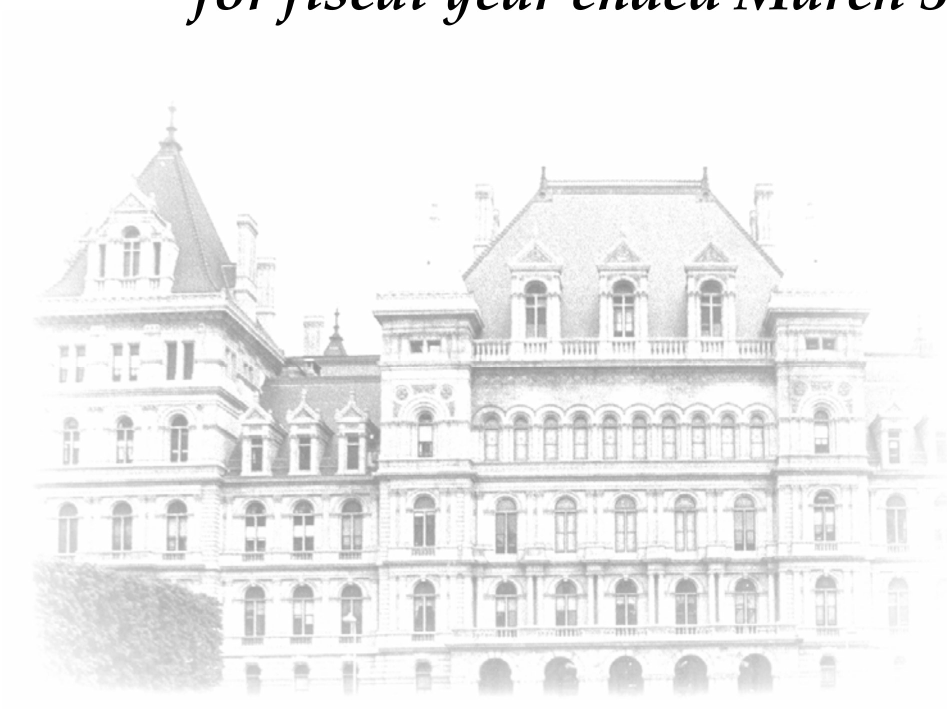
NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

(A Component Unit of the State of New York)

Basic Financial Statements

for fiscal year ended March 31, 2007



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(A Component Unit of the State of New York)

Basic Financial Statements

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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, 2007, 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, 2007, 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 July 25, 2007 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 3-7 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

July 25, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007.

FINANCIAL HIGHLIGHTS

- The Corporation's total bonds outstanding at year-end was $4.3 billion net of unamortized amounts, a decrease of $121 million from the prior year.
- The Corporation's outstanding variable interest rate bonds on March 31, 2007 comprised 47 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's net asset deficit decreased by $232 million as a result of this year's operations. The decrease in the net asset deficit is the result of the repayment of bonds from State appropriations and an increase in the Debt Service Fund balance which will be used to pay debt service in the next fiscal year.
- During the year, the Corporation had revenues of $438.4 million, which included $424.8 million in appropriations from New York State.
- Total expenses of the Corporation on a full accrual basis were $206.4 million, which includes $199.8 million for interest on the Corporation's outstanding bonds.
- The Corporation's General Fund ended the year with an annual operating deficit and a fund balance of $233 thousand and $2.6 million, respectively.
- The Corporation's Debt Service Fund ended the year with an annual operating surplus of $110.3 million and a fund balance of $581.8 million. Assets of the Fund included $257.1 million in cash held by the Corporation's trustee that will be used to pay debt service that is due and payable on April 2, 2007, $323.3 million in investments, and $1.4 million in interest receivable. The annual operating surplus and related fund balance increase in the Debt Service Fund is attributable to the increase in State appropriations received in March 2007, which will be used by the corporation to make debt service payments in its subsequent fiscal year which begins April 1, 2007.
- The Corporation's $418.8 million combined capital reserve requirement was satisfied with an amortized cost basis by holding cash and investments with an amortized cost of $248.9 million and owning a surety bond that will pay up to $170 million through 2021 if needed to pay debt service.
- The Corporation's bond ratings were upgraded by one of the three major rating agencies during its 2006-07 fiscal year. On February 13, 2007, Fitch Ratings upgraded the Corporation's bonds to AA- with a stable outlook from the previous rating of A+. On May 11, 2007, Fitch Ratings revised its outlook on the Corporation's bonds from stable to positive. With these actions, all three major rating agencies have upgraded the Corporation's bond ratings within the last two fiscal years.

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) found on page 8. The final two financial statements are the Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities found 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 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 adjustment 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 as they become both measurable and available and are expected to be collected within the next fiscal year; expenditures are recorded in the period the liability is incurred and expected to be paid within the next fiscal year. The governmental fund statements provide a detailed short-term view of the Corporation's general government operating requirements for the year ended March 31, 2007.

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 for the current and prior year:

Table 1
Net Assets (Deficit) as of March 31, 2007
(Amounts in thousands)

	2007	2006
Assets:		
Cash and investments	$ 584,526	$ 475,055
Interest receivable	1,379	1,030
Unamortized bond issuance costs	13,549	14,317
Total assets	**599,454**	**490,402**
Liabilities:		
Liabilities due within one year	258,633	222,220
Liabilities due in more than one year	4,084,768	4,244,121
Total liabilities	**4,343,401**	**4,466,341**
Net Assets:		
Restricted for debt service	580,395	470,466
Unrestricted (deficit)	(4,324,342)	(4,446,405)
Total net assets (deficit)	**$ (3,743,947)**	**$ (3,975,939)**

The Corporation's combined net deficit decreased by $232 million from one year ago - from a deficit of $3.976 billion to a deficit of $3.744 billion. The decrease in the combined net deficit is primarily the result of repayment of Corporation debt and an increase in the balance of the Corporation's cash and investments which will be used to pay debt service to the Corporation's subsequent fiscal year, which begins April 1, 2007.

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

Table 2
Changes in Net Assets for the fiscal year ended March 31, 2007
(Amounts in thousands)

		2007		2006
General Revenues:				
Appropriations from New York State	$	424,770	$	321,265
Investment income		13,612		7,412
Total revenues		**438,382**		**328,677**
Expenses:				
General and administrative		6,403		7,609
Rebate of investment earnings to the Federal government		181		-
Interest expense		199,806		191,119
Total expenses		**206,390**		**198,728**
Changes in net assets		**231,992**		**129,949**
Net assets (deficit), beginning of year		**(3,975,939)**		**(4,105,888)**
Net assets (deficit), end of year	**$**	**(3,743,947)**	**$**	**(3,975,939)**

THE CORPORATION'S FUNDS

At the close of the 2006-07 fiscal year, the Corporation reported a combined fund balance in its governmental funds (as presented in the balance sheet on page 8) of $584.3 million, an increase of $110 million or 23.2 percent over the prior year's combined fund balance of $474.3 million. Included in this year's total change in fund balance is an annual operating deficit of $233 thousand in the Corporation's General Fund and an annual operating surplus of $110.3 million in the Corporation's Debt Service Fund. The primary reason for the Debt Service Fund's annual surplus was the increase in State appropriations received during fiscal year 2007 to make debt service payments in the subsequent fiscal year which begins April 1, 2007.

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 $170 thousand in investment income. These revenues, along with $233 thousand of the General Fund balance, were used to pay $6.4 million in general and administrative expenditures. The Corporation also received $418.8 million in its Debt Service Fund from State appropriations for payment of debt service on its outstanding bonds and earned $13.4 million in investment income on its Capital Reserve Account and Debt Service Fund. The Corporation also paid and received $31.8 million and $34.2 million, respectively, on its interest rate exchange agreements. Both these payments and receipts were reported within the total amount reported as debt service interest.

Debt

The Corporation is authorized to issue up to $4.7 billion of bond 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 $4.3 billion in bonds outstanding, net of unamortized deferred amounts. This represents a $121 million decrease from the prior year.

In addition to the debt noted above, the Corporation has $1.4 million in other long-term obligations which represents investment earnings payable for rebate of investment earnings to the Federal government.

As of March 31, 2007, 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 1 percent rate of taxation. Sales tax receipts received during the State's 2006-07 fiscal year were 6.5 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, 2007.

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. 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
Governmental Funds Balance Sheet/Statement of Net Assets (Deficit)

March 31, 2007
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets (deficit)
Assets:					
Cash and investments	$ 4,131	$ 580,395	$ 584,526	$ —	$ 584,526
Interest receivable	10	1,369	1,379	—	1,379
Unamortized bond issuance costs	—	—	—	13,549	13,549
Total assets	**$ 4,141**	**$ 581,764**	**$ 585,905**	**13,549**	**599,454**
Liabilities:					
Accounts payable	$ 1,518	$ —	$ 1,518	—	1,518
Accrued interest payable	—	—	—	75,035	75,035
Long-term liabilities:					
Due within one year	—	—	—	182,080	182,080
Due after one year :					
Bonds payable, net of amortized premiums and discounts	—	—	—	4,154,207	4,154,207
Rebate of investment earnings to the Federal government	—	—	—	1,424	1,424
Deferred loss on refunded bonds	—	—	—	(70,863)	(70,863)
Total liabilities	**1,518**	**—**	**1,518**	**4,341,883**	**4,343,401**
Fund Balances:					
Reserved for debt service	—	580,395	580,395	(580,395)	—
Unreserved	2,623	1,369	3,992	(3,992)	—
Total fund balances	**2,623**	**581,764**	**584,387**	**(584,387)**	**—**
Total liabilities and fund balances	**$ 4,141**	**$ 581,764**	**$ 585,905**		
Net assets (deficit):					
Restricted for debt service				580,395	580,395
Unrestricted (deficit)				(4,324,342)	(4,324,342)
Total net assets (deficit)				**$ (3,743,947)**	**$ (3,743,947)**

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, 2007
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 7)	Statement of Activities
General Revenues:					
Appropriations from New York State	$ 6,000	$ 418,770	$ 424,770	$ —	$ 424,770
Investment income	170	13,442	13,612	—	13,612
Total revenues	**6,170**	**432,212**	**438,382**	**—**	**438,382**
Expenditures/Expenses:					
General and administrative	6,403	—	6,403	—	6,403
Rebate of investment earnings to the Federal government	—	—	—	181	181
Debt service					
Principal	—	143,515	143,515	(143,515)	—
Interest	—	178,420	178,420	21,386	199,806
Total expenditures/expenses	**6,403**	**321,935**	**328,338**	**(121,948)**	**206,390**
Excess (deficiency) of revenues over expenditures	**(233)**	**110,277**	**110,044**	**121,948**	**—**
Net change in fund balance	**(233)**	**110,277**	**110,044**	**(110,044)**	**—**
Change in net assets	**—**	**—**	**—**	**231,992**	**231,992**
Fund balances/net assets (deficit):					
Beginning of year	2,856	471,487	474,343	(4,450,282)	(3,975,939)
End of year	**$ 2,623**	**$ 581,764**	**$ 584,387**	**$ (4,328,334)**	**$ (3,743,947)**

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 2007 fiscal years and the State does not project the need for a Spring Borrowing in its 2008 fiscal year. The fiscal year ended March 31, 2007 was the sixteenth 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 1 cent of the State's 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 conformity 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 payment is due, 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 by 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 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 $2.5 billion during 2007). 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 2007, the Corporation certified the release of the third 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 make clear 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 funds: direct bond obligations of the United States, direct and general obligations of New York State, bank certificates of deposit insured by the FDIC, any bank or trust company repurchase agreement secured by one or more of the above securities and general obligation bonds and notes of any state maintaining the highest rating from the major rating services. 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, 2007 (amounts in thousands):

			Investment Maturities	
Investment Type		**Reported Amount**	**Less than 1 Year**	**1-5 Years**
Repurchase agreements	$	141,613	$ 141,613	$ -
U.S. Treasury Notes		185,780	59,543	126,237
Totals	**$**	**327,393**	**$ 201,156**	**$ 126,237**

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 cost. The Corporation experienced a net increase in the fair value of its investments during the year of $3.1 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 $580.4 million of total cash and investment is $257.1 million in cash that was transferred by the Corporation's trustee to a separate account on March 30, 2007 in order to meet the Corporation's April 2, 2007 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 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, 2007 the Corporation had $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):

				Liquidity Support		
Series	**Outstanding (thousands)**	**Interest Rate at March 31, 2007**	**Current Interest Rate Mode**	**Type of Liquidity Support ***	**Expiration Date**	**Bank Optional Termination Date**
1993A	$ 216,000	4.030%	Weekly	LOC	10/31/2015	12/31/2010
1994B...........	120,600	3.990%	Weekly	LOC	10/31/2015	12/31/2010
1995B...........	79,800	3.980%	Weekly	LOC	7/1/2010	N/A
1995C...........	79,400	3.980%	Weekly	LOC	12/31/2015	7/1/2010
1995D	79,400	3.980%	Weekly	LOC	7/1/2010	N/A
1995E...........	79,500	4.030%	Weekly	LOC	12/31/2015	7/1/2010
1995F	79,500	3.970%	Weekly	LOC	7/1/2010	N/A
1995G	79,700	3.970%	Weekly	LOC	7/1/2010	N/A
2003A-BV ...	188,320	3.765%	Weekly	SBPA	2/20/2009	N/A
2003A-3V	137,500	3.950%	Weekly	SBPA	12/1/2015	2/1/2010
2003A-4V	137,500	3.970%	Weekly	SBPA	12/31/2015	12/31/2010
2003A-5V	91,665	3.775%	Weekly	SBPA	2/20/2009	N/A
2003A-6V	100,000	3.780%	Weekly	SBPA	2/20/2009	N/A
2003A-7V	50,780	3.765%	Weekly	SBPA	2/20/2009	N/A
2003A-8V	40,885	3.795%	Weekly	SBPA	2/20/2009	N/A
2003A-9V	63,350	3.650%	Auction	None	N/A	N/A
2003A-10V ..	63,325	3.650%	Auction	None	N/A	N/A
2003A-11V ..	63,350	3.450%	Auction	None	N/A	N/A
2003A-12V ..	63,325	3.500%	Auction	None	N/A	N/A
2004A-AV ...	52,600	3.550%	Auction	None	N/A	N/A
2004A-BV ...	52,625	3.450%	Auction	None	N/A	N/A
2004A-CV ...	52,600	3.600%	Auction	None	N/A	N/A
2004A-DV ...	52,625	3.650%	Auction	None	N/A	N/A
Total	**$ 2,024,350**					

* 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 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 bank 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 mode.

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 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 $321.9 million representing 2007 debt service payments is comprised of $143.5 million in principal and $178.4 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, 2007, 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 $199.0 million and a fair value of $198.6 million. At March 31, 2007, the Subordinate Lien Capital Reserve Account requirement was met with investments with an amortized cost of $49.9 million and a fair value of $49.8 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 $1.573 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.

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
2008	$	182,080	$	183,461	$	(3,575)	$	361,966
2009		200,045		176,553		(3,114)		373,484
2010		211,095		168,356		(3,192)		376,259
2011		220,770		158,850		(3,287)		376,333
2012		230,970		148,287		(3,386)		375,871
2013-2017..........		1,334,775		564,806		(11,866)		1,887,715
2018-2022..........		1,619,695		237,674		4,391		1,861,760
2023-2026..........		343,610		20,654		1,834		366,098
Totals..............	**$**	**4,343,040**		**1,658,641**		**(22,195)**		**5,979,486**

Future debt service is calculated using rates in effect at March 31, 2007 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). At March 31, 2007 this index was in a favorable range for the Corporation, but subject to fluctuations. To the extent the index fluctuates above or below the 65 percent of LIBOR, the Corporation's net debt service will be more or less, respectively, than amounts shown above.

The Corporation 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 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:

Terms	2003 Bond Series	2004 Bond Series
Corresponding bond series	2003A-BV to 2003A-12V	2004A-AV to 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 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, 2007 average rates were as follows:

	Terms	Bond Series Rates 2003	2004
Interest rate swap agreement:			
Effective fixed payment to counterparty	Fixed	3.57%	3.46%
Less variable payment from counterparty	65% of LIBOR	(3.46%)	(3.46%)
Net interest rate swap payments		**.11%**	**0%**
Average variable rate bond coupon payments	Remarketing/Auction Agent	3.77%	3.56%
Approximate synthetic interest rate on Bonds		**3.88%**	**3.56%**

Fair Value of the Interest Rate Swap Agreements

Due to the fact that interest rates have changed since execution of the swaps, the swaps have an estimated fair value equal to their termination cost of $18.3 million at March 31, 2007. The swaps estimated fair value was countered by an increase in total interest payments required under the variable rate bonds. Because the interest the Corporation pays on variable rate bonds adjusts with changing interest rates, the bonds do not have a corresponding fair value increase. 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, 2007, 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- by Fitch Ratings, AA- by Standard & Poor's, and Aa3 by Moody's Investors Service as of March 31, 2007.

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.

(5) Changes in Long-Term Liabilities

Long-term liability activity for the year ended March 31, 2007 was as follows (amounts in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due within One Year
Bonds payable	$ 4,486,555	$ -	$ 143,515	$ 4,343,040	$ 182,080
Unamortized premium	22,811	-	1,201	21,610	-
Unaccreted discount on bonds	(48,117)	-	(19,754)	(28,363)	-
Deferred loss on advance refunding of bonds	(74,856)	-	(3,993)	(70,863)	-
Net bonds payable	**4,386,393**	**-**	**120,969**	**4,265,424**	**182,080**
Other Liability:					
Rebate of investment earnings to the Federal government	1,243	181	-	1,424	-
Long-term liability activity	**$ 4,387,636**	**$ 181**	**$ 120,969**	**$ 4,266,848**	**$ 182,080**

(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, 2007 were (amounts in thousands):

Bonds payable, net	$ 4,265,424
Accrued Interest on bonds payable	75,035
Unamortized bond issuance costs	(13,549)
Rebate of investment earnings to the Federal government not due and payable at year-end	1,424
Net adjustment	**$ 4,328,334**

(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 to arrive at the statement of activities are as follows (amounts in thousands):

Adjustment to expenditures		
Repayment of bond principal:		
To bondholders for repayment of debt	$	(143,515)
Adjustment for expense not due at year-end		181
Amortization of loss on refunding of bonds		3,993
Amortization of premium on refunding of bonds		(1,201)
Amortization of issue costs on refunding of bonds		769
Net adjustment to arrive at interest expense		17,825
Net adjustment to expenditures	**$**	**(121,948)**

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, 2007, which collectively comprise the Corporation's basic financial statements and have issued our report thereon dated July 25, 2007. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

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 over financial reporting. We consider the finding 2007-2 described in the accompanying schedule of findings and responses to be a significant deficiency in internal control over financial reporting.

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 and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2007-1.

The Corporation's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Corporation's responses and, accordingly, we express no opinion on them.

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

July 25, 2007

Noncompliance with the Public Authorities Accountability Act of 2005

Reference: 2007-1

Finding

On January 13, 2006, former Governor George Pataki signed the Public Authorities Accountability Act of 2005 (the Act) which makes changes regarding the operation and governance of New York State public authorities, which includes the New York Local Government Assistance Corporation (the Corporation). Provisions of the Act, which impact the Corporation amongst others are as follows:

- The Act increased the number of Corporation Board members from three to seven, with the additional four board members being appointed by the Governor and whose terms expire at the end of the term of the Governor.

- Each financial report required to be submitted pursuant to Section 2800 of the Public Authorities Law must be approved by the board and shall certify in writing by the Executive Director and Chief Financial Officer (Treasurer) of the Corporation that based on their knowledge the information is accurate and complete, does not contain untrue statements or omits any material fact, and fairly presents in all material respects the financial condition and results of operations of the Corporation.

- The Board of Directors of the Corporation is now required to adopt a code of ethics, adopt a defense and indemnification policy, as well as conduct other duties expected of a governing board. In addition, individuals appointed to the Board of the Corporation are required to participate in State approved training regarding their legal, fiduciary, financial and ethical responsibilities as directors of the Corporation within one year of appointment to the Board.

- The Corporation's board is now required to establish an audit committee comprised of independent members who to the extent practicable are familiar with corporate financial and accounting practices. The audit committee will recommend to the Board the hiring of the Corporation's independent auditing firm as well as establish the compensation paid to the firm and provide direct oversight of the performance of the firm.

- The Corporation's board is also now required to establish a governance committee to be comprised of independent members whose responsibilities will be to keep the members of the Board informed of current best governance practices, review corporate governance trends, update the Corporation's governance principals and to advise appointing authorities on the skills and experiences required of potential board members.

The Act is applicable for the Corporation commencing for its fiscal year which started April 1, 2006.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Schedule of Findings and Responses

Year ended March 31, 2007

For the fiscal year ended March 31, 2007 the Corporation did not comply with the Public Authorities Accountability Act of 2005 as follows:

- Four additional members of the Board of Directors had not been timely appointed through December 2006 and five additional members had not been appointed through March 2007.
- The Corporation's Board of Directors did not create independent audit or governance committees as required by the Act.
- The Board of Directors of the Corporation had not adopted a code of ethics nor set policies and procedures for providing Board members with required training. However, Board members and Corporation staff by virtue of their State service were bound by the applicable provisions of the State's Public Officers Law setting a Code of Ethics for the Corporation.
- The Corporation does not have an annual report that outlines its code of ethics and an assessment of the effectiveness of its internal control structure and procedures.
- The Corporation did not certify in writing by the Executive Director and Chief Financial Officer (Treasurer) of the Corporation that based on their knowledge the financial report information is accurate and complete, does not contain untrue statements, omit any material fact, and fairly presents in all material respects the financial condition and results of operations of the Corporation.

The Act was created in order to improve financial reporting practices of public authorities and as a result noncompliance with the above items could have a direct and material effect on the determination of financial statement amounts.

Management's Response

As noted above, certain provision of the Public Authorities Accountability Act (the Act) became effective for the Corporation's fiscal year ending March 31, 2007, for most of which a majority of the positions on the Corporation's Board of Directors were vacant due to a statutory expansion of the Board of Directors by the Act and the expiration of the terms of all appointed members with the conclusion of the term of the Governor who appointed them on December 31, 2006. Due to the timing of both the expansion of the Board of Directors and the conclusion of the terms of those appointed, a majority of the positions on Corporation's Board of Directors were vacant or occupied by persons whose continuity of service to the Corporation was severely limited by law during the fiscal year ended March 31, 2007. These circumstances resulted in an extended period of transition for the Corporation and its Board of Directors which significantly limited its opportunity to comply with all the provisions of the Act. Subsequent to its fiscal year ended March 31, 2007 the Governor appointed persons to fill all vacancies on the Corporation's Board of Directors which will enable it to comply with the Act. Drafts of required reports have been prepared by staff for consideration by the Board of Directors at its next meeting. It is expected that the Board of Directors will consider and address all compliance issues at the next Board meeting which is expected to occur prior to the end of July 2007.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Schedule of Findings and Responses

Year ended March 31, 2007

Absence of Regular Board of Director Meetings

Reference: 2007-2

Finding

It is an accepted business practice that a board of directors sets the tone for an organization, approves certain decisions made by management and acts as a control to ensure that the mission of an organization is carried out and risks are identified and properly mitigated. The New York Local Government Assistance Corporation (Corporation) board of directors as outlined in the Section 3234 of the New York State Public Authorities law consists of seven members, including the State Comptroller and the Director of the Division of the Budget serving as ex-officio members, and five additional members appointed by the Governor.

During the fiscal year ended March 31, 2007, the Corporation’s Board of Directors met only once in July 2006 to approve the Corporation’s 2006 financial statements. The absence of regular board of directors meetings was in part a result of the lack of appointments by the appointing authority.

The absence of regular board of director meetings is considered a significant deficiency in internal controls over financial reporting due to the lack of fiscal oversight over Corporation’s management. In addition, the absence of regular board of directors meetings may not allow management to sufficiently react to adverse market conditions, counter party credit rating changes, debt refinancing opportunities, contract approvals, law and regulation changes and the approval of other transactions that may be considered necessary as part of the Corporation’s normal course of business.

Recommendation

We recommend the Corporation’s board of directors meet on a regular basis in order to provide oversight and guidance to the Corporation and to approve transactions requiring Board approval.

Management’s Response

As noted above, certain provisions of the Public Authorities Accountability Act (the Act) became effective for the Corporation's fiscal year ending March 31, 2007, for most of which a majority of the positions on the Corporation's Board of Directors were vacant due to a statutory expansion of the Board of Directors by the Act and the expiration of the terms of all appointed members with the conclusion of the term of the Governor who appointed them on December 31, 2006. Due to the timing of both the expansion of the Board of Directors and the conclusion of the terms of those appointed, a majority of the positions on Corporation's Board of Directors were vacant or occupied by persons whose continuity of service to the Corporation was severely limited by law during the fiscal year ended March 31, 2007. These circumstances resulted in an extended period of transition for the Corporation and its Board of Directors which significantly limited the substance of actual or potential meetings of the Board of Directors. Subsequent to its fiscal year ended March 31, 2007, the Governor appointed persons to fill all vacancies on the Corporation's Board of Directors which will enable the Board of Directors to operate with a full complement of members able to fulfill all duties and fully consider all matters presented before it. It is expected that the Board of Directors will address the schedule of Board meetings for the current year at the next Board meeting which is expected to occur prior to the end of July 2007.