

***Triborough Bridge and
Tunnel Authority***

Independent Auditors' Report

Financial Statements

Years Ended December 31, 2004 and 2003

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

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INDEPENDENT AUDITORS' REPORT

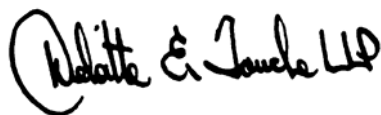
To the Members of the Board of
Metropolitan Transportation Authority

We have audited the accompanying balance sheets of Triborough Bridge and Tunnel Authority (the "Authority"), a public benefit corporation which is part of the related financial reporting group of Metropolitan Transportation Authority ("MTA"), as of December 31, 2004 and 2003, 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 the Authority's 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 the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 the Authority, as of December 31, 2004 and 2003, 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 the Authority's 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.



March 1, 2005

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS YEARS ENDED DECEMBER 31, 2004 AND 2003 (AMOUNTS IN THOUSANDS)

1. OVERVIEW OF THE FINANCIAL STATEMENTS

The following is a narrative overview and analysis of the financial activities of the Triborough Bridge and Tunnel Authority ("TBTA") for the years ended December 31, 2004 and 2003. This discussion analysis is intended to serve as an introduction to the TBTA's 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 Triborough Bridge and Tunnel Authority ("TBTA") creditors (liabilities), with the difference between the two reported as net assets.

The Statements of Revenues, Expenses and Changes in Net Assets which show how the TBTA's 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 the TBTA's operations over the twelve months and can be used to determine how the TBTA has funded its costs.

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

The Notes to the Financial Statements Provide

Information that is essential to understanding the financial statements, such as the TBTA's 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 the TBTA.

The notes to the financial statements also describe any other events or developing situations that could materially affect the TBTA's financial position.

Management's Discussion and Analysis

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

TBTA’s operations and capital costs (debt obligations) for its bridges and tunnels are paid by the revenues it generates from its facilities. TBTA’s surplus amounts are used to fund transit and commuter 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 the TBTA’s financial position for the years ended December 31, 2004 and 2003. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the TBTA’s financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America. All amounts are in the thousands.

	As of December 31,		
ASSETS	2004	2003	2002
Current Assets	\$ 336,186	\$ 333,725	\$ 687,831
Noncurrent Assets	<u>3,004,843</u>	<u>2,970,527</u>	<u>2,848,518</u>
Total Assets	<u>\$ 3,341,029</u>	<u>\$ 3,304,252</u>	<u>\$ 3,536,349</u>

Significant Changes in Assets:

Current Assets increased by \$2,461 or 0.7% for the year ended December 31, 2004. The increase was primarily due to increases in investments (\$15,800), prepaid expenses (\$3,500), other receivables (\$4,200) and cash (\$2,500) which were offset by a \$24,600 decrease in insurance claims receivables.

Noncurrent Assets increased by \$34,316 or 1.2% for the year ended December 31, 2004. Two factors are primarily responsible for the change. First, Capital Assets, Net of Accumulated Depreciation increased for the year ended December 31, 2004 by \$186,800. This increase is attributed to the construction projects related to the rehabilitation of the tunnel walls and roadway of the Brooklyn Battery Tunnel, rehabilitation of the Battery-Parking Garage, span and deck replacement at the Bronx Whitestone Bridge, deck replacement at the Triborough Bridge, and structural steel replacement and drainage system repair at the Throgs Neck Bridge. In addition, there was a decrease in long term investments for funds associated with the Capital Program of \$152,006. This was due to increased spending for the 2000-2004 Capital Program.

Current Assets decreased for the year ended December 31, 2003 by \$354,106 or 51.48%. The primary factor responsible for the decrease was the elimination of the need to maintain Debt Service Reserve Funds (“DSRF”) in connection with TBTA’s outstanding debt. The DSRF is no longer a requirement of the bond covenants and was used in 2003 as bond proceeds to fund the MTA Capital Program.

Noncurrent Assets increased by \$122,009 or 4.3% for the year ended December 31, 2003. Three factors are primarily responsible for the change. First, Capital Assets, Net of Accumulated Depreciation, increased for the twelve months ended December 31, 2003 by \$189,300. This increase is attributed to capitalization of construction in progress costs relating to the Brooklyn Battery Tunnel rehabilitation, rehabilitation and decking at Marine Parkway-Gil Hodges Memorial Bridge, replacement of the Bronx approach and Queens-Bronx junction structure, and suspended span deck replacement at the Bronx Whitestone Bridge, and the deck replacement of the Manhattan Plaza and Ramps of Triborough Bridge. The second factor was an increase in the level of spending for the MTA Capital Program which resulted in a decrease of \$74,300 within the long-term investment account. The third factor related to increases in deferred financing costs, premiums and discounts on bonds for the new bond issues series 2003A and 2003B and totaled approximately \$11,500.

	As of December 31,		
TOTAL LIABILITIES	2004	2003	2002
Current Liabilities	\$ 502,116	\$ 438,799	\$ 568,639
Noncurrent Liabilities	<u>7,026,278</u>	<u>6,910,139</u>	<u>6,223,333</u>
Total Liabilities	<u>\$ 7,528,394</u>	<u>\$ 7,348,938</u>	<u>\$ 6,791,972</u>

Significant Changes in Liabilities:

Current liabilities increased by \$63,317 for the year ended December 31, 2004. Four factors are primarily responsible for the change. First, there was an increase in the current portion of long term debt of \$44,852. Second, there was an increase principally, in the annual Surplus amount due MTA and the TA of \$20,600. Third, there was an increase in prepaid tolls revenue of \$13,002 and lastly, there was a decrease in accounts payable of \$11,980, due to a decrease in the construction in progress accrual.

The Noncurrent liabilities for the twelve months ended December 31, 2004 increased by \$116,139. This was primarily due to the new bond issue series 2004A (\$250,000) offset by principal payments (\$73,094) made during 2004 and by the reclassification of long term debt to current (\$44,852).

Current Liabilities decreased by approximately \$129,840, for the year ended December 31, 2003. Three factors are primarily responsible for the change. First, there was an increase of \$47,800 for bond principal and interest payable. Second, there was a decrease in the payable to MTA for the Mortgage Recording Tax (“MRT”) debt of approximately \$216,500. This reduction is attributable to the bond restructuring and deferment of MRT reimbursement from 2002. Third, there are increases associated with the timing of year-end surplus and investment income due to MTA, adjustments to insurance reserves and an increase in accrued expenses of \$14,400, for Construction in Progress.

The Noncurrent liabilities for the twelve months ended December 31, 2003 increased by \$686,806 due to new bond issues series 2003A and 2003B.

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

	Years Ended December 31,		
	2004	2003	2002
OPERATING REVENUES	\$ 1,129,948	\$ 1,068,766	\$ 939,761
OPERATING EXPENSES	<u>(364,808)</u>	<u>(370,230)</u>	<u>(336,547)</u>
OPERATING INCOME	<u>765,140</u>	<u>698,536</u>	<u>603,214</u>
TOTAL NONOPERATING EXPENSES:	<u>(265,580)</u>	<u>(220,907)</u>	<u>(334,749)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	499,560	477,629	268,465
TRANSFERS OUT	<u>(642,239)</u>	<u>(1,266,692)</u>	<u>(211,407)</u>
CHANGES IN EXCESS OF LIABILITIES OVER ASSETS	(142,679)	(789,063)	57,058
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(4,044,686)</u>	<u>(3,255,623)</u>	<u>(3,312,681)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (4,187,365)</u>	<u>\$ (4,044,686)</u>	<u>\$ (3,255,623)</u>

Operating Revenues:

For the year ended December 31, 2004 the Operating Revenues increased by approximately \$61,200 as compared with December 31, 2003. This increase can be attributed to traffic volume growth of 1.8% or \$18,700 and a full year's impact of the toll increase, \$55,500, which was effective May 18, 2003, offset by a decrease in security related reimbursements received from the MTA of \$13,000.

For the year ended December 31, 2003 the Operating Revenue increased by approximately \$129,000 as compared with December 31, 2002. This increase can be attributed primarily to the toll increase which was effective May 18, 2003 and for security-related reimbursements received from the MTA. The increase attributed to the tolls and security related reimbursements for 2003 were \$90,000 and \$37,000 respectively.

Revenue by Major Source:

Bridge and Tunnel tolls accounted for over 97% and 95% of operating revenue in 2004 and 2003, respectively. The remaining revenue primarily represented income from reimbursements for security-related expenses, parking fees (net of operating expenses) collected at the Battery Parking Garage, and fees collected from E-ZPass customers.

Toll revenues were \$1,096,988 for the year ended December 31, 2004. This was \$75,050 more than in 2003. This revenue growth is the result of record high traffic volumes in 2004 and a full year's impact of the toll increase implemented on May 18, 2003. Paid traffic reached 302,900 vehicles in 2004, which was 5,400 vehicles above 2003 volumes; this growth can be attributed to continuing improvement in the regional economy and relatively favorable weather conditions in 2004 compared to 2003.

Toll revenues were \$1,021,938 for the year ended December 31, 2003. This was \$88,838 above levels in 2002. This revenue growth is the result of the toll increase implemented on May 18, 2003. Through April, toll revenues had been down by \$2,500, in 2003 compared to 2002, primarily due to generally unfavorable weather through the winter and early spring months of 2003. From May through the end of the year, revenues in 2003 were over \$90,000 or 14% greater than in 2002, while traffic declined 1.2% over the same period. The May 2003 toll increase had some impact in the year-over-year traffic decline, though it was less significant compared to prior toll increases. The traffic decline was also partly the result of unfavorable weather conditions continuing through the end of the year, including an unusually high incidence of rain.

Operating Expenses:

Operating expenses, including depreciation, decreased for the year ended December 31, 2004 as compared with the prior year by approximately \$5,400. Materials and supplies decreased by \$13,100. This was principally due to a decrease in purchase of E-ZPass Tags. Salaries and wages decreased by \$2,200 offset by an increase in depreciation of \$4,400 and an increase in professional service contracts \$2,600.

Operating expenses, including depreciation, increased for the year ended December 31, 2003 as compared with the prior year by approximately \$33,700. Salary, overtime, and fringe benefits increased by approximately \$18,000 due to additional security related needs. In addition, painting expenses increased by approximately \$6,300 from the prior year. Major Maintenance increased by approximately \$9,100 for roadway repair and standpipe repair at the Verrazano Narrows Bridge.

Nonoperating Expenses:

During 2004 interest expense increased by \$18,800 as compared with the prior year due to a larger debt base. Investment income decreased in 2004 by (\$1,274) as compared to the prior year due to lower fund balances. Insurance claims of \$24,600 recognized as nonoperating revenue in 2003 were paid in 2004.

During 2003, a gain was realized on a bond escrow fund resulting in an increase investment of \$25,014. These funds were used to fund the Transportation Project. Interest expense decreased in 2003 by (\$102,500) as compared with the prior year primarily due to the effects of the bond restructuring and reduced interest rates. Investment income decreased (\$13,260) in 2003 as compared with the prior year due to lower funds balances which included the elimination of the debt service reserve funds and lower interest rates.

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 (New York City, Long Island and Westchester) non-farm employment and national inflation as indicated by the Consumer Price Index for all urban consumers (CPI-U). Based on preliminary data from the U.S. Bureau of Labor Statistics, regional employment grew by 0.7% in 2004 after a decline of 0.9% in 2003. The CPI-U increased by 2.3% and 2.7% in 2004 and 2003 respectively.

Results of Operations

Paid traffic reached an historic high of 302,903 vehicles in 2004, which was 1.8% above 2003's volume of 297,465 vehicles. The increased volume was primarily the result of relatively favorable weather in 2004 compared to 2003 and modest growth in regional employment.

The E-ZPass electronic collection system continued to facilitate the management of record high traffic volumes in 2004. Total E-ZPass market share was 71% at the end of 2004, compared to 70% at year-end 2003. E-ZPass traffic reached 212,252 vehicles in 2004, a 2.3% increase over the 2003 level of 207,560 vehicles. On an average weekday in 2004, 73% of all TBTA traffic and 82% of all trucks used E-ZPass.

Since 2002, TBTA has been replacing E-ZPass tags that are nearing the end of their service lives. This customer service initiative has minimized the potential for operational disruptions by supplying customers with new tags before the older tags expire. By the end of 2004, approximately 1,500 E-ZPass tags were replaced.

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

TBTA's facilities are all in a good state of repair for the years ended December 31, 2004 and 2003. TBTA's portion of the MTA's Capital Program for 2000-2004 totals approximately \$1,029,000 for normal replacement and system improvement projects. The commitments made during 2004 and 2003 totaled \$79,012 and \$241,447 respectively, bringing the total commitments under the five-year plan to \$922,337 and \$834,801 respectively.

Approximately 50% of projected expenditures in the current capital program will be incurred at two facilities: the Triborough Bridge and the Bronx-Whitestone Bridge. The Triborough Bridge Deck Replacement/Viaducts and Suspension Span and Deck Replacement Manhattan Plaza and Ramps project costs for 2004 and 2003 were \$224,600 and \$217,000 which includes replacement of the roadway deck and median barrier from the Bronx toll plaza to the Queens approach structure. The Bronx-Whitestone Bridge Suspension Span Replacement project costs for 2004 and 2003 were \$234,600 and \$232,000 which includes construction for the complete replacement of the roadway deck and associated structural elements, such as new bridge lighting, new electrical feeders, and drainage improvements for the suspended spans. Other major projects in the 2000-2004 Plan include roadway and drainage system rehabilitation at the Brooklyn-Battery Tunnel and replacement of all exhaust fans at the Queens Midtown Tunnel.

6. CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS

The MTA Board passed an increase in the Crossing Charge Schedule on December 16, 2004, and established a monthly account fee for E-ZPass. The new Crossing Charge Schedule will go into effect March 13, 2005. The new E-ZPass fee will go into effect July 1, 2005.

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TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS DECEMBER 31, 2004 AND 2003 (In Thousands)

ASSETS	2004	2003
CURRENT ASSETS:		
Cash, unrestricted (Note 3)	\$ 12,952	\$ 10,405
Investments (Notes 4 and 5):		
Unrestricted	66,989	2,925
Restricted	223,220	271,494
Due from insurance settlement	-	24,600
Accrued interest receivable	842	496
Accounts receivable, net of allowance of \$3,831 in 2004 and \$2,944 in 2003	14,366	13,734
Due from MTA (Note 20)	8,386	4,176
Prepaid expenses	9,431	5,895
	<hr/>	<hr/>
Total current assets	336,186	333,725
NONCURRENT ASSETS:		
Investments (Notes 4 and 5):		
Unrestricted	2,137	129,516
Restricted	217,218	241,845
Capital assets, net (Note 6)	2,465,862	2,279,070
Bond issuance costs	319,626	320,096
	<hr/>	<hr/>
Total noncurrent assets	3,004,843	2,970,527
TOTAL ASSETS	<u>\$ 3,341,029</u>	<u>\$ 3,304,252</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

(In Thousands)

LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	2004	2003
CURRENT LIABILITIES:		
Current portion - long-term obligations (Notes 10 to 12)	\$ 117,946	\$ 73,094
Interest payable due	82,078	84,059
Accounts payable	65,466	77,446
Payable to MTA - capital expense - operating (Note 20)	11,148	8,459
Payable to TA - operating expense (Note 20)	209	160
Accrued salaries	5,637	5,524
Accrued vacation and sick pay benefits	14,442	13,786
Current portion of estimated liability arising from injuries to persons (Note 14)	12,649	14,549
Due to NYCTA (Note 1 and 20)	28,394	23,447
Current portion of capital lease obligation (Note 13)	6,700	6,753
Due to MTA (Note 1 and 20)	53,433	40,507
Due to MTA (Note 20)	-	3
Prepaid tolls revenue (includes \$24,985 and \$17,558 in 2004 and 2003, respectively, due to other toll agencies)	104,014	91,012
Total current liabilities	<u>502,116</u>	<u>438,799</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 14)	6,185	5,466
Escrow Obligation	17,701	17,701
Long-term debt (Notes 9 to 12)	6,885,140	6,767,829
Capital lease obligations - (Note 13)	115,444	115,444
Other long - term liabilities	1,808	3,699
Total noncurrent liabilities	<u>7,026,278</u>	<u>6,910,139</u>
TOTAL LIABILITIES	<u>7,528,394</u>	<u>7,348,938</u>
EXCESS OF LIABILITIES OVER ASSETS:		
Invested in capital assets, net of related debt	1,650,907	1,610,029
Restricted	349,859	1,605,851
Unrestricted	<u>(6,188,131)</u>	<u>(7,260,566)</u>
Total excess of liabilities over assets	<u>(4,187,365)</u>	<u>(4,044,686)</u>
TOTAL LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	<u>\$ 3,341,029</u>	<u>\$ 3,304,252</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, 2004 AND 2003

(In Thousands)

	2004	2003
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,096,988	\$ 1,021,938
Building rentals	9,041	9,766
Other income	23,919	37,062
Total operating revenues	<u>1,129,948</u>	<u>1,068,766</u>
OPERATING EXPENSES:		
Salaries and wages	116,056	118,290
Retirement & other employee benefits	42,347	42,296
Insurance	8,486	8,247
Maintenance and other operating contracts	118,332	116,587
Professional service contracts	13,483	10,840
Materials and supplies	18,324	31,429
Depreciation expense	45,593	41,215
Other expenses	2,187	1,326
Total operating expenses	<u>364,808</u>	<u>370,230</u>
OPERATING INCOME	<u>765,140</u>	<u>698,536</u>
NONOPERATING REVENUES (EXPENSES):		
Gain on Escrow	-	25,014
Escrow Obligation	-	(25,014)
Interest expense (Notes 9 to 12)	(266,763)	(247,964)
World Trade Center Insurance Settlement (Note 21)	-	24,600
Investment income (Notes 1 and 4)	1,183	2,457
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(265,580)</u>	<u>(220,907)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	499,560	477,629
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(153,580)	(178,276)
Metropolitan Transportation Authority	(488,659)	(1,088,416)
CHANGE IN EXCESS OF LIABILITIES OVER ASSETS	(142,679)	(789,063)
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(4,044,686)</u>	<u>(3,255,623)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (4,187,365)</u>	<u>\$ (4,044,686)</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	\$ 1,108,307	\$ 1,022,234
Building rentals received	32,960	46,828
Payments to employees and related costs	(159,866)	(156,076)
Other operating costs	<u>(165,849)</u>	<u>(166,202)</u>
Net cash provided by operating activities	<u>815,552</u>	<u>746,784</u>
CASH FLOWS FOR NONCAPITAL FINANCING ACTIVITIES -		
Subsidies paid to affiliated agencies	<u>(379,003)</u>	<u>(409,679)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES FOR THE AUTHORITY AND AFFILIATES:		
Payment of 2002 debt service	-	(70,289)
Purchase of capital assets	(212,556)	(218,791)
Money proceeds from escrow to be used for capital expenditures	-	42,645
Mortgage Recording Tax funds refunded to MTA	-	(33,633)
Principal payments on Senior, Subordinate and COPS	(73,094)	-
Principal Payments on New Bonds	-	(1,949)
Proceeds from new bond issues	247,105	753,983
Interest payments on Senior, Subordinate and COPS	(310,498)	(287,912)
Capital expended from escrow	-	(13,713)
Payment for Transportation Capital Projects	<u>(247,231)</u>	<u>(867,577)</u>
Net cash used in capital and related financing activities	<u>(596,274)</u>	<u>(697,236)</u>

See notes to financial statements.

(continued)

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2004 AND 2003 (In Thousands)

	2004	2003
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross sales of short-term securities	\$ 27,430,802	\$ 26,694,776
Gross purchases of short-term securities	(27,297,869)	(26,447,340)
Gross sales of long-term securities	6,551	164,400
Gross purchases of long-term securities	(3,577)	(9,845)
Increase (decrease) in MTA investment pool	23,804	(47,162)
Unrestricted income from investments	1,368	2,334
Investment income restricted for capital purposes	<u>1,193</u>	<u>1,422</u>
Net cash provided by investing activities	<u>162,272</u>	<u>358,585</u>
NET INCREASE (DECREASE) IN CASH	2,547	(1,546)
CASH, BEGINNING OF YEAR	<u>10,405</u>	<u>11,951</u>
CASH, END OF YEAR	<u>\$ 12,952</u>	<u>\$ 10,405</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES -		
Income from operations	\$ 765,140	\$ 698,536
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	45,593	41,215
Capitalized salary expense	(12,513)	(8,483)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease in receivables	19,758	1,243
Increase in operating payables	8,631	10,924
(Increase) decrease in prepaid expenses and deferred charges	(3,536)	1,056
(Decrease) increase in accrued salary costs, vacation and insurance	(412)	3,009
Increase in unredeemed toll revenue	(5,533)	(1,607)
(Decrease) increase in other liabilities	<u>(1,576)</u>	<u>891</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 815,552</u>	<u>\$ 746,784</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 and 2003 (In Thousands)

1. BASIS OF FINANCIAL STATEMENTS

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

The Authority operates seven toll bridges, two toll tunnels, and the Battery Parking Garage. All Authority toll facilities operate E-Z Pass in conjunction with a regional electronic toll collection system, E-Z Pass. The Authority's annual net earnings before depreciation and other adjustments ("operating transfer") are transferred to the New York City Transit Authority (the "TA") and the MTA pursuant to provisions of the Act. In addition, the Authority annually transfers its unrestricted investment income to the MTA. The operating transfer and the investment income transfer can be used to fund operating expenses or capital projects. The TA receives \$24,000 plus 50 percent of the Authority's remaining annual operating transfer, as adjusted, to reflect certain debt service transactions and the MTA receives the balance of the operating transfer, as adjusted, to reflect certain debt service transactions, plus the annual unrestricted investment income. Transfers are made during the year on an estimated basis. The remaining amount due at December 31, 2004 and 2003 of \$81,827 and \$63,954 respectively, is recorded as a liability in the Authority's financial statements.

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

	2004	2003
Operating transfer	\$ 395,518	\$ 430,148
Investment income	<u>1,368</u>	<u>2,334</u>
	<u>\$ 396,886</u>	<u>\$ 432,482</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, the Authority 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, the Authority exclusively applies all applicable GASB pronouncements.

Recent Accounting Pronouncements - The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The Authority reviews long-lived assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable. The Authority records the appropriate loss when assets are disposed of or are determined to be impaired. There was no impact on the Authority's financial position and results of operations for the years ended December 31, 2004 and December 31, 2003.

The Authority has not completed the process of implementing GASB Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans. The Authority is therefore unable to prepare the statement of plan net assets, the statement of changes in net assets, notes to the financial statements, and the required supplementary information as prescribed by GASB Statement No. 43. The statement is effective in three phases based on total annual revenues. The first phase (\$100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2005, the second phase (total annual revenues of \$10 million or more but less than \$100 million) is effective for periods beginning after December 15, 2006, and the third phase (annual revenues of less than \$10 million) is effective for periods beginning after December 15, 2007.

The Authority 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 Pensions. The Authority 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. GASB Statement No. 45 is effective in three phases based on total annual revenues. The first phase (\$100 million or more of annual revenues) is effective for financial statement periods beginning after December 15, 2006, the second phase (total annual revenues of \$10 million or more but less than \$100 million) is effective for periods beginning after December 15, 2007, and the third phase (annual revenues of less than \$10 million) is effective for periods beginning after December 15, 2008.

The Authority has not completed the process of implementing GASB Statement No. 46, Net Assets Restricted by Enabling Legislation, an amendment of GASB Statement No. 34. The Authority 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. The statement is effective for fiscal periods beginning after June 15, 2005.

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).

Reclassifications - Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Investments - Investments included in the debt service reserve funds pursuant to the Authority's old bond resolutions are classified as long-term assets. All debt service reserve funds were eliminated

during the Authority's 2002 debt restructuring. It is the Authority's intent to hold its investments to maturity. Investments are recorded on the balance sheet at fair value which is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. All investment income, including changes in the fair value of investments, is reported as revenue (either as investment income or net increase (decrease) in fair value of investments) on the 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 the Authority 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 the Authority has the use and occupancy thereof as long as its corporate existence continues.

Compensated Absences - The Authority 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 the Authority 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 the Authority represent its operating transfer and investment income computed on an accrual basis.

3. CASH

The Bank balances are insured up to \$100,000 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, 2004 and 2003 is due to the petty cash and change funds which are maintained at the various toll facilities and not recorded by the bank. In addition, there was a deposit in transit in each of the years ended December 31, 2004 and 2003.

Cash at December 31 consists of the following:

	2004		2003	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 200	\$ 200	\$ 200	\$ 200
Collateralized deposits	<u>12,752</u>	<u>7,734</u>	<u>10,205</u>	<u>5,189</u>
	<u>\$ 12,952</u>	<u>\$ 7,934</u>	<u>\$ 10,405</u>	<u>\$ 5,389</u>

4. INVESTMENTS

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

	December 31,	
	2004	2003
Investments maturing in 2004 to 2005 under terms of repurchase agreements	\$ 188,891	\$ 119,790
U.S. Treasuries due 2004 to 2016	72,705	325,222
U.S. Treasury Notes	65,949	37,083
MTA Investment Pool	102,513	79,043
Other government agencies	3,006	8,142
Irrevocable deposit account	<u>76,500</u>	<u>76,500</u>
	<u>\$ 509,564</u>	<u>\$ 645,780</u>

The fair value of the above investments consists of \$69,126 and \$132,441 in 2004 and 2003 in unrestricted investments, respectively, and \$440,438 and \$513,339 in 2004 and 2003 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 1.52 percent to 2.41, for the year ended December 31, 2004 and 1.30 percent to 1.94 percent, for the year ended December 31, 2003. The net unrealized (loss) gain on investments for the years ended December 31, 2004 and 2003 were (\$185) and \$123 respectively.

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

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

	December 31,	
	2004	2003
CURRENT:		
Restricted:		
General Purpose Revenue Bonds 1980 Resolution:		
Operating Funds	\$ 32,182	\$ 1,581
Mortgage Recording Tax Obligation Bonds:		
Debt Service Fund	-	16,469
Subordinate Revenue Refunding Bonds:		
Bond Proceeds Fund	75,361	158,304
Debt Service Reserve Fund	41,569	-
Cost of Issuance Fund	8,176	8,211
Debt Service Fund	38,328	25,042
Senior Revenue Bonds	16,669	49,199
Cost of Issuance Fund	9,509	11,861
COPS 2 Broadway	<u>1,426</u>	<u>827</u>
Total current - restricted	223,220	271,494
Current - unrestricted	<u>66,989</u>	<u>2,925</u>
Total - current	<u>\$ 290,209</u>	<u>\$ 274,419</u>
LONG-TERM:		
Restricted:		
Debt Service Reserve Fund:		
General Purpose Revenue Bonds	\$ 1,028	\$ 26,542
General Purpose Debt Service Fund	65,949	-
General Purpose Bond Proceeds Fund	67,083	89,648
Mortgage Recording Tax Obligation Bonds		
Debt Service Reserve Fund	-	41,342
Capital Lease Obligation:		
US Treasury Strips	6,658	6,658
Irrevocable Deposit Account	76,500	76,500
Transportation Project DSF TTP Post '86 (97 SR/MS DSF/TTP)	<u>-</u>	<u>1,155</u>
Total long-term - restricted	217,218	241,845
Total long-term - unrestricted	<u>2,137</u>	<u>129,516</u>
Total - long-term	<u>\$ 219,355</u>	<u>\$ 371,361</u>

The unexpended bond proceeds of the General Purpose Revenue Bonds 1980 Resolution, not including proceeds held for the Transportation Project, were restricted for payment of capital improvements of the Authority's present facilities. The Debt Service Funds are restricted for the payment of debt service as provided by the bond resolutions.

The Authority's accrual of the liability to the federal government for rebate of arbitrage income from tax-exempt borrowings was \$1,353 and \$1,335 at December 31, 2004 and 2003, respectively. In 2004 and 2003, the Authority's transfer of its unrestricted investment income to the MTA was increased by \$0 and \$0 for such arbitrage rebate accruals.

5. MTA INVESTMENT POOL

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

6. CAPITAL ASSETS

	<u>2002</u>	<u>Additions</u>	<u>Deletions</u>	<u>2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>2004</u>
Capital Assets, Not Being Depreciated:							
Land	\$ 27,940	\$ -	\$ -	\$ 27,940	\$ -	\$ -	\$ 27,940
Construction in progress	473,628	209,570	213,066	470,133	195,248	332,870	332,509
Total Capital Assets, Not Being Depreciated	<u>501,568</u>	<u>209,570</u>	<u>213,066</u>	<u>498,073</u>	<u>195,248</u>	<u>332,870</u>	<u>360,449</u>
Capital Assets Being Depreciated:							
Building - 2 Broadway	81,321	594	4,525	77,390	3,567	-	80,957
Primary structures	1,183,053	166,779	-	1,349,832	253,928	-	1,603,760
Toll plazas	206,187	-	-	206,187	-	-	206,187
Toll equipment	98,194	-	-	98,194	5	-	98,199
Buildings	231,673	11,878	-	243,551	68,435	-	311,986
Roadway	226,781	50,767	-	277,548	38,819	-	316,367
Other	47,647	3,984	-	51,631	5,255	-	56,886
Total Capital Assets Being Depreciated	<u>2,074,856</u>	<u>234,002</u>	<u>4,525</u>	<u>2,304,333</u>	<u>370,009</u>	<u>-</u>	<u>2,674,342</u>
Less Accumulated Depreciation:							
Building - 2 Broadway	10,014	3,299	-	13,313	3,264	-	16,577
Primary structures	314,992	10,648	-	325,641	12,772	-	338,413
Toll plazas	69,568	4,646	-	74,214	4,660	-	78,874
Toll equipment	16,963	2,453	-	19,416	2,454	-	21,870
Buildings	34,659	5,698	-	40,357	6,716	-	47,073
Roadway	9,208	8,405	-	17,613	9,900	-	27,513
Other	26,716	6,066	-	32,782	5,827	-	38,609
Total Accumulated Depreciation	<u>482,120</u>	<u>41,215</u>	<u>-</u>	<u>523,336</u>	<u>45,593</u>	<u>-</u>	<u>568,929</u>
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	<u>1,592,736</u>	<u>192,787</u>	<u>4,525</u>	<u>1,780,997</u>	<u>324,416</u>	<u>-</u>	<u>2,105,413</u>
TOTAL CAPITAL ASSETS, NET	<u>\$ 2,094,304</u>	<u>\$ 402,357</u>	<u>\$ 217,591</u>	<u>\$ 2,279,070</u>	<u>\$ 519,664</u>	<u>\$ 332,870</u>	<u>\$ 2,465,862</u>

In 2004 and 2003, capital asset additions include approximately \$12,500 and \$8,500 respectively, of costs incurred by engineers working on capital projects.

The Authority's 1992-1999 Capital Program, which was developed to rehabilitate the Authority's bridges and tunnels, totals \$1,148,521. Over the 1992 to 1999 period, the Authority committed \$1,144,559 under the Capital Program for such activities.

The Authority's 2000-2004 Capital Program totals approximately \$1,029,000. Total amounts committed through December 31, 2004 and 2003 totaled \$922,337 and \$834,800 respectively.

7. EMPLOYEE BENEFITS

Most employees of the Authority are members of the New York City Employees' Retirement System ("NYCERS"), which is a cost sharing, multi-employer retirement system. Of the Authority's total payroll costs, including the cost of capital engineers charged to capital projects, approximately \$116,244 or 90.4 percent (2004) and \$111,477 or 89.5 percent (2003) of such costs relate to employees who participate in NYCERS.

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

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

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

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

Employee contributions amounted to \$7,834 (6.09 percent of covered payroll) and \$7,665 (6.15 percent of covered payroll) in 2004 and 2003, respectively. For 2004 and 2003, employer contributions of approximately \$4,982 and \$977, respectively, were equal to or in excess of the actuary's recommendation, plus interest.

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

Postretirement Benefits - In addition to providing pension benefits, the Authority provides certain health care and life insurance benefits for retired employees. Substantially all of the Authority's employees who are members of NYCERS may become eligible for those benefits if they reach normal retirement age while working for the Authority. The insurance premiums for these benefits are recorded on a pay-as-you-go basis and totaled \$9,532 and \$8,612 in 2004 and 2003, respectively. No contribution is made by participants. As of December 31, 2004, and 2003, 1,379 and 1,366 retirees, including spouses and dependents, met those eligibility requirements.

8. THE TRANSPORTATION PROJECT

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 The Long Island Rail Road Company (“LIRR”) and the Metro-North Commuter Railroad Company (“MNCRC”) (as amended to December 31, 2004, the “2000-2004 Commuter Capital Program”), (2) the transit system operated by the New York City Transit Authority (the “Transit Authority”) and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority (“MaBSTOA”), and the rail system operated by the Staten Island Rapid Transit Operating Authority (“SIRTOA”) (as amended to December 31, 2004, the “2000-2004 Transit Capital Program”) and (3) the toll bridges and tunnels operated by the Authority (as amended to December 31, 2004, the “2000-2004 TBTA Capital Program”). The 2000-2004 TBTA Capital Program was effective upon adoption by the Board of the Authority. The 2000-2004 Commuter Capital Program and the 2000-2004 Transit Capital Program (collectively, the “2000-2004 MTA Capital Programs”) have been approved by the Metropolitan Transportation Authority Capital Program Review Board (the “Review Board”) and are also effective. The Review Board consists of one member each appointed by the Governor of the State, the Majority Leader of the State Senate and the Majority Leader of the State Assembly and, in the case of transit programs only, the Mayor of the City of New York.

The 2000-2004 MTA Capital Programs and the TBTA 2000-2004 Capital Program provide for \$20,364,000 in capital expenditures, of which \$10,081,000 relates to ongoing repairs of, and replacements to, the Transit System operated by the Transit Authority and MaBSTOA and the rail system operated by SIRTOA; \$3,854,000 relates to ongoing repairs of, and replacements to, the commuter system operated by LIRR and MNCRC; \$4,365,000 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 \$619,000 for a security program throughout the transit, commuter and bridge and tunnel network); \$819,000 relates to planning and design and customer service projects; \$217,000 relates to World Trade Center repair projects; and \$1,029,000 relates to the ongoing repairs of, and replacements to, bridge and tunnel facilities operated by the Authority.

The combined funding sources for the 2000-2004 MTA Capital Programs and the TBTA 2000-2004 Capital Program include \$7,919,000 in bonds, \$6,208,000 in Federal funds, \$4,505,000 from the proceeds of the MTA/TBTA debt restructuring in 2002 and \$1,732,000 from other sources.

The following summarizes the proposed amendments to the 2000-2004 MTA Capital Programs that have been approved by the MTA Board in December 2004, but not by the Review Board:

- Added MTA Bus Company as a recipient of capital program funding in the amount of \$454,500, with \$132,000 of reprogrammed Federal funds originally allocated to the City for bus purchases being transferred to the MTA, and \$322,500 being reallocated from the LaGuardia Airport Access project currently set forth in the 2000-2004 MTA Capital Programs. The LaGuardia Airport Access project is not being progressed at this time. The Review Board has approved in a prior amendment \$80,000 for an initial purchase of express buses, as well as facilities improvements for the private City bus franchises to be acquired by the MTA.
- Revised project budgets and schedules to reflect awards made, new estimates-at-completion, or revised investment strategies.

- Made adjustments to the program funding plan that reflected experience to date and modified projections.

The December 2004 Amendments were submitted to the Review Board in January 2005. MTA is awaiting a response from the Review Board.

2005-2009 Capital Programs

On September 29, 2004, the MTA Board approved the submission to the Review Board of a proposed Transit and Commuter Capital Program for 2005-2009 (the “Proposed 2005-2009 MTA Capital Program”) that includes core capital, system expansion and security programs. The 2005-2009 TBTA Capital Program does not require approval by the Review Board. The highlights of the 2005-2009 Capital Programs are as follows:

- The core Proposed 2005-2009 Capital Program relates to state of good repair, normal replacement and system improvement and totals \$17,200,000, allocated as follows: Transit System – \$12,100,000; Commuter System – \$2,400,000 in expenditures for LIRR and \$1,400,000 in expenditures for MNCRC; Bridges and Tunnels – \$1,300,000 for heavy deck, structural and cable rehabilitation work begun in the prior program, with particular emphasis on rehabilitation of the Bronx-Whitestone, Triborough and Verrazano-Narrows Bridges. With respect to the core Proposed 2005-2009 Capital Program, MTA expects that approximately \$4,500,000 will be funded with Federal funds and \$1,400,000 with MTA non-bond contributions consisting of potential asset sales, investment income, and surplus funds from prior programs. The remaining \$11,300,000 must be filled by other sources that are not yet identified, such as MTA/TBTA debt, new revenues and State and/or City subsidies.
- The system expansion projects, which are managed by MTA Capital Construction, total \$9,900,000 and consist of the following: East Side Access – \$4,600,000 to complete this project, funded half by Federal funds and half by MTA sources, including MTA debt; Second Avenue Subway – \$2,800,000 for the initial operating segment of the full-length subway project (96th Street to 63rd Street), funded half by Federal funds and half by MTA sources, including MTA debt; Extension of the #7 Line – \$1,990,000 to extend the #7 subway line west down 42nd Street, then south down 11th Avenue, expected to be funded by the City; Lower Manhattan Rail Link to JFK – \$400,000 as MTA’s contribution to the initial design of this rail line; \$120,000 for administration and miscellaneous project costs not eligible for Federal reimbursement and for general management of the projects.
- A security program totaling \$495,000 for security projects throughout the MTA/TBTA system. MTA expects to pursue Federal funding for these projects; in the absence of Federal funding, alternate funding sources will need to be identified.
- In addition, the program includes an interagency section to forward MTA Police Projects and agency wide systems development.

The sources of funding listed above are preliminary in nature and do not reflect actual contractual agreements with the Federal government, the City or others to provide the listed amounts of funding.

The 2005-2009 TBTA Capital Program was effective upon adoption by the Board and did not require Review Board approval. The Proposed 2005-2009 MTA Capital Program (affecting the transit and commuter program) was vetoed by the Review Board in late December 2004 pending further discussions on how to fund the program in the context of other Statewide needs. MTA expects that the Proposed 2005-2009 MTA Capital Program (subject to revisions) will be submitted to the Review Board for

approval after negotiations are concluded with the Governor's office, the State Legislature and, in the case of the transit program, the City.

In the absence of an approved 2005-2009 MTA Capital Program (affecting the transit and commuter program), the MTA Board has approved a first quarter 2005 interim Capital Program that authorizes the expenditure of \$309,000 in Federal Funds, City moneys, available cash and TBTA bond proceeds for transit, commuter and bridge and tunnel projects. The bulk of these projects provide for the basic maintenance of the transit and commuter systems' infrastructure – track, signals and power.

The breakdown of the interim first quarter Capital Program by agency is as follows:

- Transit Authority – \$200,000 in expenditures, funded by \$113,300 in Federal funds, \$22,500 in City funds and \$64,200 in cash.
- LIRR – \$40,100 in expenditures, funded by \$27,600 in Federal funds and \$12,500 in cash.
- MNCRC – \$53,400 in expenditures, funded by \$39,200 in Federal funds and \$14,300 in cash.
- TBTA – \$9,700 in expenditures, funded by TBTA bond proceeds.
- MTA Capital Construction – \$4,500 in expenditures, funded by cash.
- MTA Police – \$1,300 in expenditures, funded by cash.

9. LONG-TERM DEBT

The Authority 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 the Authority's issuance of long-term debt in 2004:

- \$250,000 Subordinate Revenue Bonds, Series 2004A – The net proceeds of the Series 2004A Bonds were used to finance the Transportation Project.

The following represents the Authority's issuance of long-term debt in 2003:

- \$500,170 Subordinate Revenue Bonds, Series 2003A – The net proceeds of the Series 2003A Bonds were used to finance the Transportation Project.
- \$250,000 General Revenue Variable Rate Bonds, Series 2003B – The net proceeds of the Series 2003B Bonds were used to finance certain improvements to the Authority's bridges and tunnels.

The Authority's long-term debt is comprised of the following:

	December 31,	
	2004	2003
General Revenue Bonds (Note 10)	\$ 4,461,015	\$ 4,555,520
Subordinate Revenue Bonds (Note 11)	2,379,171	2,170,561
2 Broadway Certificates of Participation (Note 12)	<u>44,954</u>	<u>41,748</u>
 Total Long-Term Debt, Net of Premiums and Discounts	 <u>\$ 6,885,140</u>	 <u>\$ 6,767,829</u>

10. LONG - TERM DEBT – SENIOR REVENUE BONDS

Senior Revenue Bonds consist of the following:

	December 31,	Issued	Principal Repayments made during 2004	December 31,
	2003			2004
Series EFC 1996A	\$ 22,510	\$ -	\$ 1,070	\$ 21,440
Series 2001A, 5.77%, due through 2032	1,125,720	-	-	1,125,720
Series 2001B&C, 4.10%-5.25%,	296,400	-	-	296,400
Series 2002A	268,300	-	-	268,300
Series 2002B	2,157,065	-	37,990	2,119,075
Series 2002C	103,305	-	-	103,305
Series 2002F	246,480	-	-	246,480
Series 2003B	<u>250,000</u>	<u>-</u>	<u>-</u>	<u>250,000</u>
	<u>4,469,780</u>	<u>-</u>	<u>39,060</u>	<u>4,430,720</u>
Add net unamortized bond discount and premium	124,800	-	-	107,705
	<u>\$ 4,594,580</u>	<u>\$ -</u>	<u>\$ 39,060</u>	<u>\$ 4,538,425</u>

Debt Service Requirements:

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2005	\$ 77,410	\$ 216,927	\$ 294,337
2006	80,870	213,373	294,243
2007	78,335	209,767	288,102
2008	87,965	205,657	293,622
2009	92,475	201,676	294,151
2010-2014	514,610	931,285	1,445,895
2015-2019	683,885	772,543	1,456,428
2020-2024	805,685	583,603	1,389,288
2025-2029	1,050,785	351,218	1,402,003
2030-2034	<u>958,700</u>	<u>73,501</u>	<u>1,032,201</u>
	<u>\$ 4,430,720</u>	<u>\$ 3,759,550</u>	<u>\$ 8,190,270</u>

11. LONG - TERM DEBT – SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds consist of the following:

	December 31, 2003	Issued	Principal Repayments made during 2004	December 31, 2004
Series 2000A	\$ 174,500	\$ -	\$ 7,100	\$ 167,400
Series 2000B	69,800	-	2,900	66,900
Series 2000C	151,300	-	6,090	145,210
Series 2000D	92,900	-	3,810	89,090
Series 2002D	261,700	-	-	261,700
Series 2002E	756,095	-	-	756,095
Series 2002G	181,025	-	-	181,025
Series 2003A	500,170	-	13,170	487,000
Series 2004A	-	250,000	-	250,000
	<u>2,187,490</u>	<u>250,000</u>	<u>33,070</u>	<u>2,404,420</u>
Add net unamortized bond discount and premium	<u>16,141</u>	<u>-</u>	<u>-</u>	<u>14,286</u>
	<u>\$ 2,203,631</u>	<u>\$ 250,000</u>	<u>\$ 33,070</u>	<u>\$ 2,418,706</u>

Debt Service Requirements:

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2005	\$ 39,535	\$ 116,671	\$ 156,206
2006	40,170	115,251	155,421
2007	43,235	112,483	155,718
2008	44,170	111,309	155,479
2009	47,695	107,877	155,572
2010-2014	275,315	500,220	775,535
2015-2019	406,635	417,650	824,285
2020-2024	471,965	313,931	785,896
2025-2029	595,925	189,478	785,403
2030-2034	<u>439,775</u>	<u>42,890</u>	<u>482,665</u>
	<u>\$ 2,404,420</u>	<u>\$ 2,027,760</u>	<u>\$ 4,432,180</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 and Metro-North Commuter-Railroad Company, and TBTA (Notes 13 and 20). The Transit Authority is obligated to pay 68.7 percent of the debt service, the MTA 21.0 percent and TBTA 10.3 percent.

Certificates of Participation

	2003	2004
Serial Bonds, 4.60%-5.625% due 2005-2015	\$ 13,156	\$ 9,812
Term Bonds, 5.40% due 2019	4,823	-
Term Bonds, 5.75% due 2020	1,953	-
Term Bonds, 5.25% due 2029	17,472	-
Term Bonds, 5.86% due 2030	6,035	-
Variable rate Certificates of Participation due 2030	<u>-</u>	<u>36,866</u>
Subtotal	43,439	46,678
Unamortized discount	(844)	(828)
Unamortized premium	<u>117</u>	<u>105</u>
	<u>\$ 42,712</u>	<u>\$ 45,955</u>

TBTA's share of the debt service requirements:

Certificates of Participation

Year Ending December 31	Principal	Interest	Aggregate Debt Service
2005	\$ 1,001	\$ 1,774	\$ 2,775
2006	1,288	1,716	3,004
2007	910	1,672	2,582
2008	440	1,622	2,062
2009	1,013	1,562	2,575
2010-2014	8,091	6,735	14,826
2015-2019	9,095	5,076	14,171
2020-2024	10,963	3,270	14,233
2025-2029	13,217	1,091	14,308
2030	<u>660</u>	<u>-</u>	<u>660</u>
	<u>\$ 46,678</u>	<u>\$ 24,518</u>	<u>\$ 71,196</u>

13. CAPITAL LEASE OBLIGATIONS

2 Broadway

During 1998, the MTA, TA, and TBTA entered into an agreement with the United States Trust Company of New York (collectively, the "Trust") to provide for the lease of an office building located at 2 Broadway in New York City. Subsequently, the same parties provided for the delivery of certain certificates of participation to finance building and tenant improvements at 2 Broadway (Note 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 TBTA based upon usage.

TBTA 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, 2004 and 2003 of \$38,985 and \$39,038 respectively.

Subway Cars

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

The Authority made capital lease obligation payments of \$0 in 2004 and 2003, respectively, which were funded by the aforementioned investments. At December 31, 2004 and 2003, 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, the Authority has the option to purchase the subway cars for approximately \$106,000, which amount has been reflected in the net present value of the lease obligation, or to make a lease termination payment of approximately \$89,000, which is expected to be covered by the irrevocable deposit.

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

	2004	2003
2 Broadway	\$ 38,985	\$ 39,038
Subway cars	<u>83,159</u>	<u>83,159</u>
	122,144	122,197
Less current portion	<u>(6,700)</u>	<u>(6,753)</u>
	<u>\$ 115,444</u>	<u>\$ 115,444</u>

Minimum lease payments are as follows:

Twelve Months Ended December 31	Aggregate Lease Payments
2005	\$ 10,968
2006	11,043
2007	11,126
2008	11,322
2009	11,472
2010-2014	58,767
2015-2019	146,922
2020-2024	33,116
2025-2029	34,615
2030-2034	34,127
Thereafter	<u>61,523</u>
Minimum future lease payments	425,001
Less amount representing interest	<u>302,857</u>
	<u>\$ 122,144</u>

Total accumulated depreciation under capital leases was approximately \$16,577 and \$13,313 in 2004 and 2003, respectively.

14. RISK MANAGEMENT

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

The Authority is self-insured up to \$1,400 per occurrence for liability arising from injuries to persons, excluding employees. The Authority is self-insured for work-related injuries to employees and for damage to third-party property. The Authority provides reserves to cover the self-insured portion of these claims, including a reserve for claims incurred but not reported. The annual cost arising from injuries to employees and damage to third-party property is included in "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,	
	2004	2003
Balance, beginning of year	\$ 20,015	\$ 15,159
Activity during the year:		
Current year claims and changes in estimates	3,891	4,931
Claims paid	<u>(5,072)</u>	<u>(75)</u>
Balance, end of year	18,834	20,015
Less current portion	<u>(12,649)</u>	<u>(14,549)</u>
Long-term liability	<u>\$ 6,185</u>	<u>\$ 5,466</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 the Authority, 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, 2003, the MTA renewed an all-agency catastrophic liability insurance policy providing limits of \$150,000. 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 the Authority, 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 \$1,000,000 per occurrence covers all property of the Authority, 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 for 90% of losses, subject to an annual cap on all losses payable under TRIA of \$100,000,000. The remaining 10% of losses would be covered under an additional policy described in the next sentence. 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 the Authority. In view of the foregoing and since the State is obligated to make rental payments equal to the debt service on these bonds pursuant to its sublease and the Authority has no obligation for the operation and maintenance of the Convention Center, the Authority does not include the Convention Center bond liability and other related accounts in its financial statements. The Authority continues to collect rental payments from the State and deposits such sums with paying agents for the bonds.

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

	2004	2003
Assets:		
Debt Service Fund	\$ 33,893	\$ 33,009
Future sublease receivables due from New York State	<u>222,785</u>	<u>246,884</u>
	<u>\$ 256,678</u>	<u>\$ 279,893</u>
Liabilities:		
Convention Center Bonds	\$ 222,785	\$ 246,884
Bond principal due 2005 and 2004	25,940	24,180
Interest payable due January 1, 2005 and 2004	<u>7,953</u>	<u>8,829</u>
	<u>\$ 256,678</u>	<u>\$ 279,893</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.

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

17. COMMITMENTS AND CONTINGENCIES

At December 31, 2004 and 2003, the Authority had unused standby letters of credit, relative to insurance, amounting to \$2,712.

The Authority 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 the Authority.

18. SWAP AGREEMENTS

Board-adopted Guidelines. The Authority adopted guidelines governing the use of swap contracts to manage the interest rate exposure of its debt. The Guidelines establish specific requirements that must be satisfied for the Authority to enter into a swap contract.

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, the Authority entered into separate pay-fixed, receive-variable interest rate swaps at a cost anticipated to be less than what it 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, 2004) were lower than market interest rates on the effective date of the swaps. Consequently, as of the valuation date, the swaps had negative fair values.

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. The Authority is not aware of any event that would lead to a termination event with respect to any of its existing swaps. See “*Termination Risk*” below.

Terms and Fair Values. The terms, fair values and counterparties of the outstanding swaps of the Authority are as follows:

TBTA

<u>Associated Bond Issue</u>	<u>Notional Amounts as of 12/31/04 (Unaudited) (in millions)</u>	<u>Effective Date</u>	<u>Fixed Rate Paid</u>	<u>Variable Rate Received</u>	<u>Fair Values as of 12/31/04 (Unaudited) (in millions)</u>	<u>Swap Termination Date</u>	<u>Counterparty</u>
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B ⁽³⁾	\$234.300	01/01/01	6.08 %	Actual bond rate	\$(45.919)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D ⁽³⁾	234.300	01/01/01	6.07	Actual bond rate	(44.350)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C ⁽⁴⁾	278.000	01/01/02	5.777	Actual bond rate	(42.996)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2002C ⁽⁵⁾	85.800	01/01/00	5.634	Actual bond rate	(13.044)	01/01/13	Ambac Financial Services, L.P.
Subordinate Revenue Variable Rate Refunding Bonds, 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	(1.740)	01/01/18	JPMorgan Chase Bank
Subordinate Revenue Variable Rate Refunding Bonds, 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	(1.729)	01/01/18	JPMorgan Chase Bank
Total	\$1,013.425				\$(149.778)		

⁽³⁾ In accordance with a swaption entered into on August 12, 1998 with each Counterparty paying a premium of \$22,740,000.

⁽⁴⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of \$19,204,000.

⁽⁵⁾ In accordance with a swaption entered into on February 24, 1999 with the Counterparty paying a premium of \$8,400,000.

In addition to the foregoing, MTA, the Transit Authority and the Authority 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. The Transit Authority is responsible for \$245,900,000 notional amount of the swaps, MTA for \$75,150,000 aggregate notional amount, and the Authority for \$36,875,000 aggregate notional amount. As of December 31, 2004, the aggregate unaudited fair value of the Authority's portion of the swaps was approximately \$(1 million).

Counterparty Ratings

The current ratings of the counterparties, or their credit support providers, on existing swaps with the Authority 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+
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 amounts and the outstanding principal amounts as of December 31, 2004 for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

Associated Bond Issue	Principal Amount of Bonds (in millions)	Notional Amount (in millions)
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	\$296.400	\$278.000
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	103.305	85.800

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 the Authority's perspective, the following risks are generally associated with swap agreements:

- **Credit Risk** – The counterparty becomes insolvent or is otherwise not be able to perform its financial obligations. In the event of a deterioration in the credit ratings of the counterparty or the Authority, 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 the Authority 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 the Authority 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 the Authority.
- **Termination Risk** – The swap agreement will be terminated and the Authority will be required to make a large 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 the Authority may be exposed to then market rates and cease to get the benefit of the synthetic fixed rate for the duration of the bond issue.

Credit Risk. The following table shows the diversification, by percentage of notional amount, among the various counterparties that have entered into ISDA Master Agreements with the Authority or in connection with the 2 Broadway Certificates of Participation refunding. The counterparties have the ratings set forth above.

<u>Counterparty</u>	<u>Notional Amount (in millions)</u>	<u>% of Total Notional Amount</u>
Citigroup Financial Products Inc.	\$ 512.300	48.8%
Bear Stearns Capital Markets Inc.	234.300	22.3
JPMorgan Chase Bank	181.025	17.2
Ambac Financial Services, L.P.	85.800	8.2
UBS AG	36.875	3.5
Total	\$1,050.300	

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 TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B,
- Citigroup Financial Products Inc. with respect to the TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D,

- Citigroup Financial Products Inc. with respect to the TBTA 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 the Authority 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 table sets forth the ratings criteria and threshold amounts relating to the posting of collateral set forth for the Authority 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, SERIES 2004A			
<u>Associated Agencies</u>	<u>Counterparty</u>	If the highest rating of the MTA Transportation Revenue Bonds falls to	Then MTA, TBTA and the Transit Authority must post collateral if its estimated termination payments are in excess of
TBTA	UBS AG	<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 S&P & Moody's, or <u>S&P</u> – BBB and below or unrated	\$0

TBTA			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	If the highest rating of the related TBTA 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>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	N/A – Because TBTA's swap payments are insured, TBTA 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.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	N/A – Because TBTA's swap payments are insured, TBTA 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.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	N/A – Because TBTA's swap payments are insured, TBTA 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.	
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	N/A – Because TBTA's swap payments are insured, TBTA 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.	
TBTA Subordinate Revenue Variable Rate Refunding Bonds – Series 2002G-1 and Series 2002G-2	JPMorgan Chase Bank	<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 the Authority's bond resolutions, 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, the Authority has structured each of the swaps (other than the 2 Broadway swaps) in a manner that will permit the Authority to bond the termination payments under any available bond resolution.

The payments relating to debt service on the 2 Broadway swaps are parity obligations with respect to the sublease payments under the 2 Broadway Certificates of Participation, payable solely from available revenues after the payment of the outstanding revenue bonds and additional parity and subordinate bonds.

All other payments, including the termination payments, are payable from substantially the same pool of available revenues after the payment of the outstanding revenue bonds and additional parity and subordinate bonds.

The ISDA Master Agreement sets forth certain termination events applicable to all swaps entered into by the parties to that ISDA Master Agreement. The Authority 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.

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

TBTA		
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>Additional Termination Events</u>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000A and 2000B Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2000A or 2000B Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2000C and 2000D Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2000C or 2000D Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2001B and 2001C Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2001B or 2001C Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Financial Security Assurance Inc.</p>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.P.	<p>1. TBTA can elect to terminate the swap on 10 Business Days' notice if the Series 2002C Bonds are converted to a fixed rate, the fixed rate on the converted Bonds is less than the fixed rate on the swap and TBTA demonstrates its ability to make the termination payments, <u>or</u> TBTA redeems a portion of the Series 2002C Bonds and demonstrates its ability to make the termination payments.</p> <p>2. Negative financial events relating to the swap insurer, Ambac Assurance Corporation.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	<p>1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.</p> <p>2. TBTA may terminate the swap at no cost on or after December 29, 2010.</p>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	JPMorgan Chase Bank	<p>1. The ratings by S&P and Moody's of the Counterparty or the MTA Transportation Revenue Bonds falls below "BBB-" and "Baa3", respectively, or are withdrawn.</p> <p>2. TBTA may terminate the swap at no cost on or after January 5, 2011.</p>

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

<u>Associated Bond Issue</u>	<u>Bond Maturity Date</u>	<u>Swap Termination Date</u>
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001 B and 2001C	01/01/32	01/01/19
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	01/01/33	01/01/13
TBTA 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 the Authority 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 the Authority on or after January 5, 2011.

It should also be noted that, in connection with the TBTA 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, the Authority 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 the Authority decided to readjust the sinking fund schedules, the Authority would be exposed to rollover risk at the swap termination date. The Authority 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. The Authority 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 the Authority'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.

TBTA (in millions)				
	<u>Variable-Rate Bonds</u>			
<u>Year Ending December 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Payments</u>	<u>Total</u>
2005	\$20.8	\$41.3	\$14.4	\$76.5
2006	22.1	40.3	13.5	75.9
2007	23.5	39.1	12.6	75.2
2008	31.3	38.6	11.5	81.3
2009	33.6	36.7	11.1	81.3
2010-2014	213.9	160.3	38.2	412.5
2015-2019	282.8	107.2	7.7	397.6
2020-2024	134.0	71.8	-	205.8
2025-2029	169.5	39.9	-	209.4
2030-2034	118.0	6.5	-	124.4

19. OPERATING LEASES

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

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

Twelve Months Ending December 31	Lease Payments
2005	\$ 2,405
2006	2,405
2007	2,405
2008	2,405
2009	2,405
2010-2014	2,405
2015-2019	2,405
2020-2024	2,405
2025-2029	2,405
2030-2034	2,405
Thereafter	<u>81,775</u>
Minimum future lease payments	<u>\$ 105,825</u>

20. RELATED PARTY TRANSACTIONS

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

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

Due from/to MTA and affiliated agencies consists of the following at December 31, 2004 and 2003:

	<u>2004</u>		<u>2003</u>	
	Receivable	(Payable)	Receivable	(Payable)
Due From (Due To) MTA	\$ 8,386	\$ (64,581)	\$ 4,176	\$ (48,969)
Due From (Due To) Affiliated Agencies	<u>-</u>	<u>(28,603)</u>	<u>-</u>	<u>(23,607)</u>
Total MTA and affiliated agencies	<u>\$ 8,386</u>	<u>\$ (93,184)</u>	<u>\$ 4,176</u>	<u>\$ (72,576)</u>

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 TBTA's 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, the Authority 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 the Authority over a 30 year period commencing January 1, 2004.

22. POTENTIAL SALE OF WEST SIDE YARD

The Authority is currently the owner of the John D. Caemmerer West Side Yard (the “West Side Yard”) located between 30th and 33rd Streets and 10th and 12th Avenues in Manhattan. The West Side Yard is currently used as a commuter rail car and locomotive storage yard with support facilities for LIRR. The provision of the Authority’s governing statute that authorized the acquisition by the Authority of the West Side Yard also authorized the Authority to transfer title to the West Side Yard to MTA for a nominal amount. On February 22, 2005, the MTA solicited interest for the sale or lease of the air space and related real property interests above the western portion of the West Side Yard for development. It is expected that the MTA will solicit interest for the sale or lease of the air space and related real property interests above the eastern portion of the West Side Yard in the future. In the event the MTA selects a developer for all or any portion of the site, it is expected that the Authority will transfer title to the West Side Yard to the MTA for nominal value. It is the MTA’s expectation that substantially all of the net proceeds of any development sale or lease will be applied to the transit and commuter capital programs.

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