

2004 ANNUAL REPORT NEW YORK STATE THRUWAY AUTHORITY/CANAL CORPORATION

I. THRUWAY AUTHORITY

A. Partnerships

1-800-POTHOLE

On January 15, Governor George E. Pataki announced the collaboration between the Thruway Authority and the Department of Transportation to provide a toll free hotline for motorists to report potholes along any State highway systems. Both entities have been urging patrons to report potholes by calling 1-800-POTHOLE (1-800-768-4653). The service is available across upstate New York and on Long Island.

Motorists can call 1-800-POTHOLE (1-800-768-4653) to report potholes on any State owned highway, including the Thruway, except in New York City, where local forces maintain the roads. Potholes on county and town roads, city and village streets, or private roadways should be reported to the appropriate owner.

Calls received by the hotline will be directed to the closest NYSDOT maintenance facility, from which a maintenance crew will be dispatched as soon as weather conditions and other factors permit. Calls regarding highways operated by the New York State Thruway Authority will be referred to the Authority for appropriate action.

I-87/I-84 Connector

On February 12, the Authority posted a section on its website dedicated to the new I-84/I-87 reconstruction project. The information can be found on the Authority's home page under "Projects and Studies."

The website is intended to educate the public and keep them apprized of the various aspects of the project. As each new phase of construction begins, updated information will be posted to the site. Additionally, the "Contact Us" button enables users to send questions or comments about the project to the Authority.

The \$100 million project will reconstruct the interchange and provide direct access between I-84 and I-87, while relieving traffic congestion from the local roads, Route 300 and 17K. Some of the other key features of the overall project are higher speed E-ZPass lanes; a dedicated E-ZPass Only lane for northbound traffic exiting the Thruway to Route 17K; new State Police offices; and the consolidation of two tandem trailer lots.

Interchange 8 Project

On May 28, Governor George E. Pataki announced that the fourth auxiliary lane on I-87 North in the busy Tappan Zee Corridor had been opened, representing the final major milestone of the largest reconstruction project in Thruway history - the \$187 million reconstruction of Interchange 8.

The opening represented an intensive three-year effort from the New York State Thruway Authority and Department of Transportation to ease traffic congestion and deliver major traffic benefits to the lower Hudson Valley.

With the addition of one auxiliary lane in each direction and a three-lane direct connection between I-87 and the Cross Westchester Expressway in both directions, mobility has been enhanced and congestion eased. Collector distributor lanes have cleared the mainline roadway, improving safety through the elimination of weaving traffic. The air is cleaner as a result of a decrease in idling traffic. The installation of noise barriers will provide a quieter atmosphere for surrounding residents. Higher-speed E-ZPass at the Tappan Zee Bridge Toll Barrier has already improved Toll Plaza movement.

The cooperation between the Thruway Authority and the DOT on the Interchange 8 project represents the future of transportation in New York State. This example of interagency coordination is the way all New York transportation agencies are starting to do business – working together to prioritize capital investments and operations along critical corridors to achieve a more seamless and reliable statewide system.

Boxing Hall of Fame

In June, the Authority and the International Boxing Hall of Fame (IBHF) announced a 10-year lease partnership along State Route 13 in the Village of Canastota, Madison County.

Under this agreement, the new boxing museum boasts an area of 5,400 square feet. This new development compliments the existing 3,000 square-foot facility, which opened in 1989.

Tappan Zee Bridge

On July 27, Governor George E. Pataki announced that the speed limit in the two, far left E-ZPass lanes at the Tappan Zee Bridge (TZB) Toll Plaza increased from 20 MPH to 35 MPH.

With the percentage of E-ZPass transactions on the Thruway System and traffic volumes in New York State's busiest corridors continuing to climb, higher-speed E-ZPass is the next logical step to help traffic flow more freely without compromising highway safety.

Prior to the implementation of the higher speed E-ZPass, the Authority conducted engineering studies and trial runs to determine if the 35 MPH speed limit could be safely added to the TZB. Study areas included the approach to and departure from the two far left lanes, as well as through the lanes themselves. The 35 MPH speed is well within safety limitations and has resulted in improved customer service and less congestion.

The Tappan Zee Bridge/I-287 Corridor Study began in 2001 and is being conducted in partnership with MTA/Metro-North Railroad and NYSDOT. From the start, this study has involved interested members of the public, legislative leaders and local community groups.

The Tappan Zee Bridge Project Team's widespread use of public meetings and additional outreach efforts has enabled it to transition 156 original TZB alternatives into just 15 corridor-wide scenarios. These 15 scenarios, which include 80 of the original 156 suggested alternatives, were unveiled to the public in late July and are explained in depth on the project Website.

The 15 scenarios include light rail options, commuter rail options, bus rapid transit options and multi-mode options. The Authority anticipates narrowing the list of 15 down to four or five by summer 2005. The estimated completion date for any new crossing project is in 2015. In the meantime, the Authority continues to invest tens of millions of dollars each year in the Tappan Zee Bridge for necessary upkeep, maintenance and improvements.

On December 2, the Authority announced that it would be adding two additional real time images along the Tappan Zee Bridge Corridor to the Website.

The two new locations provide real time images near Interchange 9 in Tarrytown and Interchange 10 in Nyack along the Thruway (I-87). The additional images, located just north and south of the Tappan Zee Bridge, provide traffic condition information on the approaches to the Tappan Zee Bridge.

Motorists can view live traffic conditions on the Tappan Zee Bridge and near Interchanges 9 and 10 before they commute to and from work by simply logging on to the Authority's Website. The Authority is transmitting real-time traffic images, taken by closed-circuit television cameras, so that motorists who use the three-mile structure and the approaches to the Tappan Zee Corridor can make better travel decisions. The images are available for viewing at all times by visiting the Authority's Website at www.thruway.state.ny.us/webcams/.

B. Innovation

E-ZPass

On February 16, the Authority announced that Thruway E-ZPass customers could conveniently manage their accounts via the Website.

In addition, those wishing to sign up for E-ZPass can log on to www.e-zpassNY.com.

Offering customers the option of using this popular, convenient electronic payment method illustrates the Authority's commitment to furthering customer service by expanding the functionality of the E-ZPass Website, as well as implementing new advances such as higher-speed and highway-speed E-ZPass lanes to make travel even safer and more convenient.

E-ZPass customers now have the ability to change or add a credit card to their E-ZPass account online, benefiting customers who need to change their credit card, update their expiration date or just make a one-time payment via credit card.

Reporting more than 25 million hits on the New York E-ZPass Customer Service Center Website in 2004, online account management has become more functional and convenient for customers. The new one-time payment via credit card is in addition to customers being able to change their address, request additional tags, view recent toll history, report tags lost and check account balance. Customers can also request to receive their E-ZPass statement via e-mail.

Customers wishing to sign up for E-ZPass can also visit www.e-zpassNY.com and apply online. In fact, more than half of the customers who signed up for E-ZPass for the first time in November 2004 used the Website.

In addition, the Authority announced in February that overall, 92.7 percent of New York E-ZPass customers surveyed said were happy with E-ZPass Customer Service, a 2.3 percent improvement since 2001.

E-ZPass is used by over 11 million motorists throughout North America to reduce their travel times and even pay for parking at airports.

On March 2, the Authority announced the start of a pilot program to improve E-ZPass lane designations and signage at toll plazas. The program, considered a first step toward long-term E-ZPass improvements, included higher and highway speed lanes as part of the Authority's proactive effort to enhance customer's experience in the use of E-ZPass.

The Authority selected one toll plaza in each of its four Divisions to be a part of the 2004 pilot program. The locations were chosen based on geographic location and traffic volumes. The plazas selected were Yonkers Toll Barrier in New York Division, Interchange 24 (Albany) in Albany Division, Interchange 34A (Syracuse - I-481) in Syracuse Division and Interchange 46 (Rochester - Corning) in Buffalo Division.

The program included extending lane striping on the approach pavement, numbering each lane on the pavement and on the overhead canopies, and installing signs in advance of the plazas to identify E-ZPass designated lanes.

On April 6, the Authority in conjunction with Governor Pataki announced a pilot program that would allow travelers to obtain E-ZPass tags in four of its 27 Travel Plazas.

By the Fourth of July, the retail tags were made available in the gift shops at Chittenango Travel Plaza, between westbound Exits 34 and 34A, Seneca Travel Plaza between westbound Exits 44 and 45, Angola Travel Plaza, between eastbound and westbound Exits 57A and 58, and Guilderland Travel Plaza, between eastbound Exits 24 and 25, for a \$25 reimbursed fee. The tags are activated by calling a toll-free number and used for travel within 24 hours by passenger vehicles.

The Authority plans to expand the availability of the On-the-Go tags to include its remaining Travel Plazas by the spring of 2005. Following this distribution, the Authority will consider making the tags available in additional retail establishments.

The Authority announced the opening of two more higher-speed E-ZPass lanes (20 mph) in the lower Hudson Valley. The Spring Valley Toll Barrier, located at Thruway milepost 24.3, and New Paltz Interchange 18 (Route 299), located at Thruway milepost 76, each opened 20-mph E-ZPass lanes on June 15.

Spring Valley and New Paltz were the third and fourth toll plazas on the Thruway System to be equipped with higher-speed E-ZPass. At the New Rochelle Toll Plaza and the Tappan Zee Bridge barrier, where E-ZPass improvements have been in place since 1999, there has been a 70 to 80 percent reduction in motor vehicle accidents. Improvements in place at these two plazas include higher-speed E-ZPass, pavement markings, striping and lane numbering.

At the Spring Valley Toll Barrier, which is only used by commercial traffic, the two toll lanes on the left were converted to 20 mph. The wideload lane was relocated to the right for slower traffic, to increase toll collector safety. At the New Paltz Toll Plaza, the rightmost lane exiting the plaza, from the Thruway to Route 299, was converted from 5 mph to 20 mph E-ZPass.

In July and August, E-ZPass tags were sold at the Monroe and Saratoga County State Fairs, as well as the 158th Annual New York State Fair. At the fairs, customers were able to instantly activate a new E-ZPass account using a major credit card. These tags were immediately available for use in nine states. Attendance at county fairs across the State in 2004 was part of the Authority's long-term plan to enhance E-ZPass for customers by providing higher speeds, better signage and easier accessibility.

Traffic Data Systems (TDS)

The Authority is currently using more than 180 strategically spaced TDS sites between New York City and Buffalo. This state-of-the-art traffic data collection system allows the Authority to collect mainline traffic volumes, speeds and vehicle types. The data is transmitted back to the Authority nightly, processed and available to staff the next morning.

Construction of the TDS was completed in 2004 and systems operations tests continued through the 2004-2005 winter season. The project is expected to be completed and fully operational during the spring of 2005. At a TDS site, there are 6-foot-square sensors or "loops" embedded in the roadway. On the roadside, a solar panel charges a 12-volt battery, which connects with the sensors and counts the traffic, its speed and the distance between vehicles.

This system has successfully permitted the Authority to better consider the effects of various activities upon the motoring public. Adjusted lane closure schedules help avoid undue disruptions. When unavoidable, the data allows the Authority to better estimate the severity and duration of the disruption and press releases are issued. Additionally, the system has been used to determine future capacity needs more accurately, enhancing the Authority's ability to plan capital projects.

The traffic data is also being used in a number of other activities, some of which were unexpected. Examples include systems performance measurements, speed enforcement initiatives by Troop T, various highway design activities and incident analysis.

C. Customer Focus

Albany Corridor Study

The Authority has been studying ways to deal with expected congestion on the Thruway in the Albany Area over the next 20 years. The Albany Corridor Study has been reviewing the 25-mile stretch of the Thruway between Exits 21A (Berkshire Connector) in Albany County and 25A (I-88) in Schenectady County.

The purpose of the Study was to develop a prioritized Capital Improvement Plan that addresses structural, safety and operational needs within the Corridor for the next 20 years to support the regional growth of the Capital District. The Study has identified projects that can be implemented in both the short and long term to address the highest priorities within the Corridor.

Initial concepts have been developed to address projected traffic volumes through the design year of 2024 at Exits 23, 24 and 25. An alternative mainline barrier concept has also been developed as well as mainline capacity improvement concepts and pavement improvement concepts. A Project Advisory Committee (PAC) composed of representatives from local governments and individuals in the transportation industry have provided a focal point for discussions of alternatives and projects that will come from the Study. The first public meeting on this project was held June 17, 2003.

In addition, the Authority held three additional public meetings throughout the year on February 24, May 11 and May 12, 2004. The purpose of the public meetings was to reach out to a broader audience via neighborhood associations along the Albany Corridor. The Authority received a great deal of valuable feedback on the various concepts that have been developed to address the needs identified for the Albany Corridor of the NYS Thruway. Highway reconstruction between Interchanges 23 and 24 will be the first project to come out of the study. Public meetings for this project are scheduled for the early part of 2005.

Buffalo Corridor Study

The Buffalo Corridor Study, which is being conducted by the Authority and DOT, will address the transportation needs of the I-90 Corridor from Interchange 53 (downtown Buffalo) to Interchange 49 (Depew, Lockport, Route 78). The study is slated for completion in the summer of 2006.

In anticipation of the study results the Authority has included \$70 million in its capital program for improvements at Interchange 50 beginning in 2010. The study will also investigate the need for additional travel lanes within the corridor, improvements to existing interchanges, and the addition of new interchanges.

Improvements made to the remainder of this corridor as a result of the Study could total more than \$500 million.

On September 20, 2004, the Authority and NYSDOT unveiled a newly designed, user-friendly website for the Buffalo Corridor Study. The site includes an overview of the study, a study area map, frequently asked questions, opportunities for getting involved and press releases. The website can be accessed at www.thruway.state.ny.us/studies/buffalo, or by going directly to the Thruway's home page under "Projects and Studies." An open house to inform the public about this study was held on October 25, 2004.

Variable Message Signs

Variable Message Signs (VMS), seen along the side of the Thruway and often overhead, alert motorists to traffic-related situations in an effort to avoid congestion. Additional benefits of the VMS signs include advance warnings of accidents, maintenance and construction projects as well as the activation of Amber Alert.

A \$4 million project in the Authority's Buffalo Division added five Variable Message Signs to the Corridor. The signs were installed at milepost 383 - Batavia/Rochester eastbound and westbound, milepost 418 - Williamsville-Youngs Road eastbound, milepost 495 - Ripley eastbound, and milepost 349 - Seneca Travel Plaza westbound. Closed Circuit TV cameras at interchanges designed to better manage traffic control, were installed as part of this project.

D. Safety

State Police Troop T

New York State Police Troop T, whose members patrol the 641-mile Thruway System exclusively, conducted several initiatives in 2004 in order to promote safety. State Police initiatives included “Operation Work Brake,” which is aimed at curbing aggressive driving, especially through work zones; “Buckle Up New York,” a 14-day statewide seatbelt enforcement initiative; “Operation Spring Brake” and “Operation Summer Brake,” which target the prevention of crash-causing habits such as aggressive driving, speeding and DWI; Safety Break Demonstrations, where Troopers educate motorists about safely sharing the road with trucks; and “Pumpkin Patrol,” which is aimed at preventing dangerous Halloween pranks.

Snow and Ice Program

The 2003-2004 snow and ice season (November - April), was busy across the system. Twenty-three maintenance sections located along the roadway responded to more than 600 individual snow and ice events. These ranged from short duration, localized squalls; up to large statewide, multi-day events. Expenditures and material usage for the season was appreciably lower than the 2002-2003 season but were approximately 30% above historical averages.

The Authority maintains covered storage capacity for approximately 135,000 tons of deicing materials in 60 buildings strategically placed along the Thruway corridor. Bulk storage tanks located across the System also provide storage capacity for approximately 100,000 gallons of liquid deicers. Authority Maintenance forces use these liquids in combination with the traditional deicing materials to improve the performance and efficiency of snow-fighting operations.

Pre-season and Post-season Snow and Ice Caucuses were held in each of the Authority’s four divisions to discuss preparations for the upcoming season, lessons learned from previous experiences, and identify potential future operational improvements. Some of the major items discussed included the Winter Maintenance Manual, labor, equipment and material, salt sheds, snow fence, snow and ice operations in general, related traffic operations, weather information, and storms.

A Seasonal Weather Information System (SWIS) was developed statewide in 2003 and was put into partial operation. The 2003-2004 season marked the first season that the SWIS was fully implemented. The SWIS system provides current and historical weather information data, including air and pavement temperatures and relative humidity at 43 sites spread out along the entire Thruway. This data is available to all Maintenance Sections and supplements other weather forecasting data and field observations to assist in snow and ice control operations, resulting in more efficient operations.

Deer Avoidance

The Authority issued two press releases cautioning motorists of the dangers presented by deer crossing the highway. To further increase awareness of deer and how to avoid vehicle-deer collisions, the Authority also issued deer safety messages during peak deer season on its Highway Advisory Radio (HAR) System; pamphlets are available in all 27 Travel Plazas.

Construction

The Authority began two large-scale pavement-resurfacing projects with safety improvements in its Albany Division in 2004; both are slated for completion in 2005. The first started at milepost 121, south of Coxsackie, and continued to milepost 135 in Selkirk. This \$7.2 million project includes upgrading the guiderail, extending the cross culverts and reconstructing portions of the shoulder. This project also includes full-depth pavement repairs in certain areas and a complete mill and resurfacing of the 14-mile stretch of roadway. A similar project is underway between milepost 135, near Selkirk Interchange 22, and milepost 146, near Albany Interchange 24. This \$6.6 million project includes guiderail upgrades, drainage improvement, new signage as well as full-depth pavement repairs in certain areas and complete mill and resurfacing.

In 2004, a \$12 million steel repair and replacement project was completed on the North Grand Island Bridges in Buffalo Division. The South Grand Island Bridges painting contract was also completed. This \$15 million contract should ensure a 15-20 year life span.

The Authority completed two large-scale pavement resurfacing projects in the Syracuse Division in 2004. The first stretched from milepost 240, east of Westmoreland, to milepost 262 in Canastota. This \$8 million project

included full-depth pavement repairs in certain areas and a complete mill and resurfacing of the 22-mile stretch of roadway. Similar work was completed between milepost 279, near Interchange 35, and milepost 289, near Interchange 39. This \$3.9 million project included full-depth pavement repairs, as well as a complete mill and resurfacing. In addition, \$4.2 million was spent on mill and fill/full-depth repairs between mileposts 337 and 347 near Canandaigua.

Also in the Syracuse Division, the Authority completed three bridge projects, at a total cost of \$8.5 million. LeMoyne Avenue Bridge, milepost 281.75, Route 11 Bridge, milepost 281.90, and Owasco Outlet Bridge, milepost 307.74, were all totally replaced.

E. Statistics

Commercial Traffic

Commercial traffic for 2004 totaled 38,658,816 trips. This represents an increase of 3.75 percent from 2003.

Passenger Traffic

Passenger traffic for 2004 totaled 243,184,612 trips. This represents an increase of 3.58 percent from 2003.

Maintenance

During the 2003-2004 winter maintenance season (November - April), the Authority used approximately 235,000 tons of salt at cost of approximately \$6 million. This was approximately 30% above historical usage patterns. Based on a 12 year historical average, the Authority estimates usage for the 2004-2005 season at approximately 170,000 tons, at an estimated cost of more than \$5 million.

The Authority's Central Sign Shop is responsible for producing almost 100 percent of the signs along the Thruway System. More than 65,000 square feet of signage, and more than 60,000 individual items were produced in the Sign Shop in 2004. In addition to producing standard regulatory, warning, and directional signs, the Sign Shop also produces specialty signs and graphics for the Authority, Canal Corporation, the State Police and other State agencies. Computerized printing equipment, which produces high quality graphics, is used extensively for many of these projects.

Fatalities

Preliminary statistics as of January 2005 indicated that 2004 was the fifth-safest year in the Thruway's 50-year history. This statistic is determined by the Fatality Rate, which is measured by the number of accidents per 100 million vehicle miles traveled. Preliminary statistics indicated that in 2004, there were 35 fatal accidents, resulting in 44 deaths. This would be a fatality rate of 0.40, the fifth lowest rate in Thruway history.

E-ZPass

As of December 2004, approximately 54 percent of Thruway customers were utilizing E-ZPass, the electronic toll collection system pioneered by the Authority in the northeastern United States in 1993.

The E-ZPass Interagency Group (IAG), which was formed in 1990 with the original purpose of developing an interoperable electronic toll collection system in New York, New Jersey and Pennsylvania, has grown to include 22 toll agencies/authorities in 11 states.

Capital Program

On December 16, 2004, the Thruway Authority Board endorsed a \$2 billion Multi-Year Improvement Plan. The proposed Plan would include E-ZPass and commuter discounts as well as bring highway-speed E-ZPass to the system, and would be funded by first toll adjustment in 17 years. The Capital Plan was recommended in order to address critical infrastructure needs, traffic demands and improved customer service along the 641-mile New York State Thruway System through 2010.

II. CANAL CORPORATION

New York State's Canal System has produced significant economic growth for the State and the nation, creating inland trade and propelling economic development. The mule-towed barges of the Erie Canal and the steam-powered tugboats of the Barge Canal of years past have given way to pleasure boats, hikers, bicyclists and landside visitors of every kind. Governor Pataki's Canal Revitalization Program, administered by the NYS Canal Corporation, is transforming the Canal System into a first class tourist destination, bringing prosperity and new energy to its surrounding communities.

A. Revitalization and Preservation

Governor's Canal Revitalization Program

In May 2002, the Governor announced a five-year \$50 million Canal Revitalization Program that focused on creating jobs, attracting private investment and generating tourism and economic development along New York State's Canals.

In 2004, the Corporation continued to work toward this goal. The program will provide \$50 million over the next five years to fund a variety of new Canal projects, including \$35 million to complete the Canalway Trail, which runs alongside the Erie Canal and links Lake Erie to the Hudson River. Upon completion, the Canalway Trail will be the longest continuous recreational trail in the U.S.

The Canal Corporation will continue to work closely with partner agencies and the New York State Canal Recreationway Commission in the interest of best utilizing state assets and effectively promoting and developing new opportunities along the Canal System. Significant progress is being made on Governor George E. Pataki's \$35 million five-year plan to complete the Erie Canalway Trail across New York State from the Hudson River to Lake Erie. When complete, the 338-mile Erie Canalway Trail will be the longest multi-use recreational trail in the United States, providing extensive close-to-home recreational opportunities and will serve as a destination for long distance bicycle and hiking tourists. Canalway Trail partners will continue to develop and enhance linkages to the many special attractions along the way.

A new commercial shipping initiative has been developed with Canal Ports envisioned as part of the Governor's Inland Port Distribution Network. Meetings with the Empire State Development Corporation and the Port of Albany have been held, and the Canal Corporation joined Inland Rivers, Ports, and Terminals in 2004 to increase the profile of New York's inland waterways on the national level. Meetings with Port of Oswego officials and other stakeholders are planned for 2005, and the Canal Corporation has begun working with the US Army Corps of Engineers on a commercial shipping feasibility study for the Canal System. Additionally, \$4.5 million has been budgeted for 2005 to acquire essential floating infrastructure in order to upgrade the Corporation's dredging capabilities and ensure compliance with existing and future environmental regulations.

The Canal Corporation has also established formal partnership agreements with the Erie Canalway National Heritage Corridor Commission, the Mohawk Valley Heritage Corridor Commission, Parks and Trails New York, and several Harbor communities. These agreements work to conserve Canal Corporation resources by outsourcing responsibility for program elements such as interpretive signage, promotion and marketing, and the ongoing operation of Canal Harbors.

The Canal Corporation will continue to partner with other state and federal agencies on joint initiatives, and to formalize these and other relationships in order to accomplish its mission and goals. It will be through these partnerships and shared endeavors that the continued betterment of the historic Canal System can best be achieved.

Canalway Trail

Over 220 miles of Erie Canalway trail have now been completed and 2004 marked the halfway point in the goal of completing the trail end to end. In 2004, six miles of trail were constructed between Barnes Avenue in Utica, and River Street in Oriskany. In addition, four other projects were let, which will add 35 miles of new and rehabilitated Canalway Trail to the statewide system. These projects included Palmyra to Newark, Wayne County; Minden to Danube, Herkimer and Montgomery Counties; Greece to Pittsford, Monroe County; and Jordan to Camillus, Onondaga County.

Four trail projects are scheduled to be let in 2005, adding 33 miles of Canalway Trail to the system. These will include Amherst to Lockport, Erie and Niagara Counties; Little Falls to Ilion, Herkimer County; Jordan to Port Byron, Cayuga and Onondaga Counties; and Tonawanda to Amherst in Erie County. These projects are part of the Governor's Revitalization II program to complete the Canalway Trail in the Erie Corridor.

Cycle the Erie Canal

The Canal Corporation was proud to be a sponsor of the 6th annual Cycle the Erie Canal Bike tour from Buffalo to Albany. The event, which took place in July, drew nearly 500 participants representing 35 states, Canada, Great Britain and Australia. Hundreds of volunteers in communities along the route welcomed the riders and provided food and refreshments. Participants also had the opportunity to partake in boat rides on the canal, museum tours and visits to the many historic sites along the corridor.

Approximately half of the 400-mile tour was on completed sections of the Erie Canalway Trail, including 40 miles that were constructed last year as part of the Governor's Canal Revitalization II program.

Erie Canal Lock 33

In 2004, the Corporation and its contractor continued to work on a \$10.7 million project to rehabilitate Lock 33 on the Erie Canal in Henrietta, let in 2003, and awarded to Cold Springs Construction. The project is funded by Canal Corporation Capital funds and has a slated completion date of June 2005.

Lock 33 was originally constructed in 1909 and has not undergone any major rehabilitation since that time. The Lock is in need of major rehabilitation or replacement of all components such as miter gates, chamber walls, buffer beams, valves and operating machinery. Work included in this project will include refacing the chamber walls, refurbishing the machinery, and replacement of the miter gates.

B. Land Management

In July of 2004, the Board of the Thruway Authority and Canal Corporation enacted a Land Management Policy which sets forth guidelines for sales, acquisitions, leases and other transactions with private and governmental entities. These new Land Management guidelines will greatly improve the Canal System's ability to serve the state and the communities as an economic development resource.

C. Recreational Boating Statistics

Although built to facilitate the transport of goods to, through and from New York State, the Canal System has evolved into a major recreational boating destination. Recreational use of the Canal has mirrored industry trends in recent years, and peaked in 1989 with 159,141 recreational lockings recorded that year.

In 2004, there were a total of 122,422 total recreational lockings during a season of 199 days. This equated to an average of 8.5 recreational lockings per canal structure (57 mainline locks, 16 lift bridges) per day. There were 8,178 pleasure craft passes sold in 2004. These passes are available for two consecutive days, ten consecutive days, or the length of

the season. Of these, 331 were for vessels under 16 feet in length, 3,239 were for vessels from 16 feet to 26 feet in length, 3,210 were for vessels from 26 feet to 39 feet in length, and 1,398 were for vessels over 39 feet in length.

In 2004, a date-based navigation season was initiated. The navigation season ran from May 1 to November 15, providing approximately three additional weeks for recreational and commercial use of the Canal when compared to recent years. In addition, summer hours began a week earlier in the spring. These changes will continue to provide additional opportunities for the boating public to enjoy the Canal and maximize the benefit of this great resource to New York State.

D. Commercial Shipping

An extended boating season, from May 1 to November 15 represented the longest season since 1996. Commercial shippers took full advantage of the lengthened season, transporting 12,032 tons of cargo on the Canal System, up 38.1 percent from 2003, when cargo totaled 8,711 tons. The estimated value of the cargo shipped in 2004 was \$102 million. This cargo included turbines, generators, reinforcing steel, calcium chloride, bridges, and construction equipment. Total cargo vessel lockings increased 35.6% in 2004, from 1922 to 2606.

E. Statistics

Note: The traffic figures below are measured by cumulative vessel lockings, meaning that the statistics reflect the number of times a vessel passed through a Lock, not the number of boats that used the System.

Cargo/Commercial

Cargo vessel traffic increased by 35.1 percent, from 1,918 in 2003 to 2,592 in 2004. Approximately 12,182 tons of cargo was shipped on the Canal System in 2004, an increase of 39.8 percent from 2003, and the highest amount transferred since 1999, at an estimated value of \$100 million.

Recreational Traffic

Recreational traffic decreased by 3.5 percent, from 126,523 in 2003 to 122,034 in 2004.

Tour Boat

Tour boat traffic increased by 3.3 percent, from 8,239 in 2003 to 8,514 in 2004.

Hire Boat

Hire boat traffic increased by 8.5 percent from 6,791 in 2003 to 7,369 in 2004.

F. Customer Focus

Tugboat *Urger* Education Program

The Tugboat Urger, the Corporation's 103-year-old flagship vessel, continues to serve as the focal point of a program to educate school children and adults about the importance of New York's historic Canal System and the role that inland waterways have played historically. Each spring and fall, the Urger visits communities along the Canal and students in fourth-grade classes at local schools take field trips to the Tug to participate in shoreside "hands-on" educational sessions. There, they learn about the history of the Canals and the role construction of the Erie Canal played in making New York the "Empire State." In 2001, the Urger was listed on the State and National Registers of Historic Places.

In 2004, 60 schools participated in this program, including 30 new schools. The total number of students who benefited from this program in 2004 alone was approximately 3,300 fourth graders.

The summer program consisted of visiting seven various festivals along the Canal system with over 600,000 in total attendance.

FINANCE

Each October, the Authority Board approves the Authority/Corporation budget for the ensuing fiscal year. This financial blueprint sets forth the sources and uses of funds necessary for the Authority's operations, Capital Program, mandated economic development projects and debt service requirements. The financing components are primarily Thruway revenues, bond/note proceeds and Federal Aid.

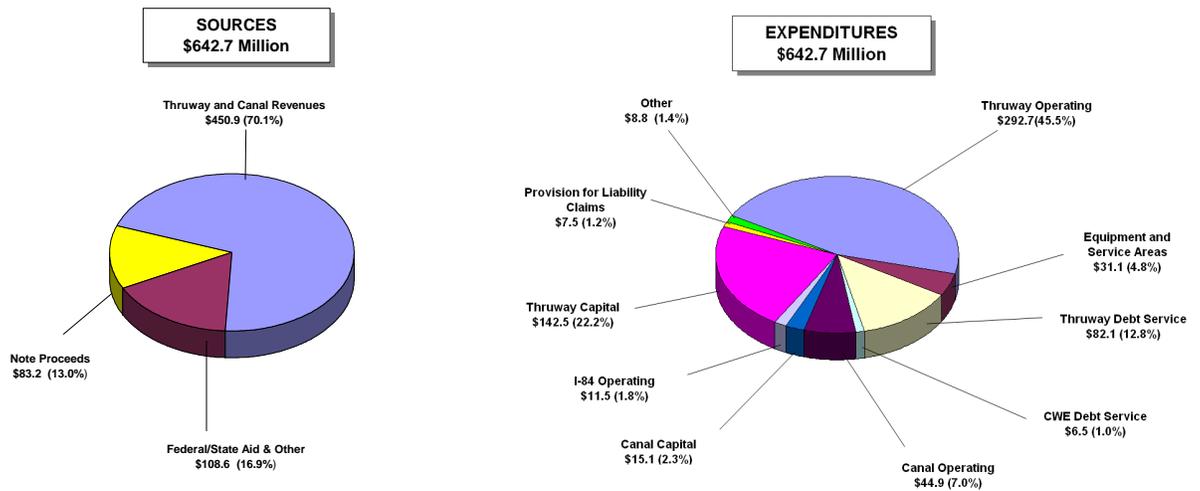
For the 2004 calendar year, the Authority expended a total of \$642.7 million. Of this amount, \$188.7 million is attributed to the Thruway and Canal Capital Program, which includes the highway and bridge rehabilitation program, the Canal infrastructure program and equipment replacement.

Debt service requirements for 2004 were \$82.1 million for the Authority's General Revenue Bonds and \$6.5 million for Cross-Westchester Expressway Bonds. Additionally, the expenditure category "other" listed

below is comprised of \$8.8 million in interest on the Authority's Bond Anticipation Notes and Commercial Paper. Thruway operating expenses totaled \$292.7 million. Total Canal and I-84 operating expenses were \$56.4 million. Canal operating expenses were partially funded by \$37.2 million in Federal ISTE A Enhancement Funds.

During 2004, the Capital Program was funded through a financing plan, which incorporates the use of Authority revenues, federal aid, note proceeds and Canal Development Funds. In March 2004, the Authority issued \$375 million of Bond Anticipation Notes, Series 2004A, to pay maturing principal and interest due on the Series 2003A notes and fund a portion of the capital program. As a result, the liability related to the Series 2003A notes has been removed from the bond indebtedness. This sale, combined with previous sales, brings the outstanding principal on the notes to \$675 million.

2004 FUNDING SOURCES AND EXPENDITURES



SOURCES OF THRUWAY REVENUE

Total Revenues for 2004 were \$470,020,329, an increase of \$15,428,805 or 3.4 percent from 2003. Total Thruway operating expenses for the same period were \$292,729,815, an increase of \$20,240,222 or 7.4 percent from 2003.

Revenues from tolls totaled \$439,582,906 an increase of \$12,399,123. Passenger and commercial toll revenues were \$264,786,883 and \$174,796,023, respectively.

Other revenues amounted to \$30,437,423 including \$3,800,537 from the 28 Thruway gasoline stations, \$11,151,715 from the 27 restaurants, \$1,995,175 of interest on the Authority's investments in the Revenue Fund, \$3,228,184 in special hauling permits and \$10,261,812 in sundry receipts.

During 2004, \$36,693,986 was provided to the Reserve Maintenance Fund from revenues.

For 2004, \$88,602,049 was remitted to the Authority's trustees for Debt Service requirements.

A functional comparison of maintenance and operating costs is listed below:

	2004	2003
MAINTENANCE:		
Highway.....	\$ 32,232,903	\$ 34,293,253
Highway and Equipment.....	24,837,761	22,192,906
Snow and Ice Control.....	12,004,221	11,341,915
Headquarters and Division Staff.....	16,221,891	13,391,009
Buildings.....	13,874,689	12,913,873
Bridges and Structures.....	20,520,432	19,360,586
Toll Equipment.....	4,651,014	3,965,093
TOTAL MAINTENANCE COSTS	<u>124,342,911</u>	<u>117,458,635</u>
OPERATING:		
Toll Collection.....	76,351,205	72,245,534
Administrative and General.....	29,536,066	25,925,646
Policing.....	38,234,673	34,054,101
Finance and Accounts.....	11,459,340	10,321,557
Traffic Administration.....	12,805,620	12,484,120
TOTAL OPERATING COSTS	<u>168,386,904</u>	<u>155,030,958</u>
TOTAL MAINTENANCE AND OPERATING COSTS.....	<u>292,729,815</u>	<u>272,489,593</u>

BONDS AND NOTES DEBT SERVICE

Authority Revenue Backed Bonds and Notes

Type	Date Sold	Principal Amount	True Interest Cost	Outstanding Principal as of 12/31/04	2004 Debt Service		
					Principal	Interest	Total
General Revenue Bonds							
Series B	Dec. 23, 1993	\$ 202,345,000	5.31%	\$ 157,850,000	\$ 4,935,000	\$ 8,122,369	\$13,057,369
Series C	Feb. 23, 1995	320,000,000	6.21%	7,315,000	6,940,000	777,085	7,717,085
Series D	May 15, 1997	350,000,000	5.68%	301,200,000	7,145,000	16,507,352	23,652,352
Series E	June 18, 1998	575,555,000	5.08%	548,625,000	10,150,000	28,365,800	38,515,800
Subtotal		<u>1,447,900,000</u>		<u>1,014,990,000</u>	<u>29,170,000</u>	<u>53,772,606</u>	<u>82,942,606</u>
CWE Bonds	Mar. 14, 1991	30,847,000	8.03%	6,880,646 (1)	9,570,000	-	9,570,000
Gen. Rev. BANS (CP-1)	Apr. 5, 2000	150,000,000	NA	150,000,000	-	1,689,321	1,689,321
Gen. Rev. BANS (CP-2)	June 4, 2001	150,000,000	NA	150,000,000	-	1,796,369	1,796,369
Gen. Rev. 2003A BANS	Mar. 26, 2003	350,000,000	1.17%	-	350,000,000	927,106	350,927,106
Gen. Rev. 2004A BANS	Mar. 24, 2004	375,000,000	1.28%	375,000,000	-	6,492,187	6,492,187
Grand Total		<u>\$2,503,747,000</u>		<u>\$1,696,870,646</u>	<u>\$388,740,000</u>	<u>\$64,677,589</u>	<u>\$453,417,589</u>

(1) Accreted Amount

Investments

The Authority manages its investment portfolio pursuant to the respective general bond resolutions, Public Authorities Law and the Authority's Investment Policy, approved annually by the Authority Board. Permitted investments are defined as obligations in which the State Comptroller may invest, pursuant to section 98a of the State Finance Law. This includes obligations of the United States and its federal agencies, collateralized time deposits, commercial paper, bankers acceptances and repurchase agreements. Although the actual amount of investments varies from month to month, the following represents the investment portfolio for each program as of December 31, 2004:

	(millions)
Thruway Funds	\$148.1
Cross Westchester Expressway Bonds	0.0
Local Highway and Bridge Service Contract Bonds	51.0
State Personal Income Tax Revenue Bonds	211.1
Highway and Bridge Trust Fund Bonds	850.5

Taxes Collected on Thruway

State and Federal taxes collected on the Thruway totaled \$41,087,345 in 2004, compared with \$37,489,289 in 2003. These came from the following sources:

	2004	2003
State 8 cent-per-gallon tax on gasoline and diesel fuel	\$ 6,328,126	\$ 6,149,230
Federal 18.4 cent-per-gallon tax on gasoline and 24.4 cent-per-gallon tax on diesel fuel	\$ 14,987,740	\$ 14,545,966
State sales tax collected at restaurants	\$ 8,112,772	\$ 7,451,557
State sales tax collected at gasoline stations	\$ 11,658,707	\$ 9,342,536

The Thruway Authority receives none of these funds. The Authority is self-supporting from tolls and other sources.

THRUWAY BOND AND NOTE PROGRAMS

The Thruway Authority is authorized to issue notes and bonds through private (negotiated) sales. The Authority has issued notes and bonds to finance a portion of our capital program as well as to fund various state and local municipal capital transportation programs. The total amount of bonds issued since 1990 for Thruway purposes is \$3.054 billion and for state and local projects is \$14.287 billion. The following describes these bond programs:

GENERAL REVENUE BONDS - These bonds were issued in 1992, 1993, 1995, 1997 and 1998. The Series A bonds, although no longer outstanding, provided funds to refund outstanding prior General Revenue Bonds, defeased the prior Bond Resolution and provided funds for a portion of the Authority's Capital Program. The Series B, C and D bonds provided funds for the Authority's Capital Program. The Series E bonds were issued to refund portions of the Series A and C bonds. The General Revenue Bonds are secured by a first lien on all tolls, rents, fees and other income derived from the operation of the Thruway. The amount issued for capital projects and refunding is \$1.798 billion with \$1.015 billion currently outstanding. The final maturity of these bonds is January 1, 2027.

GENERAL REVENUE BOND ANTICIPATION NOTES - The Authority issued General Revenue Bond Anticipation Notes in the form of liquidity supported commercial paper on April 5, 2000 and June 4, 2001 totaling \$300 million. The program was developed to provide an additional source of funds to manage the Authority's Capital Program. The program enables the Authority to access tax exempt short-term markets. The bond anticipation notes will be retired or converted to long-term bonds within five years of original issuance. The Authority issued commercial paper in varying amounts during 2004 with maturities ranging from 1 day to 218 days and interest rates from 0.90% to 1.86%. Additionally, in 2002, 2003 and 2004 the Authority issued \$200 million, \$350 million and \$375 million, respectively, in traditional bond anticipation notes. The 2002 notes were issued to provide funds for a portion of the Authority's capital program. The 2003 notes were issued to pay maturing principal and interest on the 2002 notes and to fund a portion of the Authority's capital program. The 2004 notes were issued to pay the maturing principal and interest on the 2003 notes and to fund a portion of the Authority's capital program.

CROSS WESTCHESTER EXPRESSWAY BONDS -

These bonds were issued in 1991 as capital appreciation bonds (zero coupon) in the amount of \$30.847 million to provide funds for the payment of a portion of the purchase price of an 11-mile highway connection with the Thruway in Westchester County designated I-287. The bonds are payable from a lien on rental payments received from the operators of the travel plazas on the Thruway. The accreted value as of December 31, 2004, is \$6.881 million. This amount reflects the increase in accreted value during 2004 (\$1.226 million) less the value of the bonds maturing January 1, 2004 (\$9.570 million). The final maturity of these bonds is January 1, 2006.

LOCAL HIGHWAY AND BRIDGE SERVICE CONTRACT BONDS -

These bonds have been issued each year since 1991 to provide the Authority with funds to reimburse approximately 1,600 municipalities throughout the State for qualifying capital expenditures for local highway, bridge and multi-modal projects. The bonds have no pledge on Thruway revenues and are secured solely by payments made by the State under a service contract. The total amount of bonds issued since 1991 is \$4.726 billion with \$2.088 billion currently outstanding. The final maturity is March 15, 2021.

STATE PERSONAL INCOME TAX REVENUE BONDS (TRANSPORTATION) -

The Authority has issued state personal income tax bonds (PIT) each year since August, 2002 for the same program purposes as the local highway and bridge projects under the service contract bonds described above. The Authority is one of five authorized issuers of the PIT bonds. The bonds have no pledge on Authority revenues and are secured solely by payments made by the State to the Trustee on behalf of the Authority from state personal income tax receipts. In 2004, the Authority issued \$352.3 million of bonds. The total amount issued since 2002 is \$951.1 million with \$929.1 million currently outstanding. The final maturity of these bonds is March 15, 2024.

HIGHWAY AND BRIDGE TRUST FUND BONDS -

These bonds have been issued each year since 1994 to provide funds to reimburse the State for certain expenditures made or to be made by the Department of Transportation in connection with the State's multi-year Highway and Bridge Capital Program. The bonds have no pledge on Thruway revenues and are secured by a pledge of certain payments to the Authority from funds held in the State's Dedicated Highway and Bridge Trust Fund. In 2004, the Authority issued \$735.5 million of bonds. The total amount of bonds issued since 1994 is \$8.610 billion with \$5.765 billion currently outstanding. The final maturity of the bonds is April 1, 2024.

COMPARATIVE EARNINGS - THRUWAY SYSTEM

	2004	2003	2002	2001	2000
TOLL REVENUES					
PASSENGER					
Woodbury—Buffalo-St. 15-50 Inc.....	\$ 125,358,740	\$ 121,845,641	\$ 120,717,246	\$ 114,536,759	\$ 111,427,617
Erie Section—Sta. 55-61 Inc.....	14,303,436	13,868,196	13,732,908	13,137,113	13,135,897
Grand Island Bridges	7,464,501	7,167,917	6,599,882	6,327,853	6,176,008
Tappan Zee Bridge.....	59,093,327	57,676,558	56,871,127	57,208,551	55,868,808
Yonkers Barrier.....	9,026,284	8,616,775	8,793,968	8,769,393	8,705,604
Berkshire Section.....	9,259,448	9,096,967	8,725,768	7,837,046	6,585,883
New Rochelle Barrier.....	19,022,132	18,412,186	18,527,845	18,101,746	17,809,980
Harriman Barrier.....	9,149,613	8,747,161	8,572,145	8,215,493	8,036,326
Niagara Section.....	8,067,770	7,682,842	7,251,182	7,126,964	7,156,996
	<u>\$ 260,745,251</u>	<u>\$ 253,114,243</u>	<u>\$ 249,792,071</u>	<u>\$ 241,260,918</u>	<u>\$ 234,903,119</u>
Permits-Sta. 15-61 Inc. B1-B3.....	4,041,632	4,107,221	4,117,245	4,291,945	4,410,271
	<u>\$ 264,786,883</u>	<u>\$ 257,221,464</u>	<u>\$ 253,909,316</u>	<u>\$ 245,552,863</u>	<u>\$ 239,313,390</u>
COMMERCIAL					
Woodbury—Buffalo-St. 15-50 Inc.....	\$ 108,336,648	\$ 105,602,439	\$ 104,611,078	\$ 102,377,230	\$ 102,435,537
Erie Section—Sta. 55-61 Inc.....	22,431,588	21,657,374	21,698,770	21,242,175	22,448,574
Grand Island Bridges	2,824,097	2,751,045	2,799,764	2,774,876	2,794,720
Tappan Zee Bridge.....	16,949,280	16,685,690	16,994,244	16,447,713	16,365,194
Yonkers Barrier.....	2,908,775	2,900,918	2,940,783	2,846,776	2,950,062
Berkshire Section.....	13,347,047	12,701,520	12,100,611	11,657,305	10,904,393
New Rochelle Barrier.....	7,855,238	7,331,869	7,604,767	7,867,148	8,173,798
Spring Valley Barrier.....	4,643,354	4,404,839	4,597,814	4,509,375	4,451,917
Harriman Barrier.....	2,247,178	2,129,568	1,970,494	1,920,913	1,902,549
Niagara Section.....	3,413,518	3,182,624	3,099,056	3,078,842	3,245,138
	<u>\$ 184,956,723</u>	<u>\$ 179,347,886</u>	<u>\$ 178,417,381</u>	<u>\$ 174,722,353</u>	<u>\$ 175,671,882</u>
Less Volume Discount.....	(10,160,700)	(9,385,567)	(8,967,929)	(8,483,705)	(7,918,492)
	<u>\$ 174,796,023</u>	<u>\$ 169,962,319</u>	<u>\$ 169,449,452</u>	<u>\$ 166,238,648</u>	<u>\$ 167,753,390</u>
SUMMARY					
Woodbury—Buffalo-St. 15-50 Inc.....	\$ 233,695,388	\$ 227,448,080	\$ 225,328,324	\$ 216,913,989	\$ 213,863,154
Erie Section—Sta. 55-61 Inc.....	36,735,024	35,525,570	35,431,678	34,379,288	35,584,471
Grand Island Bridges	10,288,598	9,918,962	9,399,646	9,102,729	8,970,728
Tappan Zee Bridge.....	76,042,607	74,362,248	73,865,371	73,656,264	72,234,002
Yonkers Barrier.....	11,935,059	11,517,693	11,734,751	11,616,169	11,655,666
Berkshire Section.....	22,606,495	21,798,487	20,826,379	19,494,351	17,490,276
New Rochelle Barrier.....	26,877,370	25,744,055	26,132,612	25,968,894	25,983,778
Spring Valley Barrier.....	4,643,354	4,404,839	4,597,814	4,509,375	4,451,917
Harriman Barrier.....	11,396,791	10,876,729	10,542,639	10,136,406	9,938,875
Niagara Section.....	11,481,288	10,865,466	10,350,238	10,205,806	10,402,134
Permits-Sta. 15-61 Inc. B1-B3.....	4,041,632	4,107,221	4,117,245	4,291,945	4,410,271
	<u>\$ 449,743,606</u>	<u>\$ 436,569,350</u>	<u>\$ 432,326,697</u>	<u>\$ 420,275,216</u>	<u>\$ 414,985,272</u>
Less Volume Discount.....	(10,160,700)	(9,385,567)	(8,967,929)	(8,483,705)	(7,918,492)
	<u>\$ 439,582,906</u>	<u>\$ 427,183,783</u>	<u>\$ 423,358,768</u>	<u>\$ 411,791,511</u>	<u>\$ 407,066,780</u>
CONCESSION REVENUE:					
Gasoline Stations.....	\$ 3,800,537	\$ 3,698,533	\$ 3,782,033	\$ 2,991,749 (2)	\$ 850,047 (2)
Restaurants.....	11,151,715	11,011,622	11,015,590	10,900,224	10,747,084
TOTAL CONCESSION REVENUE	<u>\$ 14,952,252</u>	<u>\$ 14,710,155</u>	<u>\$ 14,797,623</u>	<u>\$ 13,891,973</u>	<u>\$ 11,597,131</u>
SUNDRY REVENUE, INTEREST	<u>\$ 15,485,171</u>	<u>\$ 12,697,586</u>	<u>\$ 11,706,861</u>	<u>\$ 16,257,710</u>	<u>\$ 15,614,684</u>
TOTAL REVENUES (3)	<u>\$ 470,020,329</u>	<u>\$ 454,591,524</u>	<u>\$ 449,863,252</u>	<u>\$ 441,941,194</u>	<u>\$ 434,278,595</u>
OPERATING EXPENSES					
Toll Collection.....	\$ 76,351,205	\$ 72,245,534	\$ 70,422,679	\$ 68,642,032	\$ 65,993,028
Policing.....	38,234,673	34,054,101	30,222,112	32,859,118	29,854,426
Traffic Administration	12,805,620	12,484,120	10,566,930	9,229,172	8,745,171
Maintenance:					
Highway and Building	94,854,136	91,300,636	89,815,669	64,857,586	63,928,504
Equipment.....	29,488,775	26,157,999	24,868,188	21,771,361	21,089,984
Finance and Accounts.....	11,459,340	10,321,557	9,575,992	9,453,966	9,382,080
Administrative and General.....	29,536,066	25,925,646	24,807,397	21,563,813	20,357,007
Provision for Environmental Reserve.....	-	-	-	750,000	750,000
Provision for Liability Claims.....	-	-	-	-	1,500,000
Special Expense-Early Retirement Surcharge	-	-	7,655,894	-	-
TOTAL OPERATING EXPENSES	<u>\$ 292,729,815</u>	<u>\$ 272,489,593 (1)</u>	<u>\$ 267,934,861 (1)</u>	<u>\$ 229,127,048</u>	<u>\$ 221,600,200</u>
INCLUDING EXTRAORDINARY EXPENSES	<u>\$ 292,729,815</u>	<u>\$ 272,489,593 (1)</u>	<u>\$ 267,934,861 (1)</u>	<u>\$ 229,127,048</u>	<u>\$ 221,600,200</u>
Net Revenues Before Adjustments.....	177,290,514	182,101,931	181,928,391	212,814,146	212,678,395
Provision for Liability Claims.....	(7,500,000)	-	-	-	-
Adjustments	(4,144,899) (6)	(24,532,384) (4)	28,425,953 (4)	(11,048,091) (4)	(1,245,727)
Net Revenues after Adjustments.....	<u>\$ 165,645,615</u>	<u>\$ 157,569,547</u>	<u>\$ 210,354,344</u>	<u>\$ 201,766,055</u>	<u>\$ 211,432,668</u>
USE OF NET REVENUES					
Debt Service.....	\$ 88,602,049	\$ 90,327,800	\$ 88,668,349	\$ 85,321,585	\$ 84,940,022
Reserve Maintenance Fund.....	36,693,986	10,068,501	44,782,545	32,307,591	69,295,626
Other Authority Projects.....	20,023,693	51,153,199 (5)	31,358,797	36,198,766	14,700,000
General Reserve Fund.....	20,325,887	6,020,047	45,544,653	47,838,113	42,147,020
Facilities Capital Improvement Fund.....	-	-	-	100,000	350,000
TOTAL	<u>\$ 165,645,615</u>	<u>\$ 157,569,547</u>	<u>\$ 210,354,344</u>	<u>\$ 201,766,055</u>	<u>\$ 211,432,668</u>

(1) The 2002 expenses include \$29.5 million of Thruway expenditures that relate to a change in accounting policy due to implementing Statement #34 of the Governmental Accounting Standards Board. The mandated change treats certain capital and equipment expenditures as operating expenses rather than charges to the capital program. These expenditures will be funded from revenues in a subsequent year.

(2) Revenues were affected by the Fuel Price Abatement program.

(3) Excludes Canal Corporation revenue and interest not deposited in the Revenue Fund.

(4) Includes revenue retained from prior year Operating Reserves and expenditures to be funded from revenues in a subsequent year.

(5) Provided funds for previous year's operating expense shortfall.

(6) Includes revenue retained for 2005 Operating Reserves less Claims and Idemity expenses funded via transfers to the Public Liability Claims Reserve.

THRUWAY STATISTICS

	2004	2003	2002	2001	2000
TRAFFIC					
Miles Traveled (1).....	11,076,541,209	10,800,325,570	10,548,996,242	10,167,643,399	9,949,774,814 *
Miles in Operation-Year's End.....	641	641	641	641	641
Daily Average Miles (1).....	30,263,774	29,589,933	28,901,360	27,856,557	27,185,177 *
Average Trip (Controlled System).....	43	43	43	43	43
Passenger.....	38	39	39	39	39
Commercial.....	65	64	64	64	64
TOLL					
Total Toll Transactions.....	281,843,428	272,038,024	267,210,016	259,721,892	255,687,474
Passenger.....	243,184,612	234,778,009	230,542,227	223,944,525	220,018,347
Commercial.....	38,658,816	37,260,015	36,667,789	35,777,367	35,669,127
Daily Average Toll Transactions.....	770,064	745,310	732,082	711,567	698,600
Permits Sold.....	37,163	37,238	36,933	36,078	38,371
Permit Trips.....	10,152,296	10,342,956	10,444,063	10,798,880	11,220,525
Permit Miles.....	231,431,678	235,503,136	238,274,419	246,740,467	255,824,669
REVENUE					
Total Income.....	\$470,020,329	\$454,591,524	\$449,863,252	\$441,941,194	\$434,278,595
Passenger Tolls.....	264,786,883	257,221,464	253,909,316	245,552,863	239,313,390
Commercial Tolls.....	174,796,023	169,962,319	169,449,452	166,238,648	167,753,390
Restaurants.....	11,151,715	11,011,622	11,015,590	10,900,224	10,747,084
Gasoline Stations.....	3,800,537	3,698,533	3,782,033	2,991,749 (2)	850,047 (2)
Interest.....	1,995,175 (3)	1,604,213 (3)	1,914,104	5,211,335	8,069,931
Other.....	13,489,996	11,093,373	9,792,757	11,046,375	7,544,753
EXPENSES					
Operating Costs (4).....	\$291,710,725 (7)	\$306,123,535 (6)	\$242,677,334 (6)	\$229,127,048	\$221,600,200
Transfers to Other Funds.....	77,043,566	67,241,747	121,685,995	116,444,470	126,492,646
Total Debt Service.....	103,417,590	104,299,320	100,269,806	97,043,144 *	94,751,450 *
Principal.....	38,740,000	36,815,000	34,895,000	33,065,000	31,255,000
Interest.....	64,677,590	67,484,320	65,374,806	63,978,144 *	63,496,450 *
ACCIDENTS AND INCIDENTS (1)					
Fatal.....	35	35	32	42	31 *
(Fatalities).....	44	36	44	51	37 *
Personal Injury.....	2,099	2,228	2,218 *	1,967	2,093
(Persons Injured).....	3,072	3,348	3,418 *	3,014	3,208
Property Damage.....	8,970	9,416	8,818 *	8,050	8,045 *
ACCIDENT RATES					
Per 100,000,000 Miles Traveled (1)					
Fatal Accidents.....	0.32	0.32	0.30	0.41	0.31 *
Personal Injury Accidents.....	18.95	20.63	21.03 *	19.35	21.04 *
Property Damage.....	80.98	87.18	83.59 *	79.17	80.86 *
Total Accidents.....	100.25	108.14	104.92	98.93	102.20 *
FATALITY RATES					
Per 100,000,000 Miles Traveled (1)					
Annual.....	0.40	0.33	0.42	0.50	0.37 *
Cumulative.....	0.98	1.01	1.04	1.07	1.09
MISCELLANEOUS					
Gallons Fuel Delivered.....	79,116,911	76,864,851	78,759,743	70,167,547	63,123,569
Emergency Service Calls.....	100,006	104,009	111,117	113,173	116,567

(1) Reflects Cross-Westchester Expressway (CWE) and I-84.

(2) Revenues are affected by the Fuel Price Abatement program, which was in place from May 24, 2000 through February 28, 2001 for Sunoco locations and May 26, 2000 to February 28, 2001 for ExxonMobil locations. The program was adopted to reduce fuel prices at Thruway locations.

(3) Total interest was \$2,871,499 for 2004 of which the Revenue Fund received \$1,995,175. Total interest was \$2,798,867 for 2003 of which the Revenue Fund received \$1,604,213.

(4) Includes CWE maintenance expenses.

(5) Represents 2003 operating expenses and includes funding of 2002 operating expenses that were not funded in the previous year and to provide \$7,376,415 for working capital.

(6) Represents funded amount of 2002 operating expenses. The actual amount totaled \$267,934,861 including extraordinary items.

(7) Excludes Claims and Idemnity expense of \$1,019,090, which was funded via Transfers to the Public Liability Claim Reserve.

*Adjusted figures

BRIDGE AND BARRIER TRAFFIC AND REVENUE SUMMARY

STATION	TRAFFIC 2004	TRAFFIC 2003	REVENUE 2004	REVENUE 2003
Grand Island Bridges --				
Passenger	21,654,293	20,981,856	\$ 7,464,501	\$ 7,167,917
Commercial	2,103,124	2,037,418	2,824,097	2,751,045
Total	23,757,417	23,019,274	\$ 10,288,598	9,918,962
Tappan Zee Bridge ⁽¹⁾ --				
Passenger	23,897,322	23,292,697	\$ 59,093,327	57,676,558
Commercial	1,700,674	1,616,658	16,949,280	16,685,690
Total	25,597,996	24,909,355	\$ 76,042,607	74,362,248
Yonkers Barrier --				
Passenger	18,052,571	17,233,552	\$ 9,026,284	8,616,775
Commercial	2,262,334	2,241,339	2,908,775	2,900,918
Total	20,314,905	19,474,891	\$ 11,935,059	11,517,693
New Rochelle Barrier ⁽¹⁾ --				
Passenger	19,022,138	18,412,192	\$ 19,022,132	18,412,186
Commercial	2,958,365	2,753,031	7,855,238	7,331,869
Total	21,980,503	21,165,223	\$ 26,877,370	25,744,055
Spring Valley Barrier ⁽¹⁾ --				
Commercial	1,518,916	1,397,907	\$ 4,643,354	4,404,839
Total	1,518,916	1,397,907	\$ 4,643,354	4,404,839
Harriman Barrier --				
Passenger	18,299,228	17,494,327	\$ 9,149,613	8,747,161
Commercial	1,536,093	1,454,591	2,247,178	2,129,568
Total	19,835,321	18,948,918	\$ 11,396,791	10,876,729
Buffalo City Line ⁽¹⁾ --				
Passenger	7,466,835	6,972,119	\$ 3,733,412	3,487,336
Commercial	1,424,358	1,352,491	2,305,855	2,193,804
Total	8,891,193	8,324,610	\$ 6,039,267	5,681,140
Black Rock Barrier ⁽¹⁾ --				
Passenger	8,668,718	8,388,920	\$ 4,334,358	4,195,506
Commercial	700,223	627,742	1,107,663	988,820
Total	9,368,941	9,016,662	\$ 5,442,021	5,184,326
Total Bridges and Barriers --				
Passenger	117,061,105	112,775,663	\$ 111,823,627	108,303,439
Commercial	14,204,087	13,481,177	40,841,440	39,386,553
Total Toll Traffic	131,265,192	126,256,840	\$ 152,665,067	147,689,992
Non-Revenue	507,536	508,806	-	-
Total	131,772,728	126,765,646	\$ 152,665,067	\$ 147,689,992

⁽¹⁾ One Way Trips

DAILY THRUWAY RECORDS

REVENUE:

Thruway System.....	August 29, 2003	\$1,642,595
Controlled System.....	August 29, 2003	\$1,164,684
Grand Island Bridge South....	August 8, 2003	\$21,607
Grand Island Bridge North....	August 1, 2003	\$16,970
Tappan Zee Bridge.....	June 30, 2000	\$243,437
Yonkers Barrier.....	June 30, 2000	\$41,619
New Rochelle Barrier.....	August 24, 2001	\$96,374
Spring Valley Barrier.....	October 17, 2001	\$25,320
Harriman Barrier.....	July 3, 2003	\$38,892
Buffalo City Line.....	August 13, 2004	\$22,627
Black Rock Barrier.....	September 10, 2004	\$20,775

Traffic - (Trips)

Thruway System	September 3, 2004	1,015,283
Controlled System	September 3, 2004	573,175
Grand Island Bridge South	August 8, 2003	49,027 *
Grand Island Bridge North	August 1, 2003	38,532 *
Tappan Zee Bridge	November 23, 2004	84,050 *
Yonkers Barrier	September 17, 1999	72,011
New Rochelle Barrier	August 24, 2001	81,455 *
Spring Valley Barrier	October 17, 2001	7,571 **
Harriman Barrier	July 13, 2003	68,821
Buffalo City Line	August 13, 2004	33,542 *
Black Rock Barrier	September 10, 2004	35,216 *

* One Way Trips

** One Way Commercial Trips Only

CONTROLLED SYSTEM TRAFFIC SUMMARY - 2004

EXIT TRAFFIC

INTERCHANGES			ENTRY TRAFFIC TOTAL	Passenger				
No.	Name	Mile Post		Full Fare	Permits	Commercial	Non Revenue	Total
15	Woodbury	45	8,487,266	6,325,768	245,869	1,702,066	24,072	8,297,775
16	Harriman	45	1,089,404	1,022,963	43,742	67,443	15,434	1,149,582
17	Newburgh	60	6,275,989	4,711,378	341,363	1,224,834	52,824	6,330,399
18	New Paltz	76	2,648,697	2,330,562	178,606	167,682	20,237	2,697,087
19	Kingston	91	3,209,548	2,745,715	245,131	276,255	27,255	3,294,356
20	Saugerties	101	1,628,149	1,247,022	150,300	121,571	17,606	1,536,499
21	Catskill	114	1,662,822	1,302,168	183,695	160,901	25,586	1,672,350
21B	Coxsackie	124	1,204,642	715,465	273,592	154,151	16,064	1,159,272
22	Selkirk	135	825,436	547,658	107,168	117,597	24,686	797,109
23	Boulevard	142	5,082,236	3,807,550	680,049	515,201	127,395	5,130,195
24	Washington	148	13,654,521	11,483,646	847,116	1,733,685	103,389	14,167,836
25	Schenectady	154	6,791,095	5,661,549	620,549	280,959	60,362	6,623,419
25A	Schenectady I-88	159	3,887,946	2,866,760	51,763	787,610	29,747	3,735,880
26	Rotterdam	162	1,211,713	895,551	149,712	148,054	13,650	1,206,967
27	Amsterdam	174	1,704,610	1,224,393	275,879	182,046	20,425	1,702,743
28	Fulltonville	182	1,058,759	491,320	65,235	494,405	15,757	1,066,717
29	Canajoharie	194	493,719	347,174	57,566	66,033	8,953	479,726
29A	Little Falls	211	249,661	181,149	23,495	47,186	4,956	256,786
30	Herkimer	220	752,978	602,121	57,043	102,011	14,411	775,586
31	Utica	233	2,070,051	1,519,576	124,774	381,745	26,732	2,052,827
32	Westmoreland	243	1,154,094	886,393	149,359	112,199	21,010	1,168,961
33	Verona	253	2,575,883	1,998,575	244,165	306,807	20,350	2,569,897
34	Canastota	262	1,642,939	1,091,400	312,109	134,147	21,084	1,558,740
34A	Collamer	277	3,196,769	2,432,865	363,119	411,909	20,209	3,228,102
35	Thompson	279	2,092,717	1,521,543	297,974	316,061	30,477	2,166,055
36	Mattydale	283	3,228,334	2,347,656	184,707	559,561	21,936	3,113,860
37	Electronics	284	1,068,173	853,501	164,465	82,457	18,759	1,119,182
38	Liverpool	286	1,220,385	840,987	141,630	108,444	9,121	1,100,182
39	State Fair	290	3,080,896	2,255,744	233,273	623,340	19,897	3,132,254
40	Weedsport	304	1,339,649	895,976	186,451	224,304	16,010	1,322,741
41	Waterloo	320	1,265,977	944,394	90,171	223,439	8,401	1,266,405
42	Geneva	327	1,778,608	1,364,408	143,678	279,946	14,641	1,802,673
43	Manchester	340	1,514,777	1,111,084	190,155	153,775	16,422	1,471,436
44	Canandaigua	347	3,260,923	2,668,243	229,090	218,054	23,566	3,138,953
45	Victor	351	5,507,856	4,867,888	382,442	377,561	26,794	5,654,685
46	Henrietta	362	3,763,868	2,840,981	310,079	691,332	22,009	3,864,401
47	LeRoy	379	2,738,114	2,066,815	149,826	430,663	13,782	2,661,086
48	Batavia	390	1,664,315	1,185,432	151,565	285,917	25,200	1,648,114
48A	Pembroke	402	2,183,318	1,277,872	132,449	682,839	15,164	2,108,324
49	Depew	417	3,477,616	2,990,025	103,246	381,402	18,262	3,492,935
50	Williamsville	420	9,494,155	6,936,841	287,784	2,417,660	50,237	9,692,522
SUBTOTAL			121,238,608	93,408,111	9,170,384	17,753,252	1,082,872	121,414,619
B1	Post Road	B7	3,001,619	2,225,672	66,583	559,703	22,290	2,874,248
B2	Taconic	B15	872,728	766,938	25,750	13,715	13,205	819,608
B3	Canaan	B18	4,621,637	3,224,981	39,690	1,347,029	14,417	4,626,117
SUBTOTAL			8,495,984	6,217,591	132,023	1,920,447	49,912	8,319,973
55	Lackawanna	429	9,218,004	6,746,868	304,650	1,983,813	44,343	9,079,674
56	Blasdell	432	2,619,285	2,284,039	93,782	199,750	16,447	2,594,018
57	Hamburg	436	2,210,128	1,909,599	128,277	225,815	16,202	2,279,893
57A	Angola	445	948,484	757,684	91,776	64,458	10,207	924,125
58	Silver Creek	456	1,054,359	847,272	102,520	135,230	15,503	1,100,525
59	Dunkirk	468	1,747,905	1,334,178	100,597	270,696	28,625	1,734,096
60	Westfield	485	283,131	227,927	8,935	44,058	11,499	292,419
61	State Line	496	4,052,573	2,237,942	19,352	1,857,210	14,615	4,129,119
SUBTOTAL			22,133,869	16,345,509	849,889	4,781,030	157,441	22,133,869
GRAND TOTAL			151,868,461	115,971,211	10,152,296	24,454,729	1,290,225	151,868,461



NEW YORK STATE THRUWAY AUTHORITY

AUDITED FINANCIAL STATEMENTS
AND
SUPPLEMENTARY INFORMATION

Years Ended December 31, 2004 and 2003

NEW YORK STATE THRUWAY AUTHORITY

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INDEPENDENT AUDITORS' REPORT

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Members of the Board
New York State Thruway Authority

We have audited the accompanying basic financial statements of the New York State Thruway Authority (the "Authority"), a component unit of the State of New York, as of and for the year ended December 31, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The 2003 financial statements of the Authority were audited by other auditors whose report, dated March 29, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2004, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2005 on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Albany, New York
May 27, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following discussion and analysis of the New York State Thruway Authority's (Authority) financial performance provides an overview of the Authority's activities for the calendar years ended December 31, 2004 and 2003. Please read it in conjunction with the Authority's financial statements that follow this section. This discussion and analysis is intended to serve as an introduction to the Authority's financial statements which are comprised of the basic financial statements and the notes to the financial statements.

2004 Financial Highlights

- Toll revenue for the year was \$439.6 million, an increase of \$12.4 million or 2.9% compared to 2003.
- Total operating expenses for the New York State Thruway, the Canal Corporation, Interstate 84 and for Other Authority Projects for the year, excluding depreciation and amortization, were \$355.1 million, an increase of \$20.0 million or 6.0% compared to 2003.
- Non operating revenues for the year were \$43.5 million, an increase of \$29.1 million or 202.1% compared to 2003. This increase is primarily due to a one year increase in the amount of federal aid available to operate the canal system.
- Total net assets as of December 31, 2004 were approximately \$2.67 billion, a decrease of \$18.1 million compared to December 31, 2003.
- Total capital assets (net of depreciation) as of December 31, 2004 increased by \$6.6 million to \$4.16 billion compared to 2003.

2003 Financial Highlights

- Toll revenue for the year was \$427.2 million, an increase of \$3.8 million or 0.9% compared to 2002.
- Total operating expenses for the New York State Thruway, the Canal Corporation, Interstate 84 and for Other Authority Projects for the year, excluding depreciation and amortization, were \$335.1 million, an increase of \$15.9 million or 5.0% compared to 2002.
- Total net assets as of December 31, 2003 were approximately \$2.69 billion, a decrease of \$55.0 million compared to December 31, 2002.
- Total capital assets (net of depreciation) as of December 31, 2003 increased by \$35.7 million to \$4.15 billion compared to 2002.

Overview of the Financial Statements

This report consists of three parts: management's discussion and analysis, the basic financial statements, and the statements' notes.

The financial statements provide summary information about the Authority's overall financial condition including the Authority's net assets and changes to them. The notes provide explanation and more details about the contents of the financial statements.

The Authority is considered a special-purpose government engaged in business-type activities and follows financial reporting for enterprise funds. The Authority's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). Revenues are recognized in the period in which they are earned and expenses are recognized in the period in which they are incurred.

Financial Analysis of the Authority

Net Assets

The Authority's total net assets at December 31, 2004 (See Table A-1) were approximately \$2.67 billion, a 0.7% decrease compared to December 31, 2003. Total assets decreased 0.5% to \$4.5 billion and total liabilities decreased 0.1% to \$1.8 billion. The Authority's total net assets at December 31, 2003 were approximately \$2.69 billion, a 2.0% decrease compared to December 31, 2002. Total assets increased 1.2% to \$4.5 billion and total liabilities increased 6.1% to \$1.8 billion.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-1
Net Assets
December 31, 2004, 2003 and 2002
(In millions of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Percentage Change 2004-2003</u>
Unrestricted current assets	\$ 157.4	\$ 133.7	\$ 112.7	17.7
Restricted current assets	182.4	232.3	236.9	(21.5)
Capital assets	4,156.2	4,149.6	4,113.9	0.2
Noncurrent assets	13.1	13.9	14.7	(5.8)
Total assets	<u>4,509.1</u>	<u>4,529.5</u>	<u>4,478.2</u>	<u>(0.5)</u>
Current liabilities	698.3	812.7	676.6	(14.1)
Noncurrent liabilities	1,140.5	1,028.3	1,058.2	10.9
Total liabilities	<u>1,838.8</u>	<u>1,841.0</u>	<u>1,734.8</u>	<u>(0.1)</u>
Net assets:				
Invested in capital assets, net of related debt	2,489.3	2,502.8	2,568.1	(0.5)
Restricted for debt service	9.0	80.0	80.3	(88.8)
Restricted for reserve maintenance	75.4	34.0	57.0	121.8
Restricted for construction	35.5	28.2	14.9	25.9
Unrestricted	61.1	43.4	23.1	40.8
Total net assets	<u>\$ 2,670.3</u>	<u>\$ 2,688.4</u>	<u>\$ 2,743.4</u>	<u>(0.7)</u>

Restricted current assets decreased \$49.9 million or 21.5% in 2004 compared to 2003. This decrease is the result of a decision to use funds set aside in the Senior Debt Service Reserve Fund to finance the Authority's capital program. In 2004, the Authority purchased a municipal bond debt service reserve fund policy in substitution of the Senior Debt Service Reserve Fund cash requirements for the Authority's General Revenue Bonds, Series C, D, and E. As a result of this substitution, \$68.6 million was transferred from the Senior Debt Service Reserve Fund to the Reserve Maintenance and Construction Funds to finance the Authority's capital program. As these funds were spent on capital projects a shift occurred from Restricted current assets to Capital assets.

Current liabilities decreased by \$114.4 million or 14.1% compared to 2003. Non-current liabilities increased by \$112.2 million or 10.9% compared to 2003. The shift in liabilities from current to non-current is primarily due to the accounting treatment of \$150 million in Series CP-1, General Revenue Bond Anticipation Notes. In 2004, these notes were shifted to non-current based on an agreement to refinance them with long-term General Revenue Bonds in March 2005.

Net assets invested in capital assets, net of related debt consists of capital assets net of accumulated depreciation reduced by the amount of outstanding indebtedness attributable to the acquisition, construction, rehabilitation, or improvement of those assets. The outstanding indebtedness includes revenue bonds, special obligation bonds, and bond anticipation notes. (See note 6 for further discussion of long-term debt).

Net Assets Restricted for Debt Service decreased by \$71.0 million and Net Assets Restricted for Reserve Maintenance increased by \$41.4 million compared to 2003. This shift is primarily due to the purchase of a municipal bond debt service reserve fund policy and the subsequent transfer of funds from the Senior Debt Service Reserve Fund to the Reserve Maintenance and Construction Funds as previously described.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

Net assets decreased by \$18.1 million in 2004 compared to 2003 (See Table A-2). The Authority's total operating revenues for 2004 were \$472.9 million, an increase of \$15.3 million or 3.3% compared to 2003. Total operating expenses including depreciation and amortization were \$541.8 million, an increase of \$20.4 million or 3.9% compared to 2003. Net assets decreased by \$55.0 million in 2003 compared to 2002. The Authority's total operating revenues for 2003 were \$457.6 million, an increase of \$5.4 million or 1.2% compared to 2002. Total operating expenses including depreciation and amortization were \$521.4 million, an increase of \$20.9 million or 4.2% compared to 2002.

Table A-2
Changes in Net Assets
Year Ended December 31, 2004, 2003 and 2002
(In millions of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Percentage Change 2004-2003</u>
Operating Revenues:				
Toll revenue	\$ 439.6	\$ 427.2	\$ 423.4	2.9
Concession revenue	15.0	14.7	14.8	2.0
Miscellaneous	18.3	15.7	14.0	16.6
Total operating revenues	<u>472.9</u>	<u>457.6</u>	<u>452.2</u>	<u>3.3</u>
Operating Expenses:				
Administrative	21.1	19.7	21.3	7.1
Engineering services	5.0	4.6	5.0	8.7
Maintenance	89.8	89.4	87.5	0.4
Finance and accounts	5.8	5.7	5.5	1.8
Operations	77.7	75.9	74.4	2.4
General charges	96.2	81.2	70.2	18.5
Canals	48.0	43.8	39.3	9.6
Interstate 84	11.6	12.0	10.6	(3.3)
Other Authority projects	(0.1)	2.9	5.4	(103.4)
Depreciation and amortization	186.7	186.3	181.3	0.2
Total operating expenses	<u>541.8</u>	<u>521.5</u>	<u>500.5</u>	<u>3.9</u>
Operating loss	<u>(68.9)</u>	<u>(63.9)</u>	<u>(48.3)</u>	<u>7.8</u>
Nonoperating revenue (expenses):				
Interest expense	(63.1)	(63.4)	(66.5)	(0.5)
Nonoperating revenues	43.5	14.4	11.9	202.1
Net nonoperating expenses	<u>(19.6)</u>	<u>(49.0)</u>	<u>(54.6)</u>	<u>(60.0)</u>
Loss before other revenue and special items	(88.5)	(112.9)	(102.9)	(21.6)
Capital contribution	70.4	57.9	32.3	21.6
Special item - Early Retirement Surcharge	-	-	(8.9)	-
Change in net assets	(18.1)	(55.0)	(79.5)	(67.1)
Total net assets, beginning of the year	<u>2,688.4</u>	<u>2,743.4</u>	<u>2,822.9</u>	<u>(2.0)</u>
Total net assets, end of the year	<u>\$ 2,670.3</u>	<u>\$ 2,688.4</u>	<u>\$ 2,743.4</u>	<u>(0.7)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

Toll revenue for 2004 increased \$12.4 million or 2.9%. Passenger toll revenue increased \$7.6 million or 2.9% and commercial toll revenue increased \$4.8 million or 2.8% due to normal traffic growth.

General charges increased by \$15.0 million in 2004 compared to 2003. This increase is primarily due to higher pension, health insurance and E-ZPass account management costs.

Canal operating expenses increased by \$4.2 million in 2004 compared to 2003. This increase is primarily due to an emergency dredging project on the Erie Canal near Utica. Higher costs for pensions, health insurance, and legal services also contributed to the increase.

Non-operating revenues increased by \$29.1 million compared to 2003. This increase is due primarily to a one year increase in the amount of federal aid available to operate the canal system. In 2005, federal funds available to operate the canal system are expected to return to pre-2004 levels.

Capital contributions increased by \$12.5 million or 21.6% compared to 2003. This increase is primarily due to additional federal aid available to fund capital projects.

Capital Assets and Debt Administration

Capital Assets

As of December 31, 2004, the New York State Thruway Authority had invested approximately \$6.9 billion in capital assets, including roads, bridges, buildings, land and equipment. Net of accumulated depreciation, the Authority's capital assets at December 31, 2004, totaled approximately \$4.2 billion (See Table A-3) representing a net increase (including additions, disposals and depreciation) of approximately \$7 million or .2% over December 31, 2003.

As of December 31, 2003, the New York State Thruway Authority had invested approximately \$6.9 billion in capital assets, including roads, bridges, buildings, land and equipment. Net of accumulated depreciation, the Authority's capital assets at December 31, 2003, totaled approximately \$4.2 billion. (See Table A-3) representing a net increase (including additions, disposals and depreciation) of approximately \$36 million or .9% over December 31, 2002.

Table A-3
Capital Assets
December 31, 2004, 2003 and 2002
(In millions of dollars)

	<u>2004</u>	<u>2003</u>	<u>2002</u>	Percentage Change 2004-2003
Land and land improvements	\$ 804.0	\$ 785.5	\$ 772.6	2.4
Construction work in progress	245.1	269.0	306.5	(8.9)
Thruway System	5,397.6	5,339.8	5,275.4	1.1
Canal System	302.8	295.4	267.3	2.5
Equipment	191.2	188.2	171.5	1.6
Less accumulated depreciation	<u>(2,784.5)</u>	<u>(2,728.3)</u>	<u>(2,679.4)</u>	<u>2.1</u>
Total net capital assets	<u>\$ 4,156.2</u>	<u>\$ 4,149.6</u>	<u>\$ 4,113.9</u>	<u>0.2</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

In 2004, the Thruway System and land improvement capital asset values increased by \$57.8 million and \$18.5 million, respectively. These increases are primarily due to the completion of the Interchange 8 project in Westchester County, steel repairs on the North Grand Island Bridge, and highway improvements at various locations on the system. Construction work in progress decreased \$23.9 million as a result of projects being completed and a reduction in the number of new capital projects being started due to fiscal constraints. The Canal System capital asset value increased by \$7.4 million due to the completion of a trailway between Adams Basin and Albion, as well as several smaller infrastructure projects.

In 2003 the Thruway System and land improvement capital asset values increased by \$64.4 million and \$12.9 million, respectively. These increases were primarily due to the completion of the 4th lane widening project in Buffalo, the Reconstruction of Interchange 34A in Syracuse, and the ownership transfer of the fiber optic system to the Authority. Construction work in progress decreased \$37.5 million as a result of projects being completed in 2003. The Canal System increased by \$28.1 million as a result of completing the rehabilitation of Lock E-2 in Waterford, and several other smaller infrastructure projects. Equipment increased by \$16.7 million primarily due to the installation of a new computer network, and purchases of vehicles, highway equipment and E-Z pass tags.

More detailed information about the authority's capital assets is presented in note 4.

Debt Administration

Bond and note sales must be approved by the Authority's Board, members of which are appointed by the Governor with the advice and consent of the State Senate. They must comply with rules and regulations of the United States Treasury Department and the United States Securities and Exchange Commission. The terms and conditions of Authority bond and note sales must also be approved by the New York State Office of the State Comptroller.

Long-term debt includes general revenue bonds of varying rates and maturities issued primarily to fund a portion of the cost of the Authority's capital plan. Some of the general revenue bonds were issued to refund earlier issues. General Revenue Bond Anticipation Notes, some in the form of liquidity supported commercial paper, have also been issued as an additional source of funds for the Authority's capital program. The Authority issued \$30.8 million in special obligation bonds in 1991 to fund the purchase from the State of New York of an eleven mile highway, designated Interstate Route 287, in Westchester County, New York. The final maturity date on the special obligation bonds is January 1, 2006.

At December 31, 2004, the Authority has approximately \$1,010.3 million in general revenue and special obligation bonds and \$678 million in bond anticipation notes outstanding, a .5% decrease from December 31, 2003 (See Table A-4). Of the \$1,003.5 million in general revenue bonds outstanding, approximately \$165.2 million are insured and rated Aaa by Moody's and AAA by Standard and Poor's (S&P). The remaining revenue bonds are rated AA- by S&P and Aa3 by Moody's. The special obligation bonds are not insured and are rated A- by S&P. Of the \$678 million in bond anticipation notes, \$300 million are supported with a standby credit facility and are rated P-1 by Moody's and A-1+ by S&P. The remainder of the notes are rated MIG-1 and SP-1+ by Moody's and S&P, respectively. As part of S&P's ongoing secondary market surveillance during 2004, they have reviewed the Authority's latest financial report and various other relevant data. As a result of this review, S&P has affirmed the current ratings on the Authority's outstanding debt and provided a stable ratings outlook.

At December 31, 2003, the Authority had approximately \$1,046.8 million in general revenue and special obligation bonds and \$650 million in bond anticipation notes outstanding, a 7.3% increase from December 31, 2002 (See Table A-4). Of the \$1,031.6 million in revenue bonds outstanding, approximately \$177 million were insured and rated Aaa by Moody's and AAA by Standard and Poor's (S&P). The remaining revenue bonds were rated AA-by S&P and Aa3 by Moody's. The special obligation bonds are not insured and are rated A- by S&P. Of the \$650 million in bond anticipation notes, \$300 million were supported with a standby credit facility and were rated P-1 by Moody's and A-1+ by S&P. The remainder of the notes were rated MIG-1 and SP-1+ by Moody's and S&P, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Table A-4
Outstanding Debt
Year Ended December 31, 2004
(In millions of dollars)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>
General Revenue Bonds	\$ 1,031.6	\$ -	\$ (28.1)	\$ 1,003.5
Special Obligation Bonds	15.2	1.2	(9.6)	6.8
Total bonds	1,046.8	1.2	(37.7)	1,010.3
Bond Anticipation Notes	650.0	381.0	(353.0)	678.0
Total bonds and notes	<u>\$ 1,696.8</u>	<u>\$ 382.2</u>	<u>\$ (390.7)</u>	<u>\$ 1,688.3</u>

Year Ended December 31, 2003
(In millions of dollars)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retired</u>	<u>Ending Balance</u>
General Revenue Bonds	\$ 1,058.0	\$ -	\$ (26.4)	\$ 1,031.6
Special Obligation Bonds	22.4	1.8	(9.0)	15.2
Total bonds	1,080.4	1.8	(35.4)	1,046.8
Bond Anticipation Notes	500.4	350.1	(200.5)	650.0
Total bonds and notes	<u>\$ 1,580.8</u>	<u>\$ 351.9</u>	<u>\$ (235.9)</u>	<u>\$ 1,696.8</u>

More detailed information about the Authority's long-term debt is presented in note 6.

Subsequent Events

On March 30, 2005, the Authority issued \$624,570,000 of Series F, General Revenue Bonds, to pay the maturing \$150 million in principal on Series CP- 1, General Revenue Bond Anticipation Notes; to refund certain outstanding General Revenue Bonds from Series B, D and E totaling \$444,205,000; to make a deposit to the Senior Debt Service Reserve Fund and to fund a portion of the Authority's capital program.

On April 25, 2005, the Authority's Board approved a toll increase. The toll increase will be the first general toll increase on the Thruway since 1988. For passenger vehicles, the adjustment would be less than half the cumulative rate of inflation since 1988, the last time tolls were increased, and for customers using E-ZPass, the increase will be even less. The toll adjustment includes a 25% increase for passenger vehicles and a 35% increase for commercial vehicles. These toll adjustments became effective on May 15, 2005.

More detailed information about the Authority's toll increase is presented in Note 11.

Contacting the New York State Thruway Authority's Financial Management

This financial report is designed to provide our bondholders, patrons, and other interested parties with a general overview of the Authority's finances and to demonstrate its accountability for the money it receives. If you have questions about this report or need additional information, contact the New York State Thruway Authority's Department of Finance and Accounts, P.O. Box 189, Albany, NY 12201-0189.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF NET ASSETS

December 31, 2004 and 2003

	2004	2003
	<i>(In thousands)</i>	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 89,562	\$ 79,800
Investments	1,822	1,494
Accrued interest receivable	95	72
Accounts receivable, net	44,709	34,321
Materials and other inventory	15,149	15,694
Prepaid insurance and deferred expenses	6,053	2,352
Restricted:		
Cash and cash equivalents	143,542	170,492
Investments	2,102	33,435
Accounts receivable, net	35,473	28,143
Other	1,247	188
Total current assets	339,754	365,991
NONCURRENT ASSETS		
Capital assets, net of accumulated depreciation	4,156,236	4,149,563
Investment in State Infrastructure Bank	3,000	3,000
Bond issuance costs, net of accumulated amortization	10,120	10,899
Total noncurrent assets	4,169,356	4,163,462
Total assets	4,509,110	4,529,453
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued expenses	81,103	79,698
Accrued wages and employee benefits	11,074	8,398
Deferred revenue	32,607	30,186
Accrued interest payable	3,031	3,506
Current amount due on bonds, notes and other long-term liabilities	570,480	690,944
Total current liabilities	698,295	812,732
NONCURRENT LIABILITIES		
Bonds and notes payable, net of unamortized discounts and premiums	1,123,934	1,009,118
Other long-term liabilities	16,534	19,182
Total noncurrent liabilities	1,140,468	1,028,300
Total liabilities	1,838,763	1,841,032
NET ASSETS		
Invested in capital assets, net of related liabilities	2,489,279	2,502,853
Restricted for:		
Debt service	8,976	79,954
Reserve maintenance	75,461	33,997
Construction	35,553	28,206
Unrestricted	61,078	43,411
Total net assets	\$2,670,347	\$2,688,421

See notes to financial statements.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
	<i>(In thousands)</i>	
Operating revenues		
Tolls	\$ 439,583	\$ 427,184
Concessions	14,952	14,710
Other	18,334	15,732
	<u>472,869</u>	<u>457,626</u>
Total operating revenues		
Operating expenses		
Administrative	21,082	19,666
Engineering services	4,996	4,559
Maintenance engineering:		
Thruway maintenance	66,859	68,527
Equipment maintenance	22,964	20,893
Finance and accounts	5,797	5,684
Operations:		
Traffic and services	7,040	6,815
State police	29,078	27,486
Toll collection	41,539	41,542
General charges	96,238	81,189
Canals	48,001	43,834
Interstate 84	11,569	11,947
Other Authority projects	(110)	2,944
Depreciation and amortization	186,684	186,353
	<u>541,737</u>	<u>521,439</u>
Total operating expenses		
Operating loss	<u>(68,868)</u>	<u>(63,813)</u>
Nonoperating items		
Interest revenue on investments	80	820
Interest expense	(63,152)	(63,412)
Federal and other aid	43,443	13,561
	<u>(19,629)</u>	<u>(49,031)</u>
Net nonoperating items		
Loss before capital contributions	(88,497)	(112,844)
Capital contributions	<u>70,423</u>	<u>57,898</u>
Change in net assets	(18,074)	(54,946)
Total net assets, beginning of year	<u>2,688,421</u>	<u>2,743,367</u>
Total net assets, end of year	<u>\$ 2,670,347</u>	<u>\$ 2,688,421</u>

See notes to financial statements.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF CASH FLOWS

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
	<i>(In thousands)</i>	
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from toll collections	\$ 448,007	\$ 438,705
Cash received from concession sales	15,283	14,438
Other operating cash receipts	19,388	7,894
Personal service payments	(152,052)	(157,915)
Fringe benefit payments	(49,147)	(45,259)
E-ZPass account management payments	(18,316)	(17,827)
Cash payments to vendors and contractors	<u>(139,532)</u>	<u>(129,660)</u>
Net cash provided by operating activities	<u>123,631</u>	<u>110,376</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Federal aid and other reimbursements	<u>30,647</u>	<u>9,722</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from debt issued	382,742	360,292
Federal aid and other capital contributions	65,396	35,723
Construction of capital assets	(192,812)	(223,397)
Principal paid on capital debt	(390,242)	(236,990)
Interest paid on capital debt	(67,614)	(67,057)
Proceeds from sale of capital assets	1,097	902
Other cash payments	<u>(1,293)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(202,726)</u>	<u>(130,527)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(16,644)	(173,886)
Proceeds from sale and maturities of investments	47,649	243,252
Interest on investments	<u>255</u>	<u>1,794</u>
Net cash provided by investing activities	<u>31,260</u>	<u>71,160</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(17,188)</u>	<u>60,731</u>
CASH AND CASH EQUIVALENTS, Beginning of year	<u>250,292</u>	<u>189,561</u>
CASH AND CASH EQUIVALENTS, End of year	<u><u>\$ 233,104</u></u>	<u><u>\$ 250,292</u></u>

See notes to financial statements.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

STATEMENTS OF CASH FLOWS (Continued)

Years Ended December 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
	<i>(In thousands)</i>	
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating loss	\$ (68,868)	\$ (63,813)
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Depreciation and amortization expense	186,684	186,353
Capitalized interest	704	681
Net changes in assets and liabilities:		
Receivables	2,276	(6,778)
Inventories	545	(4,569)
Prepaid expenses	(3,700)	(1,112)
Accounts payable and accrued expenses	674	5,653
Accrued wages and benefits	2,895	(9,634)
Deferred revenue	2,421	3,595
Net cash provided by operating activities	<u>\$ 123,631</u>	<u>\$ 110,376</u>
RECONCILIATION TO STATEMENT OF NET ASSETS		
Cash and cash equivalents	\$ 89,562	\$ 79,800
Restricted cash and cash equivalents	<u>143,542</u>	<u>170,492</u>
Total cash and cash equivalents	<u>\$ 233,104</u>	<u>\$ 250,292</u>

See notes to financial statements.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 1 — FINANCIAL REPORTING ENTITY

The New York State Thruway Authority (the Authority) is a Public Benefit Corporation created by the New York State Legislature in 1950 to build, operate and maintain the Thruway System. The New York State Canal Corporation (the Canal Corporation), a subsidiary public corporation of the Authority, was created by the New York State Legislature (the State) in August 1992 to accept jurisdiction and control over the State Canal System from the State. The Authority and the Canal Corporation each consist of a Board of three members, appointed by the Governor, with the consent of the New York State Senate.

The Authority is responsible for a 641-mile system of highways crossing New York State, the longest toll highway system in the United States. The Authority's 426-mile Thruway mainline connects New York City and Buffalo, the State's two largest cities. Other Thruway sections provide for connections with Connecticut, Massachusetts, Pennsylvania, New Jersey, and to highways that lead to the Midwest and Canada. In accordance with legislation passed by the State Legislature, the Cross-Westchester Expressway (CWE) and I-84 were added to the Thruway in 1991 and 1992, respectively. Under this legislation, the Authority is prohibited from imposing any toll, fee, rental or charge for the use of the CWE or I-84. The legislation which transferred responsibility for maintenance of the Canal System to a subsidiary corporation of the Authority and transferred the CWE and I-84 to the Authority also authorized and directed the Authority to assist in the financing of certain transportation related projects and facilities under the category of "Other Authority Projects." The accounts and activities of the Canal Corporation and these "Other Authority Projects" are included in the financial statements of the Authority. Revenues of the Canal System are to be credited to the New York State Canal Development Fund (the Fund), created by the 1992 legislation, and held by the State where they are available subject to appropriation only for purposes of the Canal System as directed by the Canal Recreationway Commission. The State of New York may from time to time authorize the Authority by statute to undertake additional financing activities to finance primarily non-Authority transportation projects in the State. The Authority is responsible for administering these special bond programs as discussed in note 7.

The accompanying financial statements include the accounts and transactions of the New York State Thruway Authority, New York State Canal Corporation, and the Canal Development Fund, henceforth referred to as the "Authority".

The Authority is a legally and fiscally separate and distinct organization solely responsible for its finances and the credit of the State of New York is not pledged to the operation of the Authority. The Authority is empowered to issue revenue bonds backed solely from Authority revenues. However, under the criteria specified in Government Accounting Standards Board Statement (GASB) No. 14, the Authority is considered a component unit of the State of New York, because the Governor appoints all members of the Authority's Governing Board.

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. In accordance with the provisions of the GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting, the Authority has elected to apply all Financial Accounting Standards Board statements and interpretations issued on or before November 30, 1989 unless these standards and interpretations conflict with or contradict the GASB pronouncements. The more significant accounting policies are described below:

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of Accounting

The Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

The principal revenues of the Authority are toll revenues received from patrons. The Authority also recognizes as operating revenue the rental fees received from concessionaires from operating leases on concession property, special hauling fees charged to overweight or oversize vehicles, and certain revenue collected from the lease of property. Operating expenses for the Authority include maintenance costs of operating the Authority, administrative expenses, and depreciation on infrastructure and other capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The New York State Office of the State Comptroller requires that the Authority report in accordance with generally accepted accounting principles as it is a component unit of the State. The Authority's bond resolution, however, requires that certain funds and accounts be established and maintained. The Authority consolidates these funds and accounts for the purpose of providing an enterprise fund presentation in its external financial statements.

(b) Cash, Cash Equivalents and Investments

Cash includes amounts in demand deposits. Cash equivalents include all highly liquid deposits with an original maturity of three months or less when purchased. These deposits are fully collateralized or covered by federal deposit insurance.

Investments include money market instruments with a maturity of more than three months (but less than one year) and are recorded at amortized cost. These investments are not included in cash and cash equivalents in the Statement of Cash Flows.

The Authority manages its investments pursuant to the respective bond resolutions, Public Authorities Law, and the Authority's Investment Policy approved annually by the Authority's Board. Permitted investments are defined as obligations in which the State Comptroller may invest pursuant to Section 98(a) of the State Finance Law. This includes obligations of the United States and its Federal agencies, collateralized time deposits, commercial paper, bankers acceptances and repurchase agreements.

(c) Accounts Receivable

Accounts receivable consist primarily of receivables from commercial transportation companies and the Federal government under various Federal programs. All commercial accounts receivable are guaranteed by surety bonds and cash deposits. An allowance of \$150,000 at December 31, 2004 and 2003 has been established for estimated uncollectible accounts receivable.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Materials and Other Inventory*

Materials and other inventory consist of stores, materials and supplies inventory and are principally valued at weighted average cost. The cost of inventory items is recognized as an expense when used.

(e) *Deferred Revenue*

Deferred revenue consists of prepaid deposits made by private and commercial customers into E-Z Pass accounts held by the Authority and 2005 and 2004 annual permit revenues collected in 2004 and 2003, respectively.

(f) *Restricted Assets*

Certain proceeds of the Thruway revenue bonds are restricted by applicable bond covenants for construction or set aside as reserves to ensure repayment of the Authority's bonds. Certain other assets are accumulated and restricted in accordance with the bond resolutions for the purpose of paying interest and principal debt payments that are due on a semi-annual and annual basis, respectively, and for the purpose of maintaining reserve funds at required levels. Payments from restricted funds are governed by the bond resolutions and, as such, expenses which do not meet these standards are paid from unrestricted funds.

(g) *Tolls Revenue*

Tolls revenue is stated net of volume discounts approximating \$10.2 million and \$9.4 million for 2004 and 2003, respectively.

(h) *Pensions*

Substantially all Authority employees, as well as the State Police assigned to the Thruway System, are members of cost sharing multiple-employer public employee retirement systems. Expenses are based on billings which are paid currently.

(i) *Compensated Absences*

Vacation leave accumulates for all full-time employees of the Authority, ranging from 13 to 25 days per year, and any unused amounts up to 30 days are considered vested and paid upon retirement or termination. Authority employees also accumulate sick leave at the rate of 10 to 13 days per year and personal leave credits at the rate of 3 to 5 days per year. Employees may use the accumulated sick and personal leave credits according to the established policy; however, generally no cash is paid for these accumulated credits at the time of retirement or termination. The liability for vested compensated absences has been computed to approximate \$9,725,000 and \$9,506,000 at December 31, 2004 and 2003, respectively, and is deemed a long term liability.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 2 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Bond Discounts/Premiums and Bond Issuance Costs

Bond discounts/premiums are presented as a reduction of the face amount of the bonds payable. Bond issuance costs are presented as a deferred asset on the Statements of Net Assets. The discounts/premiums and issuance costs are amortized over the life of the bonds on a method that approximates the effective interest method. Amortization expense related to bond discounts/premiums was \$1,051,000 and \$1,426,000 for 2004 and 2003, respectively, and is included as a component of interest expense. Depreciation and amortization expense includes amortization of bond issuance costs for 2004 and 2003 of \$1,036,000 and \$925,000, respectively.

(k) Arbitrage

The Tax Reform Act of 1986 imposed additional restrictive regulations, reporting requirements and an arbitrage rebate liability on issuers of tax-exempt debt. This Act requires the remittance to the IRS of 90% of the cumulative rebatable arbitrage within 60 days of the end of each five-year reporting period following the issuance of governmental bonds. The Authority's policy is annually to record as a liability the estimated amount owed. The Authority actively manages its invested bond proceeds to minimize any arbitrage liability. The Authority had no cumulative arbitrage rebate liability for the years ended December 31, 2004 and 2003.

(l) Income Taxes

The Authority is a public benefit corporation of the State of New York. As such, income earned in the exercise of its essential government functions is exempt from state and federal income taxes.

(m) Use of Estimates

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

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 3 — CASH AND INVESTMENTS

The Authority's cash and investments as of December 31, 2004 and 2003 were as follows (in thousands):

	2004		2003
	Carrying Value	Fair Value	Carrying Value
<u>Cash and cash equivalents:</u>			
Unrestricted:			
Cash:			
Demand deposits	\$ 39,579	\$ 39,579	\$ 48,634
Deposits in transit	1,251	1,251	1,115
Toll related change funds	140	140	140
Total unrestricted cash	<u>40,970</u>	<u>40,970</u>	<u>49,889</u>
Cash equivalents:			
Government sponsored agency discount notes	24,549	24,533	11,616
Repurchase agreements	22,703	23,194	18,295
Time deposits	1,340	1,340	-
Total unrestricted cash equivalents	<u>48,592</u>	<u>49,067</u>	<u>29,911</u>
Total unrestricted cash and cash equivalents	<u>\$ 89,562</u>	<u>\$ 90,037</u>	<u>\$ 79,800</u>
Restricted:			
Cash:			
Demand deposits	\$ 47,942	\$ 47,942	\$ 47,871
Total restricted cash	<u>47,942</u>	<u>47,942</u>	<u>47,871</u>
Cash equivalents:			
Government sponsored agency discount notes	95,600	95,725	85,244
Other	-	-	37,377
Total restricted cash equivalents	<u>95,600</u>	<u>95,725</u>	<u>122,621</u>
Total restricted cash and cash equivalents	<u>\$ 143,542</u>	<u>\$ 143,667</u>	<u>\$ 170,492</u>
<u>Investments:</u>			
Unrestricted:			
Time deposits	\$ 1,822	\$ 1,822	\$ 1,494
Total unrestricted investments	<u>\$ 1,822</u>	<u>\$ 1,822</u>	<u>\$ 1,494</u>
Restricted:			
Government sponsored agency discount notes	\$ 1,902	\$ 1,911	\$ 33,235
Time deposits	200	200	200
Total restricted investments	<u>\$ 2,102</u>	<u>\$ 2,111</u>	<u>\$ 33,435</u>

At December 31, 2003, the fair value of the Authority's cash and investments approximated the carrying value.

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 3 — CASH AND INVESTMENTS (Continued)

The Authority requires collateral in the form of federal government obligations, or agency instruments guaranteed by the federal government, for all investments in repurchase agreements. The Authority requires delivery to its Trustee (agent) of all securities purchased and collateral for repurchase agreements, regardless of the seller institution. All Authority investment securities are classified as securities acquired by a financial institution for the Authority and held by the financial institution's trust department in the Authority's name. Bank balances of demand deposits as of December 31, 2004 and 2003 are approximately \$87,521,000 and \$96,505,000, respectively, and are fully insured or collateralized. Amounts are collateralized with securities transferred to and held by the Authority's trustee (agent) in the Authority's name.

NOTE 4 — CAPITAL ASSETS

The Authority's capital assets principally include the Thruway System, Canal System and Equipment. The Thruway System includes infrastructure assets consisting of bridges, highways, buildings, toll equipment, and intelligent transportation systems. The Canal System includes canal structures and buildings. Equipment includes software systems, E-ZPass tags, vehicles and machinery.

All capital assets are stated at cost. Capital assets are defined as assets with initial, individual costs exceeding capitalization thresholds of \$5,000 to \$50,000. Depreciation is computed on the straight-line method over the following estimated useful lives:

<u>Category</u>	<u>Useful Life</u>	<u>Threshold</u>
Bridges	45 years	\$ 50,000
Bridge Improvements	15 years	50,000
Highways	30 years	50,000
Highway Improvements	10 years	50,000
Buildings (Thruway)	30 years	20,000
Fiber Optic System	17 years	50,000
Canal Structures	100 years	50,000
Buildings (Canal)	30 years	20,000
Equipment	2-12 years	5,000

NEW YORK STATE THRUWAY AUTHORITY

(A COMPONENT UNIT OF THE STATE OF NEW YORK)

NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 4 — CAPITAL ASSETS (Continued)

The following schedule summarizes the capital assets of the Authority and related changes from December 31, 2003 to December 31, 2004 (in thousands):

	December 31, 2003			December 31, 2004
	<u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land and land improvements	\$ 785,503	\$ 18,447	\$ -	\$ 803,950
Construction in progress	268,984	155,068	(178,929)	245,123
Total capital assets, not being depreciated	<u>1,054,487</u>	<u>173,515</u>	<u>(178,929)</u>	<u>1,049,073</u>
Capital assets being depreciated:				
Thruway System	5,339,735	187,028	(129,196)	5,397,567
Canal System	295,383	7,670	(216)	302,837
Equipment	188,202	25,108	(22,082)	191,228
Total capital assets, being depreciated	<u>5,823,320</u>	<u>219,806</u>	<u>(151,494)</u>	<u>5,891,632</u>
Less accumulated depreciation for:				
Thruway System	(2,601,336)	(158,251)	110,966	(2,648,621)
Canal System	(25,297)	(3,324)	-	(28,621)
Equipment	(101,611)	(24,073)	18,457	(107,227)
Total accumulated depreciation	<u>(2,728,244)</u>	<u>(185,648)</u>	<u>129,423</u>	<u>(2,784,469)</u>
Net value of capital assets, being depreciated	<u>3,095,076</u>	<u>34,158</u>	<u>(22,071)</u>	<u>3,107,163</u>
Net value of all capital assets	<u><u>\$4,149,563</u></u>	<u><u>\$ 207,673</u></u>	<u><u>\$(201,000)</u></u>	<u><u>\$4,156,236</u></u>

Depreciation expense related to capital assets was \$185,648,000 and \$185,428,000 for the years ended December 31, 2004 and 2003, respectively.

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NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 5 — RESTRICTED ASSETS

Restricted funds established pursuant to bond resolutions and the related balances at December 31, 2004 and 2003 are as follows:

Senior Debt Service Fund: Established to receive funds to make periodic payments of interest and principal. The amounts held in the fund as restricted at December 31, 2004 and 2003 was \$238,000 and \$260,000 respectively.

Senior Debt Service Reserve Fund: Established to retain funds equal to the maximum amount of aggregate debt service for any twelve month period on all outstanding bonds secured by the Senior Debt Service Reserve Fund. The amounts held in the fund as restricted at December 31, 2004 and 2003 was \$1,237,000 and \$70,078,000, respectively. During 2004, the Authority transferred a total of \$68.6 million to the Reserve Maintenance Fund and Construction Fund to finance the Authority's capital program.

Bond Earning Fund (CWE Project): Established to receive interest earnings or net gains on investments from various funds, as necessary, to make any required rebate payments to the U.S. Treasury related to the CWE Project Bonds. Any excess funds are deposited into the Bond Revenue Fund. The amounts held in this restricted fund at December 31, 2004 and 2003 was \$0 and \$45,000, respectively.

Bond Service Fund (CWE Project): Established to receive funds representing revenues from restaurant concessionaires, and to make payments of principal and interest relating to the CWE Project special obligation bonds. The amounts held in this restricted fund at December 31, 2004 and 2003 was \$22,000 and \$1,000, respectively.

Bond Service Reserve Fund (CWE Project): Established to provide a reserve for payment of principal and interest on the special obligation bonds for the maximum amount of debt service on the bonds in any succeeding calendar year. The amounts held in this restricted fund at December 31, 2004 and 2003 was \$7,479,000 and \$9,570,000, respectively.

Construction Fund: Established to hold monies paid into it from the sale of bonds to pay for costs of the "Facilities" and "Other Authority Projects," as defined in the bond resolutions. Any remaining money upon completion or abandonment of such projects shall be transferred to other funds in accordance with the terms outlined in the bond resolutions. The amount held in this restricted fund at December 31, 2004 and 2003 was \$98,974,000 and \$116,892,000, respectively.

Reserve Maintenance Fund: Established to hold funds required to be deposited each fiscal year into the Reserve Maintenance Fund which shall be no less than the greater of \$30,000,000 or the amount otherwise specified for such fiscal year (the minimum amount). The amount deposited into the Reserve Maintenance Fund may not exceed any amount from time to time established by the Authority pursuant to a Supplemental Resolution (the maximum amount) provided that the maximum amount may not be less than the minimum amount. For both 2004 and 2003, the minimum amount was \$30,000,000. The Authority did not establish a maximum amount for either 2004 or 2003. Money held in the Reserve Maintenance Fund can be disbursed for specific costs relating to the "Facilities", as defined in the bond resolution, certain highway and railroad grade crossings, and to pay debt service, when due, on the bonds, when deficiencies exist. The amount held in this restricted fund at December 31, 2004 and 2003 was \$74,414,000 and \$35,413,000, respectively.

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NOTE 6 — LONG-TERM LIABILITIES

The Authority's bond and note indebtedness, and other long-term liabilities, as of December 31, 2004 and 2003, are comprised of the following obligations (in thousands):

	<u>Date of Issuance</u>	<u>December 31, 2003 Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2004 Balance</u>	<u>Due Within One Year</u>
General Revenue Bonds						
1993 Series B	12/93	\$ 162,785	\$ -	\$ (4,935)	\$ 157,850	\$ 5,175
1995 Series C	2/95	14,255	-	(6,940)	7,315	7,315
1997 Series D	5/97	308,345	-	(7,145)	301,200	7,510
1998 Series E	6/98	558,775	-	(10,150)	548,625	10,580
Unamortized bond discounts/premiums		<u>(12,578)</u>	<u>-</u>	<u>1,051</u>	<u>(11,527)</u>	<u>(1,051)</u>
General revenue bonds, net of unamortized discounts/premiums		1,031,582	-	(28,119)	1,003,463	29,529
Special Obligation Bonds						
CWE (Accreted Value)	3/91	<u>15,225</u>	<u>1,226</u>	<u>(9,570)</u>	<u>6,881</u>	<u>6,881</u>
Total bonds, net of unamortized discounts/premiums		<u>1,046,807</u>	<u>1,226</u>	<u>(37,689)</u>	<u>1,010,344</u>	<u>36,410</u>
Bond Anticipation Notes						
Series CP-1	4/00	150,000	-	-	150,000	\$ -
Series CP-2	5/01	150,000	-	-	150,000	150,000
Series 2003A	3/03	350,000	-	(350,000)	-	-
Series 2004A	3/04	-	375,000	-	375,000	375,000
Unamortized notes premium		<u>21</u>	<u>5,962</u>	<u>(3,013)</u>	<u>2,970</u>	<u>2,970</u>
Total bond anticipation notes and unamortized premium		<u>650,021</u>	<u>380,962</u>	<u>(353,013)</u>	<u>677,970</u>	<u>527,970</u>
Total bonds and notes, net of unamortized discounts/premiums		<u>\$ 1,696,828</u>	<u>\$ 382,188</u>	<u>\$ (390,702)</u>	<u>\$ 1,688,314</u>	<u>\$ 564,380</u>
Other Long-Term Liabilities						
SIB loan payable		\$ 7,024	\$ -	\$ (1,728)	\$ 5,296	\$ 2,845
NITTEC loan payable		1,354	1,780	(1,000)	2,134	1,000
Claims liability		4,532	1,967	(1,020)	5,479	2,255
Compensated absences		<u>9,506</u>	<u>219</u>	<u>-</u>	<u>9,725</u>	<u>-</u>
Total other long-term liabilities		<u>\$ 22,416</u>	<u>\$ 3,966</u>	<u>\$ (3,748)</u>	<u>\$ 22,634</u>	<u>\$ 6,100</u>

Additions to the Special Obligation Bonds represent current accretion on the capital appreciation bonds.

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NOTE 6 — LONG-TERM LIABILITIES (Continued)

The debt service requirements for the Authority's bonds as of December 31, 2004 are as follows (in thousands):

Due	Principal	Interest	Total
1/1/06	\$ 37,461	\$ 52,919	\$ 90,380
1/1/07	32,200	50,750	82,950
1/1/08	33,905	49,052	82,957
1/1/09	35,710	47,220	82,930
1/1/10	37,580	45,363	82,943
1/1/11 - 1/1/15	219,690	195,038	414,728
1/1/16 - 1/1/20	282,805	131,927	414,732
1/1/21 - 1/1/25	298,770	54,539	353,309
1/1/26 - 1/1/27	43,750	3,558	47,308
Unamortized Discounts/Premiums	(11,527)	-	(11,527)
Net Bond Principal Outstanding	\$1,010,344	\$630,366	\$1,640,710

Amounts due on January 1 of each year are paid the previous day (on December 31 of the prior year).

General Revenue Bonds – Series B: During December 1993, the Authority issued \$202,345,000 in General Revenue Bonds to fund a portion of the Authority's capital construction program, to fund capital costs of certain Other Authority Projects, and to fund certain reserve accounts. The 1993 General Revenue Bonds are comprised of Serial Bonds and Term Bonds (including Variable Rate Bonds and Convertible Inverse Floating Rate Bonds) with varying rates and maturities. The amounts outstanding at December 31, 2004 follow:

Type	Rates	Maturity	Amount (in thousands)
Serial Bonds	4.8% to 5.0%	2006 - 2009	\$ 22,255
Term Bonds	5.0%	2014	34,655
Term Bonds	5.0%	2020	50,940
Linked VRDNS/INFLOS	5.0%	2024	50,000
			\$157,850

Principal payments under the Series B Serial Bonds began in 1994. The Series B Term Bonds, which mature beginning in 2014, require sinking fund installments, beginning in the year 2010, through the year 2024, of amounts ranging from \$3,510,000 to \$12,490,000 annually. The Series B Term Bonds are callable at the option of the Authority, in whole or in part, beginning January 1, 2010, at 100% of par, plus accrued interest. Principal of \$4,935,000 maturing January 1, 2005 was paid in December 2004.

General Revenue Bonds - Series C: During February 1995, the Authority issued \$320,000,000 in General Revenue Bonds to refund General Revenue Bond Anticipation Notes, to fund the costs of improvements and rehabilitation of portions of the Thruway System, to fund certain Other Authority Projects and to fund certain reserve accounts. In June 1998, the Authority issued Series E General Revenue Refunding Bonds which refunded \$257,835,000 of outstanding Series C Bonds. The net proceeds of the Series E Bonds were deposited in an escrow account held by the trustee to provide

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NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 6 — LONG-TERM LIABILITIES (Continued)

principal and interest payments on the refunded Series C Bonds at their respective maturity or redemption dates. The amount of the defeased Series C bonds outstanding at December 31, 2004 is approximately \$272,090,000. The outstanding 1995 General Revenue Bonds are comprised of Serial Bonds, maturing on January 1, 2006 with a rate of 5.5%. Principal of \$6,940,000 maturing January 1, 2005 was paid in December, 2004. The amount outstanding at December 31, 2004 was \$7,315,000.

General Revenue Bonds - Series D: During May 1997, the Authority issued \$350,000,000 in General Revenue Bonds to fund a portion of the cost of the Authority's Six Year Capital Plan, for the period 1997 through 2002, and to fund certain reserve accounts. The 1997 General Revenue Bonds are comprised of both Serial Bonds and Term Bonds, with varying rates and maturities. The amounts outstanding at December 31, 2004 follow:

<u>Type</u>	<u>Rates</u>	<u>Maturity</u>	<u>Amount</u> <u>(in thousands)</u>
Serial Bonds	5.1% to 5.5%	2006 - 2017	\$ 121,650
Term Bonds	5.25%	2021	60,910
Term Bonds	5.375%	2027	118,640
			<u>\$301,200</u>

Principal payments under the Series D Serial Bonds began on December 31, 1997 and continue through the year 2017 in amounts ranging from \$5,180,000 to \$13,350,000 annually. The Series D Term Bonds require sinking fund installments, beginning in the year 2018, through the year 2027, of amounts ranging from \$14,080,000 to \$22,450,000 annually. The Series D Bonds are callable at the option of the Authority, in whole or in part, beginning January 1, 2007 at a redemption price up to 102% of par, plus accrued interest. Principal of \$7,145,000 maturing January 1, 2005 was paid in December 2004.

General Revenue Refunding Bonds - Series E: During June 1998, the Authority issued \$575,555,000 in General Revenue Refunding Bonds to advance refund \$288,080,000 of outstanding Series A Bonds and \$257,835,000 of outstanding Series C Bonds. The 1998 General Revenue Refunding Bonds are comprised of both Serial Bonds and Term Bonds, with varying rates and maturities. The amounts outstanding at December 31, 2004 follow:

<u>Type</u>	<u>Rates</u>	<u>Maturity</u>	<u>Amount</u> <u>(in thousands)</u>
Serial Bonds	5% to 5.5%	2006 - 2017	\$ 283,415
Term Bonds	4.75%	2019	67,865
Term Bonds	5.0%	2025	197,345
			<u>\$548,625</u>

Principal payments under the Series E Serial Bonds began in December 1998. The Series E Term Bonds require sinking fund installments, beginning in the year 2018, through the year 2025, of amounts ranging from \$19,800,000 to \$42,105,000 annually. The Series E Bonds are callable at the option of the Authority, in whole or in part, beginning January 1, 2008 at redemption prices up to 101% of par plus accrued interest. Principal of \$10,150,000 maturing January 1, 2005 was paid in December 2004.

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December 31, 2004 and 2003

NOTE 6 — LONG-TERM LIABILITIES (Continued)

The 1993 (Series B), 1995 (Series C), 1997 (Series D) and 1998 (Series E) General Revenue Bonds are all direct obligations of the Authority, secured by a pledge of revenues and funds established under the Bond Resolution. In 1995 and January 2004, the Authority obtained municipal bond debt service reserve fund policies of financial guaranty payable in the combined maximum amount of \$83,013,025, for the Senior Debt Service Reserve Fund in substitution for the Senior Debt Service Reserve Fund requirements of Series B, C, D and E General Revenue Bonds.

Cross Westchester Expressway (CWE) Special Obligation Bonds: During 1991, the Authority issued approximately \$31 million in capital appreciation bonds, to fund the purchase, from the State of New York, of an eleven-mile highway connection designated as Interstate Route-287 in Westchester County. Since 1997, debt service was funded through a secured lien on post-1996 rental payments received by the Authority from the operations of certain restaurants along the Thruway System. The present value of bonds outstanding relating to this issue (inclusive of accreted interest) was \$6,881,000 at December 31, 2004. Principal of \$9,570,000 maturing January 1, 2005 was paid in December 2004.

Bond Anticipation Notes: During 2000 and 2001, the Authority issued General Revenue Bond Anticipation Notes in the form of liquidity supported commercial paper totaling \$300 million. The program was developed to provide an additional source of funds to manage the Authority's Capital Program and enables the Authority to access tax exempt short-term markets. The Authority rolled commercial paper in varying amounts during 2004 with maturities ranging from 1 day to 218 days and interest rates of 0.90% to 1.86%. The bond anticipation notes will be retired or converted to long-term bonds within five years of original issuance.

During 2003, the Authority issued \$350 million in traditional bond anticipation notes with an interest rate of 1.125% which matured March 25, 2004. On March 24, 2004 the Authority issued \$375 million in traditional bond anticipation notes with an interest rate of 2.25% to mature October 6, 2005. These notes were sold to fund the maturing principal and interest due on the 2003 notes and fund a portion of the Authority's Capital Program. As a result, the liability related to the 2003 notes has been removed from bond indebtedness.

NOTE 7 — SPECIAL BOND PROGRAMS

The Authority's special bond programs, and the related projects and activities, are entirely separate from the Authority's financing, operation, and maintenance of the Thruway System. As such, these special bond programs are not reflected in the accompanying financial statements. The special bond programs require varying debt service payments which are funded under contractual agreements with the State of New York. The obligation of the State to make such payments is subject to, and dependent upon, annual appropriations by the State Legislature. These bond programs, however, result in no cost to the Authority and provide for no lien on Authority revenues or assets. The following are descriptions of the Authority's special bond programs:

Local Highway and Bridge Service Contract Special Bond Program: The Legislature of the State of New York empowered the Authority to issue Local Highway and Bridge Service Contract Bonds, also known as the Consolidated Local Street and Highway Improvement Program (often referred to as the CHIPS Program) to provide funds to reimburse municipalities and other project sponsors throughout the State for qualifying local highway, bridge and multi-modal capital project

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NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 7 — SPECIAL BOND PROGRAMS (Continued)

expenditures under established State programs. As of December 31, 2004, thirteen series of these bonds are outstanding. These series were issued between 1995 and 2003, with multiple issuances in some years. The Authority receives funds from New York State for debt service on these bonds and to fund related administrative costs. Bonds outstanding relating to these issues, net of amounts refunded in prior years, were \$2,078,680,000 and \$2,166,845,000 at December 31, 2004 and 2003, respectively.

Highway and Bridge Trust Fund Bond Program: The Legislature of the State of New York empowered the Authority to issue Highway and Bridge Trust Fund Bonds to reimburse the State for expenditures made by the State's Department of Transportation in connection with the State's Multi-Year Highway and Bridge Capital Program. On March 24, 2004 and July 28, 2004 two additional bond series were issued totaling \$735,480,000. As of December 31, 2004, twenty-three series of these bonds are outstanding. These series were issued between 1994 and 2004, with multiple issuances in some years. The Authority receives funds from New York State for debt service on these bonds and to fund related administrative costs. Bonds outstanding relating to these issues were \$5,765,465,000 and \$5,459,715,000 at December 31, 2004 and 2003, respectively.

State Personal Income Tax Revenue Bonds (Transportation): The Legislature of the State of New York empowered the Authority to issue Personal Income Tax (PIT) Revenue Bonds to provide funds to municipalities and other project sponsors throughout the State for qualifying local highway, bridge and multi-modal capital project expenditures under established State programs. As of December 31, 2004, three series of these bonds are outstanding. These series were issued in 2002, 2003, and on October 14, 2004. The Authority receives funds from New York State for debt service on these bonds and to fund related administrative costs. Bonds outstanding relating to these issues were \$929,100,000 and \$593,595,000 at December 31, 2004 and 2003.

NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS

The Authority provides its retirees certain retirement benefits made available to participating employers by the New York State Retirement and Social Security Laws, including Chapters 1046 and 1047 of the Laws of 1973. Additionally, the Authority participates, pursuant to the provisions of Section 153(4) of the New York State Civil Service Law in the Health Insurance Program for New York State Employees and Employees of Local Subdivisions in New York State.

Pension Plan: The Authority participates in the New York State and Local Employees' Retirement System (ERS) for Authority employees and the Police and Fire Retirement Systems (PFRS) for New York State Police assigned to the Authority. Both ERS and PFRS are cost-sharing multiple-employer retirement systems that provide retirement benefits as well as death and disability benefits. These benefits are provided in accordance with the New York State Retirement and Social Security Law (NYSRSSL), which also governs obligations of employers and employees to contribute. The benefits to employees are guaranteed under the State constitution. The Authority's election to participate in the State plans is irrevocable.

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December 31, 2004 and 2003

NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of ERS and PFRS. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of ERS and PFRS and for the custody and control of their funds. ERS and PFRS issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244-0001.

ERS and PFRS are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates, expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers.

Previous years figures were broken down between regular pension and Group Term Life Insurance (GTLI), however the New York State and Local Retirement System is now combining these into one figure. The increase in the combined GTLI and regular pension costs is due to an increase in the overall contribution rates.

The rates billed by the Comptroller for ERS during the year ended December 31, 2004 ranged from 11.5% to 17.3% and during the year ending December 31, 2003 was approximately 4.9%. The PFRS is paid as part of a fringe benefit rate billed to the Authority for the State Police. The PFRS benefit rates billed were 9.41% for April through December 2004, 5.29% for April 2003 through March 2004, and 5.38% for January through March 2003.

The approximate required contributions for the current year and two preceding years were as follows (in thousands):

	<u>ERS</u>	<u>PFRS</u>
2004	\$ 19,096	\$ 2,297
2003	8,250	1,369
2002	1,794	1,117

The Authority's contributions were equal to 100% of the contributions required for each year, plus the second year installment of \$2,027,000 on a five year amortization of the 2002 early retirement incentive program costs totaling \$8,740,000. These expenses were originally estimated at \$8,902,000 and expensed in 2002, the year they were incurred. The Authority adjusted the estimated early retirement incentive program costs to actual in 2003.

Post Retirement Health Care: The Authority provides certain health care benefits for retired employees. Substantially all of the Authority's employees may become eligible for these benefits if they reach normal retirement age while working for the Authority. These health care benefits are the same as those provided to active employees, with the exception of dental and optical coverage. If retirees want dental and/or optical coverage they must pay for it themselves at the full cost State rate, as required by Federal Law under the Consolidated Omnibus Budget Reconciliation Act (COBRA).

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NOTES TO BASIC FINANCIAL STATEMENTS

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NOTE 8 — RETIREMENT AND POST RETIREMENT BENEFITS (Continued)

Health insurance costs paid for by the Authority are capped at the Empire Plan rates. If a retiree chooses another qualified plan he/she would be responsible for any difference above the allowed Empire Plan rate. The health insurance costs for retirees choosing individual coverage are paid 100% by the Authority. Retirees opting for family coverage are responsible for 25% of the difference between individual and family coverage. Any amounts owed by the retiree(s) would first be applied against the retiree's existing sick leave bank balance value, with any residual amount paid by the retiree(s).

Total retiree health care benefit expenses paid and charged to operations were approximately \$15,857,000 and \$14,283,000 in 2004 and 2003, respectively, based on billings from New York State. These charges relate to approximately 2,100 retirees in both 2004 and 2003.

NOTE 9 — CONTINGENCIES AND COMMITMENTS

Claims and Litigation: The Authority is a party to various legal proceedings, including negligence suits, some of which involve death or serious injury. Many of these actions arise in the normal course of the Authority's operations. The Authority records accruals for claims liability to the extent that management concludes their occurrence is probable and the related damages are estimable. If the range of the liability is probable and estimable, the Authority accrues the minimum of such probable range.

Changes in the Authority's claims liability amounts in fiscal years 2004 through 2002 were as follows (in thousands):

	<u>Beginning of Fiscal Year Liability</u>	<u>Current-Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Liability Balance at Fiscal Year-End</u>
2002	\$ 6,500	\$ (1,829)	\$ (144)	\$ 4,527
2003	4,527	267	(262)	4,532
2004	4,532	1,967	(1,020)	5,479

Certain other claims may not be probable and estimable as they involve complex issues. Often these issues are subject to substantial uncertainties and, therefore, the probability of loss and an estimation of damages are difficult to ascertain. However, management has estimated the range of loss on these other claims approximates \$3 Million to \$57 Million.

The Authority is also a party to several Native American tribal land claims against the State of New York, the Authority and other defendants. The claimants seek to recover land and damages from the various parties. Although the amounts of potential losses from the land claims, if any, are not presently determinable, it is the Authority's opinion that its ultimate liability in these cases is not expected to have a material adverse effect on the Authority's financial position.

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NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 9 — CONTINGENCIES AND COMMITMENTS (Continued)

Insurance: The Authority is self insured for property damage to its division headquarters buildings, maintenance facilities, toll plazas and vehicles. The Authority is also self insured for third party liability, including automobile liability. There are two funded reserves for these exposures, a \$2.7 million insurance fund available to fund certain deductibles and a reserve for public liability claims, which currently totals \$14.3 million

Loss of revenues is insured through a use and occupancy policy that covers any interruption in excess of 15 days.

Property damage to bridges is insured through various policies from major insurance companies equal to the maximum probable loss from a single occurrence (with deductibles ranging from \$2.5 million to \$5.0 million). In addition, the Authority purchases insurance for workers' compensation benefits and various liability exposures.

Insurance for the Authority's service area facilities is provided by the concessionaires. Also, the liability related to construction projects, tandem trailer operations, authorized garage operations and similar risks is transferred through contractual indemnification and compliance with Authority insurance requirements.

Construction Commitments: The amounts of remaining unexpended commitments for projects undertaken and the detail by type of contract at December 31, 2004 and 2003 are as follows:

Project	Commitments	
	(in thousands)	
	2004	2003
Highway, bridge and facility, construction, and design	\$ 99,850	\$ 284,940
Personal service and miscellaneous	46,000	79,650
Economic development and Canal	25,750	37,090
Total	<u>\$ 171,600</u>	<u>\$ 401,680</u>

Lease Revenues: The Authority has entered into various non-cancelable contracts with concessionaires to provide patron services on the Thruway System. These contracts provide the Authority with concession revenue, including minimum rentals and contingent revenues based on sales volume. The Authority also leases land that is used for antenna space and fiber optic cable under various non-cancelable contracts. Concessions revenue contracts expire in various years through 2010. Radio tower contract terms generally range from 5 to 10 years, with renewal options of 1 to 10 years, and Fiber Optic contract terms range from 17 to 20 years.

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NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 9 — CONTINGENCIES AND COMMITMENTS (Continued)

The following schedule summarizes total future rental payments to be received as of December 31, 2004:

<u>Year</u>	<u>Minimum Lease Payments</u> (in thousands)
2005	\$11,700
2006	4,300
2007	4,300
2008	4,600
2009	3,900
Thereafter	<u>13,100</u>
Total	<u>\$41,900</u>

The decline in minimum lease payments in 2006 is the result of a concessionaire agreement expiring on September 30, 2005. The Authority, however, is currently in the process of establishing a new agreement for these concessions.

NOTE 10 — JOINT VENTURES

The Authority has entered into financing mechanisms to assist in the funding of fund transportation initiatives, which benefit regional, statewide and international transportation systems. These funding mechanisms, as detailed below, are the result of joint ventures between the Authority and federal, state and regional partners to provide innovative new technologies and improve existing transportation systems.

State Infrastructure Bank: The State Infrastructure Bank (SIB) is an infrastructure funding program established by the National Highway System Designation Act of 1995 to provide states with the financial resources to make loans and provide other assistance to qualified public and private transportation projects. The Authority cooperatively constitutes and administers the New York SIB under a Memorandum of Understanding (MOU) with the NYS Department of Transportation and the Metropolitan Transportation Authority. The SIB was capitalized with 80% Federal Funds and a 20% match provided by the signatories to the MOU.

As of December 31, 2004, the Authority has contributed \$3 million toward the capitalization of the SIB. The Authority is obligated under four SIB loans at December 31, 2004 totaling \$5.296 million.

Niagara International Transportation Technology Coalition: The Niagara International Transportation Technology Coalition (NITTEC) is an innovative financing mechanism to improve regional and international transportation mobility, promote economic competitiveness and minimize adverse environmental effects related to the regional transportation system of Western New York and South Central Ontario, Canada, including the four highway crossings between Canada and the United States. These goals are achievable by improving safety and operations and reducing congestion on the transportation network by coordinating construction projects and transportation incident notification and response, and the deployment of Intelligent Transportation Systems (ITS).

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NOTES TO BASIC FINANCIAL STATEMENTS

December 31, 2004 and 2003

NOTE 10 — JOINT VENTURES *(Continued)*

This funding mechanism, in the form of a revolving loan fund, is administered by the Niagara Frontier Transportation Authority under agreement with the New York State Department of Transportation in compliance with the Partnership Agreement between the Federal Highway Administration and the New York State Department of Transportation. The fund is capitalized by a \$5 million Federal aid grant which was matched by \$1.25 million in local shares provided by NITTEC member agencies, of which the Authority is one. The Authority has not contributed towards the capitalization of the fund.

As of December 31, 2004 the Authority's outstanding NITTEC loan balance is \$2.13 million.

NOTE 11 — SUBSEQUENT EVENTS

Bond Issuance: On March 30, 2005, the Authority issued \$624,570,000 of Series F, General Revenue Bonds, to pay the maturing \$150 million in principal on Series CP- 1, General Revenue Bond Anticipation Notes; to refund certain outstanding General Revenue Bonds from Series B, D and E totaling \$444,205,000; to make a deposit to the Senior Debt Service Reserve Fund and to fund a portion of the Authority's capital program.

Toll Increase: On April 25, 2005, the Authority's Board approved a toll increase, the first general increase on the Thruway since 1988. The toll increase includes a 25% increase for passenger vehicles and a 35% increase for commercial vehicles. The increases are also designed to encourage greater use of E-ZPass, as passenger and commercial vehicles equipped with E-ZPass will receive discounts. The toll increases became effective on May 15, 2005. The approved toll increase also includes an additional 10% increase in tolls for cash customers in 2008. Tolls will not change in 2008 for E-ZPass customers or those enrolled in Thruway commuter plans.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS, INCLUDING COMPLIANCE WITH INVESTMENT
GUIDELINES, BASED ON OUR AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Board
New York State Thruway Authority

We have audited the accompanying basic financial statements of New York State Thruway Authority (the Authority) as of and for the year ended December 31, 2004, and have issued our report thereon dated May 27, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, including Investment Guidelines for Public Authorities and the Authority's Investment Guidelines, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
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GOVERNMENT AUDITING STANDARDS (Continued)**

This report is intended solely for the information and use of the Authority Board, management of the Authority, federal awarding agencies and pass through entities, and the Office of the State Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

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Albany, New York
May 27, 2005