

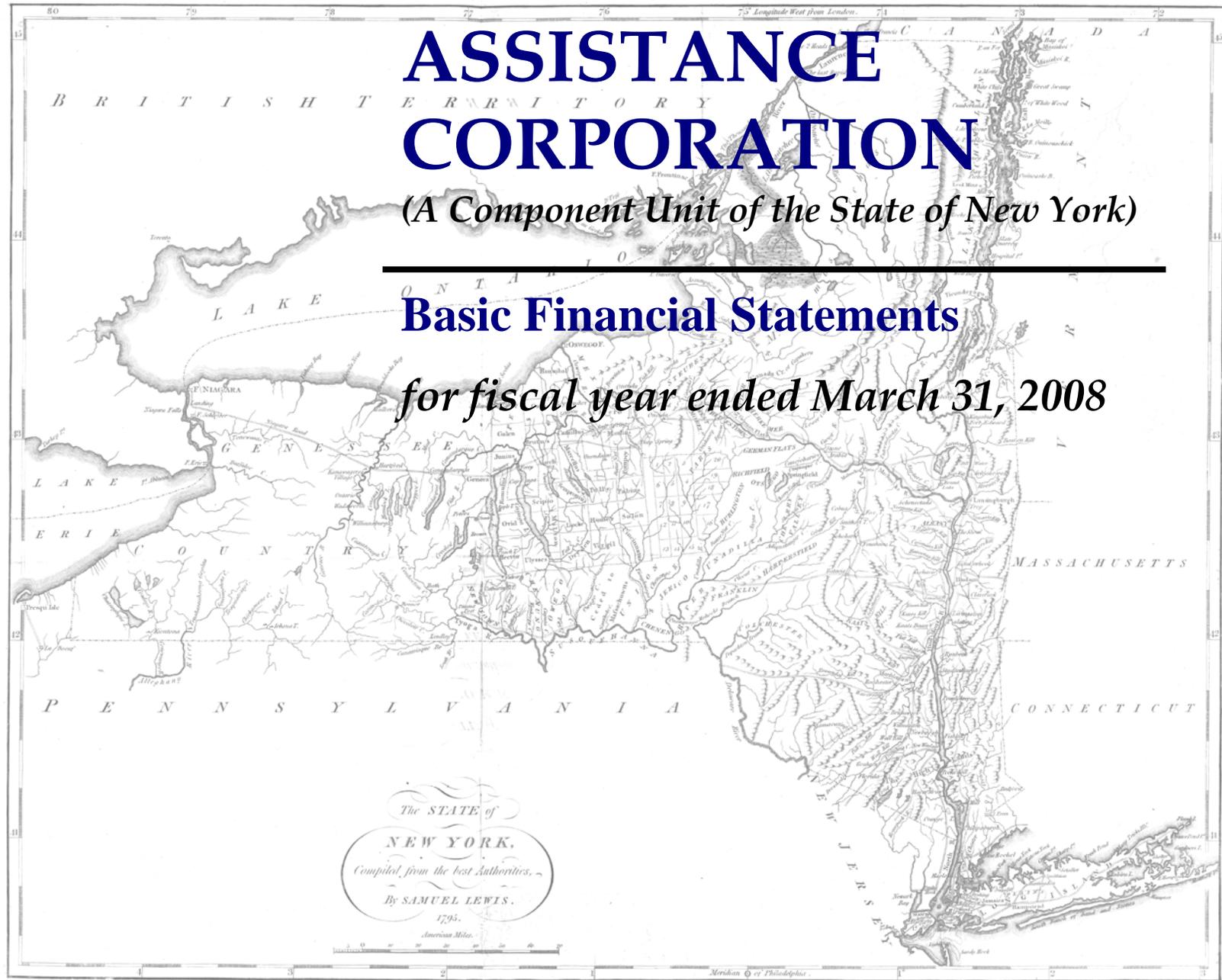
# NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

*(A Component Unit of the State of New York)*

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## Basic Financial Statements

*for fiscal year ended March 31, 2008*



**NEW YORK**  
**LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A Component Unit of the State of New York)**  
**Basic Financial Statements**  
**Year Ended March 31, 2008**

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KPMG LLP  
515 Broadway  
Albany, NY 12207

## Independent Auditors' Report

Board of Directors  
New York Local Government Assistance Corporation:

We have audited the accompanying financial statements of the governmental activities (Statement of Net Assets (Deficit) and Statement of Activities) and each major fund of the New York Local Government Assistance Corporation (Corporation), a blended component unit of the State of New York, as of and for the year ended March 31, 2008, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of March 31, 2008, and the respective changes in financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 12, 2008 on our consideration of the Corporation'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 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 considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. 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.

KPMG LLP

June 12, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Our discussion and analysis of the New York Local Government Assistance Corporation's (Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2008.

### **FINANCIAL HIGHLIGHTS**

- The Corporation's total bonds outstanding at year-end was \$4.1 billion net of unamortized amounts, a decrease of \$182 million from the prior year.
- The Corporation's outstanding variable interest rate bonds on March 31, 2008 comprised 49 percent of all its outstanding bonds; however, the Corporation has effectively reduced this amount to 19 percent through the use of interest rate exchange agreements.
- The Corporation, like many issuers, has been affected by the recent turmoil in the municipal bond market including the recent market failure of municipal Auction Rate Securities (ARS) and downgrades in the insurer financial strength ratings of certain financial guarantors (bond insurers). This has impacted the Corporation's ARS and Financial Guaranty Insurance Company (FGIC) insured Variable Rate Demand Bonds (VRDBs) and also has the potential to diminish the long-term value of the Corporation's Municipal Bond Debt Service Reserve Fund Policy (surety bond) provided by FGIC.
- On May 20, 2008, the Corporation Board approved the refunding of \$376.6 million of the Corporation's FGIC insured VRDBs to uninsured VRDBs, and \$210.5 million of the Corporation's CDC IXIS Financial Guaranty North America, Inc. (CIFG) ARS to uninsured VRDBs, the conversion of \$253.4 million of the Corporation's Federal Security Assurance, Inc. (FSA) insured ARS to FSA insured VRDBs and the purchase of a surety bond to supplement one previously issued by FGIC and held as part of the Corporation's Senior Lien Capital Reserve Fund.
- The Corporation's Board approved the restructuring of ARS and FGIC insured VRDBs to eliminate the Corporation's exposure to weaker bond insurers and the current ARS market. If the approved restructuring is implemented, all of the Corporation's variable rate bonds would be in VRDB mode.
- The Corporation's net asset deficit of \$3.6 billion decreased by \$133 million as a result of this year's operations. The decrease in the net asset deficit is the result of the repayment of bonds.
- During the year, the Corporation had revenues of \$308.3 million, which included \$284.9 million in appropriations from New York State.
- Total expenses of the Corporation on a full accrual basis were \$175.3 million, which includes \$166.1 million for interest on the Corporation's outstanding bonds.
- The Corporation's General Fund ended the year with an annual operating deficit of \$613 thousand and a fund balance of \$2 million.
- The Corporation's Debt Service Fund (the Fund) ended the year with an annual operating deficit of \$58 million and a fund balance of \$523.8 million. Assets in the Fund included \$266.1 million in cash held by the Corporation's trustee that was used to pay debt service that is due and payable on April 1, 2008, \$256.4 million in investments, and \$1.3 million in interest receivable. The annual operating deficit and related fund balance decrease in the Fund is attributable to the decrease in State appropriations.
- The Corporation's \$415.2 million combined capital reserve requirements were satisfied on an amortized cost basis by holding cash and investments with an amortized cost of \$245.4 million and owning a surety bond that will pay up to \$170 million through April 1, 2021 if needed to pay debt service.
- The bond ratings assigned to the Corporation remained unchanged from last year and are as follows: Aa3 by Moody's Investors Services, AAA by Standard and Poor's Ratings Services, and AA- by Fitch Ratings.

- During its fiscal year ended March 31, 2008, the Corporation entered into two separate refunding transactions, issuing \$779.9 million par amount of bonds to current refund \$812.1 million of existing bonds.

## **USING THIS FINANCIAL REPORT**

This financial report consists of four financial statements presented on two pages. The first two financial statements are the Governmental Funds Balance Sheet/Statement of Net Assets (Deficit) on page 8. The final two financial statements are the Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities on page 9.

The Statement of Net Assets (Deficit) and the Statement of Activities provide information about the activities of the Corporation as a whole, and present a longer term view of the Corporation's finances by focusing on total available resources and changes therein. The fund financial statements indicate how expenditures were financed in the short-term as well as reflecting amounts remaining as fund balance. Fund financial statements also report the Corporation's operations in more detail than the corporation-wide statements by providing information about the Corporation's two separate funds: the General Fund and the Debt Service Fund.

The change in the focus between currently available resources and total available resources is identified in the Adjustments columns found on the financial statements (pages 8 and 9). To arrive at the Statement of Net Assets (Deficit), the accrued interest expense on the Corporation's bonds, the outstanding balance of bonds and certain other adjustments are added to the total column on the Governmental Funds Balance Sheet. This is displayed in the Adjustments column to the left of the Statement of Net Assets (Deficit). To arrive at the Statement of Activities, transactions relating to long-term liabilities and expenditures that were deferred and amortized are added to or eliminated from the Statement of Revenues, Expenditures and Changes in Fund Balances. For the Corporation, transactions not affecting its reported net assets are payments of debt principal, the advance repayment of debt, and expenditures incurred in prior periods. Amounts relating to the aforementioned transactions are displayed in the Adjustments column to the left of the Statement of Activities.

## **Reporting the Corporation as a Whole**

### **The Statement of Net Assets (Deficit) and the Statement of Activities**

These statements report the Corporation's net assets (deficit) and changes to the Corporation's net assets (deficit). Annual changes in the Corporation's net assets (deficit) - the difference between assets and liabilities - is one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net assets (deficit) are indicators of whether its financial health is improving or deteriorating. As the Corporation is entirely dependent on appropriations from the State of New York, in evaluating the financial health of the Corporation, the reader will also need to consider the ability and likelihood of the State to continue to make appropriations to the Corporation to support the payments of debt service on the Corporation's bonds as well as its other expenses.

## Reporting the Corporation's Funds

### Fund Financial Statements

The fund financial statements provide detailed information about the Corporation's two distinct funds—not the Corporation as a whole. The fund financial statements are prepared using a different approach than the corporation-wide financial statements. The fund financial statements focus on how money flows into and out of those funds and the balances remaining at year-end. The Corporation's revenues and expenditures are reported in governmental funds. These funds are reported using the modified accrual basis of accounting, which reports revenues when they become both measurable and available to finance expenditures of the current period; expenditures are recorded in the period the liability is incurred and expected to be paid from current financial resources, with the exception of long-term liabilities which are recognized in the period they are payable. The governmental fund statements provide a detailed short-term view of the Corporation's general government operating requirements for the year ended March 31, 2008.

### THE CORPORATION AS A WHOLE

The Corporation will report annually a deficit in its net assets. The deficit in the Corporation's net assets arose as it carried out its statutory purpose of eliminating the State's annual short-term borrowing. During the years 1991 through 1995, the Corporation issued long-term obligations to finance State local assistance payments, capital reserve requirements, and costs of debt issuance. This debt will be repaid from appropriations expected to be received from the State in subsequent years. This unrestricted deficit can be expected to continue for as long as the Corporation has debt outstanding.

The following table summarizes the net assets (deficit) for the current and prior year:

**Table 1**  
**Net Assets (Deficit) as of March 31, 2008**  
**(Amounts in thousands)**

|   | <u>2008</u>                         | <u>2007</u>                         |
|---|-------------------------------------|-------------------------------------|
| <b>Assets:</b>                              |                                     |                                     |
| Cash and investments .....                  | \$ 526,755                          | \$ 584,526                          |
| Interest receivable .....                   | 1,262                               | 1,379                               |
| Unamortized bond issuance costs .....       | 15,498                              | 13,549                              |
| <b>Total assets .....</b>                   | <b><u>543,515</u></b>               | <b><u>599,454</u></b>               |
| <b>Liabilities:</b>                         |                                     |                                     |
| Liabilities due within one year .....       | 268,907                             | 258,633                             |
| Liabilities due in more than one year ..... | 3,885,548                           | 4,084,768                           |
| <b>Total liabilities .....</b>              | <b><u>4,154,455</u></b>             | <b><u>4,343,401</u></b>             |
| <b>Net Assets:</b>                          |                                     |                                     |
| Restricted for debt service .....           | 522,493                             | 580,395                             |
| Unrestricted (deficit) .....                | <u>(4,133,433)</u>                  | <u>(4,324,342)</u>                  |
| <b>Total net assets (deficit) .....</b>     | <b><u><u>\$ (3,610,940)</u></u></b> | <b><u><u>\$ (3,743,947)</u></u></b> |

The Corporation's combined net deficit decreased by \$133 million from one year ago - from a deficit of \$3.744 billion to a deficit of \$3.611 billion. The decrease in the combined net deficit is primarily the result of repayment of Corporation debt.

The following table summarizes the changes in net assets (deficit) for the current and prior year:

**Table 2**  
**Changes in Net Assets for the fiscal year ended March 31, 2008**  
**(Amounts in thousands)**

|  | <b>2008</b>           | <b>2007</b>           |
|--|-----------------------|-----------------------|
| <b>General Revenues:</b>                                     |                       |                       |
| Appropriations from New York State .....                     | \$ 284,891            | \$ 424,770            |
| Investment income .....                                      | 23,416                | 13,612                |
| <b>Total revenues.....</b>                                   | <b>308,307</b>        | <b>438,382</b>        |
| <b>Expenses:</b>   |                       |                       |
| General and administrative.....                              | 6,741                 | 6,403                 |
| Cost of issuance for refunding .....                         | 766                   | -                     |
| Rebate of investment earnings to the Federal government..... | 1,690                 | 181                   |
| Interest expense.....  | 166,103               | 199,806               |
| <b>Total expenses.....</b>                                   | <b>175,300</b>        | <b>206,390</b>        |
| <b>Changes in net assets.....</b>                            | <b>133,007</b>        | <b>231,992</b>        |
| <b>Net assets (deficit), beginning of year .....</b>         | <b>(3,743,947)</b>    | <b>(3,975,939)</b>    |
| <b>Net assets (deficit), end of year.....</b>                | <b>\$ (3,610,940)</b> | <b>\$ (3,743,947)</b> |

## **THE CORPORATION'S FUNDS**

At the close of the 2007-08 fiscal year, the Corporation reported a combined fund balance in its governmental funds (as presented in the balance sheet on page 8) of \$525.8 million, a decrease of \$58.5 million or 10 percent over the prior year's combined fund balance of \$584.3 million. Included in this year's total change in fund balance is an annual operating deficit of \$613 thousand in the Corporation's General Fund and an annual deficit of \$58 million in the Corporation's Debt Service Fund. The primary reason for the Debt Service Fund's annual deficit was the decrease in State appropriations received during fiscal year 2008. Appropriations change annually based on interest rate assumptions and cash flow assumptions.

### **Corporation Revenues and Expenditures**

During the year, the Corporation received \$6 million in its General Fund from State appropriations. Additionally, the Corporation's General Fund earned \$128 thousand in investment income. These revenues, along with \$613 thousand of the General Fund balance, were used to pay \$6.7 million in general and administrative expenditures. The Corporation also received \$278.9 million in its Debt Service Fund from State appropriations for payment of debt service on its outstanding bonds and earned \$23.4 million in investment income on its Capital Reserve Account and other Debt Service Accounts within the Debt Service Fund. The Corporation also paid and received \$31.7 million and \$32.6 million respectively, on its interest rate exchange agreements. These payments and receipts were included within the total amount reported as debt service interest.

## **Debt**

The Corporation is authorized to issue up to \$4.7 billion of bonds or notes plus an amount necessary to fund capital reserve requirements, costs of issuance and a limited amount of capitalized interest. As of March 31, 1996, the Corporation had issued all the debt it was authorized to issue. Any future debt issuance is limited to refunding purposes. At year end, the Corporation had \$4.1 billion in bonds outstanding, net of unamortized deferred amounts. This represents a \$182 million decrease from the prior year.

In addition to the debt noted above, the Corporation has \$3.1 million in other long-term obligations which represent investment earnings payable for rebate of investment earnings to the Federal government, of which \$495 thousand, while not due and payable at March 31, is expected to be paid within the next fiscal year.

As of March 31, 2008, the ratings assigned to the Corporation are as follows: Aa3 by Moody's Investors Services, AAA by Standard and Poor's Ratings Services, and AA- by Fitch Ratings.

## **DEBT SERVICE COVERAGE RATIO**

The Corporation is dependent upon receipts from the State of New York for payment of debt service on its bonds and for its operating costs. The State makes its payments from the Local Government Assistance Tax Fund (the Fund), under the custody of the State Comptroller and the Commissioner of Taxation and Finance. The Fund receives receipts collected within the State from the imposition of sales and use taxes, including interest and penalties (sales tax) at a one percent rate of taxation. Sales tax receipts received during the State's 2007-08 fiscal year were 6.8 times the maximum annual debt service and net payments under interest rate exchange agreements on the Corporation's outstanding bonds, including remarketing agent, broker-dealer, and letter of credit fees at rates in effect at March 31, 2008

## **CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Corporation's Office of Public Information at 110 State Street, 15<sup>th</sup> Floor, Albany, New York 12236, by phone at (518) 474-4015 or by email at [debtmanagement@osc.state.ny.us](mailto:debtmanagement@osc.state.ny.us).

**NEW YORK**  
**LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
Governmental Funds Balance Sheet/Statement of Net Assets (Deficit)

March 31, 2008  
(Amounts in thousands)

|  | General<br>Fund     | Debt Service<br>Fund  | Total                 | Adjustments<br>(Note 6)   | Statement of<br>Net Assets<br>(Deficit) |
|--|---------------------|-----------------------|-----------------------|---------------------------|---|
| <b>Assets:</b>   |                     |                       |                       |                           |   |
| Cash and investments.....                                    | \$ 4,091            | \$ 522,664            | \$ 526,755            | \$ —                      | \$ 526,755                              |
| Interest receivable.....                                     | 4                   | 1,258                 | 1,262                 | —                         | 1,262                                   |
| Unamortized bond issuance costs.....                         | —                   | —                     | —                     | 15,498                    | 15,498                                  |
| <b>Total assets.....</b>                                     | <b><u>4,095</u></b> | <b><u>523,922</u></b> | <b><u>528,017</u></b> | <b><u>15,498</u></b>      | <b><u>543,515</u></b>                   |
| <b>Liabilities:</b>  |                     |                       |                       |                           |   |
| Accounts payable.....  | \$ 2,085            | \$ 171                | \$ 2,256              | —                         | 2,256                                   |
| Accrued interest payable.....                                | —                   | —                     | —                     | 66,111                    | 66,111                                  |
| Long-term liabilities:                                       |                     |                       |                       |                           |   |
| Due within one year.....                                     | —                   | —                     | —                     | 200,540                   | 200,540                                 |
| Due after one year :   |                     |                       |                       |                           |   |
| Bonds payable, net of amortized premiums and discounts.....  | —                   | —                     | —                     | 3,974,307                 | 3,974,307                               |
| Rebate of investment earnings to the Federal government..... | —                   | —                     | —                     | 2,619                     | 2,619                                   |
| Deferred loss on refunded bonds.....                         | —                   | —                     | —                     | (91,378)                  | (91,378)                                |
| <b>Total liabilities.....</b>                                | <b><u>2,085</u></b> | <b><u>171</u></b>     | <b><u>2,256</u></b>   | <b><u>4,152,199</u></b>   | <b><u>4,154,455</u></b>                 |
| <b>Fund Balances:</b>  |                     |                       |                       |                           |   |
| Reserved for debt service.....                               | —                   | 522,493               | 522,493               | (522,493)                 | —                                       |
| Unreserved.....  | 2,010               | 1,258                 | 3,268                 | (3,268)                   | —                                       |
| <b>Total fund balances.....</b>                              | <b><u>2,010</u></b> | <b><u>523,751</u></b> | <b><u>525,761</u></b> | <b><u>(525,761)</u></b>   | <b><u>—</u></b>                         |
| <b>Total liabilities and fund balances.....</b>              | <b><u>4,095</u></b> | <b><u>523,922</u></b> | <b><u>528,017</u></b> |                           |   |
| <b>Net assets (deficit):</b>                                 |                     |                       |                       |                           |   |
| Restricted for debt service.....                             |                     |                       |                       | 522,493                   | 522,493                                 |
| Unrestricted (deficit).....                                  |                     |                       |                       | (4,133,433)               | (4,133,433)                             |
| <b>Total net assets (deficit).....</b>                       |                     |                       |                       | <b><u>(3,610,940)</u></b> | <b><u>(3,610,940)</u></b>               |

See accompanying notes to the basic financial statements.

**NEW YORK**  
**LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Year Ended March 31, 2008  
(Amounts in thousands)

|   | <u>General<br/>Fund</u> | <u>Debt Service<br/>Fund</u> | <u>Total</u>             | <u>Adjustments<br/>(Note 7)</u> | <u>Statement of<br/>Activities</u> |
|---|-------------------------|------------------------------|--------------------------|---------------------------------|------------------------------------|
| <b>General Revenues:</b>                                      |                         |                              |                          |                                 |                                    |
| Appropriations from New York State.....                       | \$ 6,000                | \$ 278,891                   | \$ 284,891               | \$ —                            | \$ 284,891                         |
| Investment income.....  | 128                     | 23,288                       | 23,416                   | —                               | 23,416                             |
| <b>Total revenues.....</b>                                    | <b><u>6,128</u></b>     | <b><u>302,179</u></b>        | <b><u>308,307</u></b>    | <b><u>—</u></b>                 | <b><u>308,307</u></b>              |
| <b>Expenditures/Expenses:</b>                                 |                         |                              |                          |                                 |                                    |
| General and administrative.....                               | 6,741                   | —                            | 6,741                    | —                               | 6,741                              |
| Cost of issuance for refundings.....                          | —                       | 2,716                        | 2,716                    | (1,950)                         | 766                                |
| Rebate of investment earnings to the Federal government.....  | —                       | —                            | —                        | 1,690                           | 1,690                              |
| Debt service  |                         |                              |                          |                                 |                                    |
| Principal.....  | —                       | 182,085                      | 182,085                  | (182,085)                       | —                                  |
| Interest.....   | —                       | 178,185                      | 178,185                  | (12,082)                        | 166,103                            |
| <b>Total expenditures/expenses.....</b>                       | <b><u>6,741</u></b>     | <b><u>362,986</u></b>        | <b><u>369,727</u></b>    | <b><u>(194,427)</u></b>         | <b><u>175,300</u></b>              |
| <b>Excess (deficiency) of revenues over expenditures.....</b> | <b><u>(613)</u></b>     | <b><u>(60,807)</u></b>       | <b><u>(61,420)</u></b>   | <b><u>194,427</u></b>           | <b><u>—</u></b>                    |
| <b>Other financing sources and uses</b>                       |                         |                              |                          |                                 |                                    |
| Issuance of refunding bonds.....                              | —                       | 779,930                      | 779,930                  | (779,930)                       | —                                  |
| Premiums on refunding bonds, net of discounts.....            | —                       | 46,192                       | 46,192                   | (46,192)                        | —                                  |
| Payments to refunding bond escrow agent.....                  | —                       | (823,328)                    | (823,328)                | 823,328                         | —                                  |
| <b>Net other financing sources and uses.....</b>              | <b><u>—</u></b>         | <b><u>2,794</u></b>          | <b><u>2,794</u></b>      | <b><u>(2,794)</u></b>           | <b><u>—</u></b>                    |
| <b>Net change in fund balance.....</b>                        | <b><u>(613)</u></b>     | <b><u>(58,013)</u></b>       | <b><u>(58,626)</u></b>   | <b><u>61,420</u></b>            | <b><u>—</u></b>                    |
| <b>Change in net assets .....</b>                             | <b><u>—</u></b>         | <b><u>—</u></b>              | <b><u>—</u></b>          | <b><u>133,007</u></b>           | <b><u>133,007</u></b>              |
| <b>Fund balances/net assets (deficit):</b>                    |                         |                              |                          |                                 |                                    |
| Beginning of year.....  | 2,623                   | 581,764                      | 584,387                  | (4,328,334)                     | (3,743,947)                        |
| <b>End of year.....</b>                                       | <b><u>\$ 2,010</u></b>  | <b><u>\$ 523,751</u></b>     | <b><u>\$ 525,761</u></b> | <b><u>\$ (4,136,701)</u></b>    | <b><u>\$ (3,610,940)</u></b>       |

See accompanying notes to the basic financial statements.

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF NEW YORK)**

Notes to the Financial Statements  
Year Ended March 31, 2008

**(1) Summary of Significant Accounting Policies**

**(a) Organization**

The New York Local Government Assistance Corporation (Corporation) was established by Chapter 220, of the Laws of 1990 (as amended) to issue up to \$4.7 billion in long-term debt, in order to finance certain local assistance payments appropriated by the State of New York (State), in addition to bonds necessary to fund a capital reserve account, costs of issuance and up to six months of capitalized interest. Issuance of these bonds eliminated the need for the State's annual "Spring Borrowing." Prior to the creation of the Corporation, certain large payments due to the State's local government units were made in the first quarter of the State's fiscal year, particularly in support of primary and secondary education, while revenues were received more evenly throughout the fiscal year. To meet these payments, the State issued short-term tax and revenue anticipation notes referred to as the annual "Spring Borrowing." Primarily as a result of bond issuances by the Corporation, there was no Spring Borrowing in the State's 1995 through 2008 fiscal years and the State does not project the need for a Spring Borrowing in its 2009 fiscal year. The fiscal year ended March 31, 2008 was the seventeenth year of the Corporation's existence. The Corporation is a blended component unit of the State and its continued operations are almost entirely dependent upon the annual appropriations received from the State.

Payments of debt service on the Corporation's bonds will be made from appropriations received from the State. Pursuant to the Act establishing the Corporation, the State deposits one cent of the State's four cent sales and use tax into a special fund (the Local Government Assistance Tax Fund), which is used by the State to make payments to the Corporation. Amounts in excess of the Corporation's needs are transferred from the Local Government Assistance Tax Fund to the State's General Fund after the Corporation's requirements have been met as provided by statute. State payments to the Corporation are subject to annual appropriations by the State Legislature. The Corporation's bondholders do not have a lien on monies deposited in the Local Government Assistance Tax Fund.

**(b) Basis of Presentation**

The accompanying basic financial statements of the Corporation have been prepared in conformance with generally accepted accounting principles (GAAP) for governments. Such principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. The Corporation has prepared corporation-wide financial statements titled "Statement of Net Assets (Deficit)" and "Statement of Activities" as well as the required supplementary information titled "Management's Discussion and Analysis" which precedes the financial statements. The Corporation also prepares fund financial statements, which are the "Governmental Funds Balance Sheet", and "Statement of Revenues, Expenditures and Changes in Fund Balance." The basic financial statements include both the corporation-wide and the fund financial statements, which have been combined together and presented on the same pages.

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF NEW YORK)**

Notes to the Financial Statements  
Year Ended March 31, 2008

The Corporation follows the principles of fund accounting in that each segment of operations is represented under a discrete fund presentation in the fund financial statements. The Corporation uses funds to report its financial position and results of operations. The General Fund consists of the Operating Account, Cost of Issuance Accounts for new bond issuances, and the Local Assistance Payment Account. The Debt Service Fund consists of the Debt Service Accounts, the Capital Reserve Accounts, the Rebate Accounts, and the Cost of Issuance Accounts for refunding bond issuances. The General Fund is used to account for all financial transactions of the Corporation except for debt service related transactions which are accounted for in the Debt Service Fund. The Rebate Account within the Debt Service Fund is used to remit investment earnings to the United States Department of the Treasury, when necessary, in accordance with the Internal Revenue Code (arbitrage rebate payment).

**(c) *Basis of Accounting***

The Corporation utilizes the modified accrual basis of accounting, which focuses on changes in current financial resources, in the preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures and related liabilities are recorded in the accounting period the liability is incurred and payable from current resources, except for principal and interest on long-term debt and estimated other long-term liabilities which are recorded only when payment is due and payable.

Operating expenditures are direct costs incurred by the Corporation, such as legal fees, financial advisory fees, printing costs, trustee fees, letter of credit fees, remarketing agent fees, broker-dealer fees, arbitrage rebate payments, and other related costs. Operating expenditures are paid from monies received from the State and earnings from their investments. Administrative staff support is provided by the State at no charge to the Corporation.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of the Corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements. Since the fund financial statements are prepared using a different method of measuring revenues and expenditures and a different basis of accounting than the Corporation-wide financial statements, an Adjustments column is presented to convert the fund basis financial statements into the Corporation-wide financial statements.

Amortization of bond premiums has been computed using the straight-line method. The Corporation also defers and amortizes issuance costs and deferred losses on refunding bond issuances using the straight-line method. Interest on capital appreciation bonds is accreted using the effective interest rate method.

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***(d) Municipal Assistance Corporation Refinancing Act***

Chapters 62 and Chapter 63 of the Laws of 2003 enacted, among other provisions, the Municipal Assistance Refinancing Act (Act), effective July 1, 2003 and deemed repealed as of July 1, 2034. The Act created an incentive for the State to seek an appropriation to provide \$170 million per year, from the Local Government Assistance Tax Fund (Fund) to the City of New York (City) for each of the City's fiscal years beginning July 1, 2003 and ending June 30, 2034. The Act requires the Corporation to annually certify \$170 million so that the State, subject to annual State appropriation by the Legislature, can provide for a series of payments to the City or the Mayor's assignee in each City fiscal year beginning July 1, 2003 and ending June 30, 2034 totaling \$5.27 billion.

The Act was established with the expectation that the City, acting through the Mayor, would assign the annual payments from the State to a newly created not-for-profit corporation that would issue bonds and use those proceeds to refinance all existing debt of the Municipal Assistance Corporation for the City of New York (MAC) due in the near term (approximating \$2.5 billion at the time of the Act). Subsequent to the Act, the City created the Sales Tax Asset Receivable Corporation (STARC) to securitize the annual payments and refinance the existing MAC bonds with the proceeds, as intended. The expected annual State payments of \$170 million would be used by STARC to pay the debt service on the refinanced debt. By law, the Fund receives one cent of the State's sales and use tax receipts (approximately \$2.6 billion during 2008). The balance of the Fund's receipts not needed by the Corporation for its purposes, are transferred from the Fund to the State's General Fund. Based on current law, until the Legislature enacts an appropriation of \$170 million, the Corporation certifies the release of the funds, and the \$170 million State payment is made, and the Corporation receives the amount it has certified for its needs, no excess sales tax receipts can be transferred from the Fund to the State's General Fund. During 2008, the Corporation certified the release of the fourth State payment of \$170 million to the City.

The Corporation filed a complaint in New York State Supreme Court in August 2003 seeking a court determination that the statute requiring a certification and possible payment by the Corporation to the City of New York or its assignee was invalid. Ultimately, the New York State Court of Appeals found the statute to be valid but determined that it does require an annual State appropriation to make any payments. The court further found that any annual payment required by the State could not interfere with the Corporation bondholders' rights.

In May 2004, the Corporation amended its General Bond Resolution and General Subordinate Lien Bond Resolution ("the Resolutions") to clarify that any failure to certify or assure that the State's payments are made to the City or its assignee has no impact on the Corporation's own bondholders; and that if any such act or omission were to occur with respect to any potential STARC bonds, that act or omission would not constitute an Event of Default with respect to the Corporation bonds. In June 2004, the Corporation's Trustee, The Bank of New York, notified the Corporation's bondholders of these amendments.

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**(2) Cash and Investments**

The following are authorized investments for the Corporation's Debt Service Accounts and Capital Reserve Accounts: the Debt Service Accounts may be invested in direct bond obligations of the United States, bank certificates of deposit insured by the FDIC and repurchase agreements secured by direct obligations of the United States with any bank or trust company authorized to do business with the State of New York or any national banking association or government bond dealer reporting to, trading with or recognized as a primary dealer by the Federal Reserve Bank of New York; the Capital Reserve Accounts maybe invested in the same investments as the Debt Service Accounts plus direct and general obligations of New York State provided the rating is not lower than the rating on the Corporation's bonds, and securities and general obligation bonds and notes of any state maintaining the highest rating from the major rating services. Monies on deposit in any other fund or account not listed above may be invested pursuant to Section 98-a of the State Finance Law. All investments are insured, registered, or held by the Corporation's trustee in the Corporation's name. The following table represents investments of the Corporation by investment type with related reported amounts which are equal to fair values (excluding accrued interest) at March 31, 2008 (amounts in thousands):

| <u>Investment Type</u>      | <u>Reported Amount</u> | <u>Investment Maturities</u> |                   |
|-----------------------------|------------------------|------------------------------|-------------------|
|                             |                        | <u>Less than 1 Year</u>      | <u>1-5 Years</u>  |
| Repurchase agreements ..... | \$ 70,485              | \$ 70,485                    | \$ -              |
| U.S. Treasury Notes .....   | 190,108                | 59,096                       | 131,012           |
| <b>Totals .....</b>         | <b>\$ 260,593</b>      | <b>\$ 129,581</b>            | <b>\$ 131,012</b> |

The Corporation reports its investments with an original maturity of greater than one year at quoted market price (fair value) and reports investments with an original maturity of one year or less at amortized cost. The Corporation experienced a net increase in the fair value of its investments during the year of \$6.8 million which has been reflected in the amount of investment income reported by the Corporation. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

The Corporation's repurchase agreements are collateralized by U.S. Treasury Notes with market values which are equal to or greater than the reported amount. Collateral in support of the investments is held by the trustee in the name of the Corporation.

Included in the \$522.7 million of total cash and investments is \$266.1 million in cash that was transferred by the Corporation's trustee to a separate account on March 31, 2008 in order to meet the Corporation's April 1, 2008 debt service payment. Pursuant to the Corporation's General Bond Resolution, the Corporation's trustee must transfer required debt service funds to a separate account on the business day preceding a debt service payment date.

**(3) Bonds Payable**

The Corporation is authorized to issue up to \$4.7 billion in bonds plus an amount necessary to fund a capital reserve, costs of issuance, and a limited amount of capitalized interest. As of March 31, 1996, the

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Corporation had issued bonds equal to its authorized amount. Under existing statutes, any issuance of bonds by the Corporation in the future is limited to refunding purposes only.

As of March 31, 2008, the Corporation had approximately \$2.0 billion of variable interest rate debt in twenty-three series of bonds outstanding as follows (rates include remarketing agent, broker-dealer and letter of credit fees):

| Series            | Outstanding<br>(thousands) | Bond<br>Insurer | Interest<br>Rate at<br>March<br>31,<br>2008 | Current<br>Interest<br>Rate<br>Mode | Liquidity Support                    |                    |   |
|-------------------|----------------------------|-----------------|---|-------------------------------------|--------------------------------------|--------------------|---|
|                   |                            |                 |   |                                     | Type of<br>Liquidity<br>Support<br>* | Expiration<br>Date | Bank<br>Optional<br>Termination<br>Date |
| 1993A.....        | \$ 207,600                 | None            | 2.320%                                      | Weekly                              | LOC                                  | 10/31/2015         | 12/31/2010                              |
| 1994B.....        | 116,300                    | None            | 2.400%                                      | Weekly                              | LOC                                  | 10/31/2015         | 12/31/2010                              |
| 1995B.....        | 77,600                     | None            | 2.080%                                      | Weekly                              | LOC                                  | 7/1/2010           | N/A                                     |
| 1995C.....        | 77,000                     | None            | 2.080%                                      | Weekly                              | LOC                                  | 12/31/2015         | 7/1/2010                                |
| 1995D.....        | 77,000                     | None            | 2.310%                                      | Weekly                              | LOC                                  | 7/1/2010           | N/A                                     |
| 1995E.....        | 77,100                     | None            | 2.330%                                      | Weekly                              | LOC                                  | 12/31/2015         | 7/1/2010                                |
| 1995F.....        | 77,200                     | None            | 2.380%                                      | Weekly                              | LOC                                  | 7/1/2010           | N/A                                     |
| 1995G.....        | 77,300                     | None            | 2.360%                                      | Weekly                              | LOC                                  | 7/1/2010           | N/A                                     |
| 2003A-BV....      | 188,320                    | FGIC            | 7.075%                                      | Weekly                              | SBPA                                 | 2/20/2009          | N/A                                     |
| 2003A-3V....      | 137,500                    | FGIC            | 8.790%                                      | Weekly                              | SBPA                                 | 12/1/2015          | 2/1/2010                                |
| 2003A-4V....      | 137,500                    | FSA             | 2.340%                                      | Weekly                              | SBPA                                 | 12/31/2015         | 12/31/2010                              |
| 2003A-5V....      | 91,665                     | FSA             | 1.875%                                      | Weekly                              | SBPA                                 | 2/20/2009          | N/A                                     |
| 2003A-6V....      | 100,000                    | FSA             | 1.880%                                      | Weekly                              | SBPA                                 | 2/20/2009          | N/A                                     |
| 2003A-7V....      | 50,780                     | FGIC            | 7.725%                                      | Weekly                              | SBPA                                 | 2/20/2009          | N/A                                     |
| 2003A-8V....      | 40,885                     | FSA             | 2.165%                                      | Weekly                              | SBPA                                 | 2/20/2009          | N/A                                     |
| 2003A-9V....      | 63,350                     | FSA             | 3.051%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2003A-10V..       | 63,325                     | FSA             | 3.139%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2003A-11V..       | 63,350                     | FSA             | 3.051%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2003A-12V..       | 63,325                     | FSA             | 3.139%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2004A-AV....      | 52,600                     | CIFG            | 3.611%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2004A-BV....      | 52,625                     | CIFG            | 3.717%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2004A-CV....      | 52,600                     | CIFG            | 3.611%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| 2004A-DV....      | 52,625                     | CIFG            | 3.717%                                      | Auction                             | None                                 | N/A                | N/A                                     |
| <b>Total.....</b> | <b>\$ 1,997,550</b>        |                 |   |                                     |                                      |                    |   |

\* LOC Letter of Credit  
SBPA Standby Bond Purchase Agreement  
N/A Not Applicable

The interest rates on variable interest rate bonds in the weekly interest rate mode are reset at rates determined by the Corporation's remarketing agents. The interest rates on variable interest rate bonds in the auction rate mode are determined by the Corporation's auction agent in accordance with the auction rate procedures established by Corporate resolution. The mode of interest of each of the variable rate bonds may be changed by the Corporation from or to the daily rate mode, weekly rate mode, long-term

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rate mode and also to fixed rate mode. The banks securing the Series 1993A and Series 1994B variable interest rate bonds have joint and several interest in the letters of credit issued to the trustee. The Series 1995B through Series 1995G variable interest rate bonds are individually secured by letters of credit with three banks (each bank holds a letter of credit for two separately secured series). The trustee is authorized to draw on each of the credit facility banks for the entire principal amount of variable interest rate bonds outstanding of each series, plus 70 days of interest calculated at a rate of 12 percent. The letters of credit are subject to early termination at the option of the banks at dates shown above. The amount available under the Standby Bond Purchase Agreement supporting the Series 2003A-BV through Series 2003A-8V is equal to the outstanding principal amount and up to 35 days interest at an annual rate of 12 percent. The Series 2003A-9V through Series 2003A-12V bonds and the Series 2004A-AV through Series 2004A-DV bonds, currently in the auction rate mode, do not require liquidity support because investors do not have the right to "demand or put" the bonds back to the Corporation as is the case with all the variable rate bonds in the weekly interest rate mode.

The Corporation purchased bond insurance for the Series 2003A-BV through 2003A-8V bonds, with the Financial Guarantee Insurance Corporation (FGIC) being the Bond Insurer for the Series 2003A-BV Bonds, Series 2003A-3V Bonds and Series 2003A-7V Bonds. The terms and conditions of the standby bond purchase agreements (the agreements) related to such Bonds provide in part that, (i) it is an Event of Default under each such agreement if the long-term claims paying ability or financial strength rating of the Bond Insurer is lowered below a rating specified in each of the agreements by either Fitch, S&P, or Moody's, (ii) it is an Event of Default under each such agreement if the Corporation fails to notify the respective bank of any Event of Default and (iii) the Corporation shall, within ninety days of the date of such downgrade, undertake certain specified actions which include converting the interest rate on the bonds to a Long-Term Rate, Auction Rate or a Fixed Rate and failure to take such actions within such 90-day period is an Event of Default under each such agreement. The agreements further provide that, that the Corporation shall not be required to comply with the requirement set forth in clause (iii) of the immediately preceding sentence if the Corporation replaces the Bond Insurer with a substitute Bond Insurer acceptable to the Bank, obtains additional credit enhancement for the bonds acceptable to the Bank or provides a Substitute Liquidity Facility to the trustee for the bonds.

On February 14, 2008, Moody's downgraded their rating of FGIC to "A3" which is a rating below the rating specified in the standby bond purchase agreements for the Series 2003A-BV Bonds, Series 2003A-3V Bonds and Series 2003A-7V Bonds. The Corporation requested and was granted waivers of the Events of Default described above to June 27, 2008 under the Series 2003A-BV standby bond purchase agreement and to June 30, 2008 under the 2003A-3V and 2003A-7V standby bond purchase agreements.

Each of the agreements also provide that if both the S&P and the Fitch rating of the Bond Insurer falls below investment grade (BBB-) the obligation of the Bank to purchase the bonds shall be automatically terminated. On March 27, 2008, Fitch reduced its rating of FGIC to BBB, which is an investment grade rating. On March 28, 2008, S&P reduced its rating of FGIC to BB, which is a rating below investment grade.

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The State dedicated a portion of its sales and use tax revenues to make payments to the Corporation pursuant to a payment agreement between the State Director of Division of the Budget and the Corporation for the purpose of funding the Corporation's debt service. Subject to appropriation, the State will make these payments to the Corporation five days prior to the debt service due date. The \$360.3 million representing 2008 debt service payments is comprised of \$182.1 million in principal and \$178.2 million in interest.

The Corporation's general bond resolution requires that one or more capital reserve accounts be established and funded in an amount equal, on an amortized cost basis, to the maximum annual amount on Senior Lien Bonds and half the maximum annual amount on Subordinate Lien Bonds of principal, sinking fund installments or redemption price of, and interest on, all bonds outstanding or on any related reimbursement obligations, coming due during the then current or any succeeding fiscal year. The Corporation may also fund a capital reserve account with a surety bond or other similar instrument. The Corporation has established two separate capital reserve accounts to support bonds based upon the priority of their lien against funds of the Corporation—bonds holding a first lien (Senior Lien) and bonds holding a subordinate lien (Subordinate Lien). At March 31, 2008, the Senior Lien Capital Reserve Account requirement was met by a surety bond of \$170.0 million, expiring on April 1, 2021 and investments with an amortized cost of \$195.4 million and a fair value of \$200.7 million. At March 31, 2008, the Subordinate Lien Capital Reserve Account requirement was met with investments with an amortized cost of \$50.0 million and a fair market value of \$52.0 million. The investments of both the Senior Lien and Subordinate Lien Capital Reserve Accounts are reported as a part of cash and investments in the Debt Service Fund with a corresponding reservation of fund balance.

The Corporation has entered into interest rate exchange agreements (swap agreements), as disclosed under Note 4 "Interest Rate Exchange Agreements". The effect of these swap agreements is to provide for a synthetic fixed rate of interest on \$1.21 billion of the Corporation's \$1.57 billion in bonds that were issued as variable rate bonds in 2003 and 2004. The remainder of the bonds issued in 2003 and 2004 were issued as fixed rate bonds.

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Estimated annual debt service and net swap payments required to maturity for all of the Corporation's bonds are as follows (amounts in thousands):

| <u>Fiscal Year</u> | <u>Principal</u>           | <u>Interest</u>            | <u>Net Swap<br/>Amount</u> | <u>Total</u>               |
|--------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| 2009 .....         | \$ 200,045                 | \$ 162,298                 | \$ 16,134                  | \$ 378,477                 |
| 2010 .....         | 210,145                    | 160,406                    | 16,093                     | 386,644                    |
| 2011 .....         | 219,470                    | 151,552                    | 16,043                     | 387,065                    |
| 2012 .....         | 229,470                    | 141,754                    | 15,989                     | 387,213                    |
| 2013 .....         | 240,530                    | 130,728                    | 16,084                     | 387,342                    |
| 2014-2018.....     | 1,387,170                  | 491,228                    | 74,403                     | 1,952,801                  |
| 2019-2023.....     | 1,437,360                  | 183,686                    | 34,055                     | 1,655,101                  |
| 2024-2028.....     | 204,640                    | 9,734                      | 1,512                      | 215,886                    |
| <b>Totals.....</b> | <b>\$ <u>4,128,830</u></b> | <b>\$ <u>1,431,386</u></b> | <b>\$ <u>190,313</u></b>   | <b>\$ <u>5,750,529</u></b> |

Future debt service is calculated using rates in effect at March 31, 2008 for variable rate bonds. The net swap payment amounts were calculated by subtracting the future variable rate interest payments subject to swap agreements from the synthetic fixed rate amount intended to be achieved by the swap agreements.

The actual amount of net swap payments is affected by changes in a published index—the London Interbank Offered Rate (LIBOR). To the extent variable interest rates on the Corporation's bonds that are notionally related to the swaps fluctuates above or below 65 percent of the One Month LIBOR rate, which is a rate that varies from time to time, the Corporation's net debt service will be more or less, respectively, than amounts shown above.

The Corporation believes it is in compliance with all significant limitations and restrictions related to bonds outstanding.

During its fiscal year ended March 31, 2008, the Corporation entered into two separate refunding transactions, issuing \$779.9 million par amount of refunding bonds to refund existing bonds on a current basis. The effect of these refunding transactions was to lower the Corporation's future debt service on its fixed rate bonds. The Corporation refunded \$812.1 million in existing bonds with \$779.9 million in bonds requiring lower fixed rate debt service payments. At the time of the transactions, this resulted in \$55.7 million in future cash flow savings with a present value gain of \$43.4 million. The refunding transactions, while resulting in lower future debt service costs, resulted in a loss in the year they occurred equivalent to the difference between the carrying amount of the bonds refunded (\$812 million) and their reacquisition price (\$837.5 million). This loss of \$25.5 million has been deferred and will be amortized into future interest costs over the shorter of the life of the new bonds or the old bonds, using the straight line method. The amortization period is the same for both the refunding bonds and the refunded bonds which is 13 years and 14 years, ending April 1, 2019 and April 1, 2021, respectively.

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**(4) Interest Rate Exchange Agreements (Swap Agreements)**

**Objective of the Swap Agreements**

As a means to lowering its borrowing costs, when compared against fixed rate bonds at the time of issuance in February 2003, the Corporation entered into four swap agreements in connection with its issuance of \$1 billion of variable rate revenue bonds (Series 2003A-BV through Series 2003A-12V). In February 2004, the Corporation entered into two additional swap agreements in connection with its issuance of \$210 million of variable rate revenue bonds (Series 2004A-AV through Series 2004A-DV).

The intention of the swap agreements was to effectively change the Corporation's interest rate on the bonds to a synthetic fixed rate of approximately 3.57 percent for the 2003 bond issue and 3.46 percent for the 2004 bond issue, including support costs and bond insurance fees.

**Terms of the Interest Rate Swap Agreements**

The following table includes the terms for each of the Corporation's individual swap transactions:

| <u>Terms</u>                                    | <u>2003<br/>Bond Series</u> | <u>2004<br/>Bond Series</u> |
|---|-----------------------------|-----------------------------|
| Corresponding bond series.....                  | 2003A-BV to<br>2003A-12V    | 2004A-AV to<br>2004A-DV     |
| Final maturity of bonds.....                    | April 1, 2024               | April 1, 2021               |
| Final maturity of related swap agreements ..... | April 1, 2024               | April 1, 2021               |
| Swaps' notional amount.....                     | \$1 billion                 | \$210 million               |
| Variable rate bonds .....                       | \$1 billion                 | \$210 million               |
| Fixed payment rates paid to counterparties..... | 3.15% to 3.26%              | 3.19% to 3.22%              |
| Variable payments received, computed as .....   | 65% of one<br>month LIBOR   | 65% of one<br>month LIBOR   |

The variable rates on the bonds are determined by remarketing agents for bonds in the weekly interest rate mode and by auction results for bonds in the auction rate mode, in accordance with auction rate procedures.

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As of March 31, 2008, average rates were as follows:

|   | <u>Terms</u>        | <u>Bond Series Rates</u> |              |
|---|---------------------|--------------------------|--------------|
|   |                     | <u>2003</u>              | <u>2004</u>  |
| Interest rate swap agreement:                 |                     |                          |              |
| Effective fixed payment to counterparty ..... | Fixed               | 3.57%                    | 3.46%        |
| Less variable payment from counterparty ..... | 65% of LIBOR        | (1.83%)                  | (2.02%)      |
| <b>Net interest rate swap payments .....</b>  |                     | <b>1.74%</b>             | <b>1.44%</b> |
| Average variable rate bond coupon             | Remarketing/Auction |                          |              |
| payments .....                                | Agent               | 4.49%                    | 3.66%        |
| <b>Approximate synthetic interest rate on</b> |                     |                          |              |
| <b>Bonds .....</b>                            |                     | <b>6.23%</b>             | <b>5.10%</b> |

**Fair Value of the Interest Rate Swap Agreements**

Due to the fact that interest rates have changed since execution of the swaps, the swaps had an estimated fair value at March 31, 2008 equal to their termination cost which would have required the Corporation to pay \$45.6 million to its swap counterparties at March 31, 2008 had it terminated the swaps at that date. The fair value of the swaps fluctuate with the change in the One Month LIBOR rate which effects the amount of the payments the Corporation is due each month from its swap counterparties. Because the interest the Corporation pays on variable rate bonds adjusts with changing market based interest rates, the bonds do not have a corresponding change in their fair value. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

**Credit Risk of the Interest Rate Swap Agreements**

The swap agreements require each counterparty to have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories. Ratings which are obtained from any other nationally recognized statistical rating agencies for such counterparty shall be within the three highest investment grade categories, or the payment obligations of the counterparty must be unconditionally guaranteed by an entity with such credit ratings. The swap agreements also require that, should the credit rating of a counterparty fall below the rating required, the obligations of such counterparty shall be fully and continuously collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America, with a net market value of at least 102 percent of the net market value of the contract to the Corporation, and such collateral shall be deposited with the Corporation or its agent.

As of March 31, 2008, the Corporation was exposed to credit risk equal to the fair value of the swap because the swaps had a positive fair value. The lowest ratings of the six swap counterparties were AA-

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by Fitch Ratings, AA- by Standard & Poor's, and Aa3 by Moody's Investors Service as of March 31, 2008.

**Basis Risk of the Interest Rate Swap Agreements**

The swap agreements expose the Corporation to basis risk should the relationship between the LIBOR and actual variable rate payments converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (approximately 3.57 percent for the 2003 notional amount and 3.46 percent for the 2004 notional amount) and the actual synthetic rate.

**Termination Risk of the Interest Rate Swap Agreements**

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes "additional termination events", providing that the swaps may be terminated if either the Corporation's or a counterparty's credit quality rating falls below certain levels. Either the Corporation or the counterparties may terminate the swap agreements if the other party fails to perform under the terms of the contract. If one or more of the swap agreements is terminated, the related variable rate bonds would no longer be hedged and the Corporation would no longer effectively be paying a synthetic fixed rate with respect to those bonds. Also, if at the time of termination the swap has a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the swap agreement's fair value.

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**(5) Changes in Long-Term Liabilities**

Long-term liability activity for the year ended March 31, 2008 was as follows (amounts in thousands):

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>         | <u>Deletions</u>         | <u>Ending<br/>Balance</u>  | <u>Amounts<br/>Due<br/>Within<br/>One Year</u> |
|---|------------------------------|--------------------------|--------------------------|----------------------------|--|
| Bonds payable .....   | \$ 4,343,040                 | \$ 779,930               | \$ 994,140               | \$ 4,128,830               | \$ 200,045                                     |
| Unamortized premium .....   | 21,610                       | 46,192                   | 2,580                    | 65,222                     | -  |
| Unaccreted discount on<br>bonds.....                                | (28,363)                     | -                        | (8,663)                  | (19,700)                   | -  |
| Deferred loss on advance<br>refunding of bonds .....                | (70,863)                     | (25,479)                 | (4,964)                  | (91,378)                   | -  |
| <b>Net bonds payable .....</b>                                      | <b><u>4,265,424</u></b>      | <b><u>800,643</u></b>    | <b><u>983,093</u></b>    | <b><u>4,082,974</u></b>    | <b><u>200,045</u></b>                          |
| Other Liability:  |                              |                          |                          |                            |  |
| Rebate of investment<br>earnings to the Federal<br>government ..... | <u>1,424</u>                 | <u>1,690</u>             | <u>-</u>                 | <u>3,114</u>               | <u>495</u>                                     |
| <b>Long-term liability<br/>activity .....</b>                       | <b><u>\$ 4,266,848</u></b>   | <b><u>\$ 802,333</u></b> | <b><u>\$ 983,093</u></b> | <b><u>\$ 4,086,088</u></b> | <b><u>\$ 200,540</u></b>                       |

**(6) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Assets (Deficit).**

Long-term liabilities of the Corporation's activities are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets (Deficit). Balances at March 31, 2008 were (amounts in thousands):

|   |                            |
|---|----------------------------|
| Bonds payable, net .....  | \$ 4,082,974               |
| Accrued Interest on bonds payable .....   | 66,111                     |
| Unamortized bond issuance costs .....   | (15,498)                   |
| Rebate of investment earnings to the Federal<br>government not due and payable at year-end..... | <u>3,114</u>               |
| <b>Net adjustment.....</b>  | <b><u>\$ 4,136,701</u></b> |

**(7) Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities.**

Repayment of bond principal and payment of bond issuance costs are reported as an expenditure in the governmental funds and therefore contribute to the change in fund balance. In the Statement of Net Assets (Deficit), however, repaying bond principal decreases long-term liabilities and payment of bond issuance costs becomes an asset to be deferred over the life of the bonds and does not affect the Statement of

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
**(A COMPONENT UNIT OF THE STATE OF NEW YORK)**

Notes to the Financial Statements  
Year Ended March 31, 2008

Activities. Similarly, recognition of revenues and expenditures not expected to be received or paid in the current year will not affect the fund balance reported for the governmental funds. In the Statement of Activities prepared on the full accrual basis, however, all revenues and expenses are recognized in the year they are earned or incurred, regardless of when they are paid, and will therefore be reflected in the Statement of Activities. These differences in measurement recognition affect both the reported fund balance and reported net assets. Adjustments required to be made to the reported governmental funds expenditures in order to arrive at the Statement of Activities are as follows (amounts in thousands):

**Adjustments to expenditures:**

|  |                            |
|--|----------------------------|
| Repayment of bond principal:                               |                            |
| To bondholders for repayment of debt.....                  | \$ (182,085)               |
| Adjustment for expense not due at year-end.....            | 1,690                      |
| Amortization of loss on refunding of bonds .....           | 4,964                      |
| Amortization of premium on refunding of bonds .....        | (2,580)                    |
| Amortization of issuance costs on refunding of bonds ..... | (1,950)                    |
| Reserve release used for refunding .....                   | (14,205)                   |
| Net adjustment to arrive at interest expense.....          | (261)                      |
| <b>Net adjustment to expenditures .....</b>                | <b><u>\$ (194,427)</u></b> |

**(8) Subsequent Events**

The Corporation, like many issuers, has been affected by the recent turmoil in the municipal bond market, including the recent market failure of municipal ARS and downgrades in the insurer financial strength ratings of certain bond insurers. This has resulted in an adverse impact on the Corporation's ARS and FGIC insured VRDBs and also has the potential to diminish the long-term value of the Corporation's Municipal Bond Debt Service Reserve Fund Policy provided by FGIC.

Subsequent to March 31, 2008, \$43.48 million of \$50.78 million Series 2003A-7V bonds outstanding were tendered to and purchased by the bank under the applicable standby bond purchase agreement and have become Bank Bonds. Under the terms of the agreement with the bank, if the bonds are not successfully remarketed by the earlier of (i) the ninety-first day following the related purchase date by the bank and (ii) the last day of the bank commitment period under the agreement, the Bank Bonds become subject to accelerated amortization whereby they must be repaid over five years in equal semiannual payments; provided however if on that date a Bond Insurer Event of Default has occurred (which include a downgrade below investment grade by both S&P and Fitch) then those bonds are due on the next March 31 or September 30.

**NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION**  
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Notes to the Financial Statements  
Year Ended March 31, 2008

On May 20, 2008, the Corporation's Board approved the refunding or conversion of the following bonds:

| <u>Series</u>   | <u>Outstanding<br/>(thousands)</u> | <u>Current<br/>Interest<br/>Rate<br/>Mode</u> | <u>Bond<br/>Insurer</u> | <u>Board<br/>Approved<br/>Action</u> |
|-----------------|------------------------------------|---|-------------------------|--------------------------------------|
| 2003A-BV .....  | \$ 188,320                         | VRDB  | FGIC                    | Refunding                            |
| 2003A-3V .....  | 137,500                            | VRDB  | FGIC                    | Refunding                            |
| 2003A-7V .....  | 50,780                             | VRDB  | FGIC                    | Refunding                            |
| 2003A-9V .....  | 63,350                             | ARS   | FSA                     | Conversion                           |
| 2003A-10V ..... | 63,325                             | ARS   | FSA                     | Conversion                           |
| 2003A-11V ..... | 63,350                             | ARS   | FSA                     | Conversion                           |
| 2003A-12V ..... | 63,325                             | ARS   | FSA                     | Conversion                           |
| 2004A-AV .....  | 52,600                             | ARS   | CIFG                    | Refunding                            |
| 2004A-BV .....  | 52,625                             | ARS   | CIFG                    | Refunding                            |
| 2004A-CV .....  | 52,600                             | ARS   | CIFG                    | Refunding                            |
| 2004A-DV .....  | 52,625                             | ARS   | CIFG                    | Refunding                            |
|                 | <u>\$ 840,400</u>                  |   |                         |                                      |

On May 20, 2008, the Corporation's Board also approved the purchase of an additional \$170 million Municipal Bond Debt Service Reserve Fund Policy from FSA.

On June 6, 2008 and June 9, 2008, the Corporation issued notices to the holders of the Series 2003A-9V, Series 2003A-10V, Series 2003A-11V, and Series 2003A-12V bonds that the bonds must be tendered for purchase on June 25, 2008 for the Series 2003A-9V and Series 2003A-11V and on June 26, 2008 for the Series 2003A-10V and Series 2003A-12V, at which time the Corporation will reissue the bonds as Variable Rate Demand Bonds.



KPMG LLP  
515 Broadway  
Albany, NY 12207

**Report on Internal Control Over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements  
Performed in Accordance with *Government Auditing Standards***

The Board of Directors  
New York Local Government Assistance Corporation:

We have audited the financial statements of the governmental activities and each major fund of the New York Local Government Assistance Corporation (Corporation), a blended component unit of the State of New York, as of and for the year ended March 31, 2008, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated June 12, 2008. 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 Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors, management of the Corporation, the New York State Legislature, the New York State Office of the State Comptroller, the New York State Division of the Budget, and the New York State Authority Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

KPMG LLP

June 12, 2008