

***Triborough Bridge and
Tunnel Authority***

Independent Auditors' Report

Financial Statements

Years Ended December 31, 2003 and 2002

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, 2003 and 2002, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Authority, as of December 31, 2003 and 2002, and the results of its operations, changes in excess of liabilities over assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 10 is not a required part of the 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.

Deloitte & Touche LLP

April 8, 2004

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (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, 2003 and 2002. 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, 2003 and 2002. Additionally, an examination of major economic factors and industry trends that have contributed to these changes is provided. It should be noted that for purposes of the MD&A, summaries of the financial statements and the various exhibits presented are in conformity with the TBTA’s financial statements, which are presented in accordance with accounting principles generally accepted in the United States of America.

	As of December 31,		
ASSETS	2003	2002	2001
Current Assets	\$ 333,725	\$ 687,831	\$ 490,873
Noncurrent Assets	<u>2,970,527</u>	<u>2,848,518</u>	<u>3,436,080</u>
Total Assets	<u>\$ 3,304,252</u>	<u>\$ 3,536,349</u>	<u>\$ 3,926,953</u>

Significant Changes in Assets -

Current Assets decreased for the year ended December 31, 2003 by \$354,106 or 51.48 percent. 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.

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

Noncurrent Assets increased by approximately \$126,500 or 4.4 percent. Three factors are primarily responsible for the change. First, Capital Assets, Net of 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.

The noncurrent assets decreased for the year ended December 31, 2002 by \$587,562 or 17.1 percent.

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

	As of December 31,		
TOTAL LIABILITIES	2003	2002	2001
Current Liabilities	\$ 438,799	\$ 568,639	\$ 618,600
Long-Term Liabilities	<u>6,910,139</u>	<u>6,223,333</u>	<u>6,621,034</u>
Total Liabilities	<u>\$ 7,348,938</u>	<u>\$ 6,791,972</u>	<u>\$ 7,239,634</u>

Significant Changes in Liabilities -

Current Liabilities decreased by approximately \$129,840 or 22.83 percent for the year ended December 31, 2003. Three factors are primarily responsible for the change. First, there was an increase of \$47,800 due to 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.

Current liabilities decreased by approximately \$50,000 or 8.1 percent for the year ended December 31, 2002. This is attributed to a \$152,000 decrease in current bond principal payables and a \$104,000 decrease in interest payable. In addition, during 2002, the MTA provided to the TBTA cash for bond restructuring which resulted in an increase in the Due to MTA account of \$216,000 which offset such decreases. There were also increases to accrued vacation and sick leave balances and an increase to the prepaid toll account.

The Non-Current liabilities for the twelve months ended December 31, 2003 increased by approximately \$686,806 or 11.04 percent due to new bond issues series 2003A and 2003B.

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

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

	Years Ended December 31,		
	2003	2002	2001
OPERATING REVENUES	\$ 1,068,766	\$ 939,761	\$ 922,689
OPERATING EXPENSES	<u>(370,230)</u>	<u>(336,547)</u>	<u>(287,994)</u>
OPERATING INCOME	<u>698,536</u>	<u>603,214</u>	<u>634,695</u>
TOTAL NONOPERATING EXPENSES:	<u>(220,907)</u>	<u>(334,749)</u>	<u>(116,043)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	477,629	268,465	518,652
TRANSFERS OUT	<u>(1,266,692)</u>	<u>(211,407)</u>	<u>(1,315,339)</u>
CHANGES IN EXCESS OF LIABILITIES OVER ASSETS	(789,063)	57,058	(796,687)
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(3,255,623)</u>	<u>(3,312,681)</u>	<u>(2,515,994)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (4,044,686)</u>	<u>\$ (3,255,623)</u>	<u>\$ (3,312,681)</u>

Operating Revenues:

For the year ended December 31, 2003 the Operating Revenue increased by \$129,000 or 13.7 percent 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.

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

Operating Expenses:

Operating expenses, including depreciation, increased 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.

Operating Expenses, including depreciation, increased for the year ended December 31, 2002 as compared with the prior year by approximately \$48,553. The increase in salary and fringe benefits are associated with the full year costs of security requirements since September 11, 2001. During 2002 the TBTA also undertook the process of automatically replacing previously issued E-ZPass tags that are nearing the end of their useful life. More than 600,000 tags were replaced and the cost was approximately \$16,000. Increased costs related to bridge painting were also realized in 2002, in the amount of \$8,000. In addition, the TBTA's insurance payments increased by roughly \$8,000.

Revenue by Major Source:

Bridge and tunnel tolls accounted for over 95 percent of operating revenue in both 2003 and 2002. 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 special fees charged to E-ZPass customers.

Toll revenues were approximately \$1,021,938 in 2003, \$88,838 or 9.5 percent 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, or .5 percent 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 percent greater than in 2002, while traffic declined 1.2 percent 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.

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

Nonoperating Expenses:

During 2003, a gain was realized (\$25,014,093) on securities sold by the bond trustee. These funds were used to fund the Transportation Project.

Interest expense decreased as compared with the prior year primarily due to the reduction in interest rates on the new bonds issued during the 2002 debt restructure.

Investment income decreased 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.

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

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

Economic Conditions

The 2004 Budget for toll revenues incorporates the latest economic forecast issued by the MTA. The economic projections for 2004 include a 0.98 percent increase in regional (New York City, Long Island and Westchester) employment over the prior year's level and a national average inflation rate of 1.54 percent. The 2003 Budget included a .90 percent increase in regional employment and a national inflation rate of 2.67 percent. Current trends in traffic patterns stemming from changes in post September 11th traffic restrictions have also been factored into the 2004 Budget. The 2003 Budget was impacted by the harsh winter weather as well as the changed traffic patterns and conditions resulting from September 11, 2001, and the toll increase which took effect on May 18, 2003.

Results of Operations

Paid traffic reached 297,178 vehicles in 2003, a decline of 0.9 percent from the record high of 299,995 vehicles in 2002. The decline was primarily due to generally unfavorable weather throughout the year which included above average snowfalls and record-breaking rainfalls. The toll increase implemented on May 18, 2003 also had an impact, though the subsequent traffic decline was far less compared to prior toll increases. Starting in July, the Verrazano-Narrows Bridge saw fewer small trucks when New Jersey bound restrictions at the Holland Tunnel were lifted. In November, civil authorities removed the Manhattan-bound Single Occupancy Vehicle ("SOV") restrictions that had been in place for weekday morning peak hours at the Brooklyn-Battery Tunnel ("BBT"). While volumes increased across the morning peak period, comparable decreases occurred during earlier hours, which suggests that many BBT users simply shifted their times of travel. Subsequently, the overall impact of lifting the SOV restrictions was not significant.

The E-ZPass electronic collection system continued to facilitate the management of high traffic volumes in 2003, and market shares grew for the eighth consecutive year. Total E-ZPass market share was 70 percent at the end of 2003, compared to 69 percent at year-end 2002. E-ZPass traffic reached 207,200 vehicles in 2003, a 0.9 percent increase over the 2002 level of 205,400 vehicles. On an average weekday in 2003, 72 percent of all TBTA traffic and 80 percent of all trucks used E-ZPass.

Since 2002, the 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 2003, more than 1,100 E-ZPass tags were replaced.

TBTA's also scored extremely well in overall customer satisfaction ratings conducted in 2003 at the toll plazas. On a scale from 0 to 10, customer satisfaction was 7.3 in 2003, which is the second highest rating received since the survey began in 1997. The highest rating, 7.5, was received in 2002. The results of the cost/value section of the survey, which showed significant declines across all facilities, suggest that the Spring 2003 toll increase was a major factor in the 0.2 drop in overall customer satisfaction. Among E-ZPass customers, the overall satisfaction rating reached 7.5.

Since implementing the MTA All-Agency Safety Initiative in 1996, TBTA has realized significant improvements in employee safety. In 2003, the frequency of employee lost-time and restricted duty injury cases was 3.7 per 200,000 work hours. While this frequency is marginally greater than what occurred in 2002, it continues to be over 80% below 1996 levels. In addition, although improving customer safety is always a unique challenge for TBTA because its customers operate their own vehicles, customer injuries continued to stay at a rate of less than two injuries per million vehicles. The number of collisions that required medical attention decreased significantly from 2002 by 11 percent.

TBTA achieved record level traffic in 2002 despite the region's economic downturn and continuing post-September 11th traffic restrictions. Nearly 300,000 vehicles traveled on TBTA facilities, a 2.3 percent increase over 2001 volumes and over three million vehicles higher than the previous record level set in 2000.

At the Verrazano-Narrows Bridge, paid traffic volume grew by 2,400 vehicles, or 3.4 percent over 2001 levels, with significant increases in truck traffic due to continuing restrictions on New Jersey-bound commercial vehicles at the Holland Tunnel. The Bronx-Whitestone and Throgs Neck Bridges each had an increase of approximately 2,000 vehicles during 2002, representing growth of 5.4 and 5.0 percent respectively. This corridor has seen an increased number of passenger vehicles since September 11, 2001, possibly reflecting a greater number of discretionary travelers, as well as less severe employment declines in the suburban areas compared to New York City.

The post-September 11th closure of the Manhattan-bound tube at the BBT reduced traffic by nearly 3,000 vehicles through March 2002. From April on, remaining Single-Occupancy Vehicle restrictions and economic conditions in Lower Manhattan kept traffic below pre-September 11th levels, and the annual decline in 2002 subsequently amounted to 1,000 vehicles, or 6.1 percent. SOV restrictions also reduced traffic at the QMT through April 19, 2002, but volumes increased thereafter and by year-end, the QMT was up 1,900 vehicles, or 2.2 percent over the prior year.

The E-ZPass electronic collection system continued to facilitate the management of high traffic volumes in 2002, and market shares grew for the seventh straight year. E-ZPass market share was 69 percent at the end of 2002, compared to 67 percent at year-end 2001. Total E-ZPass traffic grew to 205,300 vehicles, or 4 percent above the 2001 level of 197,700 vehicles. On an average weekday in 2002, 71 percent of all Bridge and Tunnel traffic and 79 percent of all trucks used E-ZPass. On August 29, TBTA registered its one-billionth E-ZPass customer.

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

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

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

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

5. SIGNIFICANT CAPITAL ASSET ACTIVITY

Capital Program

TBTA's facilities are all in a good state of repair for the years ended December 31, 2003 and 2002. TBTA's portion of the MTA's Capital Program for 2000-2004 totals \$1,029,000 for normal replacement and system improvement projects. The commitments made during 2003 and 2002 totaled \$241,400 and \$142,000 respectively, bringing the total commitments under the five-year plan to \$834,800 and \$592,000 respectively.

Approximately 50 percent of projected expenditures in the current capital program will be incurred at two facilities: the Triborough Bridge and the Bronx-Whitestone Bridge. The Triborough Bridge Deck Replacement/Viaducts and Suspension Span project costs for 2003 and 2002 were \$217,000 and \$226,000 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 2003 and 2002 were \$232,000 and \$274,000 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

Toll Increases

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

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS DECEMBER 31, 2003 AND 2002 (In Thousands)

ASSETS	2003	2002
CURRENT ASSETS:		
Cash, unrestricted (Note 3)	\$ 10,405	\$ 11,951
Investments (Notes 4, 5 and 8):		
Unrestricted	2,925	72,324
Restricted	271,494	577,546
Due from insurance settlement	24,600	-
Accrued interest receivable	496	1,513
Accounts receivable, net of allowance of \$2,944 in 2003 and \$2,783 in 2002	13,734	12,723
Other receivables	4,176	4,823
Prepaid expenses	5,895	6,951
	<hr/>	<hr/>
Total current assets	333,725	687,831
NONCURRENT ASSETS:		
Investments (Notes 4, 5 and 8):		
Unrestricted	129,516	156,604
Restricted	241,845	289,102
Capital assets, net (Note 6)	2,279,070	2,094,304
Bond issuance costs	320,096	308,508
	<hr/>	<hr/>
Total noncurrent assets	2,970,527	2,848,518
TOTAL ASSETS	<u>\$ 3,304,252</u>	<u>\$ 3,536,349</u>

(Continued)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

BALANCE SHEETS

DECEMBER 31, 2003 AND 2002

(In Thousands)

LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	2003	2002
CURRENT LIABILITIES:		
Current portion - long-term obligations	\$ 73,094	\$ 21,049
Interest payable due	84,059	88,320
Accounts payable	77,446	61,778
Payable to MTA - capital expense - operating (Note 20)	8,459	13,926
Payable to TA - operating expense (Note 20)	160	97
Accrued salaries	5,524	2,542
Accrued vacation and sick pay benefits	13,786	13,759
Current portion of estimated liability arising from injuries to persons (Note 14)	14,549	12,318
Due to NYCTA (Note 1 and 20)	23,447	12,124
Current portion of capital lease obligation (Note 13)	6,753	6,873
Due to MTA (Note 1 and 20)	40,507	29,028
Due to MTA (Note 20)	3	216,473
Prepaid tolls revenue (includes \$17,558 and \$19,854 in 2003 and 2002, respectively, due to other toll agencies)	91,012	90,352
Total current liabilities	<u>438,799</u>	<u>568,639</u>
NONCURRENT LIABILITIES:		
Estimated liability arising from injuries to persons (Note 14)	5,466	2,841
Escrow Obligation	17,701	-
Long-term debt (Notes 9 to 12)	6,767,829	6,097,786
Capital lease obligations - (Note 13)	115,444	119,902
Other long - term liabilities	3,699	2,804
Total noncurrent liabilities	<u>6,910,139</u>	<u>6,223,333</u>
TOTAL LIABILITIES	<u>7,348,938</u>	<u>6,791,972</u>
EXCESS OF LIABILITIES OVER ASSETS:		
Invested in capital assets, net of related debt	1,610,029	1,489,341
Restricted	1,605,851	1,412,902
Unrestricted	<u>(7,260,566)</u>	<u>(6,157,866)</u>
Total excess of liabilities over assets	<u>(4,044,686)</u>	<u>(3,255,623)</u>
TOTAL LIABILITIES AND EXCESS OF LIABILITIES OVER ASSETS	<u>\$ 3,304,252</u>	<u>\$ 3,536,349</u>

(Concluded)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

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

YEARS ENDED DECEMBER 31, 2003 AND 2002

(In Thousands)

	2003	2002
OPERATING REVENUES:		
Bridges and tunnels	\$ 1,021,938	\$ 933,134
Building rentals	9,766	6,627
Other income	37,062	-
Total operating revenues	<u>1,068,766</u>	<u>939,761</u>
OPERATING EXPENSES:		
Salaries and wages	118,290	109,299
Employee benefits (Note 7)	41,686	31,668
Maintenance and supplies	64,754	48,376
Outside services	77,469	78,224
Insurance	8,247	10,633
Power	3,950	4,006
Leases and rentals	9,503	10,005
Depreciation expense	41,215	36,351
Other expenses	5,116	7,985
Total operating expenses	<u>370,230</u>	<u>336,547</u>
OPERATING INCOME	<u>698,536</u>	<u>603,214</u>
NONOPERATING REVENUES (EXPENSES):		
Gain on Escrow	25,014	-
Escrow Obligation	(25,014)	-
Interest expense (Notes 9 to 12)	(247,964)	(350,465)
World Trade Center Insurance Settlement (Note 21)	24,600	-
Investment income (Notes 1 and 4)	2,457	15,716
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>(220,907)</u>	<u>(334,749)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	477,629	268,465
TRANSFERS OUT (Note 1):		
New York City Transit Authority	(178,276)	(103,962)
Metropolitan Transportation Authority	(1,088,416)	(107,445)
CHANGE IN EXCESS OF LIABILITIES OVER ASSETS	(789,063)	57,058
TOTAL EXCESS OF LIABILITIES OVER ASSETS - BEGINNING	<u>(3,255,623)</u>	<u>(3,312,681)</u>
TOTAL EXCESS OF LIABILITIES OVER ASSETS - ENDING	<u>\$ (4,044,686)</u>	<u>\$ (3,255,623)</u>

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002 (In Thousands)

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tolls collected	\$ 1,022,234	\$ 939,733
Building rentals received	46,828	6,626
Payments to employees and related costs	(156,076)	(143,532)
Other operating costs	<u>(166,202)</u>	<u>(165,981)</u>
Net cash provided by operating activities	<u>746,784</u>	<u>636,846</u>
CASH FLOWS FOR NONCAPITAL FINANCING ACTIVITIES -		
Subsidies paid to affiliated agencies	<u>(409,679)</u>	<u>(274,791)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES FOR THE AUTHORITY AND AFFILIATES:		
Payment of 2002 debt service	(70,289)	-
Cost of issuance for General Purpose Revenue Bonds	-	(46,388)
Principal payments on Mortgage Recording Tax Bonds	-	(34,855)
Payment from MTA for Mortgage Recording Tax Bonds debt service	-	83,559
Interest paid on Mortgage Recording Tax Bonds	-	(48,704)
Refund of advance received for World Trade Center disaster	-	(12,945)
Interest paid on General Purpose Revenue Bonds, BICs and 1994A Resolution Bonds	-	(287,403)
Principal payments on General Purpose Revenue Bonds, BICs and 1994A Resolution Bonds	-	(138,751)
Purchase of capital assets	(218,791)	(191,708)
Money proceeds from escrow to be used for capital expenditures	42,645	-
Mortgage Recording Tax funds refunded to MTA	(33,633)	-
Received from MTA for MRT debt service	-	32,702
Principal Payments on New Bonds	(1,949)	-
Proceeds from 2002A and new bond issues	753,983	4,127,885
Interest paid on 2002 Senior and Subordinate Revenue Bonds	(287,912)	(1,008)
Bonds refunded	-	(3,791,087)
Capital expended from escrow	(13,713)	-
Payment for Transportation Capital Projects	<u>(867,577)</u>	<u>(8,922)</u>
Net cash used in capital and related financing activities	<u>(697,236)</u>	<u>(317,625)</u>

(Continued)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2003 AND 2002 (In Thousands)

	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Gross sales of short-term securities	\$ 26,694,776	\$ 41,274,965
Gross purchases of short-term securities	(26,447,340)	(41,423,234)
Gross sales of long-term securities	164,400	114,301
Gross purchases of long-term securities	(9,845)	(10,335)
(Decrease) increase in MTA investment pool	(47,162)	(13,269)
Unrestricted income from investments	2,334	14,727
Investment income restricted for Mortgage Recording Tax purposes	-	835
Investment income restricted for capital purposes	<u>1,422</u>	<u>1,482</u>
Net cash provided by (used in) investing activities	<u>358,585</u>	<u>(40,528)</u>
NET (DECREASE) INCREASE IN CASH	(1,546)	3,902
CASH, BEGINNING OF YEAR	<u>11,951</u>	<u>8,049</u>
CASH, END OF YEAR	<u>\$ 10,405</u>	<u>\$ 11,951</u>
RECONCILIATION OF INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES -		
Income from operations	\$ 698,536	\$ 603,214
ADJUSTMENTS TO RECONCILE INCOME FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Depreciation	41,215	36,351
Capitalized salary expense	(8,483)	(9,456)
CHANGES IN OPERATING ASSETS AND LIABILITIES:		
Decrease in receivables	1,243	10,068
Increase in operating payables	10,924	2,604
Decrease (Increase) in prepaid expenses and deferred charges	1,056	(2,226)
Increase (decrease) in accrued salary costs, vacation and insurance	3,009	(1,809)
Increase in unredeemed toll revenue	(1,607)	(1,982)
Increase in other liabilities	<u>891</u>	<u>82</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 746,784</u>	<u>\$ 636,846</u>

(Concluded)

See notes to financial statements.

TRIBOROUGH BRIDGE AND TUNNEL AUTHORITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2003 and 2002 (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, 2003 and 2002 of \$63,954 and \$41,152 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:

	2003	2002
Operating transfer	\$ 430,148	\$ 248,202
Investment income	<u>2,334</u>	<u>14,727</u>
	<u>\$ 432,482</u>	<u>\$ 262,929</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 - During the year ended December 31, 2002, the Authority adopted GASB Statement No. 34 (as amended by Statement No. 37), *Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Disclosures*. GASB Statement No. 34 requires changes to the basic financial statements for state and local governmental entities. Among those requirements are certain changes applicable to special purpose governments engaged in business type activities. Those changes require a classified balance sheet, with net assets displayed in the categories - invested in capital assets net of related debt, restricted, and unrestricted; a statement of operations, and changes in net assets; and a statement of cash flows presented using the direct method. In addition, GASB Statement No. 34 requires a management discussion and analysis to be presented as required supplementary information. GASB Statement No. 38 requires certain disclosures to be made in the notes to the financial statements concurrent with the implementation of GASB Statement No. 34.

The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment of GASB Statement 14*. The Authority has concluded that the impact of adopting GASB Statement No. 39 is not applicable to the Authority and therefore it will have no impact on its financial position and results of operations. The Statement was effective for financial statements for periods beginning after June 15, 2003.

The Authority implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosure* during the year ended December 31, 2003. The implementation of the standard resulted in new disclosure related to investment and credit risk.

The Authority has not 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 is therefore unable to disclose the impact that adopting either of these statements will have on its financial position and results of operations when such statements are adopted. GASB Statement No. 42 is effective for financial statements for periods beginning after December 15, 2004.

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 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 statement of operations.

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, 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, 2003 and 2002, is due to the petty cash and change funds which are maintained at the various toll facilities and not recorded by the bank. In addition, there was a deposit in transit in each of the years ended December 31, 2003 and 2002.

Cash at December 31 consists of the following:

	2003		2002	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Insured deposits	\$ 200	\$ 200	\$ 200	\$ 200
Collateralized deposits	<u>10,205</u>	<u>5,189</u>	<u>11,751</u>	<u>4,301</u>
	<u>\$ 10,405</u>	<u>\$ 5,389</u>	<u>\$ 11,951</u>	<u>\$ 4,501</u>

4. INVESTMENTS

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

	December 31,	
	2003	2002
Investments maturing in 2003 to 2004 under terms of repurchase agreements	\$ 119,790	\$ 136,282
U.S. Treasuries due 2003 to 2016	325,222	750,833
U.S. Treasury Notes	37,083	-
MTA Investment Pool	79,043	126,127
Other government agencies	8,142	5,834
Irrevocable deposit account	<u>76,500</u>	<u>76,500</u>
	<u>\$ 645,780</u>	<u>\$ 1,095,576</u>

The fair value of the above investments consists of \$132,441 and \$228,929 in 2003 and 2002 in unrestricted investments, respectively, and \$513,339 and \$ 866,647 in 2003 and 2002 in restricted investments, respectively. Investments had weighted average monthly yields ranging from 1.30 percent to 1.75 percent and 1.94 percent to 2.77 percent during the years ended December 31, 2003 and 2002, respectively. The net unrealized gain on investments for the years ended December 31, 2003 and 2002 were \$123 and \$989 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,	
	2003	2002
CURRENT:		
Restricted:		
General Purpose Revenue Bonds 1980 Resolution:		
Debt Service Fund	\$ -	\$ 396,819
Operating Funds	1,581	19,370
General Fund - General Reserve	-	3,523
Transportation Project DSF-TTP Post '86 (97 SR/MS DSF/TTP)	-	10,316
Mortgage Recording Tax Obligation Bonds:		
Debt Service Fund	16,469	-
Debt Service Reserve Fund	-	11,417
Subordinate Revenue Refunding Bonds:		
Bond Proceeds Fund	158,304	66,624
Debt Service Reserve Fund	-	5,037
Cost of Issuance Fund	8,211	14,959
Debt Service Fund	25,042	35,065
Senior Revenue Bonds	49,199	-
Cost of Issuance Fund	11,861	12,183
COPS 2 Broadway	<u>827</u>	<u>2,233</u>
Total current - restricted	271,494	577,546
Current - unrestricted	<u>2,925</u>	<u>72,324</u>
Total - current	<u>\$ 274,419</u>	<u>\$ 649,870</u>
LONG-TERM:		
Restricted:		
Debt Service Reserve Fund:		
General Purpose Revenue Bonds	\$ 26,542	\$ 125,432
General Purpose Debt Service Fund	-	53,740
General Purpose Bond Proceeds Fund	89,648	
Mortgage Recording Tax Obligation Bonds		
Debt Service Reserve Fund	41,342	8,342
Beneficial Interest Certificates:		
1998 Special Obligation-Variable Rate Demand Bond		
VRDB '98 Debt Service Reserve Fund	-	18,430
Capital Lease Obligation:		
US Treasury Strips	6,658	6,658
Irrevocable Deposit Account	76,500	76,500
Transportation Project DSF TTP Post '86 (97 SR/MS DSF/TTP)	<u>1,155</u>	<u>-</u>
Total long-term - restricted	241,845	289,102
Total long-term - unrestricted	<u>129,516</u>	<u>156,604</u>
Total - long-term	<u>\$ 371,361</u>	<u>\$ 445,706</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 \$1,335 and \$1,307 at December 31, 2003 and 2002, respectively. In 2003 and 2002, the Authority's transfer of its unrestricted investment income to the MTA was increased by \$0 and \$3,356 for such arbitrage rebate accruals.

5. MTA INVESTMENT POOL

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

6. CAPITAL ASSETS

	Balance December 31, <u>2001</u>			Balance December 31, <u>2002</u>			Balance December 31, <u>2003</u>		
		<u>Additions</u>	<u>Deletions</u>		<u>Additions</u>	<u>Deletions</u>		<u>Additions</u>	<u>Deletions</u>
Capital Assets, Not Being Depreciated:									
Land	\$ 27,940	\$ -	\$ -	\$ 27,940	\$ -	\$ -	\$ 27,940		
Construction in progress	435,892	228,473	190,737	473,628	209,570	213,066	470,132		
Total Capital Assets, Not Being Depreciated	463,832	228,473	190,737	501,568	209,570	213,066	498,072		
Capital Assets Being Depreciated:									
Building - 2 Broadway	78,870	2,451	-	81,321	594	4,525	77,390		
Primary structures	1,168,983	14,070	-	1,183,053	166,779	-	1,349,832		
Toll plazas	205,774	413	-	206,187	-	-	206,187		
Toll equipment	97,991	203	-	98,194	-	-	98,194		
Buildings	202,499	29,174	-	231,673	11,878	-	243,551		
Roadway	76,098	150,683	-	226,781	50,767	-	277,548		
Other	43,646	4,001	-	47,647	3,984	-	51,631		
Total Capital Assets Being Depreciated	1,873,861	200,995	-	2,074,856	234,002	4,525	2,304,333		
Less Accumulated Depreciation:									
Building - 2 Broadway	6,776	3,238	-	10,014	3,299	-	13,313		
Primary structures	305,258	9,734	-	314,992	10,649	-	325,641		
Toll plazas	64,935	4,633	-	69,568	4,646	-	74,214		
Toll equipment	14,512	2,451	-	16,963	2,453	-	19,416		
Buildings	29,471	5,188	-	34,659	5,698	-	40,357		
Roadway	4,160	5,048	-	9,208	8,405	-	17,613		
Other	20,656	6,060	-	26,716	6,065	-	32,781		
Total Accumulated Depreciation	445,768	36,352	-	482,120	41,215	-	523,335		
Total Capital Assets Being Depreciated, Net of Accumulated Depreciation	1,428,093	164,643	-	1,592,736	192,787	4,525	1,780,998		
TOTAL CAPITAL ASSETS, NET	\$ 1,891,925	\$ 393,116	\$ 190,737	\$ 2,094,304	\$ 402,357	\$ 217,591	\$ 2,279,070		

In 2003 and 2002, capital asset additions include approximately \$8,500 and \$9,500 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 \$1,142,400. Over the 1992 to 1999 period, the Authority committed \$1,144,866 under the Capital Program for such activities.

The Authority's 2000-2004 Capital Program totals \$1,029,000. Total amounts committed through December 31, 2003 and 2002 totaled \$ 834,800 and \$592,000 respectively.

7. EMPLOYEE BENEFITS

Most employees of the Authority are members of the New York City Employees' Retirement System ("NYCERS"), which is a cost sharing, multi-employer retirement system. Of the Authority's total payroll costs, including the cost of capital engineers charged to capital projects, approximately \$111,477 or 94.2 percent (2003) and \$107,108 or 89.7 percent (2002) 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 \$7,665 (6.13 percent of covered payroll) and \$7,105 (5.95 percent of covered payroll) in 2003 and 2002, respectively. For 2003 and 2002, employer contributions of approximately \$977 and \$951, 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 \$8,612 and \$6,726 in 2003 and 2002, respectively. No contribution is made by participants. As of December 31, 2003, and 2002, 1,366 and 1,336 retirees, respectively, including spouses and dependents, met those eligibility requirements.

8. THE TRANSPORTATION PROJECT

Capital programs covering the years 2000-2004 have been approved for (1) the commuter railroad operations of the MTA conducted by The Long Island Rail Road Company ("LIRR") and the Metro-North Commuter Railroad Company ("MNCRC") (as amended to December 31, 2003, the "2000-2004 Commuter Capital Program"), (2) the transit system operated by the New York City Transit Authority (the "Transit Authority") and its subsidiary, the Manhattan and Bronx Surface Transit Operating Authority ("MaBSTOA"), and the rail system operated by the Staten Island Rapid Transit Operating Authority ("SIRTOA") (as amended to December 31, 2003, the "2000-2004 Transit Capital Program") and (3) the toll bridges and tunnels operated by the Authority (as amended to December 31, 2003, 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 \$18,936,000 in capital expenditures, of which \$10,161,000 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, \$3,594,000 relates to ongoing repairs of, and replacements to, the commuter system operated by LIRR and MNCRC, \$3,183,000 relates to the expansion of existing rail networks for both the transit and commuter systems to be managed by the MTA Capital Construction Company, \$802,000 relates to planning and design and customer service projects, \$162,000 relates to World Trade Center ("WTC") 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 \$7,853,000 in bonds, \$4,882,000 in Federal funds, \$4,505,000 from the proceeds of the MTA/TBTA debt restructuring in 2002 and \$1,696,000 from other sources.

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

The MTA Board approved an amendment to the 2000-2004 MTA Capital Programs in December 2003 (the “December 2003 Amendment”) that increased total funding by \$1.2 billion and made the following substantive changes in projects and funding:

- added two major Lower Manhattan transit revitalization projects – the \$750,000 Fulton Street Transit Center and the \$400,000 South Ferry Terminal Relocation. Both projects are being funded by the Federal funds made available to New York in connection with the terrorist attacks on the WTC,
- incorporated the approval of \$143,000 in FEMA grant moneys to pay for a portion of the \$591,200 in infrastructure and facilities security projects approved by the Review Board in July 2003, thereby reducing MTA/TBTA bonding by the same amount,
- modified the capital programs to reflect the creation of the MTA Capital Construction Company and its administration of East Side Access, Second Avenue Subway, the #7 Subway Line Extension, the infrastructure and facilities security projects, the Fulton Street Transit Center and the South Ferry Terminal Relocation, reduced New York City’s contributions to the Transit Capital Program by \$89,000,
- revised project budgets and schedules to reflect awards made, new estimates-at-completion, or revised investment strategies, and
- made adjustments to the program funding plan that reflected experience to date and modified projections.

The MTA Board approved an amendment to the 2000-2004 Commuter Capital Program in January 2004 (the “January 2004 Amendment”) that increased MNCRC’s capital program by \$231,100 in order to permit MNCRC to exercise an option to purchase an additional 120 rail cars under an existing contract.

The December 2003 Amendment and the January 2004 Amendment were submitted to the Review Board in January 2004. A member of the Review Board vetoed both amendments in February 2004. In March 2004, the Authority divided the two amendments into four amendments and resubmitted them to the Review Board for approval. The Authority is awaiting a response from the Review Board.

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 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,	
	2003	2002
General Revenue Bonds (Note 10)	\$ 4,555,520	\$ 4,361,296
Subordinate Revenue Bonds (Note 11)	2,170,561	1,693,782
2 Broadway Certificates of Participation (Note 12)	<u>41,748</u>	<u>42,708</u>
Total Long-Term Debt, Net of Premiums and Discounts	<u>\$ 6,767,829</u>	<u>\$ 6,097,786</u>

10. LONG - TERM DEBT – SENIOR REVENUE BONDS

Senior Revenue Bonds consist of the following:

	December 31,		Principal	December 31,
	2002	Issued	Repayments	2003
			made	
			during 2003	
Series EFC 1996A	\$ 23,530	\$ -	\$ 1,020	\$ 22,510
Series 2001A, 5.77%, due through 2032	1,125,720	-	-	1,125,720
Series 2001B&C, 4.10%-5.25%,	296,400	-	-	296,400
Series 2002A	268,300	-	-	268,300
Series 2002B	2,157,065	-	-	2,157,065
Series 2002C	103,305	-	-	103,305
Series 2002F	246,480	-	-	246,480
Series 2003B	<u>-</u>	<u>250,000</u>	<u>-</u>	<u>250,000</u>
	<u>4,220,800</u>	<u>250,000</u>	<u>1,020</u>	<u>4,469,780</u>
Add net unamortized bond discount and premium	<u>141,516</u>	<u>-</u>	<u>-</u>	<u>124,800</u>
	<u>\$4,362,316</u>	<u>\$ 250,000</u>	<u>\$ 1,020</u>	<u>\$4,594,580</u>

Debt Service Requirements:

Year Ended			Aggregate
December 31	Principal	Interest	Debt Service
2004	\$ 39,060	\$ 218,679	\$ 257,739
2005	77,410	216,927	294,337
2006	80,870	213,374	294,244
2007	78,335	209,767	288,102
2008	87,965	205,657	293,622
2009-2013	490,935	958,729	1,449,664
2014-2018	649,590	806,402	1,455,992
2019-2023	809,435	624,092	1,433,527
2024-2028	961,975	402,270	1,364,245
2029-2033	<u>1,194,205</u>	<u>122,332</u>	<u>1,316,537</u>
	<u>\$4,469,780</u>	<u>\$3,978,229</u>	<u>\$8,448,009</u>

11. LONG - TERM DEBT – SUBORDINATE REVENUE BONDS

Subordinate Revenue Bonds consist of the following:

	December 31, 2002	Issued	Principal Repayments made during 2003	December 31, 2003
Series 2000A	\$ 181,300	\$ -	\$ 6,800	\$ 174,500
Series 2000B	72,500	-	2,700	69,800
Series 2000C	157,200	-	5,900	151,300
Series 2000D	96,600	-	3,700	92,900
Series 2002D	261,700	-	-	261,700
Series 2002E	756,095	-	-	756,095
Series 2002G	181,025	-	-	181,025
Series 2003A	-	500,170	-	500,170
	<u>1,706,420</u>	<u>500,170</u>	<u>19,100</u>	<u>2,187,490</u>
Add net unamortized bond discount and premium	6,462	11,082	-	16,141
	<u>\$1,712,882</u>	<u>\$ 511,252</u>	<u>\$ 19,100</u>	<u>\$2,203,631</u>

Debt Service Requirements:

Year Ended December 31	Principal	Interest	Aggregate Debt Service
2004	\$ 33,070	\$ 108,237	\$ 141,307
2005	35,135	106,511	141,646
2006	35,595	105,289	140,884
2007	38,460	102,717	141,177
2008	39,245	101,787	141,032
2009-2013	233,795	469,906	703,701
2014-2018	329,790	397,075	726,865
2019-2023	430,340	305,134	735,474
2024-2028	518,300	195,038	713,338
2029-2033	<u>493,760</u>	<u>58,974</u>	<u>552,734</u>
	<u>\$ 2,187,490</u>	<u>\$ 1,950,668</u>	<u>\$ 4,138,158</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 \$123,000 of fixed rate Serial and Term Certificates of Participation, Series 2000A. In 1999, the Trust issued \$328,205 of fixed rate Serial and Term Certificates of Participation, Series 1999A. The proceeds of the Certificates were used to finance certain building and tenant improvements to the 2 Broadway office building in New York City, occupied by the Transit Authority, MTA, on behalf of its subsidiaries, The Long Island Rail Road Company (LIRR) and Metro-North Commuter-Railroad Company (MNCRC), and TBTA (Notes 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. To the extent any one component occupies more than its stated percentage of the building, it will reimburse another component for that percentage of debt service paid by that component.

Certificates of Participation

	2002	2003
Serial Bonds, 4.40%-5.625% due 2003-2015	\$ 14,085	\$ 13,156
Term Bonds, 5.40% due 2019	4,823	4,823
Term Bonds, 5.75% due 2020	1,953	1,953
Term Bonds, 5.25% due 2029	17,472	17,472
Term Bonds, 5.86% due 2030	<u>6,035</u>	<u>6,035</u>
Subtotal	44,368	43,439
Unamortized discount	(863)	(844)
Unamortized premium	<u>132</u>	<u>117</u>
	<u>\$ 43,637</u>	<u>\$ 42,712</u>

TBTA's share of the debt service requirements:

Certificates of Participation

Year Ended December 31	Principal	Interest	Aggregate Debt Service
2004	\$ 964	\$ 2,336	\$ 3,300
2005	1,001	2,292	3,293
2006	1,040	2,244	3,285
2007	910	2,195	3,105
2008	955	2,150	3,105
2009-2013	5,592	9,933	15,525
2014-2018	7,319	8,206	15,525
2019-2023	9,555	5,970	15,525
2023-2028	12,430	3,095	15,525
2029-2030	<u>3,673</u>	<u>247</u>	<u>3,920</u>
	<u>\$ 43,439</u>	<u>\$ 38,668</u>	<u>\$ 82,108</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 occupies approximately 13.5 percent of the building.

TBTA has recorded capital lease assets using the net present value, and using a borrowing rate of 9.11 percent, has reflected a capital lease obligation of at December 31, 2003 and 2002 of \$39,038 and \$43,616 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 and \$5,155 in 2003 and 2002, respectively, which were funded by the aforementioned investments. At December 31, 2003 and 2002, 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:

	2003	2002
2 Broadway	\$ 39,038	\$ 43,616
Subway cars	<u>83,159</u>	<u>83,159</u>
	122,197	126,775
Less current portion	<u>(6,753)</u>	<u>(6,873)</u>
	<u><u>\$ 115,444</u></u>	<u><u>\$ 119,902</u></u>

Minimum lease payments are as follows:

Twelve Months Ended December 31	Aggregate Lease Payments
2004	\$ 10,900
2005	10,968
2006	11,043
2007	11,126
2008	11,322
2009-2013	57,526
2014-2018	151,718
2019-2023	31,986
2024-2028	33,624
2029-2033	33,731
Thereafter	<u>71,957</u>
Minimum future lease payments	435,901
Less amount representing interest	<u>313,704</u>
	<u><u>\$ 122,197</u></u>

Total accumulation depreciation under capital leases was approximately \$13,313 and \$10,014 in 2003 and 2002, 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 "Employees' fringe benefits" and "Insurance" in the accompanying statements of operations.

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

	December 31,	
	2003	2002
Balance, beginning of year	\$ 15,159	\$ 15,997
Activity during the year:		
Current year claims and changes in estimates	4,931	(633)
Claims paid	<u>(75)</u>	<u>(205)</u>
Balance, end of year	20,015	15,159
Less current portion	<u>(14,549)</u>	<u>(12,318)</u>
Long-term liability	<u>\$ 5,466</u>	<u>\$ 2,841</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 billion. 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:

	2003	2002
Assets:		
Debt Service Fund	\$ 33,009	\$ 33,014
Future sublease receivables due from New York State	<u>246,884</u>	<u>269,354</u>
	<u>\$ 279,893</u>	<u>\$ 302,368</u>
Liabilities:		
Convention Center Bonds	\$ 246,884	\$ 269,354
Bond principal due 2004 and 2003	24,180	24,185
Interest payable due January 1, 2004 and 2003	<u>8,829</u>	<u>8,829</u>
	<u>\$ 279,893</u>	<u>\$ 302,368</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, 2003 and 2002, the Authority had unused standby letters of credit, relative to insurance, amounting to \$2,712.

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

18. INTEREST RATE SWAPS

Board-adopted Guidelines. The MTA Board adopted all-agency guidelines with respect to the use of swap contracts to manage the interest rate exposure of their 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 the Authority would have paid to issue fixed-rate debt.

Activity During the Period. In an effort to hedge against rising interest rates, on May 29, 2003, the Authority entered into a forward hedge in the notional amount of \$370,700 with Lehman Brothers Special Financing Inc. with an effective date of January 1, 2004 in connection with the expected issuance of approximately \$500,000 in General Revenue Bonds to finance the Authority's bridges and tunnels. Due to favorable market conditions, on July 23, 2003, the Authority terminated the Lehman hedge in return for a payment to the Authority of \$16,400.

Fair Value. Relevant interest rates were lower on December 31, 2003 (the valuation date) than they were on the effective date of the swaps. Consequently, as of the valuation date, all of the swaps had negative fair values and the Authority was not exposed to the credit risk of the counterparties. However, should interest rates change and the fair values of the swaps become positive, the Authority would be exposed to the credit risk of the counterparties in the amount of the swaps' fair value.

The fair values listed in the following table represent the theoretical cost to the defaulting party 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 their 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							
Associated Bond Issue	Notional Amounts as of 12/31/03 (in millions)	Effective Date	Fixed Rate Paid	Variable Rate Received	Fair Values as of 12/31/03 (in millions)	Swap Termination Date	Counterparty
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B ⁽¹⁾	\$234.8	01/01/01	6.08 %	Actual bond rate	\$(50.8)	01/01/19	Bear Stearns Capital Markets Inc.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D ⁽²⁾	234.8	01/01/01	6.07	Actual bond rate	(48.8)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C ⁽³⁾	296.2	01/01/02	5.777	Actual bond rate	(49.1)	01/01/19	Citigroup Financial Products Inc.
General Revenue Variable Rate Refunding Bonds, Series 2002C ⁽⁴⁾	93.9	01/01/00	5.634	Actual bond rate	(15.2)	01/01/13	Ambac Financial Services, L.P.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.4)	01/01/18	JPMorgan Chase Bank
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-2	90.5	11/26/02	3.218	Lesser of actual bond rate, or 67% of one-month LIBOR minus 45 basis points	(1.6)	01/01/18	JPMorgan Chase Bank
Total	\$1,040.7				\$(166.9)		

⁽¹⁾ In accordance with a swaption entered into on August 12, 1998 with the Counterparty paying a premium of \$22,740,000.

⁽²⁾ In accordance with a swaption entered into on August 12, 1998 with the Counterparty paying a premium of \$22,740,000.

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

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

The current ratings of the counterparties, or their credit support providers, are as follows:

<u>Counterparty</u>	<u>Ratings of the Counterparty or its Credit Support Provider</u>		
	<u>S&P</u>	<u>Moody's</u>	<u>Fitch</u>
Ambac Financial Services, L.P.	AAA	Aaa	AAA
Bear Stearns Capital Markets Inc.	A	A1	A+
JPMorgan Chase Bank	AA-	Aa3	
Citigroup Financial Products Inc.	AA-	Aa1	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, 2003 for those swaps where the notional amounts do not match the outstanding principal amounts of the associated bonds.

<u>Associated Bond Issue</u>	<u>Principal Amount of Bonds (in millions)</u>	<u>Notional Amount (in millions)</u>
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	\$244.3	\$234.8
TBTA Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	244.2	234.8
TBTA General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	296.4	296.2
TBTA General Revenue Variable Rate Refunding Bonds, Series 2002C	103.3	93.9

Except as discussed below under the heading “*Rollover Risk*,” the Authority’s 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.
- **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 are not 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, 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. The counterparties have the ratings set forth above.

Counterparty	Notional Amount (in millions)	% of Total Notional Amount
Citigroup Financial Products Inc.	\$ 531.0	51%
Bear Stearns Capital Markets Inc.	234.8	23
JPMorgan Chase Bank	181.0	17
Ambac Financial Services, L.P.	<u>93.9</u>	9
Total	\$1,040.7	

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 rating 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.

TBTA			
<u>Associated Bond Issue</u>	<u>Counterparty</u>	<u>If the highest rating of the related TBTA bonds or the counterparty's long-term unsecured debt falls to</u>	<u>Then the downgraded party must post collateral if its estimated termination payments 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	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.

Basis Risk. For those swaps for which the Authority receives a variable-rate payment other than the actual bond rate, such as if the interest rate is based on BMA or LIBOR, the Authority is exposed to basis risk to the extent that the rate based on BMA or LIBOR is less than the actual bond rate for any given period. To the extent that the rate based on BMA or LIBOR is greater than the actual bond rate for any given period, there is a benefit to the Authority.

Termination Risk. Any party to the swap may terminate the swap if the other party fails to perform under the terms of the contract. If any swap is terminated, the associated variable-rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority could be liable to the counterparty for a payment equal to the swap's fair value. The Authority is not aware of any event that would lead to a termination event with respect to any of their swaps.

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

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

TBTA		
Associated Bond Issue	Counterparty	Additional Termination Events
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000A and 2000B	Bear Stearns Capital Markets Inc.	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. Note: The TBTA swap payments are insured by Financial Security Assurance Inc., so there is no ratings downgrade or withdrawal termination.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2000C and 2000D	Citigroup Financial Products Inc.	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. Note: The TBTA swap payments are insured by Financial Security Assurance Inc., so there is no ratings downgrade or withdrawal termination.
General Revenue Variable Rate Refunding Bonds, Series 2001B and 2001C	Citigroup Financial Products Inc.	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. Note: The TBTA swap payments are insured by Ambac Assurance Corporation, so there is no ratings downgrade or withdrawal termination.

General Revenue Variable Rate Refunding Bonds, Series 2002C	Ambac Financial Services, L.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. Note: The TBTA swap payments are insured by Ambac Assurance Corporation, so there is no ratings downgrade or withdrawal termination.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G-1	JPMorgan Chase Bank	1. TBTA may terminate the swap at no cost on or after December 29, 2010.
Subordinate Revenue Variable Rate Refunding Bonds, Series 2002G	JPMorgan Chase Bank	1. TBTA may terminate the swap at no cost on or after January 5, 2011.

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:

Associated Bond Issue	Bond Maturity Date	Swap Termination Date
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

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 tables contain the aggregate amount of estimated variable-rate bond debt service and net swap payments during certain years that such

(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 TBTA 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 TBTA on or after January 5, 2011

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:

- Beginning in 2004, it was 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)				
Fiscal Year Ending December 31	Variable-Rate Bonds		Net Swap Payments	Total
	Principal	Interest		
2004	\$ 19.9	\$35.2	\$21.9	77.0
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	81.4
2009-2013	194.3	168.8	44.8	407.9
2014-2018	295.6	118.3	12.3	426.2
2019-2023	143.3	76.6	0	219.9
2024-2028	164.4	46.9	0	211.3
2029-2033	154.0	11.7	0	165.7

Net interest payments under the terms of the swaps are reflected as interest expense in the Statement of Revenues, Expenses and Changes in Net Assets. Fees received by the Authority in connection with the swaps are deferred and amortized as a yield adjustment to interest expense.

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 Ended December 31	Lease Payments
2004	\$ 2,405
2005	2,405
2006	2,405
2007	2,405
2008	2,405
2009-2013	2,405
2014-2018	2,405
2019-2023	2,405
2024-2028	2,405
2029-2033	2,405
Thereafter	<u>84,180</u>
Minimum future lease payments	<u>\$ 108,230</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, 2003 and 2002:

	<u>2003</u>		<u>2002</u>	
	<u>Receivable</u>	<u>(Payable)</u>	<u>Receivable</u>	<u>(Payable)</u>
Due From (Due To) MTA	\$ -	\$ (48,969)	\$ -	\$ (259,427)
Due From (Due To) Affiliated Agencies	<u>-</u>	<u>(23,607)</u>	<u>-</u>	<u>(12,221)</u>
Total MTA and affiliated agencies	<u>\$ -</u>	<u>\$ (72,576)</u>	<u>\$ -</u>	<u>\$ (271,648)</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.
