

***Triborough Bridge and
Tunnel Authority***

Independent Auditors' Report

Financial Statements

Years Ended December 31, 2006 and 2005

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

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INDEPENDENT AUDITORS' REPORT

To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying balance sheets of Triborough Bridge and Tunnel Authority (the "MTA Bridges and Tunnels"), a public benefit corporation which is part of the related financial reporting group of Metropolitan Transportation Authority ("MTA"), as of December 31, 2006 and 2005, and the statements of revenues, expenses and changes in excess of liabilities over assets, and cash flows for the years then ended. These financial statements are the responsibility of MTA Bridges and Tunnels' management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of MTA Bridges and Tunnels' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of MTA Bridges and Tunnels, as of December 31, 2006 and 2005, and the respective changes in revenues, expenses and changes in excess of liabilities over assets, and cash flows, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of MTA Bridges and Tunnels' management. 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 26, 2007

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2006 AND 2005 (AMOUNTS IN THOUSANDS)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of Triborough Bridge and Tunnel Authority ("MTA Bridges and Tunnels") for the years ended December 31, 2006 and 2005. This discussion analysis is intended to serve as an introduction to MTA Bridges and Tunnels' financial statements which have the following components: (1) Management's Discussion and Analysis ("MD&A"), (2) Financial Statements and (3) Notes to the Financial Statements.

The Financial Statements Include

The Balance Sheets which provide information about the nature and amounts of investments in resources (assets) and the obligations to MTA Bridges and Tunnels creditors (liabilities), with the difference between the two reported as excess of liabilities over assets.

The Statements of Revenues, Expenses and Changes in Excess of Liabilities Over Assets which show how MTA Bridges and Tunnels' excess of liabilities over assets changed during each year and accounts for all of the current and prior year's revenues and expenses, measure the success of MTA Bridges and Tunnels' operations over the twelve months and can be used to determine how MTA Bridges and Tunnels has funded its costs.

The Statements of Cash Flows which provide information about MTA Bridges and Tunnels' 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 financial statements, such as MTA Bridges and Tunnels' basis of presentation, and significant accounting policies.

Details of cash and investments, capital assets, employee benefits, long-term debt, lease transactions, future commitments and contingencies, and subsequent events of MTA Bridges and Tunnels.

The notes to the financial statements also describe any other events or developing situations that could materially affect MTA Bridges and Tunnels' financial position.

Management's Discussion and Analysis

This MD&A provides an assessment of how MTA Bridges and Tunnels' position has improved or deteriorated and identifies the factors that, in management's view, significantly affected MTA Bridges and Tunnels' overall financial position. It may contain opinions, assumptions or conclusions by MTA Bridges and Tunnels' management that should not be considered a replacement for and must be read in conjunction with the financial statements.

2. FINANCIAL REPORTING ENTITY

Triborough Bridge and Tunnel Authority is a public benefit corporation, separate and apart from the State of New York, without any power of taxation. MTA Bridges and Tunnels is empowered to operate and maintain nine toll bridges and tunnels and the Battery-Parking Garage, all located in New York City. The board members of the Metropolitan Transportation Authority (“MTA”) also serve as the board of MTA Bridges and Tunnels. MTA Bridges and Tunnels operates under the name of MTA Bridges and Tunnels. The MTA is a component unit of the State of New York.

MTA Bridges and Tunnels’ operations and capital costs (debt obligations) for its bridges and tunnels are paid by the revenues it generates from its facilities. MTA Bridges and Tunnels’ surplus amounts are used to fund transit and commuter operations and finance capital projects for the transit and commuter systems operated by other affiliates and subsidiaries of the MTA.

3. CONDENSED FINANCIAL INFORMATION

The following sections will discuss the significant changes in MTA Bridges and Tunnels’ financial position for the years ended December 31, 2006 and 2005. 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 MTA Bridges and Tunnels’ financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All amounts are in the thousands.

ASSETS	As of December 31,		
	2006	2005	2004
Current Assets	\$ 350,376	\$ 248,826	\$ 336,186
Noncurrent Assets	<u>3,482,935</u>	<u>3,321,881</u>	<u>3,004,843</u>
Total Assets	<u>\$ 3,833,311</u>	<u>\$ 3,570,707</u>	<u>\$ 3,341,029</u>

Significant Changes in Assets:

Current assets increased by \$ 101,550 for the year ended December 31, 2006. The increase was primarily due to an increase in short term investments associated with bond proceeds from the Series 2006A issuance.

Current assets decreased by \$ 87,360 for the year ended December 31, 2005. The decrease was primarily due to a decrease in short term investments associated with bond proceeds that were liquidated to pay for capital expenditures (\$89,021).

Noncurrent assets increased by \$161,054 for the year ended December 31, 2006. Two factors were primarily responsible for this change. First, capital assets, net of accumulated depreciation increased by \$198,050. This increase is attributed to capitalization of construction in progress costs relating to the span and deck replacement at the Bronx Whitestone Bridge, and deck replacement and rehabilitation of the electrical and mechanical systems at the Triborough Bridge. Second there was a decrease in long term investments of \$31,830.

Noncurrent assets increased by \$ 317,038 for the year ended December 31, 2005. Three factors are responsible for the change. First, capital assets, net of accumulated depreciation increased by \$167,719. This increase is attributed to capitalization of construction in progress costs relating to the rehabilitation of the Brooklyn Battery Tunnel walls and roadway, Bronx Whitestone bridge span and deck replacement, and deck replacement and rehabilitation of the electrical and mechanical systems at the Triborough Bridge. Second, there was an increase in long-term investments of \$79,844 which represented the remainder of the proceeds of Bond Series 2005A and 2005B. Third, there was an increase in bond issuance costs of \$69,475 relating to Bond Series 2005A and 2005B.

TOTAL LIABILITIES	As of December 31,		
	2006	2005	2004
Current Liabilities	\$ 527,912	\$ 484,573	\$ 502,116
Noncurrent Liabilities	<u>7,177,051</u>	<u>7,121,733</u>	<u>7,026,278</u>
Total Liabilities	<u>\$ 7,704,963</u>	<u>\$ 7,606,306</u>	<u>\$ 7,528,394</u>

Significant Changes in Liabilities:

Current liabilities increased by \$43,339 for the year ended December 31, 2006. This increase is primarily due to an increase in accounts payable of \$21,437, an increase in prepaid tolls of \$7,581, an increase in the current portion of long term debt of \$6,522 and a net increase in payables due the MTA and TA of \$6,172.

Current liabilities decreased by \$17,543 for the year ended December 31, 2005. This decrease is primarily due to a decrease in the annual Surplus amount due MTA and the TA of \$21,591 offset by an increase in the current portion of long-term debt of \$6,967.

The Noncurrent liabilities for the twelve months ended December 31, 2006 increased by \$55,318. This was primarily due to the new bond issue Series 2006A (\$200,000) offset by principal payments (\$126,278) on prior year issuances and by the reclassification of long-term debt to current (\$6,522).

The Noncurrent liabilities for the twelve months ended December 31, 2005 increased by \$95,455. This was primarily due to the new bond issues Series 2005A (\$150,000) and series 2005B (net proceeds after refunding of debt \$82,675) offset by principal payments (\$117,946) on prior year issuances and by the reclassification of long-term debt to current (\$6,967).

Condensed Statements of Revenues, Expenses and Changes in Excess of Liabilities Over Assets

	Years Ended December 31,		
	2006	2005	2004
OPERATING REVENUES	\$ 1,259,350	\$ 1,253,917	\$ 1,129,948
OPERATING EXPENSES	<u>(411,226)</u>	<u>(393,509)</u>	<u>(364,808)</u>
OPERATING INCOME	<u>848,124</u>	<u>860,408</u>	<u>765,140</u>
TOTAL NONOPERATING EXPENSES:	<u>(277,788)</u>	<u>(275,613)</u>	<u>(265,580)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	570,336	584,795	499,560
TRANSFERS IN	19,645	24,033	-
TRANSFERS OUT	<u>(426,034)</u>	<u>(457,062)</u>	<u>(642,239)</u>
CHANGES IN EXCESS OF LIABILITIES OVER ASSETS	163,947	151,766	(142,679)
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(4,035,599)</u>	<u>(4,187,365)</u>	<u>(4,044,686)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (3,871,652)</u>	<u>\$ (4,035,599)</u>	<u>\$ (4,187,365)</u>

Operating Revenues:

For the year ended December 31, 2006 the Operating Revenues increased by approximately \$5,400 as compared to December 31, 2005. This increase can be primarily attributed to the full year's effect of the March 18, 2005 toll increase (\$27,096) offset by a change in the MTA policy of reimbursing Agencies for security related expenses (\$25,875).

For the year ended December 31, 2005 the Operating Revenues increased by approximately \$124,000 as compared to December 31, 2004. This increase can be primarily attributed to the toll increase which became effective on March 13, 2005 and the E-ZPass account fee which became effective on July 1, 2005.

Revenue by Major Source:

Bridge and Tunnel tolls accounted for 98.6% and 96.1% of operating revenue in 2006 and 2005, respectively. The remaining revenue primarily represented income from parking fees (net of operating expenses) collected at the Battery Parking Garage, fees collected from E-ZPass customers, and in 2005, reimbursements for security expenses. Prior to 2006, MTA Bridges and Tunnel's was reimbursed for security expenses by MTA Headquarters. Since these expenses are ongoing, all security programs were included in MTA Bridges and Tunnel's baseline Financial Plan beginning in 2006, thus eliminating the need for reimbursement.

Toll revenues were \$1,241,551 for the year ended December 31, 2006. This was \$36,607 more than in 2005. The toll increase implemented on March 13, 2005 generated additional revenues of \$27,096 during the first quarter of 2006. The remaining \$9,511 gain is attributable to considerably higher traffic volumes over the last quarter of 2006 stemming from markedly favorable weather and falling gas prices (\$9,438), higher average tolls generated from increased commercial volumes through most of 2006 (\$3,157), offset by revenue losses associated with a decline in overall traffic volume for the first three quarters due to relatively unfavorable weather conditions and higher gas prices (\$3,084).

Toll revenues were \$1,204,944 for the year ended December 31, 2005. This was approximately \$108,000 more than in 2004. The toll increase implemented on March 13, 2005 generated \$115,000 in additional revenues. These gains were offset by losses of \$7,000 resulting from a 0.9% decline in paid traffic. The traffic decline is discussed under Results of Operations.

Operating Expenses:

Operating expenses, including depreciation, increased for the year ended December 31, 2006 as compared to the prior year by \$17,717. Maintenance and other operating contracts increased by \$12,392 (primarily bridge painting), salaries, wages and retirement and other employee benefits increased by \$9,719, depreciation increased by \$ 8,479 and materials and supplies decreased by \$11,015 (primarily E-ZPass tag purchases).

Operating expenses, including depreciation, increased for the year ended December 31, 2005 as compared to the prior year by \$28,701. Retirement and other employee benefits increased by \$11,152 (primarily pension costs), maintenance and other operating contracts increased primarily for major maintenance and bridge painting expenses by \$9,806, depreciation increased by \$4,244 and salaries and wages increased by \$3,994.

Nonoperating Expenses:

Nonoperating expenses increased by \$2,175 for the year ended December 31, 2006. During 2006 interest expense increased by \$5,375 as compared to the prior year due to a larger debt base. Investment income increased in 2006 by \$3,200 due to an arbitrage refund (\$2,775) and higher cash balances and yields during the year.

Nonoperating expenses increased by \$10,033 for the year ended December 31, 2005. During 2005 interest expense increased by \$14,410 as compared to the prior year due to a larger debt base. Investment income increased in 2005 by \$4,377 due to an arbitrage refund (\$1,500) and higher cash balances available during the year.

4. OVERALL FINANCIAL POSITION AND RESULTS OF OPERATIONS AND IMPORTANT ECONOMIC CONDITIONS

Economic Conditions

Two key economic factors that have statistically significant relationships to changes in traffic volumes are regional non-farm employment and inflation. Based on preliminary data from the U.S. Bureau of Labor Statistics, regional employment grew by 1.2% in 2006 and 1.1% in 2005. The CPI-U increased by 3.6 % in both 2006 and 2005.

Results of Operations

Paid traffic totaled 301,817 vehicles in 2006, which was the second highest level in MTA Bridge and Tunnel's history. Total volume was 0.5% greater in 2006 compared to 2005. Relatively unfavorable weather, including a record snowfall in February and higher gas prices suppressed traffic by 0.4% in total for the first three quarters of 2006, but the declines were more than offset by significant volume gains in the fourth quarter. Gas prices began falling in October and the weather was much more favorable on a year-to-year basis throughout the quarter. Weather conditions were also favorable compared to the 30-year norms for average high temperatures and snowfall. It was unusually mild in November and December and neither month saw any snow.

E-ZPass electronic collection system continued to facilitate the management of high traffic volumes. Average market shares were up for the year as the following table illustrates:

	<u>2006</u>	<u>2005</u>
Total	72.6%	71.5%
Average weekday	74.9%	73.8%
Passenger Vehicles	73.9%	72.9%
Commercial Vehicles	85.6%	84.1%
Average weekend	67.1%	65.7%

Paid traffic reached 300,385 vehicles in 2005, which was 0.9% below 2004's record volume of 302,995. The decline in traffic volume was primarily due to differences in winter weather conditions, one less day in February (2004 was a leap year), lower traffic in early September caused by consumer fears regarding fuel prices immediately following hurricane Katrina and severe rainfall in October.

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

MTA Bridge and Tunnels' facilities are all in a state of good repair. MTA Bridge and Tunnels' portion of the MTA's Capital Program for 2005-2009 totals \$1,167,900 for normal replacement and system improvement projects. The commitments made during 2006 were \$301,232 bringing the total commitments under the five-year plan to \$601,866. MTA Bridge and Tunnels' portion of the MTA Capital Program for 2000-2004 totals \$1,034,766. The commitments made during 2006 were \$2,860, bringing the total commitments under the five-year plan to \$969,206.

Approximately 60 % of the projected expenditures in the current capital program will be incurred at three facilities: the Triborough Bridge, the Bronx-Whitestone Bridge, and the Verrazano-Narrows Bridge. Other major projects in the 2005-2009 Plan include deck/structural rehabilitation at the Cross Bay Bridge, deck replacement at the Henry Hudson Bridge, rehabilitation of orthotropic deck at the Throgs Neck Bridge, and rehabilitation of the ventilation system at the Brooklyn-Battery Tunnel.

Approximately 50 % of the projected expenditures in the 2000-2004 capital program will be incurred at two facilities: the Triborough Bridge and the Bronx-Whitestone Bridge. Other major projects include roadway and drainage system rehabilitation at the Brooklyn-Battery Tunnel and replacement of all exhaust fans at the Queens Midtown Tunnel. Variable message signs will be installed on all approach roads/spans to facility toll plazas.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

MTA Bridges and Tunnels' management is unaware of any known facts, decisions or conditions which could impact the December 31, 2006 financial statements or future operations.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS DECEMBER 31, 2006 AND 2005 (In Thousands)

ASSETS	2006	2005
CURRENT ASSETS:		
Cash, unrestricted (Note 3)	\$ 13,452	\$ 12,046
Investments (Notes 4 and 5):		
Unrestricted	69,360	14,331
Restricted	227,770	186,857
Accrued interest receivable	2,262	1,492
Accounts receivable, net of allowance of \$2,558 in 2006 and \$2,429 in 2005	21,100	21,342
Due from MTA (Note 20)	2,153	2,403
Prepaid expenses	<u>14,279</u>	<u>10,355</u>
Total current assets	<u>350,376</u>	<u>248,826</u>
NONCURRENT ASSETS:		
Investments (Notes 4 and 5):		
Unrestricted	15,234	72,282
Restricted	252,135	226,917
Capital assets, net (Note 6)	2,831,631	2,633,581
Bond issuance costs	<u>383,935</u>	<u>389,101</u>
Total noncurrent assets	<u>3,482,935</u>	<u>3,321,881</u>
TOTAL ASSETS	<u>\$ 3,833,311</u>	<u>\$ 3,570,707</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(In Thousands)

LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	2006	2005
CURRENT LIABILITIES:		
Current portion - long-term obligations (Notes 10 to 12)	\$ 131,435	\$ 124,913
Interest payable due	67,457	67,047
Accounts payable	93,146	71,709
Payable to MTA - capital expense - operating (Note 20)	24,923	13,782
Payable to TA - operating expense (Note 20)	618	226
Accrued salaries	7,693	6,394
Accrued vacation and sick pay benefits	15,299	15,411
Current portion of estimated liability arising from injuries to persons (Note 14)	13,193	13,110
Due to NYCTA (Note 1 and 20)	15,020	19,402
Current portion of capital lease obligation (Note 13)	6,594	6,647
Due to MTA (Note 1 and 20)	39,855	40,834
Prepaid tolls revenue (includes \$28,940 and \$21,026 in 2006 and 2005, respectively, due to other toll agencies)	<u>112,679</u>	<u>105,098</u>
Total current liabilities	<u>527,912</u>	<u>484,573</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 14)	5,723	5,919
Escrow Obligation	16,401	16,401
Long-term debt (Notes 9 to 12)	7,037,675	6,982,161
Capital lease obligations - (Note 13)	115,444	115,444
Other long - term liabilities	<u>1,808</u>	<u>1,808</u>
Total noncurrent liabilities	<u>7,177,051</u>	<u>7,121,733</u>
TOTAL LIABILITIES	<u>7,704,963</u>	<u>7,606,306</u>
EXCESS OF LIABILITIES OVER ASSETS:		
Invested in capital assets, net of related debt	1,666,489	1,653,413
Restricted	465,827	437,894
Unrestricted	<u>(6,003,968)</u>	<u>(6,126,906)</u>
Total excess of liabilities over assets	<u>(3,871,652)</u>	<u>(4,035,599)</u>
TOTAL LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	<u>\$ 3,833,311</u>	<u>\$ 3,570,707</u>
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, 2006 AND 2005

(In Thousands)

	2006	2005
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,241,551	\$ 1,204,944
Building rentals and fees	16,986	19,376
Other income	813	29,597
Total operating revenues	<u>1,259,350</u>	<u>1,253,917</u>
OPERATING EXPENSES:		
Salaries and wages	124,989	120,050
Retirement and other employee benefits	58,279	53,499
Insurance	6,600	7,869
Maintenance and other operating contracts	140,530	128,138
Professional service contracts	11,559	11,571
Materials and supplies	10,358	21,409
Depreciation expense	58,316	49,837
Other expenses	595	1,136
Total operating expenses	<u>411,226</u>	<u>393,509</u>
OPERATING INCOME	<u>848,124</u>	<u>860,408</u>
NONOPERATING REVENUES (EXPENSES):		
Interest expense (Notes 9 to 12)	(286,548)	(281,173)
Investment income (Notes 1 and 4)	8,760	5,560
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(277,788)</u>	<u>(275,613)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	570,336	584,795
TRANSFERS IN		
Metropolitan Transportation Authority	19,645	24,033
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(166,640)	(179,985)
Metropolitan Transportation Authority	(259,394)	(277,077)
CHANGE IN EXCESS OF LIABILITIES OVER ASSETS	163,947	151,766
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(4,035,599)</u>	<u>(4,187,365)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (3,871,652)</u>	<u>\$ (4,035,599)</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	\$ 1,246,617	\$ 1,200,660
Building rentals and fees received	21,069	43,368
Payments to employees and related costs	(160,057)	(185,256)
Other operating costs	<u>(176,892)</u>	<u>(179,863)</u>
Net cash provided by operating activities	<u>930,737</u>	<u>878,909</u>
CASH FLOWS FOR NONCAPITAL FINANCING ACTIVITIES		
Subsidies paid to affiliated agencies	<u>(440,032)</u>	<u>(478,653)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES FOR THE AUTHORITY AND AFFILIATES:		
Purchase of capital assets	(184,974)	(165,213)
Principal payments on Senior, Subordinate and COPS	(126,278)	(117,946)
Proceeds from new bond issues	205,616	167,998
Interest payments on Senior, Subordinate and COPS	(323,552)	(331,156)
Payment for Transportation Capital Projects	<u>-</u>	<u>(1,112)</u>
Net cash used in capital and related financing activities	<u>(429,188)</u>	<u>(447,429)</u>

See notes to financial statements.

(continued)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands)

	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross sales of short-term securities	\$ 28,855,388	\$ 28,730,414
Gross purchases of short-term securities	(28,827,587)	(28,720,976)
Gross sales of long-term securities	88,022	6,030
Gross purchases of long-term securities	(180,015)	(5,277)
Increase in MTA investment pool	(16,200)	28,598
Unrestricted income from investments	9,274	4,084
Investment income restricted for capital purposes	<u>11,007</u>	<u>3,394</u>
Net cash (used in) provided by investing activities	<u>(60,111)</u>	<u>46,267</u>
NET INCREASE (DECREASE) IN CASH	1,406	(906)
CASH, BEGINNING OF YEAR	<u>12,046</u>	<u>12,952</u>
CASH, END OF YEAR	<u>\$ 13,452</u>	<u>\$ 12,046</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Income from operations	\$ 848,124	\$ 860,408
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	58,316	49,837
Capitalized salary expense	(13,896)	(12,464)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease (increase) in receivables	492	(993)
Increase (decrease) in operating payables	32,970	(12,697)
Increase in prepaid expenses and deferred charges	(3,924)	(924)
Decrease in accrued salary costs, vacation and insurance	1,074	1,921
Increase (decrease) in unredeemed toll revenue	7,581	(4,879)
Decrease in other liabilities	<u>-</u>	<u>(1,300)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 930,737</u>	<u>\$ 878,909</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 and 2005 (In Thousands)

1. BASIS OF FINANCIAL STATEMENTS

The Triborough Bridge and Tunnel Authority (the “Authority” or “MTA Bridges and Tunnels”) is a public benefit corporation created pursuant to the Public Authorities Law (the “Act”) of the State of New York (the “State”). MTA Bridges and Tunnels 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.

MTA Bridges and Tunnels 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. MTA Bridges and Tunnels’ 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, MTA Bridges and Tunnels 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 MTA Bridges and Tunnels’ 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. The remaining amount due at December 31, 2006 and 2005 of \$54,875 and \$60,236 respectively, is recorded as a liability in MTA Bridges and Tunnels’ financial statements.

MTA Bridges and Tunnels certified to the City of New York (the “City”) and the MTA that its operating transfer and its unrestricted investment income were as follows:

	December 31,	
	2006	2005
Operating transfer	\$ 426,034	\$ 451,704
Investment income	<u>8,637</u>	<u>5,358</u>
	<u>\$ 434,671</u>	<u>\$ 457,062</u>

2. ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 20, Accounting and Financial Reporting for Proprietary Fund Accounting, MTA Bridges and Tunnels applies all applicable GASB pronouncements as well as all Financial Accounting Standards Board (“FASB”) Statements and Interpretations issued on or before November 30, 1989, that do not conflict with GASB pronouncements. Subsequent to November 30, 1989, MTA Bridges and Tunnels exclusively applies all applicable GASB pronouncements.

New Accounting Standards —MTA Bridges and Tunnels has implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. MTA Bridges and Tunnels reviews long-lived assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable. MTA Bridges and Tunnels records the appropriate loss when assets are disposed of or are determined to be impaired.

MTA Bridges and Tunnels has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pension*. The Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. The Statement is effective for financial statement periods beginning after December 15, 2006. MTA Bridges and Tunnels is therefore unable to disclose the impact that adopting this statement will have on its financial position and results of operations when such statement is adopted.

MTA Bridges and Tunnels has completed the process of evaluating the impact that will result from adopting GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation— an amendment of GASB Statement No. 34*. MTA Bridges and Tunnels has concluded that the impact of adopting GASB No. 46 is not applicable to the Authority and therefore will have no impact on its financial position and results from operations. The Statement clarifies the definition of a “legally enforceable” enabling legislation restriction on a government’s net assets. The statement was effective for fiscal periods beginning after June 15, 2005.

MTA Bridges and Tunnels has completed the process of evaluating the impact that will result from adopting GASB Statement No. 47, *Accounting for Termination Benefits*. The Authority has concluded that the impact of adopting GASB No. 47 has no material impact on its financial position and results from operations. The Statement establishes the accounting standards for voluntary termination benefits (for example, early-retirement incentives) and involuntary benefits (for example, severance benefits). The statement was effective for fiscal periods beginning after June 15, 2005.

MTA Bridges and Tunnels has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. MTA Bridges and Tunnels is therefore unable to disclose the impact GASB Statement No. 48 will have on its financial position and results of operations when such statement is adopted. The statement is effective for fiscal periods beginning after December 15, 2006.

MTA Bridges and Tunnels has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. MTA Bridges and Tunnels is therefore unable to disclose the impact GASB Statement No. 49 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 December 15, 2007.

Use of Management’s 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. Significant estimates include the market value of investments, allowances for doubtful accounts, arbitrage rebate liability, accrued expenses and other

liabilities, depreciable lives of capital assets, and estimated liability arising from injuries to persons. Actual results could differ significantly from those estimates.

Operating Revenues - 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).

Investments - Investments included in the debt service reserve funds pursuant to MTA Bridges and Tunnels' old bond resolutions are classified as long-term assets. All debt service reserve funds were eliminated during MTA Bridges and Tunnels' 2002 debt restructuring. It is MTA Bridges and Tunnels' 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 statements of revenues, expenses and changes in excess of liabilities over assets.

Capital Assets - Capital assets include all land, buildings, toll equipment, and other structures of MTA Bridges and Tunnels having a useful life of greater than two years and having a cost of at least \$25.

Capital assets are generally stated at historical cost, or at estimated historical cost based on appraisals or on other acceptable methods when historical cost is not available. Capital leases are classified as capital assets in amounts equal to the lesser of the fair market value or the present value of net minimum lease payments at the inception of the lease.

Accumulated depreciation and amortization are reported as reductions of fixed assets. Depreciation is computed using the straight-line method based upon estimated useful lives, generally 99 years for primary structures, 10 to 50 years for buildings and improvements, 30 years for roadways, and 2 to 7 years for all other equipment. Capital lease assets and leasehold improvements are amortized over the term of the lease or the life of the assets, whichever is less.

Major reconstruction and improvements to such facilities are capitalized. Expenditures for maintenance and repairs which do not extend the useful life of the asset are charged to operations as incurred.

Title to substantially all real property is vested in the City of New York, and MTA Bridges and Tunnels has the use and occupancy thereof as long as its corporate existence continues.

Compensated Absences - MTA Bridges and Tunnels has accrued the full value (including fringe benefits) of all vacation and sick leave benefits earned by employees to date if the leave is attributable to past service and it is probable that MTA Bridges and Tunnels will compensate the employees for the benefits through paid time off or some other means, such as cash payments at termination or retirement.

Subsidies - Subsidies provided by MTA Bridges and Tunnels represent its operating transfer and investment income computed on an accrual basis.

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

years ended December 31, 2006 and 2005 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 were deposits in transit in each of the years ended December 31, 2006 and 2005.

Cash at December 31 consists of the following:

	2006		2005	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 200	\$ 200	\$ 200	\$ 200
Collateralized deposits	<u>13,252</u>	<u>5,062</u>	<u>11,846</u>	<u>4,359</u>
	<u>\$ 13,452</u>	<u>\$ 5,262</u>	<u>\$ 12,046</u>	<u>\$ 4,559</u>

4. INVESTMENTS

MTA Bridges and Tunnels' investment policies comply with the New York State Comptroller's guidelines for investment policies. MTA's All-Agency Investment Guidelines restrict MTA Bridges and Tunnels' 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 MTA Bridges and Tunnels' agent, in custody accounts kept in the name of MTA Bridges and Tunnels 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,	
	2006	2005
Investments maturing in 2007 to 2015 under terms of repurchase agreements	\$ 124,641	\$ 99,023
U.S. Treasuries due 2007 to 2016	116,170	143,397
U.S. Treasury Notes	125,798	45,925
MTA Investment Pool	119,697	131,050
Other government agencies	1,693	4,492
Irrevocable deposit account	<u>76,500</u>	<u>76,500</u>
	<u>\$ 564,499</u>	<u>\$ 500,387</u>

The fair value of the above investments consists of \$84,594 and \$86,613 in 2006 and 2005 in unrestricted investments, respectively, and \$479,905 and \$413,774 in 2006 and 2005 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 4.12 percent to 5.02 percent, for the year ended December 31, 2006 and 2.49 percent to 4.07 percent, for the year ended December 31, 2005. The net unrealized gain on investments for the years ended December 31, 2006 and 2005 were \$ 123 and \$202 respectively.

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

Investments:

	December 31,	
	2006	2005
CURRENT:		
Restricted:		
General Purpose Revenue Bonds 1980 Resolution:		
Operating Funds	\$ 82,995	\$ 4,164
Debt Service Fund		
Bond Proceeds Fund	47,793	85,878
Debt Service Reserve Fund	28,507	31,884
Debt Service Fund	67,078	62,978
Senior Revenue Bonds	-	4
Cost of Issuance Fund	298	-
COPS 2 Broadway	<u>1,099</u>	<u>1,949</u>
Total current - restricted	227,770	186,857
Current - unrestricted	<u>69,360</u>	<u>14,331</u>
Total - current	<u>\$ 297,130</u>	<u>\$ 201,188</u>
LONG-TERM:		
Restricted:		
Debt Service Reserve Fund:		
General Purpose Revenue Bonds	\$ 5,963	\$ 21,086
General Purpose Debt Service Fund	34,520	14,835
Senior Revenue Bonds	37,738	23,784
General Purpose Bond Proceeds Fund	90,756	84,054
Capital Lease Obligation:		
US Treasury Strips	6,658	6,658
Irrevocable Deposit Account	<u>76,500</u>	<u>76,500</u>
Total long-term - restricted	252,135	226,917
Total long-term - unrestricted	<u>15,234</u>	<u>72,282</u>
Total - long-term	<u>\$ 267,369</u>	<u>\$ 299,199</u>

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

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 MTA Bridges and Tunnels' present facilities. The Debt Service Funds are restricted for the payment of debt service as provided by the bond resolutions.

MTA Bridges and Tunnels' accrual of the liability to the federal government for rebate of arbitrage income from tax-exempt borrowings was \$1,458 and \$1,394 at December 31, 2006 and 2005, respectively. In 2006 and 2005, MTA Bridges and Tunnels' transfer of its unrestricted investment income to the MTA was not increased for such arbitrage rebate accruals.

5. MTA INVESTMENT POOL

The MTA, on behalf of MTA Bridges and Tunnels, invests funds which are not immediately required for MTA Bridges and Tunnels' 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.

6. CAPITAL ASSETS

	Balance December 31, 2004			Balance December 31, 2005			Balance December 31, 2006		
	Balance	Additions	Deletions	Balance	Additions	Deletions	Balance	Additions	Deletions
Capital Assets, Not Being Depreciated:									
Land	\$ 27,940	\$ -	\$ -	\$ 27,940	\$ -	\$ -	\$ 27,940		
Construction in progress	332,512	211,641	130,506	413,647	251,227	347,797	317,077		
Total Capital Assets, Not Being Depreciated	360,452	211,641	130,506	441,587	251,227	347,797	345,017		
Capital Assets Being Depreciated:									
Building - 2 Broadway	80,957	1,157	-	82,114	284	-	82,398		
Primary structures	1,603,760	42,950	-	1,646,710	65,486	-	1,712,196		
Toll plazas	206,187	-	-	206,187	-	-	206,187		
Toll equipment	98,199	-	-	98,199	-	-	98,199		
Buildings	311,986	32,655	-	344,641	15,051	-	359,692		
Roadway	316,367	53,786	-	370,153	252,687	-	622,840		
Other	56,886	5,870	-	62,756	19,428	-	82,184		
Total Capital Assets Being Depreciated	2,674,342	136,418	-	2,810,760	352,936	-	3,163,696		
Less Accumulated Depreciation:									
Building - 2 Broadway	16,577	3,233	-	19,810	3,193	-	23,003		
Primary structures	338,413	14,271	-	352,684	14,819	-	367,503		
Toll plazas	78,874	4,660	-	83,534	4,660	-	88,194		
Toll equipment	21,870	2,453	-	24,323	2,454	-	26,777		
Buildings	47,073	7,993	-	55,066	8,596	-	63,662		
Roadway	27,513	11,441	-	38,954	16,549	-	55,503		
Other	38,609	5,786	-	44,395	8,045	-	52,440		
Total Accumulated Depreciation	568,929	49,837	-	618,766	58,316	-	677,082		
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	2,105,413	86,581	-	2,191,994	294,620	-	2,486,614		
TOTAL CAPITAL ASSETS, NET	\$ 2,465,862	\$ 298,222	\$ 130,506	\$ 2,633,581	\$ 545,847	\$ 347,797	\$ 2,831,631		

In 2006 and 2005, capital asset additions included \$13,896 and \$12,464 respectively, of costs incurred by engineers working on capital projects.

MTA Bridges and Tunnels' 1992-1999 Capital Program, which was developed to rehabilitate MTA Bridges and Tunnels' bridges and tunnels, totals \$1,142,734. Over the 1992 to 1999 period, MTA Bridges and Tunnels committed \$1,141,154 under the Capital Program for such activities.

MTA Bridges and Tunnels' 2000-2004 Capital Program totals approximately \$1,034,766. Total amounts committed through December 31, 2006 and 2005 totaled \$969,206 and \$967,602 respectively.

MTA Bridges and Tunnels' 2005-2009 Capital Program totals \$1,167,900. Total amounts committed through December 31, 2006 total \$601,866.

7. EMPLOYEE BENEFITS

Most employees of MTA Bridges and Tunnels are members of the New York City Employees' Retirement System ("NYCERS"), which is a cost sharing, multi-employer retirement system. Of MTA Bridges and Tunnels' total payroll costs, including the cost of capital engineers charged to capital projects, approximately \$127,751 or 92.0 percent (2006) and \$120,273 or 90.8 percent (2005) 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 MTA Bridges and Tunnels.

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 MTA Bridges and Tunnels 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 \$8,769 (6.86 percent of covered payroll) and \$7,872 (5.94 percent of covered payroll) in 2006 and 2005, respectively. For 2006 and 2005, employer contributions of approximately \$12,926 and \$10,142, 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, MTA Bridges and Tunnels provides certain health care and life insurance benefits for retired employees. Substantially all of MTA Bridges and Tunnels' employees who are members of NYCERS may become eligible for those benefits if they reach normal retirement age while working for MTA Bridges and Tunnels. The insurance premiums for these benefits are recorded on a pay-as-you-go basis and totaled \$9,998 and \$9,601 in 2006 and 2005, respectively. No contribution is made by participants. As of December 31, 2006 and 2005, 1,397 and 1,393 retirees, respectively, including spouses and dependents, met those eligibility requirements.

8. THE TRANSPORTATION PROJECT

2005-2009 Capital Programs

Capital programs covering the years 2005-2009 have been approved for (1) the commuter railroad operations of the MTA conducted by The Long Island Rail Road Company (“MTA Long Island Rail Road”) and the Metro-North Commuter Railroad Company (“MTA Metro-North Railroad”) (the “2005-2009 Commuter Capital Program”), (2) the transit system operated by the New York City Transit Authority (“MTA New York City Transit”) 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 (“MTA Staten Island Railway”) (the “2005-2009 Transit Capital Program”) and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2005-2009 MTA Bridges and Tunnels Capital Program”). The 2005-2009 MTA Bridges and Tunnels Capital Program was effective upon adoption by the Board. The 2005-2009 Commuter Capital Program and the 2005-2009 Transit Capital Program (collectively, the “2005-2009 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 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program provide for \$21,285,300 in capital expenditures, of which \$11,301,100 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,559,100 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$495,000 relates to a security program throughout the transit, commuter and bridge and tunnel network; \$159,100 relates to certain interagency projects; \$2,475,000 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including the East Side Access, Second Avenue Subway and JFK rail link projects); \$1,990,000 relates to the City’s funding of the proposed extension of the #7 subway line; \$1,167,900 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels; and \$138,200 relates to capital projects for the MTA Bus Company (“MTA Bus”).

The combined funding sources for the 2005-2009 MTA Capital Programs and the 2005-2009 MTA Bridges and Tunnels Capital Program include \$6,716,200 in Federal funds; \$1,450,000 in proceeds from New York State general obligation bonds approved by the voters in November, 2005; \$2,417,600 from the City; \$1,384,000 in asset sales, program income and carryover from the 2000-2004 capital program; and \$9,317,300 in bonds.

On December 13, 2006, the MTA Board amended the 2005-2009 Capital Programs for the purposes of updating capital project budgets and recognizing changes in funding sources. The amendments, insofar as they relate to the Transit and Commuter Systems, will not become effective until they are submitted to, and approved by, the Review Board. The amendments relating to the MTA Bridges and Tunnels’ capital programs were effective upon adoption by the Board.

- The value of the plan (including the Transit, Commuter and MTA Bridges and Tunnels programs) was increased by \$45,000, from \$21,285,300 to \$21,330,600. The changes in the plan included a \$99,000 decrease in the core Transit and Commuter programs and the interagency program, a \$34,000 increase in the MTA Bridges and Tunnels program (\$32,000 of which was transferred from

the 2000-2004 MTA Bridges and Tunnels capital program), and a \$110,000 increase in City funding for the No. 7 Subway Line extension.

- The operating agency programs decreased by \$95,000 to transfer funds to ongoing elements in the 2000-2004 MTA Capital Program that have experienced cost increases.
- An amendment to the Phase II Security Program reflects the substitution of \$141,000 in MTA Bridges and Tunnels bonds and cash to fund critical security needs of the bridges and tunnels to displace a like amount of originally anticipated Federal funding for these projects that has not materialized.

On February 28, 2007, the MTA Board amended the 2005-2009 MTA Capital Program to add \$1,255,000 of Federal East Side Access Full Funding Grant Agreement funds to the East Side Access project budget to provide sufficient funding to progress the 2005-2009 elements of such project. The amendments will not become effective until they are submitted to, and approved by, the Review Board.

2000-2004 Capital Programs

Capital programs covering the years 2000-2004 have been approved for (1) the commuter railroad operations of the MTA conducted by MTA Long Island Rail Road and MTA Metro-North Railroad (the “2000-2004 Commuter Capital Program”), (2) the transit system operated by MTA New York City Transit and its subsidiary, MaBSTOA, and the rail system operated by the MTA Staten Island Railway (the “2000-2004 Transit Capital Program”) and (3) the toll bridges and tunnels operated by MTA Bridges and Tunnels (the “2000-2004 MTA Bridges and Tunnels Capital Program”). The 2000-2004 MTA Bridges and Tunnels Capital Program was effective upon adoption by the Board. 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 Review Board and are also effective.

The 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program provide for \$20,893,900 in capital expenditures, of which \$10,227,300 relates to ongoing repairs of, and replacements to, the Transit System operated by MTA New York City Transit and MaBSTOA and the rail system operated by MTA Staten Island Railway; \$3,894,300 relates to ongoing repairs of, and replacements to, the commuter system operated by MTA Long Island Rail Road and MTA Metro-North Railroad; \$4,531,600 relates generally to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company (including \$658,100 for a security program throughout the transit, commuter and bridge and tunnel network); \$489,700 relates to planning and design and customer service projects; \$248,900 relates to World Trade Center repair projects; \$467,200 relates to bus purchases for MTA Bus Company; and \$1,034,800 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by MTA Bridges and Tunnels.

The combined funding sources for the 2000-2004 MTA Capital Programs and the 2000-2004 MTA Bridges and Tunnels Capital Program include \$7,919,300 in bonds; \$6,482,400 in Federal funds; \$4,575,000 from the proceeds of the MTA/MTA Bridges and Tunnels debt restructuring in 2002; and \$1,917,200 from other sources.

On December 13, 2006, the MTA Board amended the 2000-2004 Capital Programs for the purposes of updating capital project budgets and recognizing changes in funding sources. The amendments, insofar as they relate to the Transit and Commuter Systems, will not become effective until they are submitted to, and approved by, the Review Board. The amendments relating to the MTA Bridges and Tunnels’ capital programs were effective upon adoption by the Board.

- The value of the plan (including the Transit, Commuter and MTA Bridges and Tunnels programs) was increased by \$253,000, from \$20,893,900 to \$21,146,600, with the Transit and Commuter programs increasing by \$285,000 and the MTA Bridges and Tunnels program decreasing by \$32,000 (which was transferred to the 2005-2009 MTA Bridges and Tunnels capital program to fund cost increases).
- The operating agency programs increased by \$133,000, which includes transfers from the 2005-2009 Capital Program to fund cost increases for work still underway and the addition of new projects for MTA Metro-North Railroad's Yankee Stadium station and MTA Long Island Rail Road's Shea Stadium station. The two stadium projects are funded by the transfer of allocations from the discontinued LaGuardia Airport Access project.
- The Phase I Security Program was allocated an additional \$129,000 in MTA operating and Federal sources (bringing the total to \$721,000) to fund the completion of the Phase I initiatives.
- The South Ferry Terminal project was allocated an additional \$34,000 in MTA operating sources to fund additional costs needed for the final contract award.
- MTA Bus received an additional \$35,000 of City funding representing its match for Federal funds transferred by the City as part of the City-MTA agreement relating to the takeover of the private bus companies by MTA Bus.

9. LONG-TERM DEBT

MTA Bridges and Tunnels issues long-term bonds to fund its own capital projects, as well as the Transportation Project, through the following two credits:

- General Revenue Bonds, and
- Subordinate Revenue Bonds.

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2006:

\$200,000 General Revenue Fixed Rate Bonds, Series 2006A-The net proceeds of the Series 2006A Bonds were used to finance certain improvements of MTA Bridges and Tunnels' bridges and tunnels

The following represents MTA Bridges and Tunnels' issuance of long-term debt in 2005:

- \$150,000 General Revenue Variable Rate Bonds, Series 2005A- The net proceeds of the Series 2005A Bonds were used to finance certain improvements of MTA Bridges and Tunnels' bridges and tunnels.
- \$800,000 General Revenue Variable Rate Bonds, Series 2005B – The net proceeds of the Series 2005B Bonds were used to refinance \$717,325 of General Revenue bonds, Series 2001A and 2002A and to finance certain improvements of MTA Bridges and Tunnels' bridges and tunnels.

MTA Bridges and Tunnels' long-term debt is comprised of the following:

	December 31,	
	2006	2005
Senior Revenue Bonds (Note 10)	\$ 4,702,792	\$ 4,601,353
Subordinate Revenue Bonds (Note 11)	2,292,117	2,337,137
2 Broadway Certificates of Participation (Note 12)	<u>42,766</u>	<u>43,671</u>
Total Long-Term Debt, Net of Premiums and Discounts	<u>\$ 7,037,675</u>	<u>\$ 6,982,161</u>

10. LONG - TERM DEBT – SENIOR REVENUE BONDS

Senior Revenue Bonds consist of the following:

	December 31, 2005	Issued	Made During 2006	December 31, 2006
Series EFC 1996A	\$ 20,315	\$ -	\$ 1,180	\$ 19,135
Series 2001A, 5.77%, due through 2032	504,930	-	-	504,930
Series 2001B&C, 4.10%-5.25%,	296,400	-	-	296,400
Series 2002A	171,765	-	-	171,765
Series 2002B	2,047,545	-	74,745	1,972,800
Series 2002C	103,305	-	-	103,305
Series 2002F	246,480	-	-	246,480
Series 2003B	245,245	-	4,945	240,300
Series 2005A	150,000	-	2,585	147,415
Series 2005B	800,000	-	-	800,000
Series 2006A	-	200,000	1,365	198,635
	<u>4,585,985</u>	<u>200,000</u>	<u>84,820</u>	<u>4,701,165</u>
Add net unamortized bond discount and premium	98,823	-	-	88,917
	<u>\$ 4,684,808</u>	<u>\$ 200,000</u>	<u>\$ 84,820</u>	<u>\$ 4,790,082</u>

Debt Service Requirements:

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2007	\$ 87,290	\$ 215,088	\$ 302,378
2008	97,235	210,581	307,816
2009	101,980	206,275	308,255
2010	106,470	201,164	307,634
2011	111,940	195,996	307,936
2012-2016	627,095	885,016	1,512,111
2017-2021	825,250	701,461	1,526,711
2022-2026	968,950	484,241	1,453,191
2027-2031	1,231,850	228,339	1,460,189
2032-2034	543,105	20,760	563,865
	<u>\$ 4,701,165</u>	<u>\$ 3,348,921</u>	<u>\$ 8,050,086</u>

11. LONG - TERM DEBT – SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds consist of the following:

	2005	Issued	During 2006	2006
Series 2000A	\$ 160,000	\$ -	\$ 7,900	\$ 152,100
Series 2000B	63,900	-	3,150	60,750
Series 2000C	138,810	-	6,800	132,010
Series 2000D	85,090	-	4,250	80,840
Series 2002D	261,700	-	-	261,700
Series 2002E	756,095	-	-	756,095
Series 2002G	181,025	-	-	181,025
Series 2003A	472,665	-	13,495	459,170
Series 2004A	245,600	-	4,575	241,025
	<u>2,364,885</u>	<u>-</u>	<u>40,170</u>	<u>2,324,715</u>
Add net unamortized bond discount and premium	12,422	-	-	10,637
	<u>\$ 2,377,307</u>	<u>\$ -</u>	<u>\$ 40,170</u>	<u>\$ 2,335,352</u>

Debt Service Requirements:

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2007	\$ 43,235	\$ 112,483	\$ 155,718
2008	44,170	111,309	155,479
2009	47,695	107,877	155,572
2010	49,720	105,485	155,205
2011	51,935	103,452	155,387
2012-2016	304,730	469,453	774,183
2017-2021	450,525	378,428	828,953
2022-2026	519,015	266,865	785,880
2027-2031	653,975	131,869	785,844
2032-2035	159,715	8,618	168,333
	<u>\$ 2,324,715</u>	<u>\$ 1,795,839</u>	<u>\$ 4,120,554</u>

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

12. CERTIFICATES OF PARTICIPATION

In 2000, the Trust (Note 13) issued \$121,200 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, Metro-North Commuter Railroad Company, and MTA Bridges and Tunnels (Notes 13 and 20). The Transit Authority is obligated to pay 68.7 percent of the debt service, the MTA 21.0 percent and MTA Bridges and Tunnels 10.3 percent.

Certificates of Participation

	2006	2005
Serial Bonds, 4.60%-5.625% due through 2015	\$ 7,770	\$ 8,811
Variable rate Certificates of Participation due 2030	<u>36,619</u>	<u>36,866</u>
Subtotal	44,389	45,677
Unamortized discount	(785)	(807)
Unamortized premium	<u>72</u>	<u>89</u>
	<u>\$ 43,676</u>	<u>\$ 44,959</u>

MTA Bridges and Tunnels' share of the debt service requirements:

Certificates of Participation

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2007	\$ 910	\$ 1,672	\$ 2,582
2008	440	1,622	2,062
2009	1,013	1,562	2,575
2010	1,283	1,494	2,777
2011	1,345	1,422	2,767
2012-2016	8,901	6,046	14,947
2017-2021	9,798	4,394	14,192
2022-2026	11,815	2,447	14,262
2027-2030	<u>8,884</u>	<u>370</u>	<u>9,254</u>
	<u>\$ 44,389</u>	<u>\$ 21,029</u>	<u>\$ 65,418</u>

13. CAPITAL LEASE OBLIGATIONS

2 Broadway

During 1998, the MTA, TA, and MTA Bridges and Tunnels 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 12). The lease is composed of both an operating lease (for the lease of land) (Note 19) 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 MTA Bridges and Tunnels based upon usage.

MTA Bridges and Tunnels has recorded capital lease assets using the net present value, and using a borrowing rate of 9.11 percent, and has reflected a capital lease obligation as of December 31, 2006 and 2005 of \$38,879 and \$38,932 respectively.

Subway Cars

During 1995, MTA Bridges and Tunnels entered into a sale-leaseback transaction with a third party whereby MTA Bridges and Tunnels sold certain subway cars, which were contributed by the TA, for net proceeds of \$84,229. These cars were subsequently leased back by MTA Bridges and Tunnels 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. MTA Bridges and Tunnels 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.

In 2006 and 2005, there were no capital lease obligation payments which were funded by the aforementioned investments. At December 31, 2006 and 2005, the balance in the irrevocable deposit account was \$76,500 and the investments in U.S. Treasury Strips had a market value of \$6,658.

At the end of the lease term, MTA Bridges and Tunnels 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:

	2006	2005
2 Broadway	\$ 38,879	\$ 38,932
Subway cars	<u>83,159</u>	<u>83,159</u>
	122,038	122,091
Less current portion	<u>(6,594)</u>	<u>(6,647)</u>
	<u>\$ 115,444</u>	<u>\$ 115,444</u>

Minimum lease payments are as follows:

2007	\$ 11,202
2008	11,398
2009	11,397
2010	11,494
2011	11,566
2012-2016	64,676
2017-2021	130,067
2022-2026	33,429
2027-2031	34,411
2032-2036	32,735
Thereafter	<u>51,467</u>
Minimum future lease payments	403,842
Less amount representing interest	<u>281,804</u>
	<u>\$ 122,038</u>

Total accumulated depreciation under capital leases was approximately \$23,003 and \$19,810 in 2006 and 2005, respectively.

14. RISK MANAGEMENT

MTA Bridges and Tunnels 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.

MTA Bridges and Tunnels is self-insured up to \$1,400 per occurrence for liability arising from injuries to persons, excluding employees. MTA Bridges and Tunnels is self-insured for work-related injuries to employees and for damage to third-party property. MTA Bridges and Tunnels 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 "Retirement & other employee benefits" and "Insurance" in the accompanying statements of revenues, expenses and changes in excess of liabilities over assets.

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,	
	2006	2005
Balance, beginning of year	\$ 19,029	\$ 18,834
Activity during the year:		
Current year claims and changes in estimates	2,730	6,001
Claims paid	<u>(2,843)</u>	<u>(5,806)</u>
Balance, end of year	18,916	19,029
Less current portion	<u>(13,193)</u>	<u>(13,110)</u>
Long-term liability	<u>\$ 5,723</u>	<u>\$ 5,919</u>

Claims for injuries to persons, excluding employees, over \$1,400 per occurrence (up to a limit of the lesser of the assets available for claims or \$50,000) are insured by First Mutual Transportation Assurance Company (“FMTAC”), a public benefit corporation subsidiary of the MTA. FMTAC insures MTA Bridges and Tunnels, MTA and the other MTA affiliates and subsidiaries for such claims. FMTAC assumed such coverage from the MTA Excess Loss Trust Fund, which was terminated during 2003.

Effective October 31, 2005, the MTA renewed an all-agency catastrophic liability insurance policy providing limits of \$250,000. This policy covers liability above FMTAC’s policy described in the preceding paragraph (excess of \$50,000) and is designed to drop down to replace the FMTAC policy if the assets of FMTAC held for such purpose are exhausted and total claims exceed \$125,000.

FMTAC also directly insures property damage claims of MTA Bridges and Tunnels, MTA and its affiliates and subsidiaries in excess of a \$25,000 per occurrence self-insurance retention, subject to an annual \$75,000 aggregate. The aggregate limitation of \$1,250 per occurrence covers all property of MTA Bridges and Tunnels, MTA and its affiliates and subsidiaries collectively. The property insurance provides replacement cost coverage for all risks of direct physical loss or damage to all real and personal property, with minor exceptions. The policy also provides extra expense and business interruption coverages. With the exception of acts of terrorism (both domestic and foreign), FMTAC is fully reinsured in the domestic, London and European marketplace, for this coverage. With respect to acts of international terrorism covered by the Terrorism Risk Insurance Act of 2002 (“TRIA”), FMTAC is reinsured by the United States Government for 90% of losses, subject to an annual cap on all losses payable under TRIA of \$100,000. The remaining 10% of losses would be covered under an additional policy. With respect to acts of terrorism not covered by TRIA, MTA obtained an additional all-agency commercial reinsurance policy that provides coverage against all acts of terrorism in an amount of up to \$100,000 per occurrence (subject to the \$25,000 per occurrence self-insurance retention). In the event the occurrence is covered by TRIA, the coverage afforded by the additional policy would provide for the payment of the remaining 10% not covered by TRIA as described above.

15. 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 MTA Bridges and Tunnels. 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 MTA Bridges and Tunnels has no obligation for the operation and maintenance of the Convention Center, MTA Bridges and Tunnels does not include the Convention Center bond liability and other related accounts in its financial statements. MTA Bridges and Tunnels 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:	2006	2005
Debt service Fund	\$35,839	\$34,837
Future sublease receivables due from New York State	<u>171,558</u>	<u>196,941</u>
	<u>\$207,397</u>	<u>\$231,778</u>
Liabilities:		
Convention Center Bonds	\$171,558	\$196,946
Bond principal due 2007 and 2006	29,835	27,820
Interest payable due January 1, 2007 and 2006	<u>6,004</u>	<u>7,012</u>
	<u>\$207,397</u>	<u>\$231,778</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.

16. 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. MTA Bridges and Tunnels 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.

17. COMMITMENTS AND CONTINGENCIES

At December 31, 2006 and 2005, MTA Bridges and Tunnels had unused standby letters of credit, relative to insurance, amounting to \$2,712.

MTA Bridges and Tunnels is involved in various litigations 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 MTA Bridges and Tunnels.

18. SWAP AGREEMENTS

Board-Adopted Guidelines -The Related Entities adopted guidelines governing the use of swap contracts to manage the interest rate exposure of their debt. The Guidelines establish specific requirements that must be satisfied for a Related Entity to enter into a swap contract, such as suggested swap terms and objectives, credit ratings of the counterparties, collateralization requirements and reporting requirements.

Objectives of the Swaps - In order to protect against the potential of rising interest rates, to achieve a lower net cost of borrowing, to reduce exposure to changing interest rates on a related bond issue, or, in some cases where Federal tax law prohibits an advance refunding, to achieve debt service savings through a synthetic fixed rate, MTA Bridges and Tunnels entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what MTA Bridges and Tunnels would have paid to issue fixed-rate debt.

Fair Value - Relevant market interest rates on the valuation date of the swaps reflected in the following charts (December 31, 2006) in some cases were higher than, and in some cases were lower than, market interest rates on the effective date of the swaps. Consequently, as of the valuation date, some of the swaps had negative fair values and some had positive fair values. A negative fair value means that MTA Bridges and Tunnels would have to pay the counterparty that approximate amount to terminate the swap. In the event there is a positive fair value, MTA Bridges and Tunnels would be entitled to receive a payment from the counterparty to terminate the swap; consequently, MTA Bridges and Tunnels would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value should the swap be terminated.

The fair values listed in the following tables represent the theoretical cost to terminate the swap as of the date indicated, assuming that a termination event occurred on that date. The fair values were estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bond due on the date of each future net settlement on the swap. In the event both parties continue to perform their obligations under the

swap, there is not a risk of termination and neither party is required to make a termination payment to the other. MTA Bridges and Tunnels are not aware of any event that would lead to a termination event with respect to any of their existing swaps. See “*Termination Risk*” below.

Terms and Fair Values - The terms, fair values and counterparties of the outstanding swaps of MTA Bridges and Tunnels, as well as the swaps entered into in connection with the 2 Broadway Certificates of Participation refunding, are reflected in the following tables. The MTA Bridges and Tunnels swaps are reflected in separate tables for the senior lien and subordinate revenue bonds.

MTA BRIDGES AND TUNNELS SENIOR LIEN REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/06 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/06 (in millions)	Swap Termination Date	Counterparty
Series 2001B and 2001C ⁽³⁾	\$230.900	01/01/02	5.777%	Actual bond rate	\$ (27.030)	01/01/19	Citigroup Financial Products Inc.
Series 2002C ⁽⁴⁾	77.200	01/01/00	5.634	Actual bond rate	(7.321)	01/01/13	Ambac Financial Services, L.P.
Series 2005B	800.000	07/07/05	3.076	67% of one-month LIBOR	40.725	01/01/32	25% each – Citibank, N.A., JPMorgan Chase Bank, BNP Paribas North America, Inc. and UBS AG
Series 2005B	800.000	07/07/05	67% of one-month LIBOR plus 43.7 basis points ⁽⁵⁾	BMA minus 10 basis points	(12.559)	01/01/12	UBS AG
Total	\$1,908.100				\$ (6.185)		

MTA BRIDGES AND TUNNELS SUBORDINATE REVENUE BONDS							
Associated Bond Issue	Notional Amounts as of 12/31/06 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/06 (in millions)	Swap Termination Date	Counterparty
Series 2000A and 2000B ⁽⁶⁾	\$212.850	01/01/01	6.08 %	Actual bond rate	\$ (29.804)	01/01/19	Bear Stearns Capital Markets Inc.
Series 2000C and 2000D ⁽⁶⁾	212.850	01/01/01	6.07	Actual bond rate	(29.681)	01/01/19	Citigroup Financial Products Inc.
Series 2002G-1	90.500	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.421)	01/01/18	JPMorgan Chase Bank
Series 2002G-2	90.525	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.583)	01/01/18	JPMorgan Chase Bank
Total	\$606.725				\$ (62.489)		

⁽³⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$19,204,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying to MTA Bridges and Tunnels a premium of \$8,400,000.

⁽⁵⁾ For the purpose of mitigating the basis risk during the escrow period with respect to the \$800 million notional amount swaps entered into in connection with the Series 2005B Bonds, MTA Bridges and Tunnels will pay 67% of one month LIBOR plus 43.7 basis points to the UBS AG and receive a variable rate equal to the BMA Index minus 10 basis points.

⁽⁶⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying to MTA Bridges and Tunnels a premium of \$22,740,000.

2 Broadway Certificates of Participation Swaps

In addition to the foregoing, MTA, New York City Transit and MTA Bridges and Tunnels entered into separate ISDA Master Agreements with UBS AG relating to the \$357,925,000 Variable Rate Certificates of Participation, Series 2004A (Auction Rate Securities) in connection with the refunding of certain certificates of participation originally executed to fund certain improvements to the office building located at 2 Broadway in Manhattan. The 2 Broadway swaps have (1) an effective date of September 22, 2004, (2) a fixed rate paid of 3.092%, (3) a variable rate received of the lesser of (a) the actual bond rate, or (b) 67% of one-month LIBOR minus 45 basis points, and (4) a termination date of January 1, 2030. Based on the aggregate notional amount of \$355,525,000 outstanding as of December 31, 2006, MTA New York City Transit is responsible for \$244,250,000 aggregate notional amount of the swaps, MTA for \$74,650,000 aggregate notional amount, and MTA Bridges and Tunnels for \$36,625,000 aggregate notional amount. As of December 31, 2006, the aggregate fair value of the swaps was (\$2.121) million.

Counterparty Ratings

The current ratings of the counterparties are as follows:

Counterparty	Ratings of the Counterparty or its Credit Support Provider		
	S&P	Moody's	Fitch
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A+	A1	A+
BNP Paribas North America, Inc.	AA	Aa2	AA
Citigroup Financial Products Inc.	AA-	Aa1	AA+
JPMorgan Chase Bank	AA-	Aa2	A+
UBS AG	AA+	Aa2	AA+

Except as set forth below, the notional amounts of the swaps match the principal amounts of the associated bonds. The following table sets forth the notional amount and the outstanding principal amount as of December 31, 2006 for the swap where the notional amount does not match the outstanding principal amount of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions)	Notional Amount (in millions)
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$296.400	\$230.900
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	\$103.305	\$77.200

Except as discussed below under the heading “*Rollover Risk*,” the swap agreements contain scheduled reductions to outstanding notional amounts that are expected to approximately follow scheduled or anticipated reductions in the principal amount of the associated bonds.

Risks Associated with the Swap Agreements

From MTA Bridges and Tunnels' perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not able to perform its financial obligations. In the event of deterioration in the credit ratings of the counterparty or MTA Bridges and Tunnels, the swap agreement may require that collateral be posted to secure the party's obligations under the swap agreement. See "*Collateralization*" below. Further, ratings deterioration by either party below levels agreed to in each transaction could result in a termination event requiring a cash settlement of the future value of the transaction. See "Termination Risk" below.
- **Basis Risk** – The variable interest rate paid by the counterparty under the swap and the variable interest rate paid by MTA Bridges and Tunnels on the associated bonds may not be the same. If the counterparty's rate under the swap is lower than the bond interest rate, then the counterparty's payment under the swap agreement does not fully reimburse MTA Bridges and Tunnels for its interest payment on the associated bonds. Conversely, if the bond interest rate is lower than the counterparty's rate on the swap, there is a net benefit to MTA Bridges and Tunnels.
- **Termination Risk** – The swap agreement will be terminated and MTA Bridges and Tunnels will be required to make a termination payment to the counterparty.
- **Rollover Risk** – The notional amount under the swap agreement terminates prior to the final maturity of the associated bonds on a variable rate bond issuance and MTA Bridges and Tunnels may be exposed to then market rates and cease to receive the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows, as of December 31, 2006, the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with MTA Bridges and Tunnels, or in connection with the 2 Broadway Certificates of Participation refunding. The notional amount totals below includes all five swaps (including the UBS basis risk swap) in connection with the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2005B. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in millions)	% of Total Notional Amount
UBS AG	\$1,355.525	47.23%
Citigroup Financial Products Inc.	643.750	22.43
JPMorgan Chase Bank	381.025	13.27
Bear Stearns Capital Markets Inc.	212.850	7.42
BNP Paribas North America, Inc.	200.000	6.97
Ambac Financial Services, L.P.	77.200	2.69
Total	\$2,870.350	

The ISDA Master Agreements entered into with the following counterparties provide that the payments under one transaction will be netted against other transactions entered into under the same ISDA Master Agreement:

- Bear Stearns Capital Markets Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D,
- Citigroup Financial Products Inc. with respect to the MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C, and
- Ambac Financial Services, L.P. (though there is only one transaction outstanding under that Master Agreement).

Under the terms of these agreements, should one party become insolvent or otherwise default on its obligations, close-out netting provisions permit the nondefaulting party to accelerate and terminate all outstanding transactions and net the transactions' fair values so that a single sum will be owed by, or owed to, the nondefaulting party.

Collateralization. Generally, the Credit Support Annex attached to the ISDA Master Agreement requires that if the outstanding ratings of MTA Bridges and Tunnels or the counterparty falls to a certain level, the party whose rating falls is required to post collateral with a third-party custodian to secure its termination payments above certain threshold amounts. Collateral must be cash or U.S. government or certain Federal agency securities.

The following tables set forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for MTA Bridges and Tunnels and the counterparty for each swap agreement. In most cases, the Counterparty does not have a Fitch rating on its long-term unsecured debt, so that criteria would not be applicable in determining if the Counterparty is required to post collateral.

2 Broadway Certificates of Participation		
Associated Agencies	If the highest rating of the MTA Transportation Revenue Bonds falls to	Then MTA, MTA Bridges and Tunnels and MTA New York City Transit must post collateral if its estimated termination payments are in excess of
MTA Bridges and Tunnels	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$25,000,000
	<u>Fitch</u> – BBB and below or unrated, <u>Moody's</u> – Baa2 and below or unrated by <u>S&P</u> & <u>Moody's</u> , or <u>S&P</u> – BBB and below or unrated	\$0
	If the highest rating of the Counterparty's long-term unsecured debt falls to	Then the Counterparty must post collateral if its estimated termination payments are in excess of
	<u>Moody's</u> – Baa1 or lower, or <u>S&P</u> – BBB+ or lower	\$0

MTA Bridges and Tunnels Senior Lien Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term unsecured debt falls to	Then the downgraded party must post collateral if its estimated termination payments <u>are in excess of</u>
Series 2001B and 2001C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002C	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Ambac is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2005B interest rate swap and Series 2005B basis risk swap	For counterparty, <u>Fitch</u> – A-, or <u>Moody's</u> – A3, or <u>S&P</u> – A-	\$10,000,000
	For MTA, <u>Fitch</u> – BBB+, or <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$30,000,000
	For MTA, <u>Fitch</u> – BBB, or <u>Moody's</u> – Baa2, or <u>S&P</u> – BBB	\$15,000,000
	For counterparty, <u>Fitch</u> – BBB+ and below, or <u>Moody's</u> – Baa1 and below, or <u>S&P</u> – BBB+ and below	\$0
	For MTA, <u>Fitch</u> – BBB- and below, or <u>Moody's</u> – Baa3 and below, or <u>S&P</u> – BBB- and below	\$0

MTA Bridges and Tunnels Subordinate Revenue Bonds		
Associated Bond Issue	If the highest rating of the related MTA Bridges and Tunnels bonds or the counterparty's long-term <u>unsecured debt falls to</u>	Then the downgraded party must post collateral if its estimated termination payments <u>are in excess of</u>
Series 2000A and 2000B	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Bear Stearns is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2000C and 2000D	N/A – Because MTA Bridges and Tunnels' swap payments are insured, MTA Bridges and Tunnels is not required to post collateral, but Citigroup is required to post collateral if its estimated termination payments are in excess of \$1,000,000.	
Series 2002G-1 and 2002G-2	<u>Fitch</u> – BBB+, <u>Moody's</u> – Baa1, or <u>S&P</u> – BBB+	\$10,000,000
	<u>Fitch</u> – Below BBB+, <u>Moody's</u> – Below Baa1, or <u>S&P</u> – Below BBB+	\$0

Notwithstanding the foregoing, in the event any downgraded party is responsible for an event of default or potential event of default as defined in the ISDA Master Agreement, the downgraded party must immediately collateralize its obligations irrespective of the threshold amounts.

Under each MTA Bridges and Tunnels bond resolution, the payments relating to debt service on the swaps are parity obligations with the associated bonds, as well as all other bonds issued under that bond resolution, but all other payments, including the termination payments, are subordinate to the payment of debt service on the swap and all bonds issued under that bond resolution. In addition, MTA Bridges and Tunnels have structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit MTA Bridges and Tunnels to bond the termination payments under any available bond resolution.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. MTA Bridges and Tunnels has entered into separate ISDA Master Agreements with each counterparty that governs the terms of each swap with that counterparty, subject to individual terms negotiated in a confirmation.

The following table sets forth, for each swap, the additional termination events for the following associated bond issues. In certain swaps, where the counterparty has a guarantor of its obligations, the ratings criteria applies to the guarantor and not to the counterparty.

2 Broadway		
Associated Bond Issue	Counterparty	Additional Termination Event(s)
2 Broadway Certificates of Participation, Series 2004A	UBS AG	Negative financial events relating to the swap insurer, Ambac Assurance Corporation.

MTA Bridges and Tunnels Senior and Subordinate Revenue Bonds

Associated Bond Issue	Additional Termination Events
Senior Lien Revenue Bonds	
Series 2001B and 2001C and Series 2002C	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Ambac Assurance Corporation.</p>
Series 2005B interest rate swap and basis risk swap	The ratings by S&P or Moody's of the Counterparty fall below "BBB+" or "Baa1," respectively, or the ratings of S&P or Moody's with respect to the MTA Bridges and Tunnels Senior Lien Revenue Bonds falls below "BBB" or "Baa2," respectively, or , in either case the ratings are withdrawn.
Subordinate Revenue Bonds	
Series 2000A, 2000B, 2000C and 2000D	<p>1. MTA Bridges and Tunnels can elect to terminate the swap relating to that Series on 10 Business Days' notice if the Series of Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and MTA Bridges and Tunnels demonstrates its ability to make the termination payments, <u>or</u> MTA Bridges and Tunnels redeems a portion of the Series of Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the related swap insurer, Financial Security Assurance Inc.</p>
Series 2002G-1 and Series 2002G-2	<p>1. The ratings by S&P and Moody's of the Counterparty or the MTA Bridges and Tunnels Subordinate Revenue Bonds falls below "BBB-" and "Baa3," respectively, or are withdrawn.</p> <p>2. MTA Bridges and Tunnels may terminate the swap at no cost on or after December 29, 2010 in the case of the Series 2002G-1 swap, and on or after January 5, 2011 in the case of the Series 2002G-2 swap.</p>

Rollover Risk. MTA and MTA Bridges and Tunnels are exposed to rollover risk on swaps that mature or may be terminated prior to the maturity of the associated debt. When these swaps terminate, MTA Bridges and Tunnels may not realize the synthetic fixed rate offered by the swaps on the underlying debt issues. The following debt is exposed to rollover risk:

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	01/01/32	01/01/19
MTA Bridges and Tunnels General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G ⁽¹⁾	11/01/32	01/01/18

- (1) The swap relating to the Subseries 2002G-1 Bonds in the notional amount of \$90,500,000 may be terminated at the option of MTA Bridges and Tunnels on or after December 29, 2010, and the swap relating to the Subseries 2002G-2 Bonds in the notional amount of \$90,525,000 may be terminated at the option of MTA Bridges and Tunnels on or after January 5, 2011.

It should also be noted that, in connection with the MTA Bridges and Tunnels Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A, 2000B, 2000C and 2000D, currently, all of the principal of the bonds is scheduled to be amortized through sinking fund redemption payments by the time of the swap's termination; however, MTA Bridges and Tunnels has retained the right to readjust the sinking fund payments to decrease the amounts of the sinking fund payments currently scheduled and to extend the amortization period of the Series 2000A – D Bonds to January 1, 2031. A readjustment of the sinking fund payments would not change the scheduled decreases in notional amounts of the associated swap. As a result, the principal amount of the bonds outstanding would exceed the notional amount of the associated swap. However, if MTA Bridges and Tunnels decided to readjust the sinking fund schedules, MTA Bridges and Tunnels would be exposed to rollover risk at the swap termination date. MTA Bridges and Tunnels could readjust such sinking fund redemption schedules only upon delivery of an opinion of nationally recognized bond counsel meeting the conditions of the bond resolutions. MTA Bridges and Tunnels has no current intention of exercising these rights.

Swap payments and Associated Debt. The following table contains the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such swaps were entered into in order to: protect against the potential of rising interest rates; achieve a lower net cost of borrowing; reduce exposure to changing interest rates on a related bond issue; or, in some cases where Federal tax law prohibits an advance refunding, achieve debt service savings through a synthetic fixed rate. As rates vary, variable-rate bond interest payments and net swap payments will vary. Using the following assumptions, debt service requirements of MTA Bridges and Tunnel's outstanding variable-rate debt and net swap payments are estimated to be as follows:

- It is assumed that the variable-rate bonds would bear interest at a rate of 4.0% per annum.
- The net swap payments were calculated using the actual fixed interest rate on the swap agreements.

MTA Bridges and Tunnels (in millions)				
<u>Year Ending December 31</u>	Variable-Rate Bonds		<u>Net Swap Payments</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2007	\$26.3	\$71.2	\$4.5	\$102.0
2008	34.1	69.8	3.5	107.4
2009	36.4	68.4	3.0	107.7
2010	38.2	66.9	2.1	107.2
2011	41.1	65.2	1.2	107.5
2012-2016	274.1	295.2	(14.4)	554.8
2017-2021	225.6	239.1	(34.7)	429.9
2022-2026	217.0	200.1	(33.0)	384.2
2027-2031	691.0	119.1	(22.1)	788.0
2032-2036	222.7	0.3	-	222.9

19. OPERATING LEASES

During 1998, the MTA, TA and MTA Bridges and Tunnels 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 13).

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 MTA Bridges and Tunnels based upon usage.

Minimum lease payments representing MTA Bridges and Tunnels' share of the operating lease are as follows:

Twelve Months Ending December 31	Aggregate Lease Payments
2007	\$ 2,405
2008	2,405
2009	2,405
2010	2,405
2011	2,405
2012-2016	2,405
2017-2021	2,405
2022-2026	2,405
2027-2031	2,405
2032-2036	2,405
Thereafter	<u>76,965</u>
Minimum future lease payments	<u>\$ 101,015</u>

20. RELATED PARTY TRANSACTIONS

MTA Bridges and Tunnels 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, 2006 and 2005:

	2006		2005	
	Receivable	(Payable)	Receivable	(Payable)
Due From (Due To) MTA	\$ 2,153	(\$64,778)	\$ 2,403	\$ (54,616)
Due From (Due To) Affiliated Agencies	-	(15,639)	-	(19,628)
Total MTA and affiliated agencies	\$ 2,153	\$ (80,417)	\$ 2,403	\$ (74,244)

21. SETTLEMENT OF CLAIMS

The September 11, 2001 terrorist attack on the World Trade Center in New York resulted in the following significant items: (1) significant physical and structural damage to NYCTA’s N, R, 1 and 9 lines and related facilities and stations; (2) temporary closure of MTA Bridges and Tunnels’ bridges and tunnels, not all facilities, and certain restrictions imposed on the number of vehicle occupants when the facilities were reopened; (3) safety and security expenditures in and around the World Trade Center; and (4) temporary closure of MNCR’s Grand Central Terminal and LIRR’s Pennsylvania Station.

In April 2004, MTA Bridges and Tunnels settled its claims with its property insurance carriers for damage caused as a result of the September 11, 2001 terrorist attack. The global settlement represents the settlement of claims for losses related to physical damage of property, loss of revenues, increased operating expenses, and other expenses related to the clean up of its facilities caused by the attack.

On November 4, 2003, MTA entered into agreement to end the litigation between the MTA and the owners of the 2 Broadway facilities. The settlement provides for a rent credit to MTA Bridges and Tunnels over a 30 year period commencing January 1, 2004.

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