



# **NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**

**A COMPONENT UNIT OF THE CITY OF NEW YORK**

Financial Statements  
(Together with Independent Auditors' Report)

Years Ended June 30, 2016 and 2015

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY  
(A Component Unit of The City of New York)**

**FINANCIAL STATEMENTS  
(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2016 AND 2015**

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities of the New York City Transitional Finance Authority (the "Authority"), a component unit of The City of New York, as of and for the year ended June 30, 2016, which collectively comprise the Authority's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the New York City Transitional Finance Authority as of June 30, 2016, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Prior Period Financial Statements***

The financial statements of the Authority as of and for the year ended June 30, 2015, were audited by other auditors whose report dated September 30, 2015 expressed an unmodified opinion on those statements.

### ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12 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.



New York, NY  
September 30, 2016

# **NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**

(A Component Unit of The City of New York)

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2016 AND 2015 (unaudited)**

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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, 2016 and 2015 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 position (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") 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 are recognized when due.

The reconciliations of the governmental funds balance sheets to the statements of net position (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 original 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") at \$7.5 billion, (excluding Recovery Bonds, discussed below) which was amended several times to \$13.5 billion. On July 11, 2009, subsequent authorizing legislation was enacted under Chapter 182 of the Laws of New York, 2009, which permitted the Authority to have outstanding \$13.5 billion of FTS Bonds, (excluding Recovery Bonds). In addition, Chapter 182 permitted 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 2016, the City's and the Authority's remaining combined debt-incurring capacity was approximately \$23.0 billion. In fiscal years 2016 and 2015, the Authority issued \$4.0 billion and \$3.7 billion, respectively of FTS Bonds. The Authority had Future Tax Secured Senior Bonds outstanding of \$1.0 billion and \$1.3 billion and Subordinate bonds (excluding Recovery Bonds) of \$27.4 billion and \$24.2 billion as of June 30, 2016 and 2015, respectively.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016 AND 2015 (unaudited) (continued)

### Future Tax Secured Bonds (continued)

The Authority is 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, 2016 and 2015, of \$906 million and \$936 million, respectively.

Build America Bonds ("BABs") and Qualified School Construction Bonds ("QSCBs") are taxable bonds that were created under the American Recovery and Reinvestment Act of 2009 ("ARRA" or "Stimulus Act") whereby the Authority receives a cash subsidy payment from the United States Treasury. In fiscal years 2016 and 2015, the Authority earned subsidy payments of \$53.4 million and \$53.3 million on its BABs and \$47.9 million and \$47.6 million on its QSCBs. Starting in October 2015, subsidy payments were discounted 6.8% due to the federal government's budget sequestration. The proceeds of the BABs were used to finance the City's capital expenditures and the QSCBs proceeds were used to finance the City's educational facilities.

The following summarizes the debt service activity for FTS Bonds in fiscal year 2016:

	Outstanding Principal Balance at June 30, 2015		Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2016	Total Interest Payments FY 2016
	(in thousands)						
<b>Senior FTS Bonds</b>	\$ 1,287,545	\$ -	\$ (40,125)	\$ (212,810)	\$ 1,034,610	\$ 57,375	
Subordinate FTS Bonds:							
Recovery Bonds	936,115	-	(29,690)	-	906,425	11,566	
Parity Bonds	20,070,145	4,049,660	(619,890)	(251,120)	23,248,795	789,961	
Build America Bonds	2,993,200	-	(6,645)	-	2,986,555	163,677	
Qualified School Construction Bonds	1,137,340	-	-	-	1,137,340	49,260	
<b>Subtotal - Subordinate FTS Bonds</b>	<b>25,136,800</b>	<b>4,049,660</b>	<b>(656,225)</b>	<b>(251,120)</b>	<b>28,279,115</b>	<b>1,014,464</b>	
<b>Total FTS Bonds Payable</b>	<b>\$ 26,424,345</b>	<b>\$ 4,049,660</b>	<b>\$ (696,350)</b>	<b>\$ (463,930)</b>	<b>\$ 29,313,725</b>	<b>\$ 1,071,839</b>	

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016 AND 2015 (unaudited) (continued)**

**Future Tax Secured Bonds (continued)**

The following summarizes the debt service activity for FTS Bonds in fiscal year 2015:

	Outstanding Principal Balance at June 30, 2014		Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2015	Total Interest Payments FY 2015
	(in thousands)						
<b>Senior FTS Bonds</b>	\$ 1,706,445	\$ -	\$ (126,535)	\$ (292,365)	\$ 1,287,545	\$ 61,632	
Subordinate FTS Bonds:							
Recovery Bonds	974,005	-	(37,890)	-	936,115	11,853	
Parity Bonds	18,148,630	3,675,795	(595,760)	(1,158,520)	20,070,145	698,481	
Build America Bonds	3,020,980	-	(27,780)	-	2,993,200	164,528	
Qualified School Construction Bonds	1,137,340	-	-	-	1,137,340	51,335	
<b>Subtotal - Subordinate FTS Bonds</b>	<b>23,280,955</b>	<b>3,675,795</b>	<b>(661,430)</b>	<b>(1,158,520)</b>	<b>25,136,800</b>	<b>926,197</b>	
<b>Total FTS Bonds Payable</b>	<b>\$ 24,987,400</b>	<b>\$ 3,675,795</b>	<b>\$ (787,965)</b>	<b>\$ (1,450,885)</b>	<b>\$ 26,424,345</b>	<b>\$ 987,829</b>	

**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. In fiscal year 2016, the Authority issued \$750.0 million of BARBs and in fiscal year 2015, the Authority issued \$1.5 billion of BARBs. The Authority had BARBs outstanding of \$8.0 billion and \$7.4 billion as of June 30, 2016 and 2015, respectively.

In fiscal years 2016 and 2015, the Authority earned subsidy payments of \$6.5 million and \$6.5 million on its BABs and \$9.1 million and \$9.1 million on its QSCBs, respectively.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016 AND 2015 (unaudited) (continued)**

**Building Aid Revenue Bonds (continued)**

The following summarizes the debt service activity for BARBs in fiscal year 2016:

	Outstanding Principal Balance at June 30, 2015				Issued/Converted		Principal Retired		Principal Defeased		Outstanding Principal Balance at June 30, 2016	Total Interest Payments FY 2016
	(in thousands)											
Tax-exempt Bonds	\$ 6,930,010	\$ 750,000	\$ (132,005)	\$ -	\$ -	\$ 7,548,005	\$ 324,279					
Build America Bonds	295,750	-	-	-	295,750	20,018						
Qualified School Construction Bonds	200,000	-	-	-	200,000	9,800						
<b>Total BARBs Payable</b>	<b>\$ 7,425,760</b>	<b>\$ 750,000</b>	<b>\$ (132,005)</b>	<b>\$ -</b>	<b>\$ 8,043,755</b>	<b>\$ 354,097</b>						

The following summarizes the debt service activity for BARBs in fiscal year 2015:

	Outstanding Principal Balance at June 30, 2014				Issued/Converted		Principal Retired		Principal Defeased		Outstanding Principal Balance at June 30, 2015	Total Interest Payments FY 2015
	(in thousands)											
Tax-exempt Bonds	\$ 5,555,670	\$ 1,500,000	\$ (125,660)	\$ -	\$ -	\$ 6,930,010	\$ 274,165					
Build America Bonds	295,750	-	-	-	295,750	20,018						
Qualified School Construction Bonds	200,000	-	-	-	200,000	9,800						
<b>Total BARBs Payable</b>	<b>\$ 6,051,420</b>	<b>\$ 1,500,000</b>	<b>\$ (125,660)</b>	<b>\$ -</b>	<b>\$ 7,425,760</b>	<b>\$ 303,983</b>						

In accordance with GASB standards, the building aid revenue is treated, for reporting purposes, as City revenue pledged to the Authority. 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 an other financing use of funds.

The Authority retains sufficient building aid revenue to service the BARBs debt and to pay its administrative expenses in accordance with the Indenture. 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 treated as loaned to the City.



# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015 (unaudited) (continued)

### 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 ended June 30,

	<u>2016</u>	<u>2015</u>	<u>2014</u>
	-----in thousands-----		
Building aid received from New York State	\$ 1,094,110	\$ 1,039,395	\$ 1,002,708
Building aid remitted to New York City	(488,156)	(478,125)	(478,125)
Total retained for debt service and operating expenses	<u>\$ 605,954</u>	<u>\$ 561,270</u>	<u>\$ 524,583</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>2016</u>	<u>2015</u>	<u>2014</u>	<u>Variance</u>	
	-----in thousands-----				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016/2015</u>	<u>2015/2014</u>
Revenues:					
Personal income tax retained	\$ 180,290	\$ 556,204	\$ 1,641,311	\$ (375,914)	\$ (1,085,107)
Unrestricted grants	1,733,769	2,304,998	1,362,194	(571,229)	942,804
Federal subsidy	116,903	116,508	115,146	395	1,362
Investment earnings	8,466	2,761	2,044	5,705	717
Total revenues	<u>2,039,428</u>	<u>2,980,471</u>	<u>3,120,695</u>	<u>(941,043)</u>	<u>(140,224)</u>
Expenses:					
Distributions to New York City for general capital program	3,984,060	4,050,359	3,518,579	(66,299)	531,780
Interest expense	1,300,474	1,193,397	1,164,203	107,077	29,194
Other	166,459	175,919	153,836	(9,460)	22,083
Total expenses	<u>5,450,993</u>	<u>5,419,675</u>	<u>4,836,618</u>	<u>31,318</u>	<u>583,057</u>
Change in net position	(3,411,565)	(2,439,204)	(1,715,923)	(972,361)	(723,281)
Net position (deficit) - beginning of year	<u>(27,739,007)</u>	<u>(25,299,803)</u>	<u>(23,583,880)</u>	<u>(2,439,204)</u>	<u>(1,715,923)</u>
Net position (deficit) - end of year	<u>\$ (31,150,572)</u>	<u>\$ (27,739,007)</u>	<u>\$ (25,299,803)</u>	<u>\$ (3,411,565)</u>	<u>\$ (2,439,204)</u>

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015 (unaudited) (continued)

### Financial Highlights And Overall Analysis — Government-Wide Financial Statements (continued)

In fiscal year 2016, the Authority received an unrestricted grant from the City in the amount of \$1.7 billion. These funds will be used to fund future years' debt service requirements for FTS Bonds and will reduce the amount of personal income tax ("PIT") retained for such purpose. In fiscal year 2015, the Authority received unrestricted grants from the City in the amount of \$1.6 billion for FTS Bonds and \$76.8 million for BARBs. These monies were used to fund future years' debt service requirements for FTS Bonds and BARBs and will reduce the amount of future PIT and BARBs retained for such purpose. Additionally, the Authority received a grant for \$636.7 million from Sales Tax Asset Receivable Corporation ("STAR"). The STAR funds were used to defease a portion of the Authority's outstanding bonds.

In fiscal years 2016, 2015 and 2014, the Authority earned subsidy payments on its BABs and QSCBs. The subsidy revenue fluctuated in fiscal years 2016, 2015 and 2014 primarily due to changes in the discount rate due to the federal government's budget sequestration.

Investment earnings are primarily based on capital projects fund holdings, debt service fund holdings, interest rates and market value fluctuations during the fiscal year.

The amount of distributions to the City fluctuates each year depending on the issuance of debt and the capital funding needs of the City.

Interest expense increased in each fiscal year due to the increase in outstanding bonds.

Other expenses consist primarily of the Authority's administrative expenses, federal subsidies transferred to the City, and costs of issuance. The fluctuations in each fiscal year was primarily due to the changes in costs of issuance associated with the issuance of new bonds, changes in federal subsidies transferred to the City and loss on cash defeasance.

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

	2016	2015	2014	Variance 2016/2015	2015/2014
	-----in thousands-----				
Assets	\$ 9,462,789	\$ 9,887,032	\$ 7,878,919	\$ (424,243)	\$ 2,008,113
Deferred outflows of resources	73,446	82,477	69,610	(9,031)	12,867
Liabilities:					
Current liabilities	2,234,955	2,864,017	1,669,329	(629,062)	1,194,688
Non-current liabilities	38,451,852	34,844,499	31,579,003	3,607,353	3,265,496
Total liabilities	40,686,807	37,708,516	33,248,332	2,978,291	4,460,184
Net position:					
Restricted	12,383	64,421	967,978	(52,038)	(903,557)
Unrestricted	(31,162,955)	(27,803,428)	(26,267,781)	(3,359,527)	(1,535,647)
Total net position (deficit)	\$ (31,150,572)	\$ (27,739,007)	\$ (25,299,803)	\$ (3,411,565)	\$ (2,439,204)

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015 (unaudited) (continued)

### Financial Highlights And Overall Analysis — Government-Wide Financial Statements (continued)

Total assets decreased in fiscal year 2016 compared to fiscal year 2015 primarily due to decrease of approximately \$600.0 million in unrestricted grant received from the City. Total assets increased in fiscal year 2015 compared to fiscal year 2014 mainly because there was approximately \$800.0 million more in amount due from the City for collateralized borrowing. In addition, in fiscal year 2015, the Authority received \$1.0 billion more in unrestricted grant from the City.

The deferred outflows of resources represent the difference between removing the carrying amount of refunded bonds and the recording of the new bonds. The deferred outflows of resource fluctuates each year based on the amount of bonds refunded and the amortization scheduled.

Total liabilities increased in fiscal years 2016 and 2015 primarily due to the issuance of new bonds.

### Financial Highlights And Overall Analysis — Governmental Funds Financial Statements

The Authority uses five governmental funds for reporting its activities: (1) a general fund ("GF"), (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 following summarizes the GF activities of the Authority for the years ended June 30,

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----				
Revenues	\$ 142,323	\$ 142,355	\$ 139,868	\$ (32)	\$ 2,487
Expenditures	141,837	140,548	136,530	1,289	4,018
Other financing sources	380	362	322	18	40
Net change in fund balances	866	2,169	3,660	(1,303)	(1,491)
Fund balance - beginning of year	4,059	1,890	(1,770)	2,169	3,660
Fund balance - end of year	\$ 4,925	\$ 4,059	\$ 1,890	\$ 866	\$ 2,169

GF revenues fluctuate each year based on the PIT retained for administrative expenses and federal interest subsidies received. Expenditures fluctuated each year for administrative expenses and the amount of federal subsidies transferred to the City.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016 AND 2015 (unaudited) (continued)**

**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,

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----				
Revenues	\$ 355	\$ 12	\$ -	\$ 343	\$ 12
Expenditures	4,301	8,724	-	(4,423)	8,724
Other financing sources (uses)	4,010	8,681	-	(4,671)	8,681
Net change in fund balances	64	(31)	-	95	(31)
Fund balance - beginning of year	(31)	-	-	(31)	-
Fund balance - end of year	\$ 33	\$ (31)	\$ -	\$ 64	\$ (31)

The Authority's bond proceeds and distributions to the City are reported as other financing sources (uses) in the governmental funds. In fiscal years 2016 and 2015, BARBs proceeds were transferred/due to the City to pay certain educational facilities capital program expenditures. In fiscal year 2014, the Authority did not issue any BARBs.

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

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----				
Revenues	\$ 909	\$ 1,264	\$ 996	\$ (355)	\$ 268
Expenditures	4,002,415	4,064,993	3,533,784	(62,578)	531,209
Other financing sources (uses)	3,949,404	3,160,203	2,963,824	789,201	196,379
Net change in fund balances	(52,102)	(903,526)	(568,964)	851,424	(334,562)
Fund balance - beginning of year	64,452	967,978	1,536,942	(903,526)	(568,964)
Fund balance - end of year	\$ 12,350	\$ 64,452	\$ 967,978	\$ (52,102)	\$ (903,526)

CPF expenditures represent the amount of bond proceeds transferred to the City and other financing sources represent proceeds from bond issuances. Expenditures and other financing sources fluctuate each year depending on the capital funding needs of the City.

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2016 AND 2015 (unaudited) (continued)**

**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,

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----				
Revenues	\$ 4,712	\$ 78,292	\$ 862	\$ (73,580)	\$ 77,430
Expenditures	486,102	429,643	411,133	56,459	18,510
Other financing sources (uses)	494,978	560,951	524,261	(65,973)	36,690
Net change in fund balances	13,588	209,600	113,990	(196,012)	95,610
Fund balance - beginning of year	861,483	651,883	537,893	209,600	113,990
Fund balance - end of year	<u>\$ 875,071</u>	<u>\$ 861,483</u>	<u>\$ 651,883</u>	<u>\$ 13,588</u>	<u>\$ 209,600</u>

Revenues in the BARBs DSF increased in fiscal year 2015 due to the receipt of an unrestricted grant from the City. Expenditures are primarily the debt service payments on outstanding BARBs. The other financing sources (uses) consist primarily of State building aid retained by the Authority in fiscal years 2016, 2015 and 2014, respectively.

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

	2016	2015	2014	Variance	
				2016/2015	2015/2014
	-----in thousands-----				
Revenues	\$ 1,890,978	\$ 2,758,627	\$ 2,977,058	\$ (867,649)	\$ (218,431)
Expenditures	1,781,990	2,413,789	2,011,783	(631,799)	402,006
Other financing sources (uses)	114,585	(15,644)	236,975	130,229	(252,619)
Net change in fund balances	223,573	329,194	1,202,250	(105,621)	(873,056)
Fund balance - beginning of year	1,925,411	1,596,217	393,967	329,194	1,202,250
Fund balance - end of year	<u>\$ 2,148,984</u>	<u>\$ 1,925,411</u>	<u>\$ 1,596,217</u>	<u>\$ 223,573</u>	<u>\$ 329,194</u>

In fiscal years 2016 and 2015, the FTS Bonds DSF revenue primarily consisted of grants from the City and PIT retained by the Authority. The decrease in fiscal year 2016 over 2015 was mainly due to a \$376 million decrease of PIT retained and \$494 million less of grant revenue in fiscal year 2016. The decrease in fiscal year 2015 over 2014 was mainly due to a \$1.1 billion decrease of PIT retained offset by \$866 million more of grant revenue in fiscal year 2015.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016 AND 2015 (unaudited) (continued)

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### Financial Highlights And Overall Analysis — Governmental Funds Financial Statements (continued)

Expenditures decreased in fiscal year 2016 over 2015 mainly due to a \$622 million decrease of cash defeasance and a \$92 million decrease of principal payments on FTS bonds, offset by a \$84 million increase of interest payments. Expenditures increased in fiscal year 2015 over 2014 mainly due to a \$43 million increase of interest payments on FTS bonds, an \$8.2 million increase of costs of issuance and a cash defeasance of \$633.8 million, offset by a \$282 million decrease of principal payments. Other financing sources (uses) consist primarily of the proceeds from refunding and reoffering of FTS Bonds and payments of refunded FTS bonds. The amount fluctuates each year based on the size of the refundings.

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 Investor Relations, the New York City Transitional Finance Authority, 255 Greenwich Street, New York, NY 10007.

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# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## STATEMENTS OF NET POSITION (DEFICIT)

AS OF JUNE 30, 2016 AND 2015

	2016	2015
	(in thousands)	
<b>ASSETS:</b>		
Unrestricted cash and cash equivalents	\$ 8,425	\$ 7,555
Restricted cash and cash equivalents	269,831	971,239
Unrestricted investments	1,899,642	1,667,936
Restricted investments	871,062	1,204,488
Due from New York City - future State building aid	5,640,622	5,394,283
Personal income tax receivable from New York State	739,405	610,735
Federal interest subsidy receivable	30,625	30,474
Other	3,177	322
	9,462,789	9,887,032
Total assets		
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Unamortized deferred bond refunding costs	73,446	82,477
	73,446	82,477
Total deferred outflows of resources		
<b>LIABILITIES:</b>		
Personal income tax payable to New York City	739,405	610,735
Distribution payable to New York City capital programs	6,321	990,794
Accrued expense payable	4,453	5,372
Accrued interest payable	494,141	428,761
Bonds payable:		
Portion due within one year	990,635	828,355
Portion due after one year	38,451,852	34,844,499
	40,686,807	37,708,516
Total liabilities		
<b>NET POSITION (DEFICIT):</b>		
Restricted for capital projects	12,383	64,421
Unrestricted (deficit)	(31,162,955)	(27,803,428)
	(31,150,572)	(27,739,007)
Total net position (deficit)	\$ (31,150,572)	\$ (27,739,007)

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
(A Component Unit of The City of New York)

**STATEMENTS OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	2016	2015
(in thousands)		
<b>REVENUES:</b>		
Personal income tax revenue	\$ 10,958,302	\$ 10,925,168
Less remittances to New York City	(10,778,012)	(10,368,964)
Personal income tax revenue retained	180,290	556,204
Unrestricted grants	1,733,769	2,304,998
Federal interest subsidy	116,903	116,508
Investment earnings	8,466	2,761
Total revenues	2,039,428	2,980,471
<b>EXPENSES:</b>		
General and administrative expenses	25,085	23,961
Distribution to New York City for general capital program	3,984,060	4,050,359
Distribution of federal interest subsidy to New York City	116,752	116,587
Cost of debt issuance	24,622	27,506
Interest expense	1,300,474	1,193,397
Loss on defeasance	-	7,865
Total expenses	5,450,993	5,419,675
Change in net position (deficit)	(3,411,565)	(2,439,204)
NET POSITION (DEFICIT) - beginning of year	(27,739,007)	(25,299,803)
NET POSITION (DEFICIT) - end of year	\$ (31,150,572)	\$ (27,739,007)

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



**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS BALANCE SHEETS**  
**AS OF JUNE 30, 2016**

(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	
<b>ASSETS:</b>						
Unrestricted cash and cash equivalents	\$ 8,423	\$ -	\$ -	\$ -	\$ 2	\$ 8,425
Restricted cash and cash equivalents	-	223	19,056	236	250,316	269,831
Restricted investments	-	-	-	828,000	43,062	871,062
Unrestricted investments	-	-	-	44,038	1,855,604	1,899,642
Personal income tax receivable from New York State	-	-	-	-	739,405	739,405
Other	380	-	-	3,177	-	3,557
<b>Total assets</b>	<b>\$ 8,803</b>	<b>\$ 223</b>	<b>\$ 19,056</b>	<b>\$ 875,451</b>	<b>\$ 2,888,389</b>	<b>\$ 3,791,922</b>
<b>LIABILITIES:</b>						
Accrued expense payable	\$ 3,878	\$ 190	\$ 385	\$ 380	\$ -	\$ 4,833
Distribution payable to New York City for capital programs	-	-	6,321	-	-	6,321
Personal income tax payable to New York City	-	-	-	-	63,405	63,405
<b>Total liabilities</b>	<b>3,878</b>	<b>190</b>	<b>6,706</b>	<b>380</b>	<b>63,405</b>	<b>74,559</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable personal income tax revenue	-	-	-	-	676,000	676,000
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>676,000</b>	<b>676,000</b>
<b>FUND BALANCES:</b>						
Restricted for:						
Capital distribution to New York City	-	33	12,350	-	-	12,383
Debt service	-	-	-	831,033	293,378	1,124,411
Unrestricted for:						
Assigned for debt service	-	-	-	44,038	1,855,606	1,899,644
Unassigned	4,925	-	-	-	-	4,925
<b>Total fund balances</b>	<b>4,925</b>	<b>33</b>	<b>12,350</b>	<b>875,071</b>	<b>2,148,984</b>	<b>3,041,363</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 8,803</b>	<b>\$ 223</b>	<b>\$ 19,056</b>	<b>\$ 875,451</b>	<b>\$ 2,888,389</b>	<b>\$ 3,791,922</b>

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS BALANCE SHEETS**  
**AS OF JUNE 30, 2015**

(in thousands)

						Total Governmental Funds
	General Fund	Capital Projects		Debt Service		
		Revenue Bonds	Future Tax Secured	Building Aid Revenue Bonds	Future Tax Secured	
<b>ASSETS:</b>						
Unrestricted cash and cash equivalents	\$ 7,551	\$ -	\$ -	\$ 1	\$ 3	\$ 7,555
Restricted cash and cash equivalents	-	607,960	84,182	161	278,936	971,239
Restricted investments	-	224,471	139,883	784,562	55,572	1,204,488
Unrestricted investments	-	-	-	76,799	1,591,137	1,667,936
Personal income tax receivable from New York State	-	-	-	-	610,735	610,735
Other	362	-	-	322	-	684
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 7,913</u>	<u>\$ 832,431</u>	<u>\$ 224,065</u>	<u>\$ 861,845</u>	<u>\$ 2,536,383</u>	<u>\$ 4,462,637</u>
<b>LIABILITIES:</b>						
Accrued expense payable	\$ 3,854	\$ 728	\$ 553	\$ 362	\$ 237	\$ 5,734
Distribution payable to New York City for capital programs	-	831,734	159,060	-	-	990,794
Personal income tax payable to New York City	-	-	-	-	107,735	107,735
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>3,854</u>	<u>832,462</u>	<u>159,613</u>	<u>362</u>	<u>107,972</u>	<u>1,104,263</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable personal income tax revenue	-	-	-	-	503,000	503,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>503,000</u>	<u>503,000</u>
<b>FUND BALANCES:</b>						
Restricted for:						
Capital distribution to New York City	-	(31)	64,452	-	-	64,421
Debt service	-	-	-	784,657	334,271	1,118,928
Unrestricted for:						
Assigned for debt service	-	-	-	76,826	1,591,140	1,667,966
Unassigned	4,059	-	-	-	-	4,059
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>4,059</u>	<u>(31)</u>	<u>64,452</u>	<u>861,483</u>	<u>1,925,411</u>	<u>2,855,374</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,913</u>	<u>\$ 832,431</u>	<u>\$ 224,065</u>	<u>\$ 861,845</u>	<u>\$ 2,536,383</u>	<u>\$ 4,462,637</u>

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

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS TO THE STATEMENTS OF NET POSITION (DEFICIT) AS OF JUNE 30, 2016 AND 2015

	2016	2015
	(in thousands)	
Total fund balances - governmental funds	\$ 3,041,363	\$ 2,855,374
Amounts reported for governmental activities in the statements of net position (deficit) are different because:		
Bond premiums are reported as other financing sources in the governmental funds financial statements when received. However, in the statements of net position (deficit), bond premiums are reported as a component of bonds payable and amortized over the life of the bonds.	(2,085,007)	(1,822,749)
Federal Interest subsidy on BABs and QSCBs is recognized when the related bond interest is reported. On the statements of net position (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 sheets where no bond interest is reported as payable until due, no subsidy receivable is reported.	30,625	30,474
BARBs proceeds are reported as an other financing sources in the governmental funds financial statements. However, in the statements of net position (deficit), they are reported as due from the City.	5,640,622	5,394,283
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 position (deficit). Those liabilities consist of:		
Bonds payable	(37,357,480)	(33,850,105)
Accrued interest payable	(494,141)	(428,761)
Costs of bond refundings are reported as expenditures in governmental funds financial statements. However, in the statements of net position (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.	73,446	82,477
Net position (deficit) of governmental activities	\$ (31,150,572)	\$ (27,739,007)

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**

(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS  
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2016**

(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	
<b>REVENUES:</b>						
Personal income tax revenue	\$ 25,539	\$ -	\$ -	\$ -	\$ 10,759,763	\$ 10,785,302
Less remittances to New York City	-	-	-	-	(10,605,012)	(10,605,012)
Personal income tax revenue retained	25,539	-	-	-	154,751	180,290
Unrestricted grants	-	-	-	-	1,733,769	1,733,769
Federal interest subsidy	116,752	-	-	-	-	116,752
Investment earnings	32	355	909	4,712	2,458	8,466
Total revenues	<u>142,323</u>	<u>355</u>	<u>909</u>	<u>4,712</u>	<u>1,890,978</u>	<u>2,039,277</u>
<b>EXPENDITURES:</b>						
Interest expense	-	-	-	354,097	1,071,839	1,425,936
Costs of debt issuance	-	4,301	18,355	-	-	22,656
Distributions to New York City for general capital program	-	-	3,984,060	-	-	3,984,060
Distributions of federal interest subsidy to New York City	116,752	-	-	-	-	116,752
Defeasance escrow	-	-	-	-	11,835	11,835
Principal amount of bonds retired	-	-	-	132,005	696,350	828,355
Refunding bond issuance costs	-	-	-	-	1,966	1,966
General and administrative expenses	25,085	-	-	-	-	25,085
Total expenditures	<u>141,837</u>	<u>4,301</u>	<u>4,002,415</u>	<u>486,102</u>	<u>1,781,990</u>	<u>6,416,645</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>486</u>	<u>(3,946)</u>	<u>(4,001,506)</u>	<u>(481,390)</u>	<u>108,988</u>	<u>(4,377,368)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Principal amount of bonds issued	-	750,000	3,650,000	-	-	4,400,000
Distributions to New York City for educational facilities capital programs	-	(852,293)	-	-	-	(852,293)
Refunding bond proceeds	-	-	-	-	399,660	399,660
Bond premium, net of discount	-	106,627	301,004	-	69,671	477,302
Payments of refunded bonds	-	-	-	-	(467,266)	(467,266)
Transfer from New York City - building aid	-	-	-	605,954	-	605,954
Transfers in (out)	380	(324)	(1,600)	(110,976)	112,520	-
Total other financing sources (uses)	<u>380</u>	<u>4,010</u>	<u>3,949,404</u>	<u>494,978</u>	<u>114,585</u>	<u>4,563,357</u>
Net changes in fund balances	866	64	(52,102)	13,588	223,573	185,989
FUND BALANCES - beginning of year	<u>4,059</u>	<u>(31)</u>	<u>64,452</u>	<u>861,483</u>	<u>1,925,411</u>	<u>2,855,374</u>
FUND BALANCES - end of year	<u>\$ 4,925</u>	<u>\$ 33</u>	<u>\$ 12,350</u>	<u>\$ 875,071</u>	<u>\$ 2,148,984</u>	<u>\$ 3,041,363</u>

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
(A Component Unit of The City of New York)

**GOVERNMENTAL FUNDS**  
**STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2015**

(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
<b>REVENUES:</b>						
Personal income tax revenue	\$ 25,763	\$ -	\$ -	\$ -	\$ 10,634,405	\$ 10,660,168
Less remittances to New York City	-	-	-	-	(10,103,964)	\$ (10,103,964)
Personal income tax revenue retained	25,763	-	-	-	530,441	556,204
Unrestricted grants	-	-	-	76,825	2,228,173	2,304,998
Federal interest subsidy	116,587	-	-	-	-	116,587
Investment earnings	5	12	1,264	1,467	13	2,761
Total revenues	<u>142,355</u>	<u>12</u>	<u>1,264</u>	<u>78,292</u>	<u>2,758,627</u>	<u>2,980,550</u>
<b>EXPENDITURES:</b>						
Interest expense	-	-	-	303,983	987,829	1,291,812
Costs of debt issuance	-	8,724	14,634	-	-	23,358
Distributions to New York City for for general capital program	-	-	4,050,359	-	-	4,050,359
Distributions of federal interest subsidy New York City	116,587	-	-	-	-	116,587
Defeasance escrow	-	-	-	-	633,847	633,847
Principal amount of bonds retired	-	-	-	125,660	787,965	913,625
Refunding bond issuance costs	-	-	-	-	4,148	4,148
General and administrative expenses	23,961	-	-	-	-	23,961
Total expenditures	<u>140,548</u>	<u>8,724</u>	<u>4,064,993</u>	<u>429,643</u>	<u>2,413,789</u>	<u>7,057,697</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>1,807</u>	<u>(8,712)</u>	<u>(4,063,729)</u>	<u>(351,351)</u>	<u>344,838</u>	<u>(4,077,147)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Principal amount of bonds issued	-	1,500,000	2,890,000	-	-	4,390,000
Refunding bond proceeds	-	-	-	-	785,795	785,795
Bond premium, net of discount	-	223,898	270,767	-	137,092	631,757
Payments of refunded bonds	-	-	-	-	(939,095)	(939,095)
Transfer from New York City - building aid	-	-	-	561,270	-	561,270
Transfers in (out)	362	(43)	(564)	(319)	564	-
Total other financing sources (uses)	<u>362</u>	<u>8,681</u>	<u>3,160,203</u>	<u>560,951</u>	<u>(15,644)</u>	<u>3,714,553</u>
Net changes in fund balances	2,169	(31)	(903,526)	209,600	329,194	(362,594)
FUND BALANCES - beginning of year	<u>1,890</u>	<u>-</u>	<u>967,978</u>	<u>651,883</u>	<u>1,596,217</u>	<u>3,217,968</u>
FUND BALANCES - end of year	<u>\$ 4,059</u>	<u>\$ (31)</u>	<u>\$ 64,452</u>	<u>\$ 861,483</u>	<u>\$ 1,925,411</u>	<u>\$ 2,855,374</u>

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

**NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**  
(A Component Unit of The City of New York)

**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, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
	<b>(in thousands)</b>	
Net change in fund balances - total governmental funds	\$ 185,989	\$ (362,594)
Amounts reported for governmental activities in the statements of activities are different because:		
Bond proceeds provide current financial resources to governmental funds financial statements but bonds issued increase long-term liabilities on the statements of net position (deficit).	(4,799,660)	(5,175,795)
Refunding bond proceeds and payments to refunded bond escrow holder are reported as other financing sources and uses in the governmental funds financial statements, but increase and decrease long-term liabilities in the statements of net position (deficit).	467,266	939,095
The governmental funds financial statements 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.	(8,052)	(8,128)
Repayment (including defeasance) of bond principal is an expenditure in the governmental funds financial statements, but the repayment reduces long-term liabilities in the statement of net position (deficit).	840,190	1,547,472
Payments to defease bonds prior to maturity are reported as expenditures in the governmental funds financial statements. However, in the statements of net position (deficit), only the difference between the carrying value of the defeased bonds and the amount amount paid to defease the bonds are reported as period revenues or expenses.	-	(7,865)
The governmental funds financial statements 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.	(277,983)	(453,707)
Distributions to the City's educational facilities capital program from BARBs proceeds are reported as an other financing use in governmental funds financial statements. However, in the statements of net position (deficit), distributions of BARBs proceeds are reported as due from New York City-future State building aid.	852,293	1,715,174
Retention of building aid is reported similar to a transfer from the City, as an other financing source in the governmental funds financial statements. 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.	(605,954)	(561,270)
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 financial statements where interest expenditure is reported when due, no subsidy revenue is accrued as of year end.	151	(79)
Interest is reported on the statement of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds financial statements when the outlay of financial resources is due.	(65,805)	(71,507)
Change in net position (deficit) - governmental activities	\$ (3,411,565)	\$ (2,439,204)

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

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

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### 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 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.

The Authority’s original authorizing legislation limited the amount of Authority bonds and notes issued for the City’s general capital purposes (FTS Bonds) at \$7.5 billion, (excluding Recovery Bonds, discussed below) which was amended several times to \$13.5 billion. On July 11, 2009, subsequent authorizing legislation was enacted under Chapter 182 of the Laws of New York, 2009, which permitted the Authority to have outstanding \$13.5 billion of FTS Bonds (excluding Recovery Bonds). In addition, Chapter 182 permitted 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 2016, the City’s and the Authority’s remaining combined debt incurring capacity was approximately \$23.0 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 enabled 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

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 2. Summary Of Significant Accounting Policies

- A. The government-wide financial statements of the Authority, which include the statements of net position (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 position (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 funds financial statements (general, capital projects 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 are recognized when due.

The Authority uses five governmental funds for reporting its activities: (1) a general fund (“GF”), (2) a building aid revenue bonds capital projects fund (“BARBs CPF”), (3) a future tax secured bonds capital projects 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 outstanding debts. 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.

Fund balance that cannot be spent because it is not in spendable form is defined as nonspendable. Resources constrained for debt service or redemption in accordance with TFA’s Trust Indenture, (the “Indenture”) are classified as restricted on the statements of net position (deficit) and the governmental funds balance sheets.

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. Authorized officers allowed to assign funds are comprised of the Executive Director, Comptroller, Treasurer, Secretary, Deputy Comptroller, Assistant Secretaries



# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

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### 2. Summary Of Significant Accounting Policies (continued)

and Assistant Treasurer. 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.

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

- C. Bond and bond anticipation note premiums and discounts are capitalized and amortized over the lives of the related debt using the interest method in the government-wide financial statements. The governmental funds financial statements recognize the premiums and discounts, as well as debt issuance costs, during the current period. Bond premiums and discounts are presented as additions or reductions to the face amount of the bonds payable. Bond issuance costs are recognized in the period incurred both on the government-wide and governmental funds financial statements.
- D. Deferred bond refunding costs represent the accounting loss incurred in a current or advance refunding of outstanding bonds and are reported as a deferred outflow of resources on the government-wide financial statements. 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 governmental funds financial statements, 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 funds financial statements.
- F. The Authority receives the City personal income taxes, imposed pursuant to the 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. In fiscal years 2016 and 2015, the Authority received unrestricted grants for future debt service payments and reduced the amount of PIT retained for such purpose 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 pursuant to GASB standards. The Authority reports, on its statements of net position (deficit), 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

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

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### 2. Summary Of Significant Accounting Policies (continued)

reported as an other financing use of funds. Building aid retained by the Authority is treated as an other financing source as the amount retained is accounted for as a repayment of the amounts loaned to the City. During the years ended June 30, 2016 and 2015, the Authority retained \$606 million and \$561 million, respectively, of State building aid to be used for BARBs debt service and its administrative expenses.

- 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 2016 and 2015.

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 position, 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. Recent Accounting Pronouncements:

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 may impact the Authority in future years.

- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provisions of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. TFA has not completed the process of evaluating GASB 73, but does not expect it to have an impact on TFA's financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"). GASB 74 establishes financial reporting standards to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. TFA has

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 2. Summary Of Significant Accounting Policies (continued)

not completed the process of evaluating GASB 74, but does not expect it to have an impact on TFA's financial statements as it has no employees.

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. TFA has not completed the process of evaluating GASB 75, but does not expect it to have an impact on TFA's financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. TFA has not completed the process of evaluating GASB 76, but does not expect it to have an impact on TFA's financial statements.
- In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"). GASB 77 requires state and local governments for the first time to disclose information about tax abatement agreements. GASB 77 requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of GASB 77 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 77 did not have an impact on TFA's financial statements as it does not enter into any such agreements.
- In December 2015, GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans* ("GASB 78"). GASB 78 amends the scope and applicability of Statement 68 to exclude pension plans provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefits both to employees of state or local governmental employers and to employees of employers that are not state or local governments, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pension through the pension plan). The requirements of GASB 78 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 78 did not have an impact on TFA's financial statements as it has no employees.
- In December 2015, GASB issued Statement No 79, *Certain External Investment Pools and Pool Participants* ("GASB 79"). GASB 79 will enhance comparability of financial statements among governments by establishing specific criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. Those criteria will provide qualifying external investment pools and participants in those pools with consistent application of an amortized cost-based measurement for financial reporting purposes.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2016 AND 2015

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### 2. Summary Of Significant Accounting Policies (continued)

That measurement approximates fair value and mirrors the operations of external investment pools that transact with participants at a stable net asset value per share. The requirements of GASB 79 are effective for fiscal years beginning after December 15, 2015. The adoption of GASB 79 did not have an impact on TFA's financial statements as it has no such investments.

- In January 2016, GASB issued Statement No 80, *Blending Requirements for Certain Component Units* ("GASB 80"). GASB 80 provides clarity on how certain component units incorporated as not-for-profit corporations should be presented in the financial statements of the primary state or local government. The requirements of GASB 80 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 80 did not have an impact on TFA's financial statements.
- In March 2016, GASB issued Statement No 81, *Irrevocable Split Interest Agreements* ("GASB 81"). GASB 81 addresses the situations under which an irrevocable split-interest agreement constitutes an asset for accounting and financial reporting purposes when the resources are administered by a third party. GASB 81 also provides expanded guidance for circumstances in which the government holds the assets. The requirements of GASB 81 are effective for fiscal years beginning after December 15, 2016. The adoption of GASB 81 did not have an impact on TFA's financial statements as it does not enter in such arrangements.
- In March 2016, GASB issued Statement No 82, *Pension Issues* ("GASB 82"). GASB 82 addresses practice issues raised during the implementation of the GASB's pension accounting and financial reporting standards for state and local governments. The requirements of GASB 82 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 82 did not have an impact on TFA's financial statements as it has no employees.

- 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, deferred outflow of resources, liabilities and deferred inflow of resources, 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.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 3. Cash And Cash Equivalents

The Authority's cash and cash equivalents as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
	(in thousands)	
<b>Restricted cash and cash equivalents:</b>		
Cash	\$ 2	\$ 27
Cash equivalents (see Note 4)	<u>269,829</u>	<u>971,212</u>
<b>Total restricted cash and cash equivalents</b>	<u>269,831</u>	<u>971,239</u>
<b>Unrestricted cash and cash equivalents:</b>		
Cash	247	303
Cash equivalents (see Note 4)	<u>8,178</u>	<u>7,252</u>
<b>Total unrestricted cash and cash equivalents</b>	<u>8,425</u>	<u>7,555</u>
<b>Total cash and cash equivalents</b>	<u>\$ 278,256</u>	<u>\$ 978,794</u>

As of June 30, 2016 and 2015, 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, 2016 and 2015, 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, 2016 and 2015, the carrying amounts and bank balances of unrestricted bank deposits were \$247 thousand and \$303 thousand, respectively. In fiscal year 2015, \$80 thousand was uninsured and uncollateralized.

The Authority's investments classified as cash equivalents included U.S. Government Securities and Commercial Paper that have 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).

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 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.

The Authority's investments, including cash equivalents, as of June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
	(in thousands)	
<b>Restricted investments and cash equivalents:</b>		
Money market funds	\$ 3,886	\$ 3,851
Federal Home Loan Bank discount notes	449,329	457,421
Federal Home Loan Mortgage Corporation discount notes	568,637	220,851
Federal National Mortgage Association discount notes	60,440	419,867
U.S. Treasuries	40,018	218,213
Commercial paper	18,581	855,497
	<u>1,140,891</u>	<u>2,175,700</u>
Less: amounts reported as restricted cash equivalents	<u>(269,829)</u>	<u>(971,212)</u>
<b>Total restricted investments</b>	<u>\$ 871,062</u>	<u>\$ 1,204,488</u>
<b>Unrestricted investments and cash equivalents:</b>		
Money market funds	\$ 8,178	\$ 7,252
Federal Home Loan Bank discount notes	537,633	-
Federal Home Loan Mortgage Corporation discount notes	733,436	1,071,166
Federal National Mortgage Association discount notes	628,573	596,770
	<u>1,907,820</u>	<u>1,675,188</u>
Less: amounts reported as unrestricted cash equivalents	<u>(8,178)</u>	<u>(7,252)</u>
<b>Total unrestricted investments</b>	<u>\$ 1,899,642</u>	<u>\$ 1,667,936</u>

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 4. Investments (continued)

#### Fair Value Hierarchy

The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2016 and 2015:

- Money Market Funds of \$12.1 million and \$11.1 million, respectively, are valued based on various market and industry inputs (Level 2 inputs).
- U.S. Treasury securities of \$40.0 million and \$218.2 million, respectively, are valued using quoted market prices (Level 1 inputs).
- U.S. Agencies securities of \$3.0 billion and \$2.8 billion, respectively, are valued using a matrix pricing model (Level 2 inputs).
- Commercial paper of \$18.6 million and \$855.5 million, respectively, are valued using a matrix pricing model (Level 2 inputs).

**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 and commercial paper. 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.

**Concentration of Credit Risk** — Concentration of credit risk is the risk of loss attributed to the magnitude of TFA's investments in a single issuer (5% or more). TFA's investment policy places no limit on the amount TFA may invest in any one issuer of eligible government obligations as defined in the Indenture. As of June 30, 2016, TFA's investments were in eligible U.S. Government sponsored entities and commercial paper. These are 99% and 1% of TFA total investments, respectively.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

### 5. Long-Term Liabilities

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, 2016, the City’s and the Authority’s remaining combined debt-incurring capacity was approximately \$23.0 billion. The Authority is also authorized to have outstanding \$2.5 billion of Recovery Bonds and notes to pay costs related to or arising from the World Trade Center attack on September 11, 2001.

The Indenture permits the Authority to issue Senior and Subordinate FTS Bonds which consists of Recovery Bonds, Build America Bonds, Qualified School Construction Bonds, and other parity debt. As of June 30, 2016 and 2015, the Authority had \$1.0 billion and \$1.3 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, 2016 and 2015, were \$28.3 billion and \$25.1 billion, respectively. Total FTS Bonds outstanding at June 30, 2016 and 2015, were \$29.3 billion and \$26.4 billion, respectively.

In fiscal year 2016, the changes in FTS long-term debt were as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
		(in thousands)		
<b>Senior FTS Bonds</b>	\$ 1,287,545	\$ -	\$ (252,935)	\$ 1,034,610
Subordinate FTS Bonds:				
Recovery Bonds	936,115	-	(29,690)	906,425
Parity Bonds	20,070,145	4,049,660	(871,010)	23,248,795
Build America Bonds	2,993,200	-	(6,645)	2,986,555
Qualified School Construction Bonds	1,137,340	-	-	1,137,340
<b>Subtotal - Subordinate FTS Bonds</b>	25,136,800	4,049,660	(907,345)	28,279,115
<b>Total before premiums/discounts (net)</b>	26,424,345	4,049,660	(1,160,280)	29,313,725
Premiums/(discounts)(net)	1,434,301	370,675	(184,163)	1,620,813
<b>Total FTS Bonds Payable</b>	<b>\$ 27,858,646</b>	<b>\$ 4,420,335</b>	<b>\$ (1,344,443)</b>	<b>\$ 30,934,538</b>
Due within one year				<u>\$ 828,515</u>



# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

### 5. Long-Term Liabilities (continued)

In fiscal year 2015, the changes in FTS long-term debt were as follows:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
	(in thousands)			
<b>Senior FTS Bonds</b>	\$ 1,706,445	\$ -	\$ (418,900)	\$ 1,287,545
Subordinate FTS Bonds:				
Recovery Bonds	974,005	-	(37,890)	936,115
Parity Bonds	18,148,630	3,675,795	(1,754,280)	20,070,145
Build America Bonds	3,020,980	-	(27,780)	2,993,200
Qualified School Construction Bonds	1,137,340	-	-	1,137,340
<b>Subtotal - Subordinate FTS Bonds</b>	23,280,955	3,675,795	(1,819,950)	25,136,800
<b>Total before premiums/discounts (net)</b>	24,987,400	3,675,795	(2,238,850)	26,424,345
Premiums/(discounts)(net)	1,247,241	407,858	(220,798)	1,434,301
<b>Total FTS Bonds Payable</b>	<u>\$ 26,234,641</u>	<u>\$ 4,083,653</u>	<u>\$ (2,459,648)</u>	<u>\$ 27,858,646</u>
Due within one year				<u>\$ 696,350</u>

As of June 30, 2016, the interest rates on the Authority's outstanding FTS fixed rate bonds ranged from 1.00% to 5.50% on tax-exempt bonds and .68% to 6.27% on taxable bonds.

The Authority funds its debt service requirements for all FTS Bonds and its administrative expenses from 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 ended June 30, 2016 and 2015. 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, 2016 and 2015, the Authority had \$4.2 billion and \$4.0 billion, respectively, of FTS variable rate bonds outstanding, consisting of \$222.4 million of Auction Rate Securities ("ARS"), \$434.2 million and \$440.3 million, respectively, of Index Rate Bonds, and \$3.6 billion and \$3.3 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 ARS cannot exceed 12%. In fiscal years 2016 and 2015, the interest rate on the ARS averaged .46% and .43%, respectively, and on the Index Rate Bonds .79% and .79%, respectively. The Authority's Index Rate Bonds pay interest based on a specified index. Such bonds also provide for an increased rate of interest commencing on an identified step up date if such bonds are not converted or refunded. The VRDBs

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

### 5. Long-Term Liabilities (continued)

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 2016 and 2015, the VRDB rates averaged .21% and .15%, respectively, on tax exempt bonds.

During fiscal year 2016, the Authority issued \$400.0 million of FTS bonds to refund \$463.9 million of outstanding FTS bonds. This refunding resulted in an accounting gain of \$978.9 thousand. The Authority in effect reduced its aggregate debt service by \$67.8 million and obtained an economic benefit of \$63.2 million.

During fiscal year 2015, the Authority issued \$786.0 million of FTS bonds to refund \$871.9 million of outstanding FTS bonds. This refunding resulted in an accounting loss of \$21 million. The Authority in effect reduced its aggregate debt service by \$103 million and obtained an economic benefit of \$96.0 million.

During fiscal year 2015, the Authority defeased \$579.0 million of outstanding FTS bonds using the grant received from Sales Tax Asset Receivable Corporation. This resulted in an accounting loss of \$7.9 million. The bonds refunded with defeasance collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2016 and 2015, the Authority had FTS Bonds refunded with defeasance collateral totaling \$12.9 billion and \$12.4 billion, respectively, of which \$1.6 billion and \$1.7 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, 2016, for FTS Bonds, including Recovery Bonds, payable to their maturity are as follows:

	SENIOR		SUBORDINATE		Total	Total	Total
	Principal	Interest (a)	Principal	Interest (a)	Principal	Interest	Debt Service
(in thousands)							
Year ending June 30,							
2017	\$ 2,650	\$ 3,164	\$ 837,175	\$ 1,143,409	\$ 839,825	\$ 1,146,573	\$ 1,986,398
2018	3,350	3,023	998,885	1,118,696	1,002,235	1,121,719	2,123,954
2019	12,940	2,631	1,270,645	1,079,275	1,283,585	1,081,906	2,365,491
2020	45,565	2,181	1,246,780	1,033,870	1,292,345	1,036,051	2,328,396
2021	-	2,037	1,334,390	986,860	1,334,390	988,897	2,323,287
2022 to 2026	201,340	9,504	6,109,300	4,220,482	6,310,640	4,229,986	10,540,626
2027 to 2031	732,805	3,682	5,408,840	2,969,267	6,141,645	2,972,949	9,114,594
2032 to 2036	35,960	43	5,084,100	1,797,724	5,120,060	1,797,767	6,917,827
2037 to 2041	-	-	4,656,165	582,423	4,656,165	582,423	5,238,588
2042 to 2046	-	-	1,332,835	22,680	1,332,835	22,680	1,355,515
Total	<u>\$1,034,610</u>	<u>\$ 26,265</u>	<u>\$28,279,115</u>	<u>\$14,954,686</u>	<u>\$29,313,725</u>	<u>\$14,980,951</u>	<u>\$44,294,676</u>

(a) The variable interest rates used in this table were .21% on tax-exempt bonds and .46% on auction bonds.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

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## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 5. Long-Term Liabilities (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 BARBs, notes or other obligations 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, 2016 and 2015, the Authority had \$8.0 billion and \$7.4 billion, respectively, of BARBs outstanding.

Under this legislation, the BARBs are secured by 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.

In fiscal year 2016, the changes in BARBs long-term debt were as follows:

	Balance at June 30, 2015	Additions	Deletions	Balance at June 30, 2016
		(in thousands)		
Tax-exempt Bonds	\$ 6,930,010	\$ 750,000	\$ (132,005)	\$ 7,548,005
Build America Bonds	295,750	-	-	295,750
Qualified School Construction Bonds	200,000	-	-	200,000
<b>Total before premiums/discounts (net)</b>	<b>7,425,760</b>	<b>750,000</b>	<b>(132,005)</b>	<b>8,043,755</b>
Premiums/(discounts)(net)	388,448	106,626	(30,880)	464,194
<b>Total BARBs Payable</b>	<b>\$ 7,814,208</b>	<b>\$ 856,626</b>	<b>\$ (162,885)</b>	<b>\$ 8,507,949</b>
Due within one year				<u>\$ 162,120</u>

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

### 5. Long-Term Liabilities (continued)

In fiscal year 2015, the changes in BARBs long-term debt were as follows:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
	(in thousands)			
Tax-exempt Bonds	\$ 5,555,670	\$ 1,500,000	\$ (125,660)	\$ 6,930,010
Build America Bonds	295,750	-	-	295,750
Qualified School Construction Bonds	200,000	-	-	200,000
<b>Total before premiums/discounts (net)</b>	<u>6,051,420</u>	<u>1,500,000</u>	<u>(125,660)</u>	<u>7,425,760</u>
Premiums/(discounts)(net)	190,062	223,898	(25,512)	388,448
<b>Total BARBs Payable</b>	<u>\$ 6,241,482</u>	<u>\$ 1,723,898</u>	<u>\$ (151,172)</u>	<u>\$ 7,814,208</u>
Due within one year				<u>\$ 132,005</u>

As of June 30, 2016 the interest rates on the Authority's outstanding BARBs fixed rate bonds ranged from 1.75% to 6.0% on tax-exempt bonds and 4.80% to 7.13% on taxable bonds.

Debt service requirements at June 30, 2016 for BARBs payable to maturity are as follows:

	Principal	Interest	Total
	(in thousands)		
Year ending June 30,			
2017	\$ 169,095	\$ 392,792	\$ 561,887
2018	191,120	391,066	582,186
2019	199,260	382,705	581,965
2020	210,300	373,808	584,108
2021	219,805	363,964	583,769
2022 to 2026	1,280,570	1,647,478	2,928,048
2027 to 2031	1,663,570	1,274,169	2,937,739
2032 to 2036	2,108,405	797,570	2,905,975
2037 to 2041	1,511,750	276,965	1,788,715
2042 to 2046	489,880	39,375	529,255
<b>Total</b>	<u>\$ 8,043,755</u>	<u>\$ 5,939,892</u>	<u>\$ 13,983,647</u>

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2016 AND 2015

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### 5. Long-Term Liabilities (continued)

As of June 30, 2016 and 2015, the Authority maintained its required debt service accounts as follows:

	<u>June 30, 2016</u>		<u>June 30, 2015</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Required for FTS	\$ 120,355	\$ 291,072	\$ 106,735	\$ 205,796
Required for BARBs	169,095	392,792	137,985	354,097
Total	<u>\$ 289,450</u>	<u>\$ 683,864</u>	<u>\$ 244,720</u>	<u>\$ 559,893</u>

The Authority held \$1.7 billion and \$1.6 billion in excess of amounts required to be retained for FTS Bonds debt service under the Indenture as of June 30, 2016 and 2015, respectively. The Authority held \$282.8 million and \$350.9 million in excess of amounts required to be retained for BARBs debt service under the Indenture as of June 30, 2016 and 2015, respectively.

### 6. Unrestricted Grants

In fiscal year 2016, the Authority received an unrestricted grant from the City in the amount of \$1.7 billion. These funds will be used to fund future year's debt service requirements for FTS Bonds and will reduce the amount of PIT retained for such purpose. In fiscal year 2015, the Authority received unrestricted grants from the City in the amount of \$1.6 billion for FTS Bonds and \$76.8 million for BARBs. These funds were used to fund future years' debt service requirements for FTS Bonds. Additionally, in fiscal year 2015, the Authority received a grant for \$636.7 million from STAR. The STAR funds were used to defease a portion of the Authority's outstanding bonds. The City grants are reported as assigned for debt service in the governmental funds balance sheets.

### 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 28, 2016, the Authority issued \$1.05 billion, Fiscal 2017 Series A FTS Bonds, comprised of Subseries A-1, \$800 million of tax-exempt bonds; Subseries A-2, \$187 million of taxable bonds; Subseries A-3, \$63 million of taxable bonds. The proceeds of the Fiscal 2017 Series A FTS Bonds will be used for the City's capital programs.

On September 22, 2016, the Authority issued \$1.15 billion, Fiscal 2017 Series B FTS Bonds, comprised of Subseries B-1, \$800 million of tax-exempt bonds; Subseries B-2, \$188 million of taxable bonds; Subseries B-3, \$62 million of taxable bonds; Subseries B-4 \$100 million of tax-exempt variable rate bonds. The proceeds of the Fiscal 2017 Series B FTS Bonds will be used for the City's capital programs.

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