

***Triborough Bridge and
Tunnel Authority***

Independent Auditors' Report

Financial Statements

Years Ended December 31, 2002 and 2001

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW OF THE FINANCIAL STATEMENTS

Introduction to the Annual Report

This annual report consists of Management's Discussion and Analysis ("MD&A"), Financial Statements and Notes to the Financial Statements.

The Basic Financial Statements Include:

The Balance Sheets provide information about the nature and amounts of investments in resources (assets) and the obligations to Triborough Bridge and Tunnel Authority ("TBTA") creditors (liabilities), with the difference between the two reported as net assets or the excess of liabilities over assets.

The Statements of Revenues, Expenses and Changes in Excess of Liabilities Over Assets show how the TBTA's net assets changed during the year and accounts for all of the revenues and expenses, measures the success of the TBTA's operations from an accounting perspective over the past year and can be used to determine how the TBTA has funded its costs.

The Statements of Cash Flows provide information about the TBTA's cash receipts, cash payments, and net changes in cash resulting from operations, noncapital financing, capital and related financing, and investing activities.

The Notes to the Financial Statements Provide:

- Information that is essential to understanding the basic financial statements, such as the TBTA's accounting methods and policies.
- Details of cash and investments, capital assets, employee benefits, long-term debt, lease transactions, future commitments and contingencies, and subsequent events of the TBTA.
- Any other events or developing situations that could materially affect the TBTA's financial position.

Management's Discussion and Analysis:

The following is a narrative overview and analysis of the financial activities of the TBTA for the years ended December 31, 2002 and 2001. This MD&A is intended to serve as an introduction to the TBTA's basic financial statements. It provides an assessment of how the TBTA's financial position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the TBTA's overall financial position. It contains opinions, assumptions or conclusions by the TBTA's management that should not be considered a replacement for, and must be read in conjunction with, the other financial statements described below.

FINANCIAL REPORTING ENTITY:

TBTA is a public benefit corporation created by the New York State Legislature. In 1968, TBTA was made part of the Metropolitan Transportation Authority (“MTA”). The MTA is a component unit of the State of New York.

The TBTA operates toll facilities (seven bridges and two tunnels) and the Battery Parking Garage, all within the five boroughs of New York City. TBTA’s operations and capital costs (debt obligations) for its bridges and tunnels are paid by the revenues it generates from its facilities. TBTA’s surplus amounts are used to fund transit and commuter railroad operations and finance capital projects for the transit and commuter railroad systems operated by other affiliates and subsidiaries of the MTA.

CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in the TBTA’s financial position for the year ended December 31, 2002. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the TBTA’s financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. **All dollar amounts are in thousands.**

Condensed Balance Sheets:

ASSETS	Year Ended December 31,	
	2002	2001
CURRENT ASSETS	<u>\$ 687,831</u>	<u>\$ 490,873</u>
NONCURRENT ASSETS	<u>2,848,518</u>	<u>3,436,080</u>
TOTAL ASSETS	<u>\$3,536,349</u>	<u>\$3,926,953</u>
LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS		
CURRENT LIABILITIES	<u>\$ 568,639</u>	<u>\$ 618,600</u>
NONCURRENT LIABILITIES	<u>6,223,333</u>	<u>6,621,034</u>
TOTAL LIABILITIES	6,791,972	7,239,634
EXCESS OF LIABILITIES OVER ASSETS	<u>(3,255,623)</u>	<u>(3,312,681)</u>
TOTAL LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	<u>\$3,536,349</u>	<u>\$3,926,953</u>

Current assets increased for the year ended December 31, 2002 due to the increase in the investment account balance. The increase is attributed to the cash provided by the MTA to defease certain TBTA bonds during 2002 in connection with the TBTA's bond restructuring. Due to the federal tax law restrictions, cash defeasance of certain bonds was more economic than issuing taxable bonds. The amount provided was approximately \$251,000. This was partially offset due to changes in investment balances for the 1994 VRDB bonds and BICS that were defeased by the new Senior and Subordinated debt.

The noncurrent assets, net of depreciation, decreased for the year ended December 31, 2002 by \$587,562.

- This decrease can be attributed to the defeasance of the Mortgage Recording Tax bonds in 2002 which was part of the MTA bond restructuring program (\$902,819). The bond restructuring also reduced restricted investments since the new bond resolutions do not require the maintenance of debt service reserve funds equal to the highest year's debt service (\$179,118).
- Noncurrent assets increased as a result of bond issuance costs (\$280,869). Also, capital assets, net of depreciation, increased by \$202,379 as a result of building improvements of \$28,000, roadway improvements of \$150,000, rehabilitation of primary bridge structures of \$2,730, and capitalization of construction in progress costs of \$58,000. Of the above mentioned amounts, the majority of capitalizable costs relate to the Brooklyn Battery Tunnel (BBT) rehabilitation, rehabilitation and decking at Marine Park Bridge, replacement of the Dyckman Street Bridge deck, rehabilitation of the Brooklyn approach pavements at the Verrazano-Narrows Bridge, and suspended span deck replacement at the Bronx Whitestone Bridge.

Current liabilities decreased by approximately \$50,000 for the year ended December 31, 2002. This is attributed to a \$152,000 decrease in current bond principal payables and a \$104,000 decrease in interest payable. In addition, during 2002, the MTA provided to the TBTA cash for bond restructuring which resulted in an increase in the Due to MTA account of \$216,000 which offset such decreases. There were also increases to accrued vacation and sick leave balances and an increase to the prepaid toll account.

The noncurrent liabilities for the year ended December 31, 2002 decreased by approximately \$398,000 which is attributable to the bond restructuring and lower insurance reserve requirements.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	Year Ended December 31,	
	2002	2001
OPERATING REVENUES	\$ 939,761	\$ 922,689
OPERATING EXPENSES	<u>(336,547)</u>	<u>(287,994)</u>
OPERATING INCOME	<u>603,214</u>	<u>634,695</u>
NONOPERATING REVENUES (EXPENSES)	<u>(334,749)</u>	<u>(116,043)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	268,465	518,652
TRANSFERS OUT	<u>(211,407)</u>	<u>(1,315,339)</u>
CHANGE IN EXCESS OF LIABILITIES OVER ASSETS	57,058	(796,687)
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(3,312,681)</u>	<u>(2,515,994)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (3,255,623)</u>	<u>\$ (3,312,681)</u>

Revenue by Major Source:

Bridge and tunnel tolls accounted for 99 percent of operating revenue in both 2002 and 2001. The remaining revenue primarily represented income from parking fees collected at the Battery Parking Garage, net of operating expenses, and special fees charged to E-ZPass customers.

Toll revenues were \$933,100 in 2002, \$18,300 or 2 percent above levels in 2001. Despite the slowdown in the regional economy and post-September 11, 2001 and traffic restrictions that continued into 2002, toll revenues grew by 0.3 percent on average through August. From September on, toll revenues grew an average of 6.1 percent, primarily due to the prior year's revenue losses resulting from the negative impacts of the World Trade Center attacks. Very mild winter weather during the first quarter of 2002 contributed significantly to relatively higher traffic volumes at most facilities. In addition, a continuing ban on New Jersey-bound commercial vehicles at the Holland Tunnel resulted in truck diversions to the Verrazano-Narrows Bridge, and higher volume trends stemming from post-September 11 changes in regional traffic patterns continued at the Bronx-Whitestone and Throgs Neck Bridges. The toll revenue gains at these facilities more than offset losses at the BBT and Queens Midtown Tunnels (QMT), where post-September 11 traffic restrictions were enforced for all or part of the year (see *Results of Operations* on page 5).

Operating Revenues:

For the year ended December 31, 2002 the Operating Revenue increased by \$17,072 as compared with the prior year. The increase is attributed to an increase in traffic of roughly 2.2 percent or \$18,000. This overall increase is due primarily to the effects of government imposed restrictions on bridge and tunnel traffic in the aftermath of September 11, 2001 which negatively impacted operating revenues in the prior year.

Operating Expenses:

Operating Expenses, including depreciation, increased by \$48,553 from prior year. The increase in salary and fringe benefits are associated with the full year costs of security requirements since September 11, 2001. During 2002 the TBTA also undertook the process of automatically replacing previously issued E-ZPass tags that are nearing the end of their useful life. More than 600,000 tags were replaced and the cost was approximately \$16,000. Increased costs related to bridge painting were also realized in 2002, in the amount of \$8,000. In addition, the TBTA's insurance payments increased by roughly \$8,000.

Nonoperating Expenses:

During 2002, the TBTA refunded almost all of its prior debt. The interest expense increased as compared with the prior year due to such refunding. The Transfers Out is calculated based upon Chapter 717, Section 1219-a (2)(e) of the New York Public Authorities Law (PAL) and various bond resolutions. These transfers are used to fund transit and commuter railroad operations and finance capital projects of the MTA and Transit Authority. For the year ended December 31, 2002 the total amount of transfers decreased due to increases in operating expenses.

OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Economic Conditions

The 2003 Budget for toll revenues incorporates the latest economic forecast issued by the MTA. The economic projections include a 0.9 percent increase in regional employment over the prior year's level and a national average inflation rate of 2.67 percent. It also factors in the impact of the harsh winter weather as well as the changed traffic patterns and conditions resulting from September 11, 2001, and the toll increase that is planned to take effect on May 18, 2003.

Results of Operations

TBTA achieved record level traffic in 2002 despite the region's economic downturn and continuing post-September 11, 2001 traffic restrictions. Nearly 300 million vehicles traveled on TBTA facilities, a 2.3 percent increase over 2001 volumes and over three million vehicles higher than the previous record level set in 2000.

At the Verrazano-Narrows Bridge, paid traffic volume grew by 2.4 million vehicles, or 3.4 percent over 2001 levels, with significant increases in truck traffic due to continuing restrictions on New Jersey-bound commercial vehicles at the Holland Tunnel. The Bronx-Whitestone and Throgs Neck Bridges each had an increase of approximately 2 million vehicles during 2002, representing growth of 5.4 and 5.0 percent respectively. This corridor has seen an increased number of passenger vehicles since September 11,

2001, possibly reflecting a greater number of discretionary travelers, as well as less severe employment declines in the suburban areas compared to New York City.

The post-September 11, 2001 closure of the Manhattan-bound tube at the BBT reduced traffic by nearly three million vehicles through March 2002. From April on, remaining Single-Occupancy Vehicle (SOV) restrictions and economic conditions in Lower Manhattan kept traffic below pre-September 11, 2001 levels, and the annual decline in 2002 subsequently amounted to 1.0 million vehicles, or 6.1 percent. SOV restrictions also reduced traffic at the QMT through April 19, 2002, but volumes increased thereafter and by year-end, the QMT was up 1.9 million vehicles, or 2.2 percent over the prior year.

The E-ZPass electronic collection system continued to facilitate the management of high traffic volumes in 2002, and market shares grew for the seventh straight year. E-ZPass market share was 69 percent at the end of 2002, compared to 67 percent at year-end 2001. Total E-ZPass traffic grew to 205.3 million vehicles, or 4 percent above the 2001 level of 197.7 million vehicles. On an average weekday in 2002, 71 percent of all Bridge and Tunnel traffic and 79 percent of all trucks used E-ZPass. On August 29, TBTA registered its one-billionth E-ZPass customer.

TBTA began replacing the 1st generation E-ZPass Tag in 2002. This customer service initiative has minimized the potential for operational disruptors by supplying customers with new tags before the older tags expire. Over 600,000 E-ZPass tags were replaced in 2002.

In 2002, TBTA introduced hand-held electronic scanners that streamline the toll collection process for customers with E-ZPass tags that were not read properly in the toll lane. The bar code scanners replace paper and pencil and dramatically reduce the time-consuming manual interventions and paperwork at the toll plaza. This led to a drop in intervention time from an average of 12.5 seconds to 5 seconds.

TBTA also scored new highs in overall customer satisfaction in independent random surveys conducted in 2002, showing improvement at every facility compared to 2001, despite unprecedented traffic volume, construction work, and security procedures since September 11. Overall customer satisfaction increased at all nine TBTA facilities. On a scale from 0 to 10, customer satisfaction increased from 7.0 in 2001 to 7.5 in 2002, the highest level since the survey began in 1997. Among E-ZPass customers, the overall satisfaction rating reached a new high of 7.7, up from 7.4 in 2001.

Since implementing the MTA All-Agency Safety Initiative, TBTA has realized significant improvements in employee safety. In 2002, employee lost-time and restricted duty injury cases were reduced from 3.7 in 2001 to 3.1 in 2002, a 16 percent drop in the frequency of cases. In addition, although improving customer safety is always a unique challenge for TBTA because its customers operate their own vehicles, customer injuries continued to stay at a rate of less than 2 injuries per million vehicles. More significantly, collisions with injuries requiring medical attention decreased by 11 percent from 2001. These results were achieved despite record high traffic levels.

SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

TBTA's facilities are all in a good state of repair. TBTA's portion of the MTA's Capital Program for 2000-2004 totals \$1,035,000 for normal replacement and system improvement projects. The commitments made during 2002 total \$142,000, bringing total commitments under the five-year plan to \$592,000 to date.

Approximately 50 percent of projected expenditures in the current capital program will be incurred at two facilities: the Triborough Bridge and the Bronx-Whitestone Bridge. The Triborough Bridge Deck Replacement/Viaducts and Suspension Span project (\$226,000) includes replacement of the roadway deck and median barrier from the Bronx toll plaza to the Queens approach structure. The Bronx-Whitestone Bridge Suspension Span Replacement project (\$274,000) includes construction for the complete replacement of the roadway deck and associated structural elements, such as new bridge lighting, new electrical feeders, and drainage improvements for the suspended spans. Other major projects in the 2000-2004 Plan include roadway and drainage system rehabilitation at the Brooklyn-Battery Tunnel and replacement of all exhaust fans at the Queen Midtown Tunnel. Variable message signs will be installed on all approach roads/spans to facility toll plazas

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

Toll Increases

On March 6, 2003, the TBTA Board approved toll increases which will be effective May 18, 2003. The toll increases will average 14.3 percent for most passenger and commercial vehicles.

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying basic financial statements of Triborough Bridge and Tunnel Authority (the "Authority"), a public benefit corporation which is part of the related financial reporting group of Metropolitan Transportation Authority ("MTA"), as of and for the years ended December 31, 2002 and 2001, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority, as of December 31, 2002 and 2001, and the results of its operations, changes in excess of liabilities over assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, effective January 1, 2002 the Authority adopted Governmental Accounting Standards Board ("GASB") Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, as amended by GASB Statement No. 37.

The Management's Discussion and Analysis on pages 1 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Deloitte + Touche LLP

March 19, 2003

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

(In Thousands)

ASSETS	2002	2001
CURRENT ASSETS:		
Cash, unrestricted (Note 3)	\$ 11,951	\$ 8,049
Investments (Notes 4, 5 and 8):		
Unrestricted	72,324	42,908
Restricted	577,546	403,967
Accrued interest receivable	1,513	5,592
Accounts receivable, net of allowance of \$2,783 in 2002 and \$0 in 2001	12,723	18,198
Other receivables	4,823	7,434
Prepaid expenses	<u>6,951</u>	<u>4,725</u>
Total current assets	<u>687,831</u>	<u>490,873</u>
NONCURRENT ASSETS:		
Investments (Notes 4, 5 and 8):		
Unrestricted	156,604	145,477
Restricted	289,102	468,220
Due from MTA-MRT (Note 15)	-	902,819
Capital assets, net (Note 6)	2,094,304	1,891,925
Bond issuance costs (Note 9)	<u>308,508</u>	<u>27,639</u>
Total noncurrent assets	<u>2,848,518</u>	<u>3,436,080</u>
TOTAL ASSETS	<u>\$3,536,349</u>	<u>\$3,926,953</u>

(Continued)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2002 AND 2001

(In Thousands)

LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	2002	2001
CURRENT LIABILITIES:		
Current portion - long - term obligations	\$ 21,049	\$ 173,606
Interest payable due	88,320	192,456
Accounts payable	61,778	63,772
Payable to MTA - capital expense - operating	13,926	18,327
Payable to TA - operating expense	97	196
Accrued salaries	2,542	6,124
Accrued vacation and sick pay benefits	13,759	11,986
Current portion of estimated liability arising from injuries to persons (Note 18)	12,318	10,482
Due to NYCTA (Note 1)	12,124	13,661
Current portion of capital lease obligation (Note 17)	6,873	6,866
Due to MTA (Note 1)	29,028	39,353
Due to MTA (Note 26)	216,473	-
Prepaid tolls revenue (includes \$19,854 and \$14,149 in 2002 and 2001, respectively, due to other toll agencies)	<u>90,352</u>	<u>81,771</u>
Total current liabilities	<u>568,639</u>	<u>618,600</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 18)	2,841	5,515
Long-term debt (Notes 9 to 16, 25)	6,097,786	6,492,735
Capital lease obligations - (Note 17)	119,902	120,069
Other long - term liabilities	<u>2,804</u>	<u>2,715</u>
Total noncurrent liabilities	<u>6,223,333</u>	<u>6,621,034</u>
TOTAL LIABILITIES	<u>6,791,972</u>	<u>7,239,634</u>
EXCESS OF LIABILITIES OVER ASSETS:		
Invested in capital assets, net of related debt	1,489,341	1,551,399
Restricted	1,412,902	1,460,541
Unrestricted	<u>(6,157,866)</u>	<u>(6,324,621)</u>
Total excess of liabilities over assets	<u>(3,255,623)</u>	<u>(3,312,681)</u>
TOTAL LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	<u>\$ 3,536,349</u>	<u>\$ 3,926,953</u>
		(Concluded)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN EXCESS OF LIABILITIES OVER ASSETS

YEARS ENDED DECEMBER 31, 2002 AND 2001

(In Thousands)

	2002	2001
OPERATING REVENUES:		
Bridges and tunnels	\$ 933,134	\$ 914,856
Building rentals	6,627	7,213
Other income	<u>-</u>	<u>620</u>
Total operating revenues	<u>939,761</u>	<u>922,689</u>
OPERATING EXPENSES:		
Salaries and wages	109,299	98,283
Employee benefits (Note 7)	31,668	25,033
Maintenance and supplies	48,376	50,459
Outside services	78,224	62,439
Insurance	10,633	3,041
Power	4,006	4,491
Leases and rentals	10,005	7,888
Depreciation expense	36,351	31,480
Other expenses	<u>7,985</u>	<u>4,880</u>
Total operating expenses	<u>336,547</u>	<u>287,994</u>
OPERATING INCOME	<u>603,214</u>	<u>634,695</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense (Notes 9 to 14 and 16)	(350,465)	(143,913)
Investment income (Notes 1 and 4)	<u>15,716</u>	<u>27,870</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(334,749)</u>	<u>(116,043)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	268,465	518,652
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(103,962)	(137,949)
Metropolitan Transportation Authority	<u>(107,445)</u>	<u>(1,177,390)</u>
CHANGE IN EXCESS OF LIABILITIES OVER ASSETS	57,058	(796,687)
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(3,312,681)</u>	<u>(2,515,994)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (3,255,623)</u>	<u>\$ (3,312,681)</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001 (In Thousands)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	\$ 939,733	\$ 924,160
Building rentals received	6,626	7,213
Payments to employees and related costs	(143,532)	(126,385)
Other operating costs	<u>(165,981)</u>	<u>(144,740)</u>
Net cash provided by operating activities	<u>636,846</u>	<u>660,248</u>
CASH FLOWS FOR NONCAPITAL FINANCING ACTIVITIES -		
Subsidies paid to affiliated agencies	<u>(274,791)</u>	<u>(344,550)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES FOR THE AUTHORITY AND AFFILIATES:		
Advance received for WTC disaster	-	12,945
Cost of issuance for General Purpose Revenue Bonds	(46,388)	(10,305)
Principal payments on Mortgage Recording Tax Bonds	(34,855)	(19,070)
Payment from MTA for Mortgage Recording Tax Bonds debt service	83,559	43,346
Interest paid on Mortgage Recording Tax Bonds	(48,704)	(40,267)
Refund of Advance received for WTC Disaster	(12,945)	-
Interest paid on General Purpose Revenue Bonds, BICs and 1994A Resolution Bonds	(287,403)	(260,761)
Principal payments on General Purpose Revenue Bonds, BICs and 1994A Resolution Bonds	(138,751)	(131,375)
Purchase of capital assets	(191,708)	(139,970)
Proceeds from issuance of General Purpose Revenue Bonds for Capital Projects	-	56,517
Received from MTA for MRT Debt Service	32,702	-
MRT Investment Fund to Pay Debt Service	-	(17,811)
Proceeds from 2002A and new bond issues	4,127,885	-
Interest paid on 2002 Senior and Subordinate Revenue Bonds	(1,008)	-
Bonds refunded	(3,791,087)	-
Proceeds from Bond Anticipation Notes	-	1,020,215
Payment for Transportation Capital Projects	<u>(8,922)</u>	<u>(941,860)</u>
Net cash used in capital and related financing activities	<u>(317,625)</u>	<u>(428,396)</u>

(Continued)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2002 AND 2001 (In Thousands)

	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net (purchases) sales of short-term securities	\$ (148,269)	\$ 114,293
Net maturities (purchases) of long-term securities	103,966	(34,707)
(Decrease) increase in MTA investment pool	(13,269)	5,847
Unrestricted income from investments	14,727	23,772
Investment income restricted for Mortgage Recording Tax purposes	835	1,128
Investment income restricted for capital purposes	<u>1,482</u>	<u>4,030</u>
Net cash (used in) provided by investing activities	<u>(40,528)</u>	<u>114,363</u>
NET INCREASE IN CASH	3,902	1,665
CASH, BEGINNING OF YEAR	<u>8,049</u>	<u>6,384</u>
CASH, END OF YEAR	<u>\$ 11,951</u>	<u>\$ 8,049</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES -		
Income from operations	\$ 603,214	\$ 634,695
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Interest income - subway car lease	-	(620)
Depreciation	36,351	31,480
Advance received for WTC disaster		(12,945)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease in receivables	6,103	3,347
(Decrease) increase in operating payables	(10,629)	1,469
Increase in prepaid expenses and deferred charges	(2,226)	(1,902)
Decrease in accrued salary costs, vacation and insurance	(2,647)	(5,412)
Increase in unredeemed toll revenue	6,598	10,336
Increase (decrease) in other liabilities	<u>82</u>	<u>(200)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 636,846</u>	<u>\$ 660,248</u>

(Concluded)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2002 and 2001 (In Thousands)

1. BASIS OF FINANCIAL STATEMENTS

The Triborough Bridge and Tunnel Authority (the "Authority" or "TBTA") is a public benefit corporation created pursuant to the Public Authorities Law (the "Act") of the State of New York (the "State"). The Authority is part of the related financial reporting group of the Metropolitan Transportation Authority (the "MTA"). The MTA is a component unit of the State and is included in the State of New York Comprehensive Annual Financial Report of the Comptroller as a public benefit corporation.

The Authority operates seven toll bridges, two toll tunnels, and the Battery Parking Garage. All Authority toll facilities operate E-Z Pass in conjunction with a regional electronic toll collection system, E-Z Pass. The Authority's annual net earnings before depreciation and other adjustments ("operating transfer") are transferred to the New York City Transit Authority (the "TA") and the MTA pursuant to provisions of the Act. In addition, the Authority annually transfers its unrestricted investment income to the MTA. The operating transfer and the investment income transfer can be used to fund operating expenses or capital projects. The TA receives \$24,000 plus 50 percent of the Authority's remaining annual operating transfer, as adjusted, to reflect certain debt service transactions and the MTA receives the balance of the operating transfer, as adjusted, to reflect certain debt service transactions, plus the annual unrestricted investment income. Transfers are made during the year on an estimated basis. The remaining amount due at December 31, 2002 and 2001 of \$41,152 and \$53,014 respectively, is recorded as a liability in the Authority's financial statements.

The Authority certified to the City of New York (the "City") and the MTA that its operating transfer and its unrestricted investment income were as follows:

	2002	2001
Operating transfer	\$ 248,202	\$ 311,203
Investment income	<u>14,727</u>	<u>23,772</u>
	<u>\$ 262,929</u>	<u>\$ 334,975</u>

2. ACCOUNTING POLICIES

Change in Accounting - During the year ended December 31, 2002, the Authority adopted GASB Statement No. 34 (as amended by GASB Statement No. 37), *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Disclosures*. GASB Statement No. 34 requires changes to the basic financial statements for state and local governmental entities. Among those requirements are certain changes applicable to special purpose governments engaged in business-type activities. Those changes require a balance sheet, with net assets displayed in the categories - invested in capital assets net of related debt, restricted, and unrestricted; a statement of revenues, expenses, and changes in net assets;

and a statement of cash flows presented using the direct method. In addition, GASB Statement No. 34 requires a management's discussion and analysis to be presented as required supplementary information. GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34. Certain reclassifications and additional disclosures have been made to the financial statements for the year ended December 31, 2001 to conform with GASB Statement No. 34 and the current year's presentation.

Recent Accounting Pronouncements - The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units an amendment of GASB Statement 14*. The Authority is therefore unable to disclose the impact that adopting GASB Statement No. 39 will have on its financial position and results of operations when such statement is adopted. The Statement is effective for financial statements for periods beginning after June 15, 2003.

Investments - Investments included in the debt service reserve funds pursuant to the Authority's old bond resolutions are classified as long-term assets. All debt service reserve funds were eliminated during the Authority's 2002 debt restructuring. It is the Authority's intent to hold its investments to maturity. Investments are recorded on the balance sheet at fair value which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (either as investment income or net increase (decrease) in fair value of investments) on the statement of operations.

Operations - Bridges and tunnel revenue is recorded as earned (i.e., as tokens are used and tolls are paid in cash or when vehicles pass through the Electronic Toll Collection System).

Capital Assets - Capital assets are carried at cost. Depreciation is recorded on the straight-line method over the assets' estimated useful lives. Title to substantially all real property is vested in the City, and the Authority has the use and occupancy thereof as long as its corporate existence continues. Major reconstruction and improvements to such facilities are capitalized.

Accounting Policies - Under GASB Statement No. 20, "Proprietary Activity Accounting and Financial Reporting," the Authority has elected not to apply Financial Accounting Standards Board statements and interpretations issued after November 30, 1989.

Subsidies - Subsidies provided by the Authority represent its operating transfer and investment income computed on an accrual basis.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. CASH

The Bank balances are insured up to \$100 in the aggregate by the Federal Deposit Insurance Corporation (the "FDIC") for each bank in which funds are deposited.

The Bank balances that were not insured were maintained in major financial institutions considered by management to be secure. The difference between the carrying amount and the bank balance for the year ended December 31, 2002, is due to the petty cash and change funds which are maintained at the various toll facilities and not recorded by the bank. In addition, there was a deposit in transit for the year ended December 31, 2002. The difference between the carrying amount and the bank balance for the year ended December 31, 2001 was due to outstanding checks.

Cash at December 31 consists of the following:

	2002		2001	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 200	\$ 200	\$ 200	\$ 200
Collateralized deposits	<u>11,751</u>	<u>4,301</u>	<u>7,849</u>	<u>17,907</u>
	<u>\$ 11,951</u>	<u>\$ 4,501</u>	<u>\$ 8,049</u>	<u>\$ 18,107</u>

4. INVESTMENTS

The Authority's investment policies comply with the New York State Comptroller's guidelines for investment policies. MTA's All-Agency Investment Guidelines generally restrict the Authority's investments to obligations of the U.S. Treasury, its agencies and instrumentalities and repurchase agreements backed by U.S. Treasury securities. All investments were managed by the MTA, as the Authority's agent, in custody accounts kept in the name of the Authority for restricted investments and in the name of the MTA for unrestricted investments. MTA's All-Agency Investment Guidelines state that securities underlying repurchase agreements must have a market value at least equal to the cost of the investment. All investments are at fair value as set forth below:

	December 31,	
	2002	2001
Investments maturing in 2002 to 2003 under terms of repurchase agreements	\$ 136,282	\$ 387,515
U.S. Treasuries due 2002 to 2016	750,833	433,968
GNMA	-	42,876
MTA Investment Pool	126,127	112,910
Other government agencies	5,834	6,803
Irrevocable deposit account	<u>76,500</u>	<u>76,500</u>
	<u>\$ 1,095,576</u>	<u>\$ 1,060,572</u>

The fair value of the above investments consists of \$228,929 and \$188,457 in 2002 and 2001 in unrestricted investments, respectively, and \$866,647 and \$872,115 in 2002 and 2001 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 1.75 percent to 3.33 percent and 2.77 percent to 5.56 percent during the years ended December 31, 2002 and 2001, respectively.

Unrestricted cash and investments are available to pay operating and maintenance expenses, debt service and operating surplus transfers.

The restricted investments are held in the following funds established in the bond resolutions:

	December 31,	
	2002	2001
CURRENT:		
Restricted:		
General Purpose Revenue Bonds 1980 Resolution:		
Debt Service Fund	\$ 396,819	\$ 339,758
Operating Funds	19,370	13,922
General Fund - General Reserve	3,523	2,856
Beneficial Interest Certificates:		
Debt Service Reserve Fund	-	5,005
1994 Special Obligation:		
VRDB '98 Debt Service Fund	-	12,063
VRDB '98 Debt Service Reserve Fund	-	18,295
Transportation Project DSF-TTP Post '86 (97 SR/MS DSF/TTP)	10,316	455
Transportation Project BPF-TTP '80	-	593
Mortgage Recording Tax Obligation Bonds:		
Transit Project	-	351
Debt Service Fund	-	493
Debt Service Reserve Fund	11,417	7,975
Subordinate Revenue Refunding Bonds:		
Bond Proceeds Fund	66,624	-
Debt Service Reserve Fund	5,037	-
Cost of Issuance Fund	14,959	-
Debt Service Fund	35,065	-
Senior Revenue Bonds		
Cost of Issuance Fund	12,183	-
COPS 2 Bdway	<u>2,233</u>	<u>2,201</u>
Total current - restricted	577,546	403,967
Current - unrestricted	<u>72,324</u>	<u>42,908</u>
Total - current	<u>\$ 649,870</u>	<u>\$ 446,875</u>
LONG-TERM:		
Restricted:		
Debt Service Reserve Fund:		
General Purpose Revenue Bonds	\$ 125,432	\$ 174,804
General Purpose Debt Service Fund	53,740	98,400
General Purpose Bond Proceeds Fund	-	3,186
Mortgage Recording Tax Obligation Bonds		
Debt Service Reserve Fund	8,342	11,651
Beneficial Interest Certificates:		
Lease Payment Fund	-	9,102
1998 Special Obligation-Variable Rate Demand Bond	-	186
VRDB '98 Debt Service Reserve Fund	18,430	-
Capital Lease Obligation:		
US Treasury Strips	6,658	6,658
Irrevocable Deposit Account	76,500	76,500
Transportation Project BPF-TTP '80	-	2,585
Transportation Project DSF TTP Post '86 (97 SR/MS DSF/TTP)	-	65,944
Investments in projects TTP-Swap Option Proceeds	<u>-</u>	<u>19,204</u>
Total long-term - restricted	289,102	468,220
Total long-term - unrestricted	<u>156,604</u>	<u>145,477</u>
Total - long-term	<u>\$ 445,706</u>	<u>\$ 613,697</u>

The unexpended bond proceeds of the General Purpose Revenue Bonds 1980 Resolution, not including proceeds held for the Transportation Project, were restricted for payment of capital improvements of the Authority's present facilities.

The Debt Service Funds are restricted for the payment of debt service as provided by the bond resolutions.

The Authority's accrual of the liability to the federal government for rebate of arbitrage income from tax-exempt borrowings was \$1,307 and \$4,570 at December 31, 2002 and 2001, respectively. In 2002 and 2001, the Authority's transfer of its unrestricted investment income to the MTA was increased by \$3,356 for such arbitrage rebate accruals.

5. MTA INVESTMENT POOL

The MTA, on behalf of the Authority, invests funds which are not immediately required for the Authority's operations in securities permitted by the MTA's All-Agency Investment Guidelines in accordance with the State Public Authorities Law, including repurchase agreements collateralized by U.S. Treasury securities, U.S. Treasury notes and U.S. Treasury zero-coupon bonds. Accordingly, all investments are category - one credit risk (the lowest risk category).

6. CAPITAL ASSETS

Capital assets, at cost, at December 31 consists of the following:

	2002	2001	Lives
Land	\$ 27,940	\$ 27,940	
Buildings	81,321	78,870	49 years
Bridges and tunnels:			
Primary structures	1,183,053	1,168,983	100 years
Toll plazas	206,187	205,774	40 years
Toll equipment	98,194	97,991	40 years
Buildings	231,673	202,499	40 years
Roadway	226,781	76,098	30 years
Other	47,647	43,646	3-40 years
Construction in progress	<u>473,628</u>	<u>435,892</u>	
	2,576,424	2,337,693	
Less accumulated depreciation	<u>(482,120)</u>	<u>(445,768)</u>	
	<u>\$2,094,304</u>	<u>\$1,891,925</u>	

In 2002 and 2001, capital asset additions include approximately \$9,500 and \$8,300 respectively, of costs incurred by engineers working on capital projects.

The Authority's 1992-1999 Capital Program, which was developed to rehabilitate the Authority's bridges and tunnels, totals \$1,100,000. Over the 1992 to 1999 period, the Authority committed \$1,080,000 under the Capital Program for such activities.

The Authority's 2000-2004 Capital Program totals \$1,035,000. Total amounts committed through December 31, 2002 and 2001 totaled \$592,000 and \$444,000 respectively.

7. EMPLOYEE BENEFITS

Most employees of the Authority are members of the New York City Employees' Retirement System ("NYCERS"), which is a cost sharing, multi-employer retirement system. Of the Authority's total payroll costs, including the cost of capital engineers charged to capital projects, approximately \$107,108 or 89.7 percent (2002) and \$93,146 or 88.7 percent (2001) of such costs relate to employees who participate in NYCERS.

NYCERS provides retirement, as well as death, accident and disability retirement benefits. Benefits vest after 5 years of credited service depending on date of employment. Certain retirees also receive supplemental benefits from the Authority.

Benefit and contribution provisions, which are contingent upon the point in time at which the employee last entered qualified service and length of credited service, are established by State law and may be amended only by the State legislature. NYCERS has both contributory and noncontributory requirements, with retirement age varying from 55 to 70 depending upon when an employee last entered qualifying service. Employees entering qualifying service on or before June 30, 1976 are enrolled in a noncontributory plan. Employees entering qualifying service after June 30, 1976 are enrolled in a plan, which requires a 3 percent contribution of their salary. The State legislature passed legislation in 2000 that suspends the 3 percent contribution for employees who have 10 years or more of credited service. In addition, members who meet certain eligibility requirements will receive one month's additional service credit for each completed year of service up to a maximum of two additional years of service credit.

NYCERS established a "special program" for employees hired on or after July 26, 1976. A plan for employees who have worked 20 years, and reached age 50, is provided to Bridge and Tunnel Officers, Sergeants and Lieutenants and Maintainers. Also, an age 57 retirement plan is available for all other such TBTA employees. Both these plans required increased employee contributions.

Certain participants are permitted to borrow up to 75 percent of their own contributions including accumulated interest. These loans are accounted for as reductions in such participants' contribution accounts. Upon termination of employment before retirement, certain participants are entitled to refunds of their own contributions, including accumulated interest, less any loans outstanding.

Employee contributions amounted to \$7,105 (5.95 percent of covered payroll) and \$7,036 (7.55 percent of covered payroll) in 2002 and 2001, respectively. For 2002 and 2001, employer contributions of approximately \$951 and \$999, respectively, were equal to or in excess of the actuary's recommendation, plus interest.

Additional information about the plan is presented in the component unit financial report prepared by NYCERS.

Postretirement Benefits - In addition to providing pension benefits, the Authority provides certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees who are members of NYCERS may become eligible for those benefits if they reach normal retirement age while working for the Authority. The insurance premiums for these benefits are recorded on a pay-as-you-go basis and totaled \$6,726 and \$4,127 in 2002 and 2001, respectively. No

contribution is made by participants. As of December 31, 2002, and 2001, 1,314 and 1,281 retirees, respectively, including spouses and dependents, met those eligibility requirements.

8. THE TRANSPORTATION PROJECT

Capital programs covering the years 2000-2004 have been approved for (1) the commuter railroad operations of the MTA conducted by The Long Island Rail Road Company (“LIRR”) and the Metro-North Commuter Railroad Company (“MNCRC”) (as amended in April 2002 and February 2003, the “2000-2004 Commuter Capital Program”), (2) the transit system operated by the New York City Transit Authority (the “Transit Authority”) and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), and the rail system operated by the Staten Island Rapid Transit Operating Authority (“SIRTOA”) (as amended in April 2002 and February 2003, the “2000-2004 Transit Capital Program”) and (3) the toll bridges and tunnels operated by the Triborough Bridge and Tunnel Authority (“TBTA”) (as amended in May 2002 and February 2003, the “2000-2004 TBTA Capital Program”). The 2000-2004 TBTA Capital Program, which provides for approximately \$1,035,000 in capital expenditures, was effective upon adoption. The 2000-2004 Commuter Capital Program and the 2000-2004 Transit Capital Program (collectively, the “2000-2004 MTA Capital Programs”) have been approved by the Metropolitan Transportation Authority Capital Program Review Board (the “Review Board”) and are also effective. The Review Board consists of one member each appointed by the Governor of the State, the Majority Leader of the State Senate and the Majority Leader of the State Assembly and, in the case of transit programs only, the Mayor of the City of New York.

The 2000-2004 MTA Capital Programs and the TBTA 2000-2004 Capital Program provide for \$18,329,800 in capital expenditures, of which \$10,162,000 relates to ongoing repairs of, and replacements to, the Transit System operated by the Transit Authority and MaBSTOA and the rail system operated by SIRTOA, \$3,571,000 relates to ongoing repairs of, and replacements to, the commuter system operated by LIRR and MNCRC, \$3,400,000 relates to the expansion of existing rail networks for both the transit and commuter systems, and \$1,035,000 relates to the ongoing repairs of and replacements of bridge and tunnel facilities operated by TBTA. At its meeting on December 18, 2002, the MTA Board approved the submission to the Review Board of certain amendments to the 2000-2004 MTA Capital Programs for additional security measures in the amount of \$591,200. At its meeting on February 28, 2003, the MTA Board also approved the submission to the Review Board of certain amendments to the 2000-2004 MTA Capital Programs to incorporate changes to the program of work that was previously approved by the MTA Board, with a overall funding increase of \$9,000. The amendments have not been submitted to the Review Board.

The combined funding sources for the 2000-2004 MTA Capital Programs and the TBTA 2000-2004 Capital Program include \$7,262,000 in bonds, \$5,035,000 in Federal funds, \$4,495,000 from the proceeds of debt restructuring and \$1,537,800 from other sources. See (Note 9) for more information relating to the debt restructuring.

9. LONG - TERM DEBT - REFINANCING

Substantially all of the outstanding debt of MTA, TBTA and the Transit Authority was restructured during 2002 by consolidating most existing credits into four principal new credits:

- MTA Transportation Revenue Bonds,
- MTA State Service Contract Bonds,
- MTA Dedicated Tax Fund Bonds, and
- TBTA General Revenue Bonds and TBTA Subordinate Revenue Bonds.

In connection with the debt restructuring, the following TBTA bonds, notes and lease obligations were paid or defeased:

- TBTA General Purpose Revenue Bonds and Bond Anticipation Notes (1980 Resolution),
- TBTA Subordinated Special Obligation Bonds (1994 Resolution),
- TBTA Mortgage Recording Tax Special Obligation Bonds (1991 Resolution), and
- TBTA Beneficial Interest Certificates.

In a separate transaction, on December 19, 2002, MTA defeased the MTA Excess Loss Fund Special Obligation Bonds, Series 1998, thereby defeasing TBTA's payment obligations with respect thereto.

With the consent of the New York State Environmental Facilities Corporation ("EFC"), on October 8, 2002, TBTA substituted its new senior lien bond resolution as security in place of the 1980 General Purpose Revenue Bond Resolution to secure its loan from EFC in connection with EFC's State Water Pollution Control Revolving Fund Revenue Bonds, Series 1996C (Pooled Loan Issue), dated June 1, 1996.

At the time of issuance of TBTA's General Purpose Revenue Bonds, Series 2001A on November 15, 2001, owners of the bonds agreed to permit TBTA to substitute the proposed new senior lien bond resolution as security in place of the 1980 General Purpose Revenue Bond Resolution, subject to satisfaction of certain conditions. Those conditions were satisfied on October 8, 2002, whereupon the Series 2001A Bonds became secured by the new bond resolution.

Following the defeasance of the old TBTA bonds, notes and lease obligations, approximately \$413 million in reserves was released to TBTA to be used primarily to finance transit and commuter capital projects. Bond issuance costs were incurred as a result of the defeasance and amendment or negotiation of the interest rate swap agreements (Note 23). Such costs consisting of underwriters' discount, State issuance fees, bond insurance, legal and miscellaneous expenses, amounted to \$308,508 and are being amortized over the life of the new debt.

The following represents TBTA's issuance of debt in 2002:

- \$268,300 General Purpose Revenue Bonds, Series 2002A – These bonds were issued under the 1980 Resolution, but on October 8, 2002, the new resolution was substituted for the 1980 Resolution in accordance with the terms of the Series 2002A Bonds. The net proceeds of the Series 2002A Bonds were used to finance certain improvements to TBTA's bridges and tunnels.
- \$2,157,065 General Revenue Refunding Bonds, Series 2002B – These bonds were the first bonds issued under the new senior lien resolution. The net proceeds were used to refund TBTA bonds issued under the old resolutions.

- \$103,305 General Revenue Variable Rate Refunding Bonds, Series 2002C – The net proceeds were used to refund TBTA bonds issued under the old resolutions.
- \$261,700 Subordinate Revenue Variable Rate Refunding Bonds, Series 2002D – These bonds were the first bonds issued under the new subordinate lien resolution. The net proceeds were used to refund TBTA bonds issued under the old resolutions.
- \$756,095 Subordinate Revenue Refunding Bonds, Series 2002E – The net proceeds were used to refund TBTA bonds issued under the old resolutions.
- \$246,480 General Revenue Variable Rate Refunding Bonds, Series 2002F – The net proceeds were used to refund TBTA bonds issued under the old resolutions.
- \$181,025 Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G – The net proceeds were used to refund TBTA bonds issued under the old resolutions.

The refundings resulted in an economic loss (the difference between the present value of the debt service payments on the old and new debt) of \$104,598.

Long-Term Debt of the Authority is comprised of the following:

Senior Revenue Bonds (Note 11)	\$4,361,296
Subordinate Revenue Bonds (Note 12)	1,693,782
Certificates of Participation (Note 16)	<u>42,708</u>
 Total Long-Term Debt	 <u>\$6,097,786</u>

10. **LONG - TERM DEBT - GENERAL PURPOSE REVENUE BONDS**

1980 General Purpose Revenue Bonds consist of the following:

	December 31, 2001	Issued	Refunded	December 31, 2002
Series Q, 5.00%-6.75%, due through 2017	\$ 130,300	\$ -	\$ 130,300	\$ -
Series V, 5.90%-7.00%, due through 2007	20,985	-	20,985	-
Series X, 5.30%-6.625%, due through 2019	169,975	-	169,975	-
Series Y, 4.70%-6.125%, due through 2021	633,530	-	633,530	-
Series 1993A, 3.20%-5.00%, due through 2022	478,505	-	478,505	-
Series 1993B, 3.80%-6.00%, due through 2022	157,291	-	157,291	-
Series 1994A, 3.25%-6.50%, due through 2024	561,922	-	561,922	-
Series EFC 1996A, 3.60%-5.90%, due through 2018	23,530	-	23,530	-
Series 1996B, 3.95%-6.00%, due through 2027	185,100	-	185,100	-
Series 1997SR, 5%-5.50%, due through 2012	170,230	-	170,230	-
Series 1997A, 4.25%-5.50%, due through 2028	205,245	-	205,245	-
Series 1999A, 3.00%-5.25%, due through 2019	86,175	-	86,175	-
Series 1999B, 4.50%-5.74%, due through 2030	214,350	-	214,350	-
Series 1999C, 5.634%, due through 2013	101,600	-	101,600	-
Series 2001A, 5.77%, due through 2032	1,125,720	-	1,125,720	-
Series 2001B&C, 4.10%-5.25%, due through 2019	<u>296,400</u>	<u>-</u>	<u>296,400</u>	<u>-</u>
	4,560,858		4,560,858	
Less net unamortized bond discount and premium	<u>(87,269)</u>	<u>-</u>	<u>(87,269)</u>	<u>-</u>
	<u>\$ 4,473,589</u>	<u>\$ -</u>	<u>\$ 4,473,589</u>	<u>\$ -</u>

11. LONG - TERM DEBT – SENIOR REVENUE BONDS

Senior Revenue Bonds consist of the following:

	December 31, 2001	Issued	Principal Repayments (Due January 1, 2003)	December 31, 2002
Series EFC 1996A	\$ -	\$ 23,530	\$ 1,020	\$ 22,510
Series 2001A, 5.77%, due through 2032	-	1,125,720	-	1,125,720
Series 2001B&C, 4.10%-5.25%,	-	296,400	-	296,400
Series 2002A	-	268,300	-	268,300
Series 2002B	-	2,157,065	-	2,157,065
Series 2002C	-	103,305	-	103,305
Series 2002F	-	246,480	-	246,480
	<u>-</u>	<u>4,220,800</u>	<u>1,020</u>	<u>4,219,780</u>
Less net unamortized bond discount and premium	<u>-</u>	<u>141,516</u>	<u>-</u>	<u>141,516</u>
	<u>\$ -</u>	<u>\$ 4,362,316</u>	<u>\$ 1,020</u>	<u>\$ 4,361,296</u>

Debt Service Requirements:

Twelve Months Ended December 31	Principal	Interest	Aggregate Debt Service
2003	\$ 1,020	\$ 203,593	\$ 204,613
2004	39,060	203,596	242,656
2005	72,655	202,298	274,953
2006	75,925	199,442	275,367
2007	73,190	201,306	274,496
2008-2012	495,405	923,883	1,419,288
2013-2017	586,110	799,304	1,385,414
2018-2022	994,695	633,591	1,628,286
2023-2027	1,241,710	432,403	1,674,113
2028-2032	634,505	175,319	809,824
Thereafter	<u>6,525</u>	<u>-</u>	<u>6,525</u>
	<u>\$ 4,220,800</u>	<u>\$ 3,974,735</u>	<u>\$ 8,195,535</u>

12. LONG - TERM DEBT – SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds consist of the following:

	December 31, 2001	Issued	Principal Repayments (Due January 1, 2003)	December 31, 2002
Series 2000A	\$ -	\$ 181,300	\$ 6,800	\$ 174,500
Series 2000B	-	72,500	2,700	69,800
Series 2000C	-	157,200	5,900	151,300
Series 2000D	-	96,600	3,700	92,900
Series 2002D	-	261,700	-	261,700
Series 2002E	-	756,095	-	756,095
Series 2002G	-	181,025	-	181,025
	<u>-</u>	<u>1,706,420</u>	<u>19,100</u>	<u>1,687,320</u>
Less net unamortized bond discount and premium	<u>-</u>	<u>6,462</u>	<u>-</u>	<u>6,462</u>
	<u>\$ -</u>	<u>\$ 1,712,882</u>	<u>\$ 19,100</u>	<u>\$ 1,693,782</u>

Debt Service Requirements:

Twelve Months Ended December 31	Principal	Interest	Aggregate Debt Service
2003	\$ 19,100	\$ 87,103	\$ 106,203
2004	19,900	85,888	105,788
2005	20,800	84,978	105,778
2006	22,100	83,735	105,835
2007	29,450	82,378	111,828
2008-2012	174,975	384,734	559,709
2013-2017	262,825	330,343	593,168
2018-2022	405,895	240,552	646,447
2023-2027	347,845	140,095	487,940
2028-2032	<u>403,530</u>	<u>55,468</u>	<u>458,998</u>
	<u>\$ 1,706,420</u>	<u>\$ 1,575,274</u>	<u>\$ 3,281,694</u>

The Subordinate Revenue Bonds are special obligations issued in accordance with the 2001 Subordinate Revenue Resolution Authorizing Subordinate Revenue Obligations.

13. LONG - TERM DEBT - BENEFICIAL INTEREST CERTIFICATES

In 1993, the Authority issued \$88,290 of Beneficial Interest Certificates to finance the acquisition of buses to be used by the TA. The Beneficial Interest Certificates are special obligations of the Authority payable from its net operating revenue after satisfying the requirements of the 1980 Revenue Bond Resolution, on a parity with the 1994 Special Obligation Bonds and Mortgage Recording Tax Bonds. The Authority has entered into a lease purchase agreement, whereby the Authority is required to make periodic payments of rent in amounts and at times scheduled to be sufficient to pay, when due, the principal and interest with respect to the Beneficial Interest Certificates.

In connection with the debt restructuring (Note 9), all Beneficial Interest Certificates were paid or defeased.

As of December 31, the Beneficial Interest Certificates consist of the following:

	2002	2001
Beneficial Interest Certificates, 4.90% - 5.20% due 2002-2005	\$ -	\$ 27,175
Less unamortized discount	<u>-</u>	<u>(100)</u>
	<u>\$ -</u>	<u>\$ 27,075</u>

14. LONG - TERM DEBT - 1994 SPECIAL OBLIGATION BONDS

In 1994, the Authority issued \$280,100 of Variable Rate Demand Bonds, Series 1994 to finance a portion of the capital needs of the Authority's own facilities. The bonds were issued under the 1994 Subordinated Bond Resolution. In October 1999, the Authority issued \$266,515 of bonds, Series 1999A under the 1994 Subordinated Bond Resolution. The proceeds were applied to refund, on a current basis, all of the outstanding bonds from the Variable Rate Demand Bonds, Series 1994. There was no economic gain or loss. All bonds issued under the 1994 Subordinated Bond Resolution are special obligations of the Authority payable from operating revenue after satisfying the requirements of the 1980 Revenue Bond Resolution, on a parity with the Beneficial Interest Certificates and Mortgage Recording Tax Bonds.

In connection with the debt restructuring (Note 9), all TBTA Special Obligations Bonds were paid or defeased.

As of December 31, the Special Obligation Bonds consist of the following:

	2002	2001
Serial Bonds, 3.55% - 5.13%, due 2002-2018	\$ -	\$ 147,890
Term Bonds, 4.75% due 2024	-	93,355
Unamortized premium	-	2,668
Unamortized discount	<u>-</u>	<u>(3,566)</u>
	<u>\$ -</u>	<u>\$ 240,347</u>

15. LONG - TERM DEBT - MORTGAGE RECORDING TAX BONDS

Mortgage Recording Tax ("MRT") Bonds were special obligations of the Authority payable from certain payments required to be made by the MTA under a Pledge and Assignment Agreement. The proceeds of the bonds were used for the Transportation Project only and not for the Authority's activities. The source of funds from which the MTA made such required payments was from a portion of the revenues received by the MTA from certain mortgage recording taxes levied by the State of New York in the counties comprising the Metropolitan Transportation District. In the event mortgage recording tax receipts were not adequate to cover debt service, the Authority would fund the required amount from its net operating revenue, after satisfying the requirements of the prior senior lien resolution and on a parity with the prior subordinate resolutions. All of the funding requirements of the MRT debt service were met and TBTA did not have to contribute towards the debt service. For the years ended December 31, 2002 and 2001, total debt service requirements were \$0 and \$62,206.

In connection with the debt restructuring (Note 9), all TBTA Mortgage Recording Tax Bonds were paid or defeased.

The following is a summary of the accounts related to the Mortgage Recording Tax Bonds as included in the balance sheets:

	December 31,	
	2002	2001
Assets:		
Investment - restricted	\$ -	\$ 20,469
Due from MTA to the extent of MRT revenues only	-	902,818
Accrued interest receivable	-	282
	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$ 923,569</u>
Liabilities:		
Current bond principal and interest payable	\$ -	\$ 60,156
Long-term debt	-	882,605
Fund Balance (Deficit)	-	(19,192)
	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$ 923,569</u>
Long-Term Debt:		
Series 1992, 4.75% - 6.25%, due 2002-2017	\$ -	\$ 74,140
Series 1991A, 5.60% - 6.70%, due 2002-2019	-	296,905
Series 1998A, 4.80% - 5.50%, due 2002-2017	-	507,600
Less unamortized premium	-	3,960
	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$ 882,605</u>

16. CERTIFICATES OF PARTICIPATION

In 2000, the Trust (Note 17) issued \$123,000 of fixed rate Serial and Term Certificates of Participation, Series 2000A. In 1999, the Trust issued \$328,205 of fixed rate Serial and Term Certificates of Participation, Series 1999A. The proceeds of the Certificates were used to finance certain building and tenant improvements to the 2 Broadway office building in New York City, occupied by the Transit Authority, MTA, on behalf of its subsidiaries, The Long Island Rail Road Company (LIRR) and Metro-North Commuter-Railroad Company (MNCRC), and TBTA (Notes 17 and 24). The Transit Authority is obligated to pay 68.7 percent of the debt service, the MTA 21.0 percent and TBTA 10.3 percent. To the extent any one component occupies more than its stated percentage of the building, it will reimburse another component for that percentage of debt service paid by that component.

Certificates of Participation

	2002	2001
Serial Bonds, 4.40%-5.625% due 2003-2015	\$ 13,156	\$ 14,086
Term Bonds, 5.40% due 2019	4,823	4,823
Term Bonds, 5.75% due 2020	1,953	1,953
Term Bonds, 5.25% due 2029	17,471	17,471
Term Bonds, 5.86% due 2030	<u>6,035</u>	<u>6,035</u>
Subtotal	43,438	44,368
Unamortized discount	(863)	(882)
Unamortized premium	<u>133</u>	<u>146</u>
	<u>\$ 42,708</u>	<u>\$ 43,632</u>

TBTA's share of the debt service requirements:

Certificates of Participation

Twelve Months Ended December 31	Principal	Interest	Aggregate Debt Service
2003	\$ 964	\$ 2,336	\$ 3,300
2004	1,001	2,292	3,293
2005	1,041	2,244	3,285
2006	911	2,194	3,105
2007	955	2,151	3,106
2008-2012	5,592	9,934	15,526
2013-2017	7,319	8,207	15,526
2018-2022	9,554	5,972	15,526
2023-2027	12,429	3,097	15,526
2028-2030	<u>3,672</u>	<u>248</u>	<u>3,920</u>
	<u>\$ 43,438</u>	<u>\$ 38,675</u>	<u>\$ 82,113</u>

17. CAPITAL LEASE OBLIGATIONS

2 Broadway

During 1998, the MTA, TA, and TBTA entered into an agreement with the United States Trust Company of New York (collectively, the "Trust") to provide for the lease of an office building located at 2 Broadway in New York City. Subsequently, the same parties provided for the delivery of certain certificates of participation to finance building and tenant improvements at 2 Broadway (Note 16). The lease is composed of both an operating lease (for the lease of land) (Note 24) and capital lease (for the lease of the building) elements.

The lease term expires June 30, 2048 with the right to extend the term of the lease for two successive periods of fifteen years each. Rental payments will be allocated to the MTA, TA, and TBTA based upon usage. TBTA occupies approximately 13.5 percent of the building.

TBTA has recorded capital lease assets using the net present value, and using a borrowing rate of 9.11 percent, has reflected a capital lease obligation of at December 31, 2002 and 2001 of \$43,616 and \$43,776 respectively.

Subway Cars

During 1995, the Authority entered into a sale-leaseback transaction with a third party whereby the Authority sold certain subway cars, which were contributed by the TA, for net proceeds of \$84,229. These cars were subsequently leased back by the Authority under a capital lease. The gain on the sale of \$34,231 was deferred and netted against the carrying value of the leased assets, and the assets were recontributed to the TA. The Authority transferred \$5,488 to the MTA, representing the net economic benefit of the transaction. The remaining proceeds equal the net present value of the lease obligation, of which \$71,258 was placed in an irrevocable deposit account and \$7,483 was invested in U.S. Treasury Strips. The estimated yields and maturities of the deposit account and the Treasury Strips are expected to be sufficient to meet all obligations under the lease as they become due.

The Authority made capital lease obligation payments of \$5,155 and \$5,362 in 2002 and 2001, respectively, which were funded by the aforementioned investments. At December 31, 2002 and 2001, the balance in the irrevocable deposit account was \$76,500 and the investments in U.S. Treasury Strips had a market value of \$6,659.

At the end of the lease term, the Authority has the option to purchase the subway cars for approximately \$106,000, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89,000, which is expected to be covered by the irrevocable deposit.

Total obligations under all capital leases as of December 31 are as follows:

	2002	2001
2 Broadway	\$ 43,616	\$ 43,776
Subway cars	<u>83,159</u>	<u>83,159</u>
	126,775	126,935
Less current portion	<u>(6,873)</u>	<u>(6,866)</u>
	<u><u>\$ 119,902</u></u>	<u><u>\$ 120,069</u></u>

Minimum lease payments are as follows:

Twelve Months Ended December 31	Aggregate Lease Payments
2003	\$ 10,904
2004	11,051
2005	11,119
2006	11,194
2007	11,277
2008-2012	57,892
2013-2017	158,029
2018-2022	32,343
2023-2027	34,107
2028-2032	34,700
Thereafter	<u>78,714</u>
Minimum future lease payments	451,330
Less amount representing interest	<u>324,555</u>
	<u><u>\$ 126,775</u></u>

Total depreciation expense under capital leases was approximately \$10,013 and \$6,776 in 2002 and 2001, respectively.

18. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of its assets; injuries to persons, including employees; and natural disasters.

The Authority is self-insured up to \$1,400 (it was \$1,200 prior to November 1, 2001) per occurrence for liability arising from injuries to persons, excluding employees. The Authority is self-insured for work-related injuries to employees and for damage to property. The Authority provides reserves to cover the self-insured portion of these claims, including a reserve for claims incurred but not reported. The annual cost arising from injuries to employees and damage to third-party property is included in "Employees' fringe benefits" and "Insurance" in the accompanying statements of operations.

A summary of activity in estimated liability arising from injuries to persons, including employees, and damage to third-party property, is as follows:

	December 31,	
	2002	2001
Balance, beginning of year	\$ 15,997	\$ 20,115
Activity during the year:		
Current year claims and changes in estimates	(633)	(4,054)
Claims paid	<u>(205)</u>	<u>(64)</u>
Balance, end of year	15,159	15,997
Less current portion	<u>(12,318)</u>	<u>(10,482)</u>
Long-term liability	<u>\$ 2,841</u>	<u>\$ 5,515</u>

Claims over \$1,400 (\$1,200 prior to November 1, 2001) per occurrence up to a limit of the lesser of the assets available for claims or \$50,000 are insured by the Excess Loss Fund (“ELF”). The ELF covers the Authority and other MTA subsidiaries and affiliated agencies. At December 31, 2002, the ELF had assets of \$80,613 for any current or future claims.

Effective October 31, 2002, the MTA renewed, on behalf of its subsidiaries and affiliates, catastrophic liability insurance providing limits of \$150,000 over a three-year period. This policy covers liability above the ELF (excess of \$50,000) and is designed to drop down to replace the ELF if the assets of the ELF are exhausted.

First Mutual Transportation Assurance Company (“FMTAC”), a wholly-owned subsidiary of the MTA, was incorporated under the laws of the State of New York as a pure captive insurance company on December 5, 1997. FMTAC insures property exposures in excess of \$15,000 per occurrence for claims brought against MTA and its subsidiaries, which includes the TBTA. FMTAC reinsures all of its property risks.

19. CONVENTION CENTER PROJECT

Convention Center Project Bonds are secured solely by lease payments from New York State under a sublease and the funds and accounts established under the bond resolution. These special obligation bonds are not secured by or payable from any revenues or assets of the Authority. In view of the foregoing and since the State is obligated to make rental payments equal to the debt service on these bonds pursuant to its sublease and the Authority has no obligation for the operation and maintenance of the Convention Center, the Authority does not include the Convention Center bond liability and other related accounts in its financial statements. The Authority continues to collect rental payments from the State and deposits such sums with paying agents for the bonds.

The following is a summary of the Convention Center accounts which are excluded from the financial statements:

Assets:		
Debt Service Fund	\$ 33,014	\$ 33,009
Future sublease receivables due from New York State	<u>269,354</u>	<u>291,088</u>
	<u>\$ 302,368</u>	<u>\$ 324,097</u>
Liabilities:		
Convention Center Bonds	\$ 269,354	\$ 291,088
Bond principal due 2003 and 2002	24,185	24,180
Interest payable due January 1, 2003 and 2002	<u>8,829</u>	<u>8,829</u>
	<u>\$ 302,368</u>	<u>\$ 324,097</u>

All interest income earned on investments related to the Convention Center reduces the amounts due from New York State to repay the outstanding bonds.

20. LEASE-LEASEBACK TRANSACTION

On March 31, 1997, the MTA entered into a lease-leaseback transaction with a third party whereby the MTA leased a facility operated by an affiliate, Long Island Rail Road. The term of the lease is 22 years but the third party has the right to renew for a further 21.5-year term. The facility was subsequently subleased back to the MTA as a capital lease and sub-subleased by the MTA back to the affiliate.

Under the terms of the lease-leaseback agreement, the MTA initially received \$313,466, which was utilized as follows: MTA paid \$266,446 to an affiliate of the third party's lender, which has the obligation to make a portion of sublease rent payments equal to this amount, thereby eliminating the need for the MTA to make these payments to the third party. The MTA used \$20,696 to purchase Treasury securities which it deposited under pledge to the third party. This deposit, together with the aforementioned obligation of the third party's lender resulted in a financial defeasance of all sublease obligations, including the cost of purchasing the third party's remaining rights at the end of the 22-year sublease period if the purchase option is exercised. \$600 was used to pay for legal and other costs of the transaction, and \$3,233 was used to pay the first rental payment under the sublease. A further \$22,491 is MTA's net benefit from the transaction, representing consideration for the tax benefits.

The Authority has entered into a guarantee agreement with the third party that guarantees the payments under the sublease will be made. It is expected that the amounts described above will be sufficient to make such payments.

21. BOND RESOLUTION BASIS - CONDENSED FINANCIAL STATEMENTS

The Authority's bond resolutions require that its operating expenses shall not include any provision for depreciation, amortization or similar charges. Financial statements prepared under such bond resolution basis would be identical to the financial statements prepared herein on the basis of accounting principles generally accepted in the United States of America except that the statements of operations and cash flows would not reflect a charge for depreciation of \$36,351 in 2002 and \$31,480 in 2001 and the balance sheets and excess of liabilities over assets would not reflect a change of the carrying amounts of

facilities equal to the accumulated depreciation of \$482,120 in 2002 and \$445,768 in 2001 or capitalized interest of \$15,875 in 2002 and \$20,517 in 2001. The following is a summary of the statements of operations and excess of liabilities over assets and the balance sheets prepared on such bond resolution basis:

Statements of Operations and Excess of Liabilities over Assets

	Year Ended December 31,	
	2002	2001
Revenues	\$ 954,489	\$ 946,814
Operating expenses	<u>300,196</u>	<u>255,893</u>
Income from operations	654,293	690,921
Less:		
Interest expense	350,465	143,913
Operating subsidies	<u>262,929</u>	<u>334,975</u>
Excess of revenues over expenses	40,899	212,033
Unrestricted excess of liabilities over assets, beginning of year (excluding accumulated depreciation)	(2,873,688)	(2,105,357)
MRT Fund Balance	19,192	
Reversal of Overaccrued receivable	217	
Accumulation Amortization for GPRD Unamortized Debt	5,106	
MTA contribution for Bond Restructuring	140,898	
Reversal of Capitalized Interest from the Prior Year	(7,525)	
Reversal of Increase in fair value of investments	(989)	
Income on necessary reconstruction reserve	1,481	4,030
Transfer of purchased Transportation Project assets and capitalized interest applicable to the Transportation Project expenditures	<u>(109,108)</u>	<u>(984,394)</u>
Excess of liabilities over assets, end of year	<u>\$ (2,783,517)</u>	<u>\$ (2,873,688)</u>

Balance Sheets

	Year Ended December 31,	
	2002	2001
Assets:		
Cash and investments	\$ 980,848	\$ 901,555
MTA Investment Pool	125,487	112,218
Due from MTA-MRT Facilities	2,495,104	902,819 2,258,823
Deferred financing costs	308,508	27,639
2 Broadway Capital Lease - less accumulated depreciation of \$10,014 and \$6,776 in 2002 and 2001, respectively	71,306	72,094
Other assets	26,010	35,949
The Transportation Project	10,314	68,607
	<u>\$4,017,577</u>	<u>\$4,379,704</u>
Liabilities and excess of liabilities over assets:		
Bond principal and interest due January 1, 2003 and 2002	\$ 109,369	\$ 366,062
Accounts payable and accrued expenses	182,454	182,176
Due to MTA and TA	257,625	53,014
Long-term debt	6,097,786	6,492,735
Deferred revenue	9,433	14,062
Other liabilities	144,427	145,343
Restricted and unrestricted excess of liabilities over assets	<u>(2,783,517)</u>	<u>(2,873,688)</u>
	<u>\$4,017,577</u>	<u>\$4,379,704</u>

22. COMMITMENTS AND CONTINGENCIES

At December 31, 2002 and 2001, the Authority had unused standby letters of credit, relative to insurance, amounting to \$2,712.

The Authority is involved in various litigation and claims involving personal liability claims and certain other matters. Although the ultimate outcome of these claims and suits cannot be predicted at this time, management does not believe that the ultimate outcome of these matters will have a material effect on the financial position, results of operations and cash flows of the Authority.

23. INTEREST RATE SWAP OPTION

TBTA has entered into a number of interest rate swaps in connection with its bonds. The following is a general summary of the swaps and the bonds relating thereto. Except as noted below, the outstanding aggregate principal amount of the bonds (calculated as of December 31, 2002) is equal to the aggregate notional amount of the swap relating thereto.

- \$253,800 outstanding aggregate principal amount Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B (\$235,300 notional amount) – TBTA entered into an interest rate swap agreement with Bear Stearns Capital Markets Inc., as counterparty, for the purpose of converting TBTA’s variable rate exposure to a fixed rate. Under the terms of the swap, TBTA will pay a fixed rate to the counterparty and receive a variable rate equal to the variable rate on the Series 2000A and 2000B Bonds. The swap terminates on January 1, 2019 with the final maturity of the Series 2000A and 2000B Bonds. The swap is a qualified swap under the Subordinate Revenue Resolution and, as such, TBTA’s scheduled interest obligations under the swap constitute parity swap obligations under the Subordinate Revenue Resolution. All other payments, including termination payments, are subordinate to the payment of debt service under the Subordinate Revenue Resolution.
- \$253,800 outstanding aggregate principal amount Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D (\$235,300 notional amount) – TBTA entered into an interest rate swap agreement with Salomon Brothers Holding Company Inc., as counterparty, for the purpose of converting TBTA’s variable rate exposure to a fixed rate. Under the terms of the swap, TBTA will pay a fixed rate to the counterparty and receive a variable rate equal to the variable rate on the Series 2000C and 2000D Bonds. The swap terminates on January 1, 2019 with the final maturity of the Series 2000C and 2000D Bonds. The swap is a qualified swap under the Subordinate Revenue Resolution and, as such, TBTA’s scheduled interest obligations under the swap constitute parity swap obligations under the Subordinate Revenue Resolution. All other payments, including termination payments, are subordinate to the payment of debt service under the Subordinate Revenue Resolution.
- \$296,400 outstanding aggregate principal amount General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C – TBTA entered into an interest rate swap agreement with Salomon Brothers Holding Company Inc., as counterparty, for the purpose of converting TBTA’s variable rate exposure to a fixed rate. Under the terms of the swap, TBTA will pay a fixed rate to the counterparty and receive a variable rate equal to the variable rate on the Series 2001B and 2001C Bonds. The swap terminates in 2019 and the final maturity of the Series 2001B and 2001C Bonds is 2032, so the amortization of the notional amount of the swap does not track the amortization of the principal of the Series 2001B and 2001C Bonds. The swap is a qualified swap under the Senior Lien Resolution and, as such, TBTA’s scheduled interest obligations under the swap constitute parity swap obligations under the Senior Lien Resolution. All other payments, including termination payments, are subordinate to the payment of debt service under the Subordinate Revenue Resolution.
- \$103,305 outstanding aggregate principal amount General Revenue Variable Rate Refunding Bonds, Series 2002C (\$101,600 notional amount) – TBTA entered into an interest rate swap agreement with Ambac Financial Services, L.P., as counterparty, for the purpose of converting TBTA’s variable rate exposure to a fixed rate. Under the terms of the swap, TBTA will pay a fixed rate to the counterparty and receive a variable rate equal to the

variable rate on the Series 2002C Bonds. The swap terminates in 2013 and the final maturity of the Series 2002C Bonds is 2033, so the amortization of the notional amount of the swap does not track the amortization of the principal of the Series 2002C Bonds. The swap is a qualified swap under the Senior Lien Resolution and, as such, TBTA's scheduled interest obligations under the swap constitute parity swap obligations under the Senior Lien Resolution. All other payments, including termination payments, are subordinate to the payment of debt service under the Subordinate Revenue Resolution.

- \$181,025 outstanding aggregate principal amount Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G (Auction Rate Securities) – TBTA entered into two interest rate swap agreements (one relating to the Subseries 2002G-1 Bonds and the other to the Subseries 2002G-2 Bonds) with JPMorgan Chase Bank, as counterparty, for the purpose of converting TBTA's variable rate exposure to a fixed rate. Under the terms of the swaps, TBTA will pay a fixed rate to the counterparty and receive a variable rate equal to the lesser of (1) the variable rate on the Series 2002G Bonds or (2) 67 percent of the one-month LIBOR rate minus 45 basis points. The swaps terminate in 2018, subject to TBTA's option to terminate one of the swaps on or after December 29, 2010 and the other on or after January 5, 2011, and the final maturity of the Series 2002G Bonds is 2032, so the amortization of the notional amount of the swaps does not track the amortization of the principal of the Series 2002G Bonds. The swaps are qualified swaps under the Subordinate Revenue Resolution and, as such, TBTA's scheduled interest obligations under the swaps constitute parity swap obligations under the Subordinate Revenue Resolution. All other payments, including termination payments, are subordinate to the payment of debt service under the Subordinate Revenue Resolution.

Upon the occurrence of certain events of default or termination events identified in the swap, either TBTA or the counterparty could terminate the swap in accordance with its terms. Termination results in the payment of a termination amount by one party that attempts to compensate the other party for its economic losses. The cost of termination would depend, in major part, on then current interest rate levels, and, if interest rate levels were then lower than the swap rates, the cost of termination to TBTA could be substantial. Net interest payments under the terms of the swaps are reflected as interest expense in the Statement of Revenues, Expenses and Changes in Net Assets. Fees received by the Authority in connection with the swaps are deferred and amortized as a yield adjustment to interest expense.

24. OPERATING LEASES

During 1998, the MTA, TA and TBTA entered into a lease and related agreements whereby each, as sublessees, will rent for at least an initial stated term of approximately 50 years, space at 2 Broadway in lower Manhattan (Note 17).

The total annual rental payments over the initial lease term are \$1,600,000. Of this amount, approximately \$488,000 represents land accounted for under an operating lease agreement. Rental payments will be allocated to the MTA, TA, and TBTA based upon usage. TBTA's usage is approximately 24.4 percent of the building.

Minimum lease payments representing TBTA's share of the operating lease are as follows:

Twelve Months Ended December 31	Aggregate Lease Payments
2003	\$ 2,405
2004	2,405
2005	2,405
2006	2,405
2007	2,405
2008-2012	2,405
2013-2017	2,405
2018-2022	2,405
2023-2027	2,405
2028-2032	2,405
Thereafter	<u>86,585</u>
Minimum future lease payments	<u>\$ 110,635</u>

25. GENERAL PURPOSE REVENUE BOND ANTICIPATION NOTES

In 2000, the Authority issued \$807,190 aggregate principal amount General Purpose Revenue Bond Anticipation Notes, Series 2000A at 7 percent. The proceeds of the notes were used to fund a portion of the cost of the Transportation Project (Note 8), to fund capitalized interest on the current notes through July 1, 2002 and to finance certain issuance costs.

Long-term financing for TBTA's General Revenue Bond Anticipation Notes, Series 2000A, scheduled to mature on January 1, 2003, was provided through the issuance by MTA on November 20, 2002 of its \$446,110 aggregate principal amount Transportation Revenue Refunding Bonds, Series 2002F, and \$400,000 aggregate principal amount Transportation Revenue Variable Rate Refunding Bonds, Series 2002G.

26. DUE TO THE MTA

The Authority owes the MTA \$164,007 in monthly amortization of the Debt Service due for the period from July 2002 through October 8, 2002 for the first defeasance of the bond restructuring and from November 13, 2002 through November 26, 2002 for the second and third defeasance of the bond restructuring. This Debt Service calculation has been charged to the MTA and TA surplus on a monthly basis. This amount is held in Debt Service investment fund and represents a liability due from the Authority. The funds will subsequently be spent for a purpose designated by the MTA and the liability will be closed against the withdrawal from the investment. The MTA transferred \$19,759 of Debt Service Reserve Fund Investments to the Authority after resolving the MRT financial statements. The MTA also transferred \$32,684 from the MRT Debt Service Fund to meet the January 2003 Debt Service payment due plus \$23 of interest earned from investing the Debt Service Fund.

27. RELATED PARTY TRANSACTIONS

The Authority and other affiliated MTA agencies receive support from MTA in the form of budget, cash management, finance, legal, real estate, treasury, risk and insurance management, and other services, some of which are charged back.

The resulting receivables and payables from the above transactions are recorded in the due from/to MTA and affiliated agencies account included in the accompanying balance sheets.

Due from/to MTA and affiliated agencies consists of the following at December 31, 2002 and 2001:

	<u>2002</u>		<u>2001</u>	
	Receivable	(Payable)	Receivable	(Payable)
MTA	\$ -	\$ 259,427	\$ -	\$ 57,680
Affiliated agencies	<u>-</u>	<u>12,221</u>	<u>-</u>	<u>13,857</u>
Total MTA and affiliated agencies	<u>\$ -</u>	<u>\$ 271,648</u>	<u>\$ -</u>	<u>\$ 71,537</u>

28. SUBSEQUENT EVENTS

On March 4, 2003, the Authority issued \$500,170 Subordinate Revenue Bonds, Series 2003A. The proceeds of the bonds will be applied to fund a portion of the cost of the Transportation Project (Note 8) and to finance certain costs of issuance.

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