30, 2011		Total Interest Payments FY 2011
	Issued/Converted	Principal Retired	Principal Defeased				
	(in thousands)						
Tax-exempt Bonds	\$ 4,221,155	\$ 254,250	\$ (65,455)	\$ (75,850)	\$ 4,334,100	\$ 207,838	
Build America Bonds	-	295,750	-	-	295,750	-	
Qualified School Construction Bonds	-	100,000	-	-	100,000	-	
Total BARBs Payable	\$ 4,221,155	\$ 650,000	\$ (65,455)	\$ (75,850)	\$ 4,729,850	\$ 207,838	

As of June 30, 2012, the interest rates on the Authority's outstanding BARBs fixed rate bonds ranged from 2.00% to 6.00% on tax-exempt bonds and 4.80% to 7.13% on taxable bonds.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

5. BONDS PAYABLE (continued)

Debt service requirements at June 30, 2012, for BARBs payable to maturity are as follows:

Year ending June 30,	<u>Principal</u>		<u>Interest</u>		<u>Total</u>	
	(in thousands)					
2013	\$	9,880.00	\$	272,616.00	\$	282,496.00
2014		108,675		269,112		377,787
2015		113,960		264,921		378,881
2016		119,775		260,298		380,073
2017		127,800		255,110		382,910
2018 to 2022		725,695		1,182,794		1,908,489
2023 to 2027		906,300		989,527		1,895,827
2028 to 2032		1,170,475		715,839		1,886,314
2033 to 2037		1,501,400		369,145		1,870,545
2038 to 2042		524,700		43,073		567,773
	\$	<u>5,308,660</u>	\$	<u>4,622,435</u>	\$	<u>9,931,095</u>

As of June 30, 2012 and 2011, the Authority maintained its required debt service accounts as follows:

	<u>June 30, 2012</u>				<u>June 30, 2011</u>			
	(in thousands)							
	<u>Principal</u>		<u>Interest</u>		<u>Principal</u>		<u>Interest</u>	
Required for FTS	\$	5,725	\$	170,922	\$	12,155	\$	190,488
Required for BARBs	\$	9,880	\$	272,616	\$	71,190	\$	237,420

The Authority held approximately \$708.11 million and \$764.23 million in excess of amounts required to be retained for FTS Bonds debt service under the Indenture as of June 30, 2012 and 2011, respectively. The Authority held approximately \$186.13 million and \$277.70 million in excess of amounts required to be retained for BARBs debt service under the Indenture as of June 30, 2012 and 2011, respectively.

6. UNRESTRICTED GRANT FROM THE CITY OF NEW YORK

In fiscal years 2012 and 2011, the Authority received unrestricted grants from The City in the amount of \$878.88 million and \$789.70 million, respectively. These funds are used to fund debt service requirements for FTS Bonds and administrative expenses during the fiscal years ending June 30, 2013 and 2012, respectively. The City grant is reported as an assigned fund balance in the governmental funds balance sheets.

NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012 AND 2011

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.

8. SUBSEQUENT EVENTS

On July 19, 2012, the Authority issued \$850 million, Fiscal 2013 Series S-1 BARBs Bonds; the tax exempt proceeds of which will be used to fund the costs of the five-year educational facilities capital plan for The City's school system and certain administrative expenditures.

On August 28, 2012, the Authority issued \$800 million, Fiscal 2013 Series A FTS Bonds, comprised of Subseries A-1, \$100 million of tax-exempt bonds; Subseries A-2, \$150 million of taxable Qualified School Construction Bonds; Subseries A-3, \$200 million of taxable bonds and Subseries A-4 to A-7, \$350 million of tax-exempt variable rate bonds. The proceeds of the Fiscal 2013A FTS Bonds will be used for The City's capital programs. The Authority also issued Fiscal 2013 Series B FTS Bonds; the tax exempt proceeds were used to refund prior outstanding bonds.

* * * * *