NEW YORK

LOCAL GOVERNMENT ASSISTANCE CORPORATION

(A Component Unit of the State of New York)

Basic Financial Statements

for fiscal year ended
March 31, 2009

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Year Ended March 31, 2009

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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 (the Corporation), a blended component unit of the State of New York, as of and for the year ended March 31, 2009, 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 an opinion 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 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of New York Local Government Assistance Corporation as of March 31, 2009, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2009 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, 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 considered in assessing the results of our audit.

Management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are 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.

Toski, Schaefer & Co. P.C.

Williamsville, New York
June 12, 2009

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, 2009.

FINANCIAL HIGHLIGHTS

- The Corporation's total bonds outstanding at year-end were $3.9 billion net of unamortized amounts, a decrease of $177 million from the prior year.
- The Corporation's variable interest rate bonds outstanding on March 31, 2009 comprised approximately 50 percent of all its outstanding bonds; however, the Corporation has effectively reduced this amount to approximately 19 percent through the use of interest rate exchange agreements.
- The Corporation, like many issuers, has been affected by the turmoil in the municipal bond market including the market failure of municipal Auction Rate Securities (ARS) in 2008, downgrades in the insurer financial strength ratings of certain financial guarantors (bond insurers) that began in 2008 and the lack of and increased cost of liquidity. This has affected the portion of the Corporation's debt portfolio in variable rate mode 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.
- During its fiscal year ended March 31, 2009, the Corporation entered into two separate refunding transactions, issuing $791.9 million par amount of bonds to current refund $802.1 million of existing bonds, reassigned and entered into new remarketing agreements, extended existing standby bond purchase agreements (SBPAs), and entered into new standby bond purchase agreements.
  - One sale, totaling $588.4 million, restructured the Corporation's CIFG-insured ARS to Variable Rate Demand Bonds (VRDBs) and FGIC-insured VRDBs to uninsured VRDBs thereby eliminating its exposure to FGIC and CIFG.
  - The other refunding transaction, totaling $203.55 million, refunded the Series 1998A Bonds for economics, producing net present value savings of approximately $12.6 million.
- The Corporation's net asset deficit as of March 31, 2009 of $3.4 billion decreased by $183 million. This decrease is the result of the repayment of bonds.
- During the year, the Corporation had revenues of $376.8 million, which included $371.7 million in funds drawn from appropriations from New York State.
- Total expenses of the Corporation on a full accrual basis were $193.6 million, which includes $177 million for interest on the Corporation's outstanding bonds.
- The Corporation's General Fund ended the year with an annual operating surplus of $496 thousand and a fund balance of $2.5 million.
- The Corporation's Debt Service Fund (the Fund) ended the year with an annual operating surplus of $12 million and a fund balance of $535.7 million. Assets in the Fund included $534 million in investments ($282.5 million was held by the Corporation's trustee and used to pay the debt service of $281.3 million that was payable on April 1, 2009), $602 thousand in cash, and $1.1 million in interest receivable. The annual operating excess and related fund balance increase in the Fund is attributable to the increase in funds drawn from State appropriations.
- The Corporation's $413.7 million combined capital reserve requirements were satisfied on an amortized cost basis by holding cash and investments with an amortized cost of $243.7 million and owning a surety bond that will pay up to $170 million through April 1, 2021 to pay debt service, if needed.
- 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.

- On April 30, 2009, the Corporation's Board authorized the restructure of certain variable rate bond series, which began on June 3, 2009. It is anticipated the restructuring will be completed during the month of June or July 2009. The proposed restructuring will assist in controlling support and interest costs by reducing the Corporation's exposure to the thinning and costly liquidity market and its exposure to the increased interest costs associated with FSA-insured 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, 2009.

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, 2009 and March 31, 2008
(Amounts in thousands)

		2009		2008
Assets:				
Cash and investments	$	539,822	$	526,755
Interest receivable		1,072		1,262
Unamortized bond issuance costs		11,000		15,498
Total assets		**551,894**		**543,515**
Liabilities:				
Liabilities due within one year		284,178		268,907
Liabilities due in more than one year		3,695,544		3,885,548
Total liabilities		**3,979,722**		**4,154,455**
Net Assets:				
Restricted for debt service		534,650		522,493
Unrestricted (deficit)		(3,962,478)		(4,133,433)
Total net assets (deficit)	**$**	**(3,427,828)**	**$**	**(3,610,940)**

The Corporation's combined net deficit decreased by $183 million from one year ago - from a deficit of $3.611 billion to a deficit of $3.428 billion. The decrease in the combined net deficit is primarily the result of a reduction of bonds payable, resulting from the 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 years ended March 31, 2009 and March 31, 2008
(Amounts in thousands)

		2009		2008
General Revenues:				
Appropriations from New York State	$	371,734	$	284,891
Investment income		5,027		23,416
Total revenues		**376,761**		**308,307**
Expenses:				
General and administrative		10,015		6,741
Cost of issuance for refunding		6,179		766
Rebate of investment earnings to the Federal government		352		1,690
Interest expense		177,103		166,103
Total expenses		**193,649**		**175,300**
Changes in net assets		**183,112**		**133,007**
Net assets (deficit), beginning of year		**(3,610,940)**		**(3,743,947)**
Net assets (deficit), end of year	**$**	**(3,427,828)**	**$**	**(3,610,940)**

THE CORPORATION'S FUNDS

At the close of the 2008-09 fiscal year, the Corporation reported a combined fund balance in its governmental funds (as presented in the balance sheet on page 8) of $538.2 million, an increase of $12.4 million or two percent over the prior year's combined fund balance of $525.8 million. Included in this year's total change in fund balance is an annual operating surplus of $496 thousand in the Corporation's General Fund and an annual surplus of $12 million in the Corporation's Debt Service Fund. The primary reason for the Debt Service Fund's annual surplus was the increase in funds drawn from State appropriations during fiscal year 2009. Funds drawn from State appropriations change annually based on interest rate assumptions and cash flow assumptions.

Corporation Revenues and Expenditures

During the year, the Corporation received $10.5 million in its General Fund from State appropriations. Additionally, the Corporation's General Fund earned $43 thousand in investment income. These revenues were used to pay $10 million in general and administrative expenditures. This resulted in an increase of $496 thousand in the General Fund balance. The increase in general and administrative expenditures is largely due to increased support costs relative to the Corporation's variable rate bonds. The Corporation also received $361.3 million in its Debt Service Fund from State appropriations for payment of debt service on its outstanding bonds and earned $4.9 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 $35.2 million and $13.8 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 $3.9 billion in bonds outstanding, net of unamortized deferred amounts. This represents a $177 million decrease from the prior year.

In addition to the debt noted above, the Corporation has $3 million in other long-term obligations which represent investment earnings payable for rebate of investment earnings to the Federal government, of which $249 thousand, while not due and payable at March 31, is expected to be paid within the next fiscal year.

As of March 31, 2009, 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 by the Fund during the State's 2008-09 fiscal year were approximately seven 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, 2009.

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, 15th Floor, Albany, New York 12236, by phone at (518) 474-4015 or by email at debtmanagement@osc.state.ny.us.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)
Governmental Funds Balance Sheet/Statement of Net Assets (Deficit)

March 31, 2009
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets (Deficit)
Assets:					
Cash and investments	$ 5,172	$ 534,650	$ 539,822	$ —	$ 539,822
Interest receivable	10	1,062	1,072	—	1,072
Unamortized bond issuance costs	—	—	—	11,000	11,000
Total assets	**$ 5,182**	**$ 535,712**	**$ 540,894**	**11,000**	**551,894**
Liabilities:					
Accounts payable	$ 2,676	$ —	$ 2,676	—	2,676
Accrued interest payable	—	—	—	68,568	68,568
Long-term liabilities:					
Due within one year	—	—	—	212,934	212,934
Due after one year :					
Bonds payable, net of amortized premiums and discounts	—	—	—	3,760,720	3,760,720
Rebate of investment earnings to the Federal government	—	—	—	2,722	2,722
Deferred loss on refunded bonds	—	—	—	(67,898)	(67,898)
Total liabilities	**2,676**	**—**	**2,676**	**3,977,046**	**3,979,722**
Fund Balances:					
Reserved for debt service	—	534,650	534,650	(534,650)	—
Unreserved	2,506	1,062	3,568	(3,568)	—
Total fund balances	**2,506**	**535,712**	**538,218**	**(538,218)**	**—**
Total liabilities and fund balances	**$ 5,182**	**$ 535,712**	**$ 540,894**		
Net assets (deficit):					
Restricted for debt service				534,650	534,650
Unrestricted (deficit)				(3,962,478)	(3,962,478)
Total net assets (deficit)				**$ (3,427,828)**	**$ (3,427,828)**

See accompanying notes to the basic financial statements.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Year Ended March 31, 2009
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 7)	Statement of Activities
General Revenues:					
Appropriations from New York State	$ 10,468	$ 361,266	$ 371,734	$ —	$ 371,734
Investment income	43	4,984	5,027	—	5,027
Total revenues	**10,511**	**366,250**	**376,761**	**—**	**376,761**
Expenditures/Expenses:					
General and administrative	10,015	—	10,015	—	10,015
Cost of issuance for refundings	—	1,682	1,682	4,497	6,179
Rebate of investment earnings to the Federal government	—	495	495	(143)	352
Debt service					
Principal	—	200,045	200,045	(200,045)	—
Interest	—	153,846	153,846	23,257	177,103
Total expenditures/expenses	**10,015**	**356,068**	**366,083**	**(172,434)**	**193,649**
Excess (deficiency) of revenues over expenditures	**496**	**10,182**	**10,678**	**172,434**	**—**
Other financing sources and uses					
Issuance of refunding bonds	—	791,875	791,875	(791,875)	—
Premiums on refunding bonds, net of discounts	—	17,299	17,299	(17,299)	—
Payments to refunding bond escrow agent	—	(807,395)	(807,395)	807,395	—
Net other financing sources and uses	—	1,779	1,779	(1,779)	—
Net change in fund balance	**496**	**11,961**	**12,457**	**(10,678)**	**—**
Change in net assets	**—**	**—**	**—**	**183,112**	**183,112**
Fund balances/net assets (deficit):					
Beginning of year	2,010	523,751	525,761	(4,136,701)	(3,610,940)
End of year	**$ 2,506**	**$ 535,712**	**$ 538,218**	**$ (3,966,046)**	**$ (3,427,828)**

See accompanying notes to the basic financial statements.

(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 2009 fiscal years and the State does not project the need for a Spring Borrowing in its 2010 fiscal year. The fiscal year ended March 31, 2009 was the eighteenth 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.

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. 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.

(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 2009). 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 2009, the Corporation certified the release of the fifth 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.

(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, 2009 (amounts in thousands):

			Investment Maturities	
Investment Type		**Reported Amount**	**Less than 1 Year**	**1-5 Years**
Repurchase agreements.......	$	353,562	$ 353,562	$ -
U.S. Treasury Notes		185,285	123,732	61,553
Totals	**$**	**538,847**	**$ 477,294**	**$ 61,553**

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. Reflecting market conditions, the Corporation experienced a net decrease in the fair value of its investments during the year of $2.8 million which is a component of 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 $534.7 million of total cash and investments is $282.5 million in investments that was transferred by the Corporation's trustee to a separate account on March 31, 2009 in order to meet the Corporation's April 1, 2009 debt service payment of $281.3 million. Although, historically, cash rather than investments has been transferred, it was financially beneficial at March 31, 2009 to transfer investments rather than cash. 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 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.

During the fiscal year, the Corporation's Board authorized:

- The issuance of fixed rate refunding bonds through a competitive sale in a principal amount not to exceed $275 million to refund all or a portion of the Series 1998A Corporation bonds currently callable. On August 21, 2008, the Corporation issued $203.550 million Series 2008C Refunding Bonds Senior Lien to refund all of the Series 1998A Bonds. The net proceeds of the Series 2008C Refunding Bonds (Senior Lien) were used to call and redeem $215.095 million in previously issued senior lien bonds. The refunding resulted in net cash flow savings to the Corporation and the State over the life of the bonds of approximately $15 million with a net present value of approximately $12.6 million;

- The refunding of $376.6 million of the Corporation's FGIC-insured VRDBs to uninsured VRDBs, $210.5 million of the Corporation's CIFG-insured ARS to uninsured VRDBs, and the conversion of $253.4 million of the Corporation's FSA-insured ARS to FSA-insured VRDBs to eliminate the Corporation's exposure to weaker bond insurers and eliminate its exposure to ARS. A portion of this restructuring, removal of the insurance provided by FGIC and CIFG from all variable interest rate bonds was completed through the issuance of $399.7 million of the Series 2008B-BV2, Series 2008B-AV, Series 200B-BV, Series 2008B-CV and Series 2008B-DV variable interest rate refunding bonds (Senior Lien) and $188.7 million of Series 2008B-3V and Series 2008B-7V variable interest rate refunding bonds (Subordinate Lien) on June 26, 2008. The Corporation did not effectuate the authorized conversion of $253.4 million of FSA-insured ARS to FSA-insured VRDBs since FSA's market strength had eroded, therefore, these bonds remain in ARS mode;

- And executed the reassignment of certain existing remarketing agreements with UBS Securities LLC ("UBS") to Goldman, Sachs & Co. to remarket the Series 1994B variable interest rate bonds and JPMorgan Securities Inc., to remarket the Series 1995F variable interest rate bonds as UBS exited that component of the public finance market; and

- The short-term extension of certain existing SBPAs that expired on February 20, 2009: Bank of Nova Scotia relative to LGAC's Series 2003A-5V bonds; KBC Bank, NV relative to LGAC's Series 2003A-6V bonds; and JPMorgan Chase Bank NA relative to LGAC's Series 2003A-8V bonds. These extensions were effectuated extending the terms to May 20, 2009, August 20, 2009 and August 20, 2009, respectively. This was done to provide time for the Corporation to analyze and plan a potential restructure of these bonds to remove the FSA insurance and mitigate the effects of diminished availability, stability and increasing costs of liquidity facilities on its variable rate bonds.

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 ($802.1 million) and their reacquisition price ($811.1 million). This loss of $9 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 11 years and 17 years, ending April 1, 2018 and April 1, 2024, respectively.

As of March 31, 2009, the Corporation had approximately $2 billion of variable interest rate debt in twenty-three series of bonds outstanding as follows (rates include remarketing agent, broker-dealer and liquidity facility fees):

					Liquidity Support		
Series	**Outstanding (thousands)**	**Bond Insurer**	**Interest Rate at March 31, 2009**	**Current Interest Rate Mode**	**Type of Liquidity Support***	**Expiration Date***	**Bank Optional Termination Date***
1993A..........	$ 198,700	None	.750%	Weekly	LOC	10/31/2015	12/31/2010
1994B..........	111,800	None	1.115%	Weekly	LOC	10/31/2015	12/31/2010
1995B..........	75,100	None	.620%	Weekly	LOC	7/1/2010	N/A
1995C..........	74,500	None	.620%	Weekly	LOC	12/31/2015	7/1/2010
1995D..........	74,500	None	.680%	Weekly	LOC	7/1/2010	N/A
1995E..........	74,600	None	.730%	Weekly	LOC	12/31/2015	7/1/2010
1995F..........	74,700	None	1.100%	Weekly	LOC	7/1/2010	N/A
1995G..........	74,800	None	.730%	Weekly	LOC	7/1/2010	N/A
2003A-4V	137,500	FSA	2.340%	Weekly	SBPA	12/31/2015	12/31/2010
2003A-5V	91,665	FSA	2.950%	Weekly	SBPA	5/20/2009	N/A
2003A-6V	100,000	FSA	2.800%	Weekly	SBPA	8/20/2009	N/A
2003A-8V	40,885	FSA	2.400%	Weekly	SBPA	8/20/2009	N/A
2003A-9V	63,350	FSA	.388%	Auction	None	N/A	N/A
2003A-10V ..	63,325	FSA	.488%	Auction	None	N/A	N/A
2003A-11V ..	63,350	FSA	.388%	Auction	None	N/A	N/A
2003A-12V ..	63,325	FSA	.488%	Auction	None	N/A	N/A
2008B-AV....	52,730	None	.820%	Weekly	SBPA	6/25/09	N/A
2008B-BV....	52,755	None	.820%	Weekly	SBPA	6/25/09	N/A
2008B-CV....	52,730	None	.720%	Weekly	SBPA	6/25/09	N/A
2008B-DV	52,755	None	.720%	Weekly	SBPA	6/25/09	N/A
2008B-3V	137,765	None	.815%	Weekly	SBPA	6/25/09	N/A
2008B-7V	50,885	None	.865%	Weekly	SBPA	6/25/09	N/A
2008B-BV2..	188,705	None	3.790%	Weekly	SBPA	6/26/2013	N/A
Total	**$ 1,970,425**						

* 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. Pursuant to each bond series' documents, the mode of interest of each of the variable rate bonds may be changed by the Corporation. 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. Certain of the letters of credit are subject to early termination at the option of the banks at dates shown in the preceding table. The amount available under the SBPAs supporting the Series 2003A-4V through Series 2003A-8V is equal to the outstanding principal amount and up to 35 days interest at an annual rate of 12 percent. For the remaining bonds listed with SBPAs, the amount available under the SBPA is equal to the outstanding principal amount and up to 34 days interest at an annual rate of 12 percent. The Series 2003A-9V through Series 2003A-12V bonds are currently in the auction rate mode and 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 certain of its variable rate bonds. The terms and conditions of the SBPAs related to such Bonds provide in part that, (i) it is an Event of Default under each such SBPAs 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 SPBAs by either Fitch, S&P, or Moody's, (ii) it is an Event of Default under each such SBPA 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 SBPA. The SBPAs further provide 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.

Each of the SBPAs 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. At March 31, 2009, FSA provided a policy of municipal bond insurance for all of the Corporation's insured variable rate bonds. FSA ratings on March 31, 2009 are all above investment grade, specifically, FSA was rated Aa3 by Moody's, AAA by S&P and AA+ by Fitch.

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 $353.8

million representing 2009 debt service payments is comprised of $200 million in principal and $153.8 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, 2009, the Senior Lien Capital Reserve Account requirement was met by a surety bond of $170 million, expiring on April 1, 2021 and investments with an amortized cost of $193.8 million and a fair value of $196.8 million. At March 31, 2009, the Subordinate Lien Capital Reserve Account requirement was met with investments with an amortized cost of $50 million and a fair market value of $51.1 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 $1.97 billion in bonds that were issued as variable rate bonds in 2003 and 2008.

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

Fiscal Year	Principal	Interest	Net Swap Amount	Total
2010	$ 212,685	$ 117,568	$ 34,715	$ 364,968
2011	218,165	109,160	34,723	362,048
2012	228,100	99,920	34,714	362,734
2013	239,090	89,484	34,730	363,304
2014	252,920	79,147	34,373	366,440
2015-2019	1,444,415	267,108	142,635	1,854,158
2020-2024	1,220,235	50,476	41,028	1,311,739
2025-2029	102,905	694	391	103,990
Totals	**$ 3,918,515**	**$ 813,557**	**$ 357,309**	**$ 5,089,381**

Future debt service is calculated using rates in effect at March 31, 2009 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.

(4) Interest Rate Exchange Agreements (Swap Agreements)

Objective of the Swap Agreements

As a means to lower 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 these 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.

In June 2008, without a change in the swap agreement rates, the Series 2003A-BV, Series 2003A-3V and Series 2003A-7V bonds were refunded with Series 2008B-BV2, Series 2008B-3V and Series 2008B-7V bonds to which the 2003 swaps now correspond. In addition, the Series 2004A-AV, Series 2004A-BV, Series 2004A-CV and Series 2004A-DV bonds were refunded with the Series 2008B-AV, Series 2008B-BV, Series 2008B-CV and Series 2008B-DV bonds to which the 2004 swaps now correspond.

Terms of the Interest Rate Swap Agreements

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

Terms	2003 Swap	2004 Swap
Corresponding bond series	2003A-4V to 2003A-6V, 2003A-8V to 2003A-12V, 2008B-BV2, 2008B-3V, and 2008B-7V	2008B-AV to 2008B-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-Month LIBOR	65% of One-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.

As of March 31, 2009, average rates were as follows:

	Terms	Synthetic Rates 2003 Swap	Synthetic Rates 2004 Swap
Interest rate swap agreement:			
Weighted average fixed payment to counterparty	Fixed	3.19%	3.21%
Less variable payment from counterparty	65% of One-Month LIBOR	(.35%)	(.32%)
Net interest rate swap payments		**2.84%**	**2.89%**
Weighted average variable rate bond coupon payments (includes support costs)	Remarketing/Auction Agent	1.95%	.77%
Approximate synthetic interest rate on bonds		**4.79%**	**3.66%**

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, 2009 equal to their termination cost which would have required the

Corporation to pay $139.7 million to its swap counterparties at March 31, 2009 had it terminated the swaps at that date. The fair value of the swaps fluctuate with the change in the One-Month LIBOR rate, the index upon which the amount of the payments the Corporation is due each month from its swap counterparties is based. 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.

Counteryparty and Credit Risk of the Interest Rate Swap Agreements

In concert with the Corporation's statute and guidelines, the swap agreements require that each counterparty has 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, 2009, the Corporation was exposed to credit risk equal to the fair value of the swap because the swaps had a positive fair value. Since October 13, 2008, of the five counterparties that the Corporation has entered into interest rate swap agreements with, one, Morgan Stanley, has ratings, A2/A/A at March 31, 2009, that do not meet the requirement of a rating from at least one agency within the two highest investment grade categories. Therefore, if the swap valuation was such that a termination payment was due the Corporation, Morgan Stanley would have to post collateral. The Corporation monitors the credit position of its counterparties daily in order to be prepared to take appropriate action.

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. The average actual synthetic rate at March 31, 2009 is reflected in the table on page 19.

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.

(5) Changes in Long-Term Liabilities

Long-term liability activity for the year ended March 31, 2009 was as follows (amounts in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Bonds payable	$ 4,128,830	$ 791,875	$ 1,002,190	$ 3,918,515	$ 212,685
Unamortized premium	65,222	17,299	13,234	69,287	-
Unaccreted discount on bonds	(19,700)	-	(5,303)	(14,397)	-
Deferred loss on advance refunding of bonds	(91,378)	(8,998)	(32,478)	(67,898)	-
Net bonds payable	**4,082,974**	**800,176**	**977,643**	**3,905,507**	**212,685**
Other Liability:					
Rebate of investment earnings to the Federal government	3,114	352	495	2,971	249
Long-term liability activity	**$ 4,086,088**	**$ 800,528**	**$ 978,138**	**$ 3,908,478**	**$ 212,934**

(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, 2009 were (amounts in thousands):

Bonds payable, net	$	3,905,507
Accrued interest on bonds payable		68,568
Unamortized bond issuance costs		(11,000)
Rebate of investment earnings to the Federal government not due and payable at year-end		2,971
Net adjustment	**$**	**3,966,046**

(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 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	$	(200,045)
Adjustment for expense not due at year-end		(143)
Amortization of loss on refunding of bonds		32,478
Amortization of premium on refunding of bonds		(13,234)
Amortization of issuance costs on refunding of bonds		4,497
Reserve release used for refunding		(3,747)
Net adjustment to arrive at interest expense		7,760
Net adjustment to expenditures	**$**	**(172,434)**

(8) Subsequent Events

On April 30, 2009, the Corporation's Board authorized the restructure of certain variable rate bond series (2003A-5V, 2003A-6V, 2003A-8V, 2008B-CV and 2008B-DV). All of the bonds have expiring liquidity facilities and certain of the bonds (Series 2003A-5V, 2003A-6V, and 2003A-8V) are insured by a policy of municipal bond insurance from FSA. On June 10, 2009, the Series 2003A-5V, 2003A-6V, 2008B-CV and 2008B-DV bonds were converted to fixed rate bonds and the municipal bond insurance policy was removed from the Series 2003A-5V and Series 2003A-6V bonds. In addition, as part of the conversion of the bonds to the fixed rate mode, the swaps associated with these variable rate bonds were terminated on June 3, 2009. It is anticipated that the FSA municipal bond insurance policy will be removed from the Series 2003A-8V bonds and the series will be remarketed as uninsured variable rate demand bonds during the month of June or July 2009. Additionally, it is anticipated that current SBPAs relative to the Series 2003A-8V, 2008B-3V, 2008B-7V, 2008B-AV and 2008B-BV bonds will all be extended for a period of 364 days. When complete, the proposed restructuring will assist in controlling support and interest costs by reducing the Corporation's exposure to the thinning and costly liquidity market and its exposure to the increased interest costs associated with FSA-insured bonds.

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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 (the Corporation), a blended component unit of the State of New York, as of and for the year ended March 31, 2009, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated June 12, 2009. 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 accounting principles generally accepted in the United States of America 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.

Toski, Schaefer & Co., P.C.

Williamsville, New York
June 12, 2009