

# 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, 2014 and 2013, and  
Independent Auditor's Report

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Financial Statements**

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 years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

#### ***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 the financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from 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 Authority'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 Authority'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 and each major fund of the Authority, as of June 30, 2014 and 2013, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 13 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 audits 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.

*Deloitte : Touche LLP*

September 30, 2014

# **NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY**

(A Component Unit of The City of New York)

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

**JUNE 30, 2014 AND 2013 (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, 2014 and 2013 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 is 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 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 2014, the City's and the Authority's combined debt-incurring capacity was approximately \$21.2 billion. In fiscal years 2014 and 2013, the Authority issued \$3.4 billion and \$4.9 billion, respectively of FTS Bonds. The Authority had Future Tax Secured Senior Bonds outstanding of \$1.7 billion and \$2.1 billion and Subordinate bonds (excluding Recovery Bonds) of \$22.3 billion and \$19.7 billion as of June 30, 2014 and 2013, respectively.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013 (unaudited) (continued)

### 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, 2014 and 2013, of \$1.0 billion and \$1.2 billion, respectively.

Of the \$3.4 billion and \$4.9 billion FTS Bonds issued in fiscal years 2014 and 2013, respectively, none were Build America Bonds ("BABs"); however, \$90.3 million and \$350.0 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 2014 and 2013, the Authority earned subsidy payments of \$53.5 million and \$57.6 million on its BABs and \$46.1 million and \$38.7 million on its QSCBs. Starting in October 2013, subsidy payments were discounted 7.2% 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 2014:

	Outstanding Principal Balance at June 30, 2013		Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2014	Total Interest Payments FY 2014
	(in thousands)						
Senior FTS Bonds	\$ 2,112,480	\$ 188,000	\$	\$(351,160)	\$(242,875)	\$ 1,706,445	\$ 70,480
Subordinate FTS Bonds:							
Recovery Bonds	1,233,480	-	-	(259,475)	-	974,005	13,925
Parity Bonds	15,609,670	3,106,140	-	(434,315)	(132,865)	18,148,630	669,946
Build America Bonds	3,045,645	-	-	(24,665)	-	3,020,980	165,184
Qualified School Construction Bonds	1,047,060	90,280	-	-	-	1,137,340	20,532
Total Subordinate FTS Bonds	20,935,855	3,196,420	-	(718,455)	(132,865)	23,280,955	869,587
Total FTS Bonds Payable	\$ 23,048,335	\$ 3,384,420	\$	\$(1,069,615)	\$(375,740)	\$ 24,987,400	\$ 940,067

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2014 AND 2013 (unaudited) (continued)

### Future Tax Secured Bonds (continued)

The following summarizes the debt service activity for FTS Bonds in fiscal year 2013:

	Outstanding Principal Balance at June 30, 2012	Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2013	Total Interest Payments FY 2013
	(in thousands)					
Senior FTS Bonds	\$ 3,580,940	\$ -	\$ (238,115)	\$ (1,230,345)	\$ 2,112,480	\$ 108,732
Subordinate FTS Bonds:						
Recovery Bonds	1,371,700	190,580	(328,800)	-	1,233,480	6,222
Parity Bonds	12,263,345	4,363,855	(339,825)	(677,705)	15,609,670	537,832
Build America Bonds	3,045,645	-	-	-	3,045,645	165,184
Qualified School Construction Bonds	697,060	350,000	-	-	1,047,060	20,532
Total Subordinate FTS Bonds	17,377,750	4,904,435	(668,625)	(677,705)	20,935,855	729,770
Total FTS Bonds Payable	\$ 20,958,690	\$ 4,904,435	\$ (906,740)	\$ (1,908,050)	\$ 23,048,335	\$ 838,502

### 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 2014, the Authority did not issue any BARBs and in fiscal year 2013 it issued \$850.0 million of BARBs. The Authority had BARBs outstanding of \$6.1 billion and \$6.2 billion as of June 30, 2014 and 2013, respectively.

Of the \$850.0 million BARBs issued in fiscal years 2013, none were BABs or QSCBs. In fiscal years 2014 and 2013, the Authority earned subsidy payments of \$6.5 million and \$6.7 million on its BABs and \$9.1 million and \$9.6 million on its QSCBs, respectively.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014 AND 2013 (unaudited) (continued)**

**Building Aid Revenue Bonds (continued)**

The following summarizes the debt service activity for BARBs in fiscal year 2014:

	(in thousands)					
	Outstanding Principal Balance at June 30, 2013	Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2014	Total Interest Payments FY 2014
Tax-exempt Bonds	\$ 5,658,365	\$ -	\$ (102,695)	\$ -	\$ 5,555,670	\$ 278,620
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>\$ 6,154,115</b>	<b>\$ -</b>	<b>\$ (102,695)</b>	<b>\$ -</b>	<b>\$ 6,051,420</b>	<b>\$ 308,438</b>

The following summarizes the debt service activity for BARBs in fiscal year 2013:

	(in thousands)					
	Outstanding Principal Balance at June 30, 2012	Issued/ Converted	Principal Retired	Principal Defeased	Outstanding Principal Balance at June 30, 2013	Total Interest Payments FY 2013
Tax-exempt Bonds	\$ 4,812,910	\$ 850,000	\$ (4,545)	\$ -	\$ 5,658,365	\$ 261,607
Build America Bonds	295,750	-	-	-	295,750	20,018
Qualified School Construction Bonds	200,000	-	-	-	200,000	10,217
<b>Total BARBs Payable</b>	<b>\$ 5,308,660</b>	<b>\$ 850,000</b>	<b>\$ (4,545)</b>	<b>\$ -</b>	<b>\$ 6,154,115</b>	<b>\$ 291,842</b>

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

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013 (unaudited) (continued)

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### 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>2014</u>	<u>2013</u>	<u>2012</u>
	-----in thousands-----		
Building aid received from New York State	\$ 1,002,708	\$ 965,701	\$ 906,746
Building aid remitted to New York City	(478,125)	(621,125)	(698,047)
Total retained for BARBs debt service and operating expenses	<u>\$ 524,583</u>	<u>\$ 344,576</u>	<u>\$ 208,699</u>

### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENT-WIDE FINANCIAL STATEMENTS

In fiscal year 2013, the Authority implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* ("GASB 63") and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* ("GASB 65"). GASB 63 renamed the Statement of Net Assets to Statement of Net Position, as well as renaming reported Net Assets, and components thereof, to Net Position. GASB 65 resulted in the restatement of the Authority fiscal year 2012 government-wide financial statements to reflect the recognition of bond issuance costs as an expense in the period they were incurred. Prior to GASB 65, bond issuance costs were carried on the Statement of Net Position and amortized over the life of the bonds. Since GASB 65 requires retroactive treatment, any carrying costs and amortization thereof have been excluded pursuant to the requirement and reported as a restatement of beginning net position in fiscal year 2012. GASB 65 also required that the Authority reclassify unamortized deferred bond refunding costs, which were previously reported as a liability, to Deferred Outflow of Resources on the government-wide financial statements (see Note 2 for details on the GASB 65 adjustments and reclassifications).

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013 (unaudited) (continued)

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

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

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Revenues:					
Personal income tax retained	\$ 1,641,311	\$ 1,006,451	\$ 616,864	\$ 634,860	\$ 389,587
Unrestricted grant from New York City	1,362,194	-	878,884	1,362,194	(878,884)
Federal subsidy	115,146	112,509	96,630	2,637	15,879
Investment earnings	2,044	4,872	2,220	(2,828)	2,652
Total revenues	<u>3,120,695</u>	<u>1,123,832</u>	<u>1,594,598</u>	<u>1,996,863</u>	<u>(470,766)</u>
Expenses:					
Distributions to New York City for general capital program	3,518,579	2,938,240	2,330,776	580,339	607,464
Interest expense	1,164,203	1,088,649	923,328	75,554	165,321
Other	153,836	164,672	142,054	(10,836)	22,618
Total expenses	<u>4,836,618</u>	<u>4,191,561</u>	<u>3,396,158</u>	<u>645,057</u>	<u>795,403</u>
Change in net position	(1,715,923)	(3,067,729)	(1,801,560)	1,351,806	(1,266,169)
Net position (deficit) - beginning of year	(23,583,880)	(20,516,151)	(18,485,107)	(3,067,729)	(2,031,044)
Restatement of beginning net position (deficit)	-	-	(229,484)	-	229,484
Net position (deficit) - end of year	<u>\$ (25,299,803)</u>	<u>\$ (23,583,880)</u>	<u>\$ (20,516,151)</u>	<u>\$ (1,715,923)</u>	<u>\$ (3,067,729)</u>

In fiscal year 2014, the Authority received an unrestricted grant from the City in the amount of \$1.4 billion and will be used to pay the Authority's fiscal year 2015 debt service. The receipt of City grant reduces the amount of PIT needed to be retained by the Authority for its debt service payments on FTS Bonds.

In fiscal years 2014, 2013 and 2012, the Authority earned subsidy payments on its BABs and QSCBs. The increased subsidy revenue in fiscal years 2014 and 2013 was due to the additional issuance of QSCBs.

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.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013 (unaudited) (continued)

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

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 cost of issuance. The decrease in fiscal year 2014 was primarily due to the issuance of less new and refunding bonds resulting in lower cost of issuance.

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

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Assets:					
Total assets	\$ 7,878,919	\$ 7,522,685	\$ 7,628,853	\$ 356,234	\$ (106,168)
Deferred outflows of resources	69,610	104,955	72,722	(35,345)	32,233
Liabilities:					
Current liabilities	1,669,329	1,371,679	1,692,502	297,650	(320,823)
Non-current liabilities	31,579,003	29,839,841	26,525,224	1,739,162	3,314,617
Total liabilities	33,248,332	31,211,520	28,217,726	2,036,812	2,993,794
Net position:					
Restricted	967,978	1,536,942	1,336,945	(568,964)	199,997
Unrestricted	(26,267,781)	(25,120,822)	(21,853,096)	(1,146,959)	(3,267,726)
Total net position (deficit)	\$ (25,299,803)	\$ (23,583,880)	\$ (20,516,151)	\$ (1,715,923)	\$ (3,067,729)

Total liabilities increased in fiscal years 2014 and 2013 primarily due to the issuance of new bonds.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2014 AND 2013 (unaudited) (continued)

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### 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,

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ (1,770)	\$ 20,546	\$ 16,423	\$ (22,316)	\$ 4,123
Revenues	139,868	115,419	117,565	24,449	(2,146)
Expenditures	(136,530)	(138,083)	(113,624)	1,553	(24,459)
Other financing sources (uses), net	322	348	182	(26)	166
Fund balance, end of year	<u>\$ 1,890</u>	<u>\$ (1,770)</u>	<u>\$ 20,546</u>	<u>\$ 3,660</u>	<u>\$ (22,316)</u>

GF revenues fluctuate each year based on the PIT retained for administrative expenses and federal interest subsidies received. The variance between fiscal year 2014 and 2013 revenue was primarily due to the timing of when PIT was retained for operating expenses. Expenditures decreased in fiscal year 2014 compared to fiscal year 2013 mainly due to the transfer of \$0.8 million more in federal subsidies 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, 2014 AND 2013 (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,

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ -	\$ -	\$ 143,948	\$ -	\$ (143,948)
Revenues	-	416	158	(416)	258
Expenditures	-	(4,851)	(3,959)	4,851	(892)
Other financing sources (uses), net	-	4,435	(140,147)	(4,435)	144,582
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The Authority's bond proceeds and distributions to the City are reported as other financing sources (uses) in the governmental funds. In fiscal year 2014, the Authority did not issue any BARBs. In fiscal year 2013, all bond proceeds were transferred to the City to finance its educational facilities capital program.

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

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 1,536,942	\$ 1,336,945	\$ 601,695	\$ 199,997	\$ 735,250
Revenues	996	1,577	598	(581)	979
Expenditures	(3,533,784)	(2,950,026)	(2,345,052)	(583,758)	(604,974)
Other financing sources (uses), net	2,963,824	3,148,446	3,079,704	(184,622)	68,742
Fund balance, end of year	<u>\$ 967,978</u>	<u>\$ 1,536,942</u>	<u>\$ 1,336,945</u>	<u>\$ (568,964)</u>	<u>\$ 199,997</u>

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**  
(A Component Unit of The City of New York)

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014 AND 2013 (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,

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 537,893	\$ 487,137	\$ 585,994	\$ 50,756	\$ (98,857)
Revenues	862	2,499	1,277	(1,637)	1,222
Expenditures	(411,133)	(296,387)	(308,610)	(114,746)	12,223
Other financing sources (uses), net	524,261	344,644	208,476	179,617	136,168
Fund balance, end of year	<u>\$ 651,883</u>	<u>\$ 537,893</u>	<u>\$ 487,137</u>	<u>\$ 113,990</u>	<u>\$ 50,756</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 2014, 2013 and 2012, respectively.

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

	2014	2013	2012	Variance	
				2014/2013	2013/2012
	-----in thousands-----			-----in thousands-----	
Fund balance, beginning of year	\$ 393,967	\$ 884,626	\$ 966,871	\$ (490,659)	\$ (82,245)
Revenues	2,977,058	1,003,858	1,470,650	1,973,200	(466,792)
Expenditures	(2,011,783)	(1,755,193)	(3,158,468)	(256,590)	1,403,275
Other financing sources (uses), net	236,975	260,676	1,605,573	(23,701)	(1,344,897)
Fund balance, end of year	<u>\$ 1,596,217</u>	<u>\$ 393,967</u>	<u>\$ 884,626</u>	<u>\$ 1,202,250</u>	<u>\$ (490,659)</u>

In fiscal year 2014, revenue primarily consisted of grants from the City and PIT retained. In fiscal year 2013 the FTS Bonds DSF revenue primarily consisted of PIT retained by the Authority. The increase in fiscal year 2014 was mainly due to increase of \$1.4 billion grant revenue and by an increase of \$611 million of PIT retained in fiscal year 2014.

Expenditures increased in fiscal year 2014 due to a larger amount of principal and interest payments on FTS Bonds. Expenditures decreased in fiscal year 2013 due to a large reoffering of approximately \$1.6 billion of FTS Bonds in fiscal year 2012. Other financing sources (uses) consist primarily of the proceeds from new issuance, refunding and reoffering of FTS Bonds.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2014 AND 2013 (unaudited) (continued)**

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

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, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>(in thousands)</b>		
<b>ASSETS:</b>		
Unrestricted cash and cash equivalents	\$ 4,770	\$ 1,175
Restricted cash and cash equivalents	1,027,600	1,803,128
Unrestricted investments	1,362,270	-
Restricted investments	926,705	810,007
Due from New York City - future State building aid	4,240,380	4,764,962
Personal income tax receivable from New York State	286,641	101,690
Federal interest subsidy receivable	30,553	28,642
Other	-	13,081
	<b>7,878,919</b>	<b>7,522,685</b>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Unamortized deferred bond refunding costs	69,610	104,955
	<b>69,610</b>	<b>104,955</b>
<b>LIABILITIES:</b>		
Personal income tax payable to New York City	286,641	101,690
Distribution payable to New York City capital programs	99,697	156,139
Accrued expenses	3,680	4,220
Accrued interest payable	382,191	358,590
Bonds payable:		
Portion due within one year	897,120	751,040
Portion due after one year	30,141,700	28,451,410
Unamortized bond premium	1,437,303	1,388,431
	<b>33,248,332</b>	<b>31,211,520</b>
<b>NET POSITION (DEFICIT):</b>		
Restricted for capital projects	967,978	1,536,942
Unrestricted (deficit)	(26,267,781)	(25,120,822)
	<b>\$ (25,299,803)</b>	<b>\$ (23,583,880)</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)

**STATEMENTS OF ACTIVITIES  
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
	(in thousands)	
<b>REVENUES:</b>		
Personal income tax revenue	\$ 9,751,614	\$ 8,896,898
Less remittances to New York City	<u>(8,110,303)</u>	<u>(7,890,447)</u>
Personal income tax revenue retained	1,641,311	1,006,451
Unrestricted grant from New York City	1,362,194	-
Federal interest subsidy	115,146	112,509
Investment earnings	<u>2,044</u>	<u>4,872</u>
Total revenues	<u>3,120,695</u>	<u>1,123,832</u>
<b>EXPENSES:</b>		
General and administrative expenses	23,295	25,637
Distribution to New York City for general capital program	3,518,579	2,938,240
Distribution of federal interest subsidy to New York City	113,235	112,446
Cost of debt issuance	17,306	26,589
Interest expense	<u>1,164,203</u>	<u>1,088,649</u>
Total expenses	<u>4,836,618</u>	<u>4,191,561</u>
Change in net position (deficit)	(1,715,923)	(3,067,729)
NET POSITION (DEFICIT) - beginning of year	<u>(23,583,880)</u>	<u>(20,516,151)</u>
NET POSITION (DEFICIT) - end of year	<u><u>\$ (25,299,803)</u></u>	<u><u>\$ (23,583,880)</u></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 BALANCE SHEETS**  
**AS OF JUNE 30, 2014**

(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	\$ 4,770	\$ -	\$ -	\$ -	\$ -	\$ 4,770
Restricted cash and cash equivalents	-	16	803,140	103,558	120,886	1,027,600
Restricted investments	-	-	264,845	548,647	113,213	926,705
Unrestricted investments	-	-	-	-	1,362,270	1,362,270
Personal income tax receivable from New York State	-	-	-	-	286,641	286,641
Other	322	-	-	-	-	322
<b>Total assets</b>	<b>\$ 5,092</b>	<b>\$ 16</b>	<b>\$ 1,067,985</b>	<b>\$ 652,205</b>	<b>\$ 1,883,010</b>	<b>\$ 3,608,308</b>
<b>LIABILITIES:</b>						
Accrued expenses	\$ 3,202	\$ 16	\$ 310	\$ 322	\$ 152	\$ 4,002
Distribution payable to New York City for capital programs	-	-	99,697	-	-	99,697
Personal income tax payable to New York City	-	-	-	-	48,641	48,641
<b>Total liabilities</b>	<b>3,202</b>	<b>16</b>	<b>100,007</b>	<b>322</b>	<b>48,793</b>	<b>152,340</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable personal income tax revenue	-	-	-	-	238,000	238,000
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>238,000</b>	<b>238,000</b>
<b>FUND BALANCES:</b>						
Restricted for:						
Capital distribution to New York City	-	-	967,978	-	-	967,978
Debt service	-	-	-	651,883	233,947	885,830
Assigned for debt service	-	-	-	-	1,362,270	1,362,270
Unassigned	1,890	-	-	-	-	1,890
<b>Total fund balances</b>	<b>1,890</b>	<b>-</b>	<b>967,978</b>	<b>651,883</b>	<b>1,596,217</b>	<b>3,217,968</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 5,092</b>	<b>\$ 16</b>	<b>\$ 1,067,985</b>	<b>\$ 652,205</b>	<b>\$ 1,883,010</b>	<b>\$ 3,608,308</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, 2013**

(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	
<b>ASSETS:</b>						
Unrestricted cash and cash equivalents	\$ 1,175	\$ -	\$ -	\$ -	\$ -	\$ 1,175
Restricted cash and cash equivalents	-	57	1,343,959	119,008	340,104	1,803,128
Restricted investments	-	-	349,780	406,152	54,075	810,007
Personal income tax receivable from New York State	-	-	-	-	101,690	101,690
Other	348	-	-	13,081	-	13,429
<b>Total assets</b>	<b>\$ 1,523</b>	<b>\$ 57</b>	<b>\$ 1,693,739</b>	<b>\$ 538,241</b>	<b>\$ 495,869</b>	<b>\$ 2,729,429</b>
<b>LIABILITIES:</b>						
Accrued expenses	\$ 3,293	\$ 57	\$ 658	\$ 348	\$ 212	\$ 4,568
Distribution payable to New York City for capital programs	-	-	156,139	-	-	156,139
Personal income tax payable to New York City	-	-	-	-	54,690	54,690
<b>Total liabilities</b>	<b>3,293</b>	<b>57</b>	<b>156,797</b>	<b>348</b>	<b>54,902</b>	<b>215,397</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>						
Unavailable personal income tax revenue	-	-	-	-	47,000	47,000
<b>Total deferred inflows of resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,000</b>	<b>47,000</b>
<b>FUND BALANCES:</b>						
Restricted for:						
Capital distribution to New York City	-	-	1,536,942	-	-	1,536,942
Debt service	-	-	-	537,893	393,967	931,860
Unassigned	(1,770)	-	-	-	-	(1,770)
<b>Total fund balances</b>	<b>(1,770)</b>	<b>-</b>	<b>1,536,942</b>	<b>537,893</b>	<b>393,967</b>	<b>2,467,032</b>
<b>Total liabilities, deferred inflows of resources and fund balances</b>	<b>\$ 1,523</b>	<b>\$ 57</b>	<b>\$ 1,693,739</b>	<b>\$ 538,241</b>	<b>\$ 495,869</b>	<b>\$ 2,729,429</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)

**RECONCILIATIONS OF THE GOVERNMENTAL FUNDS BALANCE SHEETS  
TO THE STATEMENTS OF NET POSITION (DEFICIT)  
AS OF JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
	<u>(in thousands)</u>	
Total fund balances - governmental funds	\$ 3,217,968	\$ 2,467,032
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.	(1,437,303)	(1,388,431)
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.	30,553	28,642
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 statements of net position (deficit), they are reported as due from the City.	4,240,380	4,764,962
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	(31,038,820)	(29,202,450)
Accrued interest payable	(382,191)	(358,590)
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.	<u>69,610</u>	<u>104,955</u>
Net position (deficit) of governmental activities	<u>\$ (25,299,803)</u>	<u>\$ (23,583,880)</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, 2014**

(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	\$ 26,629	\$ -	\$ -	\$ -	\$ 9,533,985	\$ 9,560,614
Less remittances to New York City	-	-	-	-	(7,919,303)	(7,919,303)
Personal income tax revenue retained	26,629	-	-	-	1,614,682	1,641,311
Unrestricted grant from New York City	-	-	-	-	1,362,194	1,362,194
Federal interest subsidy	113,235	-	-	-	-	113,235
Investment earnings	4	-	996	862	182	2,044
Total revenues	<u>139,868</u>	<u>-</u>	<u>996</u>	<u>862</u>	<u>2,977,058</u>	<u>3,118,784</u>
<b>EXPENDITURES:</b>						
Interest expense	-	-	-	308,438	940,067	1,248,505
Costs of debt issuance	-	-	15,205	-	-	15,205
Distributions to New York City for general capital program	-	-	3,518,579	-	-	3,518,579
Distributions of federal interest subsidy to New York City	113,235	-	-	-	-	113,235
Principal amounts of bonds retired	-	-	-	102,695	1,069,615	1,172,310
Refunding bond issuance costs	-	-	-	-	2,101	2,101
General and administrative expenses	23,295	-	-	-	-	23,295
Total expenditures	<u>136,530</u>	<u>-</u>	<u>3,533,784</u>	<u>411,133</u>	<u>2,011,783</u>	<u>6,093,230</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>3,338</u>	<u>-</u>	<u>(3,532,788)</u>	<u>(410,271)</u>	<u>965,275</u>	<u>(2,974,446)</u>
<b>OTHER FINANCING SOURCES (USES):</b>						
Principal amount of bonds issued	-	-	2,805,280	-	-	2,805,280
Distributions to New York City for educational facilities capital programs	-	-	-	-	-	-
Refunding bond proceeds	-	-	-	-	579,140	579,140
Bond premium, net of discount	-	-	159,846	-	46,049	205,895
Payments of refunded bonds	-	-	-	-	(389,516)	(389,516)
Transfer from New York City - building aid	-	-	-	524,583	-	524,583
Transfers in (out)	322	-	(1,302)	(322)	1,302	-
Total other financing sources (uses)	<u>322</u>	<u>-</u>	<u>2,963,824</u>	<u>524,261</u>	<u>236,975</u>	<u>3,725,382</u>
Net changes in fund balances	3,660	-	(568,964)	113,990	1,202,250	750,936
FUND BALANCES - beginning of year	(1,770)	-	1,536,942	537,893	393,967	2,467,032
FUND BALANCES - end 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>

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, 2013**

(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	
<b>REVENUES:</b>						
Personal income tax revenue	\$ 2,965	\$ -	\$ -	\$ -	\$ 9,201,933	\$ 9,204,898
Less remittances to New York City	-	-	-	-	(8,198,447)	(8,198,447)
Personal income tax revenue retained	2,965	-	-	-	1,003,486	1,006,451
Federal interest subsidy	112,446	-	-	-	-	112,446
Investment earnings	8	416	1,577	2,499	372	4,872
<b>Total revenues</b>	<b>115,419</b>	<b>416</b>	<b>1,577</b>	<b>2,499</b>	<b>1,003,858</b>	<b>1,123,769</b>
<b>EXPENDITURES:</b>						
Interest expense	-	-	-	291,842	838,501	1,130,343
Costs of debt issuance	-	4,851	11,786	-	-	16,637
Distributions to New York City for general capital program	-	-	2,938,240	-	-	2,938,240
Distributions of federal interest subsidy to New York City	112,446	-	-	-	-	112,446
Principal amounts of bonds retired	-	-	-	4,545	906,740	911,285
Refunding bond issuance costs	-	-	-	-	9,952	9,952
General and administrative expenses	25,637	-	-	-	-	25,637
<b>Total expenditures</b>	<b>138,083</b>	<b>4,851</b>	<b>2,950,026</b>	<b>296,387</b>	<b>1,755,193</b>	<b>5,144,540</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(22,664)</b>	<b>(4,435)</b>	<b>(2,948,449)</b>	<b>(293,888)</b>	<b>(751,335)</b>	<b>(4,020,771)</b>
<b>OTHER FINANCING SOURCES (USES):</b>						
Principal amount of bonds issued	-	850,000	2,928,000	-	-	3,778,000
Distributions to New York City for educational facilities capital program	-	(957,602)	-	-	-	(957,602)
Refunding bond proceeds	-	-	-	-	1,976,435	1,976,435
Bond premium, net of discount	-	112,453	222,178	-	351,760	686,391
Payments of refunded bonds	-	-	-	-	(2,069,251)	(2,069,251)
Transfer from New York City - building aid	-	-	-	344,576	-	344,576
Transfers in (out)	348	(416)	(1,732)	68	1,732	-
<b>Total other financing sources (uses)</b>	<b>348</b>	<b>4,435</b>	<b>3,148,446</b>	<b>344,644</b>	<b>260,676</b>	<b>3,758,549</b>
Net changes in fund balances	22,316	-	199,997	50,756	(490,659)	(262,222)
FUND BALANCES - beginning of year	20,546	-	1,336,945	487,137	884,626	2,729,254
FUND BALANCES - end of year	\$ (1,770)	\$ -	\$ 1,536,942	\$ 537,893	\$ 393,967	\$ 2,467,032

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, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
	<b>(in thousands)</b>	
Net change in fund balances - total governmental funds	\$ 750,936	\$ (262,222)
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).	(3,384,420)	(5,754,435)
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).	389,516	2,069,251
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.	(41,833)	(48,314)
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).	1,172,310	911,285
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.	(54,697)	(541,487)
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 activities, distributions of BARBs proceeds are reported as due from New York City-future State building aid.	-	957,602
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.	(524,583)	(344,576)
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.	1,911	63
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.	(25,063)	(54,896)
Change in net position (deficit) - governmental activities	\$ (1,715,923)	\$ (3,067,729)

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, 2014 AND 2013

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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 is currently authorized to have outstanding \$13.5 billion of FTS Bonds. In addition the Authority is authorized 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. The Authority is also allowed to issue up to 20 percent of its total outstanding FTS Bonds as variable rate bonds. As of June 30, 2014, the City’s and the Authority’s combined debt-incurring capacity was approximately \$21.2 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

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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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 is 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. 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

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 is 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. Subsequent to the implementation of GASB 65 (discussed below) 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 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 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 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. During fiscal year 2014 an unrestricted grant was received from the City to be used to pay the Authority's debt service in fiscal year 2015 and is expected to reduce 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 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

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

repayment of the amounts loaned to the City. During the years ended June 30, 2014 and 2013, the Authority retained \$524.6 million and \$344.6 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 2014 and 2013.

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 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. In fiscal year 2013, the Authority implemented GASB 65, which required the Authority to retroactively recognize costs of issuance as outflows of resources and restate its fiscal 2012 government-wide financial statements by eliminating any carrying amounts of bond issuance costs and related amortization thereof. As a result, the Authority reduced its fiscal year 2012 beginning balance by \$229.5 million as follows:
  - 1) Eliminating the previously reported fiscal year 2012 carrying value of \$117.8 million of unamortized bond issuance costs on its Statements of Net Position by:

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2014 AND 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- (Reducing) reporting \$28.4 million of bond issuance costs as a fiscal year 2012 expense, (Adding) elimination \$14.9 million previously reported amortization of debt issuance costs, and
  - (Adding) reporting the related cost of issuance expense for a fiscal year 2012 refunding of \$4.6 million.
- 2) Decreased the previously reported fiscal year 2012 unamortized deferred bond refunding costs related to cost of issuance by \$138 million as follows:
- (Reducing) reporting \$17.7 million of amortization of deferred bond refunding costs.

The Authority also reclassified on the government-wide financial statements \$105.0 million and \$72.7 million deferred bond refunding costs in fiscal years 2013 and 2012 to deferred outflow of resources, respectively, which prior to the implementation of GASB 65 was reported as a liability. Lastly, the unavailable PIT reported of \$47 million and \$355 million in fiscal years 2013 and 2012, respectively, which prior to the implementation of GASB 65 was reported as a liability on the governmental funds financial statements is now reported as a deferred inflow of resources.

- 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 adoption of GASB 66 does not have an impact on TFA’s financial statements.
- In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans* (“GASB 67”). GASB 67 establishes financial reporting standards for defined benefit pensions and defined contribution pensions that are administered through trusts or equivalent arrangements. The requirements of GASB 67 are effective for fiscal years beginning after June 15, 2013. The adoption of GASB 67 did not have an impact on TFA’s financial statements, as it is not applicable pension administered entity.
- 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 adoption of GASB 68 did not have an impact on TFA’s financial statements, as it has no employees or pension system.
- In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (“GASB 69”). GASB 69 establishes accounting and financial reporting standards related to government combinations and disposals of government operations. GASB 69 is effective for financial statement periods beginning after December 15, 2013. The adoption

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

of GASB 69 did not have an impact on TFA's financial statements, as it has no disposals of operations.

- In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees* ("GASB 70"). GASB 70 establishes accounting and financial reporting standards for financial guarantees that are nonexchange transactions (nonexchange financial guarantees) extended or received by a state or local government. GASB 70 is effective for financial statement periods beginning after June 15, 2013. The adoption of GASB 70 did not have an impact on TFA's financial statements, as it has no nonexchange transactions.
  - In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* ("GASB 71"). GASB 71 eliminates a potential source of understatement of restated beginning net position and expense in a government's first year of implementing Statement No. 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 71 are effective for fiscal years beginning after June 15, 2014. The adoption of GASB 71 did not have an impact on TFA's financial statements, as it has no employees or pension system.
- 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, 2014 AND 2013

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### 3. CASH AND CASH EQUIVALENTS

The Authority's cash and cash equivalents as of June 30, 2014 and 2013 are as follows:

	<u>2014</u>	<u>2013</u>
	(in thousands)	
<b>Restricted cash and cash equivalents:</b>		
Cash	\$ 3	\$ 12
Cash equivalents (see Note 4)	<u>1,027,597</u>	<u>1,803,116</u>
<b>Total restricted cash and cash equivalents</b>	<u>1,027,600</u>	<u>1,803,128</u>
<b>Unrestricted cash and cash equivalents:</b>		
Cash	243	122
Cash equivalents (see Note 4)	<u>4,527</u>	<u>1,053</u>
<b>Total unrestricted cash and cash equivalents</b>	<u>4,770</u>	<u>1,175</u>
<b>Total cash and cash equivalents</b>	<u><u>\$ 1,032,370</u></u>	<u><u>\$ 1,804,303</u></u>

As of June 30, 2014 and 2013, 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, 2014 and 2013, 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, 2014 and 2013, the carrying amounts and bank balances of unrestricted bank deposits were \$243 thousand and \$122 thousand, respectively, and were insured by the FDIC.

The Authority's investments classified as cash equivalents included 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).

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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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.

**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, 2014, TFA’s investments are in eligible U.S Government sponsored entities and commercial paper. These are 72% and 28% 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, 2014 AND 2013

### 4. INVESTMENTS (continued)

The authority's investments, including cash equivalents as of June 30, 2014 and 2013, are as follows:

	<u>2014</u>	<u>2013</u>
	(in thousands)	
<b>Restricted investments:</b>		
Money market funds	\$ 3,933	\$ 53,951
Federal Home Loan Mortgage Corp. discount notes	184	123,847
Federal Home Loan Bank discount notes	452,162	692,774
Farmer Mac discount notes	39,947	-
Federal National Mortgage Assoc. discount notes	418,988	44,715
U.S. treasuries	111,313	204,625
Commercial paper	927,775	1,493,211
<b>Total restricted investments</b>	1,954,302	2,613,123
Less: amounts reported as restricted cash equivalents	<u>(1,027,597)</u>	<u>(1,803,116)</u>
<b>Total restricted investments</b>	<u>\$ 926,705</u>	<u>\$ 810,007</u>
<b>Unrestricted:</b>		
Money market funds	4,527	1,053
Federal Home Loan Mortgage Corp. discount notes	1,362,270	-
<b>Total unrestricted investments</b>	1,366,797	1,053
Less: amounts reported as unrestricted cash equivalents	<u>(4,527)</u>	<u>(1,053)</u>
<b>Total unrestricted investments</b>	<u>\$ 1,362,270</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, 2014, the City's and the Authority's combined debt-incurring capacity was approximately \$21.2 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

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2014 AND 2013

### 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, 2014 and 2013, the Authority had \$1.7 billion and \$2.1 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, 2014 and 2013, were \$23.3 billion and \$20.9 billion, respectively. Total FTS Bonds outstanding at June 30, 2014 and 2013, were \$25.0 billion and \$23.0 billion, respectively.

In fiscal years 2014 and 2013, the changes in FTS Bonds payable were as follows:

	Outstanding Principal Balance at June 30, 2013				Issued/Converted		Principal Retired		Principal Defeased		Outstanding Principal Balance at June 30, 2014	Total Interest Payments FY 2014
	(in thousands)											
Senior FTS Bonds	\$ 2,112,480	\$ 188,000	\$ (351,160)	\$ (242,875)	\$ 1,706,445	\$ 70,480						
Subordinate FTS Bonds:												
Recovery Bonds	1,233,480	-	(259,475)	-	974,005	13,925						
Parity Bonds	15,609,670	3,106,140	(434,315)	(132,865)	18,148,630	669,946						
Build America Bonds	3,045,645	-	(24,665)	-	3,020,980	165,184						
Qualified School Construction Bonds	1,047,060	90,280	-	-	1,137,340	20,532						
Total Subordinate FTS Bonds	20,935,855	3,196,420	(718,455)	(132,865)	23,280,955	869,587						
Total FTS Bonds Payable	\$ 23,048,335	\$ 3,384,420	\$ (1,069,615)	\$ (375,740)	\$ 24,987,400	\$ 940,067						

	Outstanding Principal Balance at June 30, 2012				Issued/Converted		Principal Retired		Principal Defeased		Outstanding Principal Balance at June 30, 2013	Total Interest Payments FY 2013
	(in thousands)											
Senior FTS Bonds	\$ 3,580,940	\$ -	\$ (238,115)	\$ (1,230,345)	\$ 2,112,480	\$ 108,732						
Subordinate FTS Bonds:												
Recovery Bonds	1,371,700	190,580	(328,800)	-	1,233,480	6,222						
Parity Bonds	12,263,345	4,363,855	(339,825)	(677,705)	15,609,670	537,832						
Build America Bonds	3,045,645	-	-	-	3,045,645	165,184						
Qualified School Construction Bonds	697,060	350,000	-	-	1,047,060	20,532						
Total Subordinate FTS Bonds	17,377,750	4,904,435	(668,625)	(677,705)	20,935,855	729,770						
Total FTS Bonds Payable	\$ 20,958,690	\$ 4,904,435	\$ (906,740)	\$ (1,908,050)	\$ 23,048,335	\$ 838,502						

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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### 5. BONDS PAYABLE (continued)

As of June 30, 2014, the interest rates on the Authority's outstanding FTS fixed rate bonds ranged from 1.50% 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, 2014 and 2013. 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, 2014 and 2013, the Authority had \$3.6 billion and \$3.5 billion, respectively, of FTS variable rate bonds outstanding, consisting of \$222.4 million of Auction Rate Securities ("ARSs"), \$377.2 million and \$269.2 million, respectively, of Index Rate Bonds, and \$3.0 billion and \$3.0 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 2014 and 2013, the interest rate on the ARSs averaged .39% and .39%, respectively, and on the Index Rate Bonds .84% and .99%, 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 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 2014 and 2013, the VRDB rates averaged .17% and .23%, respectively, on tax exempt bonds.

During fiscal year 2014, the Authority issued \$350 million of FTS bonds to refund \$375.7 million of outstanding FTS bonds. This refunding resulted in an accounting loss of \$6.5 million. The Authority in effect reduced its aggregate debt service by \$24.2 million and obtained an economic benefit of \$22.5 million.

During fiscal year 2013, the Authority issued \$1.8 billion of FTS bonds to refund \$1.9 billion of outstanding FTS bonds. This refunding resulted in an accounting loss of \$80.6 million. The Authority in effect reduced its aggregate debt service by \$265.4 million and obtained an economic benefit of \$240.0 million.

The bonds refunded with defeasance collateral have been removed from the financial statements as a liability of the Authority. As of June 30, 2014 and 2013, the Authority had FTS Bonds refunded with defeasance collateral totaling \$11.0 billion and \$10.6 billion, respectively, of which \$0.8 billion and \$1.8 billion, respectively, are still to be paid from the defeasance collateral held in the escrow accounts on deposit with the Authority's escrow Trustee.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2014 AND 2013

### 5. BONDS PAYABLE (continued)

Debt service requirements as of June 30, 2014, 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,							
2015	\$ 126,535	\$ 32,567	\$ 159,102	\$ 638,945	\$ 967,403	\$ 1,606,348	\$ 1,765,450
2016	40,125	28,528	68,653	874,375	946,139	1,820,514	1,889,167
2017	46,755	26,482	73,237	1,004,620	908,168	1,912,788	1,986,025
2018	4,640	25,246	29,886	1,078,715	867,766	1,946,481	1,976,367
2019	52,445	23,856	76,301	1,116,600	826,196	1,942,796	2,019,097
2020 to 2024	379,785	74,775	454,560	5,270,605	3,532,251	8,802,856	9,257,416
2025 to 2029	845,455	26,778	872,233	4,360,775	2,511,723	6,872,498	7,744,731
2030 to 2034	210,705	2,690	213,395	3,865,880	1,573,292	5,439,172	5,652,567
2035 to 2039	-	-	-	3,687,315	687,280	4,374,595	4,374,595
2040 to 2044	-	-	-	1,383,125	69,761	1,452,886	1,452,886
Total	<u>\$1,706,445</u>	<u>\$ 240,922</u>	<u>\$ 1,947,367</u>	<u>\$23,280,955</u>	<u>\$12,889,979</u>	<u>\$36,170,934</u>	<u>\$38,118,301</u>

(a) The variable interest rates used in this table were .17% on tax-exempt bonds and .39% on auction bonds.

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, 2014 and 2013, the Authority had \$6.1 billion and \$6.2 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.

On September 10, 2010, the Authority deposited \$81.3 million of retained building aid into an escrow account with the Authority's Trustee for the payment of \$75.9 million of BARBs which was due in fiscal year 2013.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2014 AND 2013

### 5. BONDS PAYABLE (continued)

In fiscal years 2014 and 2013, the changes in BARBs payable were as follows:

	Outstanding Principal Balance at June 30, 2013				Outstanding Principal Balance at June 30, 2014		Total Interest Payments FY 2014
	Issued/Converted	Principal Retired	Principal Defeased				
	(in thousands)						
Tax-exempt Bonds	\$ -	\$ (102,695)	\$ -	\$ 5,658,365	\$ 5,555,670	\$ 278,620	
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>\$ -</b>	<b>\$ (102,695)</b>	<b>\$ -</b>	<b>\$ 6,154,115</b>	<b>\$ 6,051,420</b>	<b>\$ 308,438</b>	

	Outstanding Principal Balance at June 30, 2012				Outstanding Principal Balance at June 30, 2013		Total Interest Payments FY 2013
	Issued/Converted	Principal Retired	Principal Defeased				
	(in thousands)						
Tax-exempt Bonds	\$ 850,000	\$ (4,545)	\$ -	\$ 4,812,910	\$ 5,658,365	\$ 261,607	
Build America Bonds	-	-	-	295,750	295,750	20,018	
Qualified School Construction Bonds	-	-	-	200,000	200,000	10,217	
<b>Total BARBs Payable</b>	<b>\$ 850,000</b>	<b>\$ (4,545)</b>	<b>\$ -</b>	<b>\$ 5,308,660</b>	<b>\$ 6,154,115</b>	<b>\$ 291,842</b>	

As of June 30, 2014 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

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued) JUNE 30, 2014 AND 2013

### 5. BONDS PAYABLE (continued)

Debt service requirements at June 30, 2014 for BARBs payable to maturity are as follows:

Year ending June 30,	<u>Principal</u>		<u>Interest</u>		<u>Total</u>
	(in thousands)				
2015	\$	131,640	\$	303,982	\$ 435,622
2016		137,985		298,747	436,732
2017		146,710		292,835	439,545
2018		156,225		286,113	442,338
2019		163,115		279,011	442,126
2020 to 2024		923,005		1,275,226	2,198,231
2025 to 2029		1,185,675		1,012,913	2,198,588
2030 to 2034		1,506,450		668,731	2,175,181
2035 to 2039		1,546,990		242,549	1,789,539
2040 to 2043		153,625		9,601	163,226
Total	\$	<u>6,051,420</u>	\$	<u>4,669,708</u>	\$ <u>10,721,128</u>

As of June 30, 2014 and 2013, the Authority maintained its required debt service accounts as follows:

	<u>June 30, 2014</u>		<u>June 30, 2013</u>	
	(in thousands)			
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
Required for FTS	\$ 43,735	\$ 190,735	\$ 24,470	\$ 173,894
Required for BARBs	131,640	303,982	108,675	308,438
Total	<u>\$ 175,375</u>	<u>\$ 494,717</u>	<u>\$ 133,145</u>	<u>\$ 482,332</u>

The Authority held \$1.4 billion and \$195.8 million in excess of amounts required to be retained for FTS Bonds debt service under the Indenture as of June 30, 2014 and 2013, respectively. The Authority held \$205.2 million and \$103.3 million in excess of amounts required to be retained for BARBs debt service under the Indenture as of June 30, 2014 and 2013, respectively.

### 6. UNRESTRICTED GRANT FROM THE CITY OF NEW YORK

In fiscal year 2014, the Authority received an unrestricted grant from the City in the amount of \$1.4 billion. These funds will be used to fund debt service requirements for FTS Bonds during the fiscal year ending June 30, 2015 and is expected to reduce the amount of future PIT retained for such purpose. In fiscal year 2013, no grant was received from the City. The City grant is reported as assigned for debt service in the governmental funds balance sheets.

# NEW YORK CITY TRANSITIONAL FINANCE AUTHORITY

(A Component Unit of The City of New York)

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2014 AND 2013

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### 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 August 1, 2014, the Authority issued \$1.0 billion, Fiscal 2015 Series A FTS Bonds, comprised of Subseries A-1, \$675 million of tax-exempt bonds; Subseries A-2, \$125 million of taxable bonds; Subseries A-3 to A-4, \$200 million of tax-exempt variable rate bonds. The proceeds of the Fiscal 2015 Series A FTS Bonds will be used for the City's capital programs.

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