

***Fiscal Year 2005***  
***Securitization Corporation***

***Financial Statements***  
***for the Years Ended***  
***June 30, 2008 and 2007, and***  
***Independent Auditors' Report***

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	2-6
BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007:	
Entity-Wide Financial Statements:	
Statements of Net Assets (Deficit)	7
Statements of Activities	8
Governmental Fund Financial Statements:	
Debt Service Fund Balance Sheets	9
Debt Service Fund Statements of Revenues, Expenditures and Changes in Fund Balances	10
Reconciliations of the Debt Service Fund Balance Sheets to the Statements of Net Assets (Deficit)	11
Reconciliations of the Debt Service Fund Statements of Revenues, Expenditures and Changes in Fund Balances to the Statements of Activities	12
Notes to Financial Statements	13-18

## INDEPENDENT AUDITORS' REPORT

To the Members of the Audit Committee and the Board of Directors of  
Fiscal Year 2005 Securitization Corporation

We have audited the accompanying financial statements of the governmental activities of Fiscal Year 2005 Securitization Corporation (the "Corporation"), a component unit of The City of New York, as of and for the years ended June 30, 2008 and 2007, 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 audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective 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 audits provide 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 of the Corporation as of June 30, 2008 and 2007, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

*Deloitte : Touche LLP*

September 17, 2008

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

---

The following is a narrative overview and analysis of the financial activities of Fiscal Year 2005 Securitization Corporation ("FSC" or the "Corporation") as of June 30, 2008 and 2007 and for the years then ended. It should be read in conjunction with FSC's entity-wide financial statements, governmental fund financial statements and the notes to the financial statements.

The financial statements consist of three parts: (1) management's discussion and analysis (this section); (2) the entity-wide financial statements; and (3) the governmental funds financial statements.

The entity-wide financial statements, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the Corporation as a whole, in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34 *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, as amended. This is to provide the reader with a broad overview of FSC's finances. The entity-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting, in which all revenues and expenses are taken into account regardless of when cash is paid or received.

FSC's debt service fund (governmental fund) financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due.

The reconciliations of the debt service fund statements of revenues, expenditures and changes in fund balances to the statements of activities and the reconciliations of the debt service fund balance sheets to the statements of net assets (deficit) are presented to assist the reader in understanding the differences between entity-wide and fund financial statements.

Although legally separate from the City of New York (the "City"), FSC is a financing instrumentality of the City and, accordingly, is included in the City's financial statements as a blended component unit, in accordance with GASB Statement 14, as amended.

### **FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — ENTITY-WIDE FINANCIAL STATEMENTS**

FSC was incorporated for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing City general obligation bonds. FSC's securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of the FSC bonds.

On December 2, 2004, FSC issued \$499 million of bonds, the proceeds of which were (1) exchanged for securities held in an escrow account securing City general obligation bonds ("Refunded Bonds Escrow

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

#### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — ENTITY-WIDE FINANCIAL STATEMENTS (continued)

Fund” or the “Fund”) (which the City used to purchase securities adequate to fully pay debt service on those previously refunded bonds by redeeming them at their first call date), (2) used to pay costs of issuance and fund a reserve to pay FSC’s debt service and operating costs, and (3) held by FSC, in accordance with the bond indenture, and transferred to the City in November 2005.

The following summarizes the activities of FSC for the years ended June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Revenues:					
Investment income (loss)	<u>\$ 38,416</u>	<u>\$ 18,127</u>	<u>\$ (8,036)</u>	<u>\$ 20,289</u>	<u>\$ 26,163</u>
Total revenue	<u>38,416</u>	<u>18,127</u>	<u>(8,036)</u>	<u>20,289</u>	<u>26,163</u>
Expenses:					
Payment to the City of New York	-	-	48,505	-	(48,505)
Bond Interest	15,340	16,297	18,726	(957)	(2,429)
Other	<u>428</u>	<u>411</u>	<u>466</u>	<u>17</u>	<u>(55)</u>
Total expenses	<u>15,768</u>	<u>16,708</u>	<u>67,697</u>	<u>(940)</u>	<u>(50,989)</u>
Change in net assets	22,648	1,419	(75,733)	21,229	77,152
Net (deficit) assets — beginning of period	<u>(3,920)</u>	<u>(5,339)</u>	<u>70,394</u>	<u>1,419</u>	<u>(75,733)</u>
Net assets (deficit) — end of year	<u>\$ 18,728</u>	<u>\$ (3,920)</u>	<u>\$ (5,339)</u>	<u>\$ 22,648</u>	<u>\$ 1,419</u>

For the fiscal year ended June 30, 2008, FSC recognized \$38 million of investment earnings, compared to \$18 million in fiscal year 2007 and negative investment returns of \$8 million for fiscal year 2006. The investment income and loss both result primarily from the change in the market value of the long term, fixed-return securities held during the year. However, as the investments will fully fund debt service and operational costs of FSC as they mature, market value fluctuations pose no risk to FSC or its bondholders.

During fiscal year 2008, FSC incurred \$16 million in expenses, compared to \$17 million in fiscal year 2007 and \$68 million incurred during fiscal year 2006. The fiscal year 2006 expenses were high due to a one-time payment of \$49 million to the City, made in accordance with the bond indenture in November 2005. Interest expense on the outstanding bonds during fiscal year 2008 was \$15 million, compared to \$16 million in fiscal year 2007 and \$19 million in fiscal year 2006, when a larger principal amount of bonds were outstanding.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

#### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — ENTITY-WIDE FINANCIAL STATEMENTS (continued)

The following summarizes FSC's assets, liabilities, and net assets as of June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Assets:					
Non-capital	<u>\$ 343,620</u>	<u>\$ 337,160</u>	<u>\$ 385,525</u>	<u>\$ 6,460</u>	<u>\$ (48,365)</u>
Total assets	<u>343,620</u>	<u>337,160</u>	<u>385,525</u>	<u>6,460</u>	<u>(48,365)</u>
Liabilities:					
Current liabilities	21,077	20,462	54,187	615	(33,725)
Long-term liabilities	<u>303,815</u>	<u>320,618</u>	<u>336,677</u>	<u>(16,803)</u>	<u>(16,059)</u>
Total liabilities	<u>324,892</u>	<u>341,080</u>	<u>390,864</u>	<u>(16,188)</u>	<u>(49,784)</u>
Net Assets:					
Restricted	18,299	(4,347)	(5,819)	22,646	1,472
Unrestricted	<u>429</u>	<u>427</u>	<u>480</u>	<u>2</u>	<u>(53)</u>
Total net assets	<u>\$ 18,728</u>	<u>\$ (3,920)</u>	<u>\$ (5,339)</u>	<u>\$ 22,648</u>	<u>\$ 1,419</u>

FSC's assets at June 30, 2008, 2007 and 2006 totaled \$344 million, \$337 million and \$386 million, respectively. They are composed primarily of the investments restricted to pay bondholders. The increase in asset value during 2008 is attributable to the investment income during the year, which reflects an appreciation of investment values above the amount of debt service payments made during the year. The decline during 2007 resulted primarily from debt service payments which were not fully off-set by investment appreciation during that year. The Corporation's period-end liabilities of \$325 million, \$341 million and \$391 million, respectively, are primarily composed of bonds outstanding and accrued interest thereon and the decline in the liabilities resulted primarily from bond principal payments made during 2008, 2007 and 2006.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

#### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENTAL FUND FINANCIAL STATEMENTS

The following summarizes the changes in the fund balance of FSC's sole governmental fund, its debt service fund, for the years ended June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Revenues:					
Investment income (loss)	\$ 38,416	\$ 18,127	\$ (8,036)	\$ 20,289	\$ 26,163
Total revenues	<u>38,416</u>	<u>18,127</u>	<u>(8,036)</u>	<u>20,289</u>	<u>26,163</u>
Expenditures:					
Payment to the City of New York	-	-	48,505	-	(48,505)
Bond interest	15,417	16,646	19,204	(1,229)	(2,558)
Principal amount of bonds retired	16,110	49,440	73,735	(33,330)	(24,295)
General and administrative	<u>115</u>	<u>77</u>	<u>69</u>	<u>38</u>	<u>8</u>
Total expenditures	<u>31,642</u>	<u>66,163</u>	<u>141,513</u>	<u>(34,521)</u>	<u>(75,350)</u>
Net change in fund balance	6,774	(48,036)	(149,549)	54,810	101,513
Fund balance — beginning of period	<u>334,572</u>	<u>382,608</u>	<u>532,157</u>	<u>(48,036)</u>	<u>(149,549)</u>
Fund balance — end of period	<u>\$ 341,346</u>	<u>\$ 334,572</u>	<u>\$ 382,608</u>	<u>\$ 6,774</u>	<u>\$ (48,036)</u>

For the year ended June 30, 2008, the debt service fund reported \$38 million of investment earnings, compared to investment returns of \$18 million for 2007 and negative \$8 million for 2006, as discussed above.

During 2008, the debt service fund had \$32 million in expenditures, compared to \$66 million during 2007 and \$142 million incurred during 2006. Interest expenditures on the outstanding bonds during 2008 were \$15 million; compared to \$17 million in 2007 and \$19 million in 2006, when a larger principal amount of bonds were outstanding. The 2006 expenditures were higher primarily due to the one-time payment to the City discussed above. Principal payments on bonds fluctuate between years in accordance with a fixed maturity schedule, and decreased between 2006 and 2007, and again between 2007 and 2008.

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

### FINANCIAL HIGHLIGHTS AND OVERALL ANALYSIS — GOVERNMENTAL FUND FINANCIAL STATEMENTS (continued)

The following summarizes the debt service fund assets, liabilities and fund balances as of June 30, 2008, 2007 and 2006:

(\$ 000's)	2008	2007	2006	2008 v 2007 Change	2007 v 2006 Change
Assets:					
Cash and investments	<u>\$ 341,367</u>	<u>\$ 334,593</u>	<u>\$ 382,624</u>	<u>\$ 6,774</u>	<u>\$ (48,031)</u>
Total assets	<u>341,367</u>	<u>334,593</u>	<u>382,624</u>	<u>6,774</u>	<u>(48,031)</u>
Liabilities:					
Accrued expenses	<u>21</u>	<u>21</u>	<u>16</u>	<u>-</u>	<u>5</u>
Total liabilities	<u>21</u>	<u>21</u>	<u>16</u>	<u>-</u>	<u>5</u>
Fund Balance:					
Reserved for debt service	340,917	334,145	382,128	6,772	(47,983)
Unreserved	<u>429</u>	<u>427</u>	<u>480</u>	<u>2</u>	<u>(53)</u>
Total fund balance	<u>341,346</u>	<u>334,572</u>	<u>382,608</u>	<u>6,774</u>	<u>(48,036)</u>
Total liabilities and fund balance	<u>\$ 341,367</u>	<u>\$ 334,593</u>	<u>\$ 382,624</u>	<u>\$ 6,774</u>	<u>\$ (48,031)</u>

The debt service fund assets at June 30, 2008, 2007 and 2006 totaled \$341 million, \$335 million and \$383 million, respectively. They are composed primarily of the investments restricted to pay bondholders. The increase in asset value during 2008 is attributable to the investment income during the year, which reflects an appreciation of investment values above the amount of debt service payments made during the year. The decline during 2007 resulted primarily from debt service payments which were not fully off-set by investment appreciation during that year. The debt service fund reported \$341 million, \$335 million and \$383 million fund balances at June 30, 2008, 2007 and 2006, respectively. Of those year end balances, \$341 million, \$334 million and \$382 million, respectively, are reserved for making future payments of principal and interest on FSC's outstanding bonds.

\* \* \* \* \*

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### STATEMENTS OF NET ASSETS (DEFICIT)

AS OF JUNE 30, 2008 AND 2007 (Amounts in Thousands)

---

	2008	2007
ASSETS:		
Cash and cash-equivalents	\$ 95	\$ 448
Restricted cash and cash-equivalents	22	119
Investments	351	-
Restricted investments	340,895	334,026
Receivables	4	-
Unamortized bond issuance costs	<u>2,253</u>	<u>2,567</u>
 Total assets	 <u>343,620</u>	 <u>337,160</u>
LIABILITIES:		
Accrued expenses	21	21
Accrued interest payable	4,206	4,331
Bonds payable:		
Portion due within one year	16,850	16,110
Portion due after one year	304,160	321,010
Unamortized bond discount	<u>(345)</u>	<u>(392)</u>
 Total liabilities	 <u>324,892</u>	 <u>341,080</u>
NET ASSETS (DEFICIT):		
Restricted for debt service	18,299	(4,347)
Unrestricted	<u>429</u>	<u>427</u>
 Total net assets (deficit)	 <u>\$ 18,728</u>	 <u>\$ (3,920)</u>

See notes to financial statements.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in Thousands)

---

	2008	2007
REVENUE:		
Investment income	<u>\$ 38,416</u>	<u>\$ 18,127</u>
Total revenue	<u>38,416</u>	<u>18,127</u>
EXPENSES:		
Bond interest	15,340	16,297
Amortization of costs of bond issuance	313	334
General and administrative	<u>115</u>	<u>77</u>
Total expenses	<u>15,768</u>	<u>16,708</u>
CHANGE IN NET ASSETS	22,648	1,419
NET (DEFICIT) — Beginning of period	<u>(3,920)</u>	<u>(5,339)</u>
NET ASSETS (DEFICIT) — End of period	<u>\$ 18,728</u>	<u>\$ (3,920)</u>

See notes to financial statements.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### DEBT SERVICE FUND BALANCE SHEETS

AS OF JUNE 30, 2008 AND 2007 (Amounts in Thousands)

---

	2008	2007
ASSETS:		
Cash and cash-equivalents	\$ 95	\$ 448
Restricted cash and cash-equivalents	22	119
Investments	351	-
Restricted investments	340,895	334,026
Receivables	<u>4</u>	<u>-</u>
 Total assets	 <u>341,367</u>	 <u>334,593</u>
LIABILITIES:		
Accrued expenses	<u>21</u>	<u>21</u>
 Total liabilities	 <u>21</u>	 <u>21</u>
FUND BALANCE:		
Reserved for debt service	340,917	334,145
Unreserved	<u>429</u>	<u>427</u>
 Total fund balance	 <u>341,346</u>	 <u>334,572</u>
 Total liabilities and fund balance	 <u>\$ 341,367</u>	 <u>\$ 334,593</u>

See notes to financial statements.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### DEBT SERVICE FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in Thousands)

---

	2008	2007
REVENUE:		
Investment income	<u>\$ 38,416</u>	<u>\$ 18,127</u>
Total revenue	<u>38,416</u>	<u>18,127</u>
EXPENDITURES:		
Bond interest	15,417	16,646
Principal amount of bonds retired	16,110	49,440
General and administrative	<u>115</u>	<u>77</u>
Total expenditures	<u>31,642</u>	<u>66,163</u>
NET CHANGE IN FUND BALANCE	6,774	(48,036)
FUND BALANCE — Beginning of period	<u>334,572</u>	<u>382,608</u>
FUND BALANCE — End of period	<u>\$ 341,346</u>	<u>\$ 334,572</u>

See notes to financial statements.

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## RECONCILIATIONS OF DEBT SERVICE FUND BALANCE SHEETS TO STATEMENTS OF NET ASSETS (DEFICIT) AS OF JUNE 30, 2008 AND 2007 (Amounts in Thousands)

---

	2008	2007
Fund balance — debt service fund	\$ 341,346	\$ 334,572
<p>Amounts reported for governmental activities in the statements of net assets (deficit) are different because:</p>		
<p>Costs of bond issuance are reported as expenditures in the governmental fund financial statements. However, in the statements of net assets (deficit) the costs of bond issuance are reported as capitalized assets and amortized over the life of the bond.</p>		
	2,253	2,567
<p>Bond discounts are reported as other financing uses in the governmental fund financial statements. However, in the statements of net assets (deficit) bond discounts are reported as a component of bonds payable and amortized over the life of the bond.</p>		
	345	392
<p>Some liabilities are not due and payable in the current period from currently available financial resources and are therefore not reported in the governmental funds financial statements, but are reported in the statements of net assets (deficit). Those liabilities consist of:</p>		
Bonds payable	(321,010)	(337,120)
Accrued interest payable	<u>(4,206)</u>	<u>(4,331)</u>
Net assets (deficit)	<u>\$ 18,728</u>	<u>\$ (3,920)</u>

See notes to financial statements.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### RECONCILIATIONS OF DEBT SERVICE FUND STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENTS OF ACTIVITIES FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in Thousands)

---

	2008	2007
Net change in debt service fund balance	\$ 6,774	\$ (48,036)
Amount reported for governmental activities in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the governmental fund financial statements, but the repayment reduces long-term liabilities on the statements of net assets (deficit).	16,110	49,440
The debt service fund reports cost of bond issuance as expenditures upon issuance. However, on the statements of activities, the cost of debt issuance is amortized over the life of the bond.	(313)	(334)
The debt service fund reports bond discounts as other financing uses. However, on the statements of activities, discounts are amortized to interest expense over the life of the bond.	(48)	(51)
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in the governmental fund financial statements when the outlay of financial resources is required.	<u>125</u>	<u>400</u>
Change in net assets	<u>\$ 22,648</u>	<u>\$ 1,419</u>

See notes to financial statements.

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

---

### 1. ORGANIZATION

Fiscal Year 2005 Securitization Corporation (“FSC” or the “Corporation”) is a special purpose, bankruptcy-remote, local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the “State”). FSC is an instrumentality of, but separate and apart from, The City of New York (the “City”). FSC is governed by a Board of Directors elected by its three Members, all of whom are officials of the City. FSC’s Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor of the City prior to any such actions. Although legally separate from the City, FSC is a financing instrumentality of the City and, accordingly, is included in the City’s financial statements as a blended component unit in accordance with Governmental Accounting Standards Board (“GASB”) Statement 14, as amended.

FSC was incorporated for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing City general obligation bonds. FSC’s securities, which are held by the trustee for FSC, as they mature will fully fund the debt service and operational expenditures of FSC for the life of FSC’s bonds.

On December 2, 2004, FSC issued \$499 million of bonds, the proceeds of which were (1) exchanged for securities held in an escrow account securing City general obligation bonds (“Refunded Bonds Escrow Fund”) (which the City used to purchase securities adequate to fully pay debt service on those previously refunded bonds by redeeming them at their first call date), (2) used to pay costs of issuance and fund a reserve to pay FSC’s debt service and operating costs, and (3) transferred to the City in November 2005, in accordance with the bond indenture.

FSC does not have any employees; its affairs are administered by employees of the City and another component unit of the City, for which FSC pays a management fee, rent and overhead based on its allocated share of personnel and other costs.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The entity-wide financial statements of FSC, which include the statements of net assets (deficit) and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB Statement 34. The entity-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

---

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FSC's debt service fund financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenue is generally considered available if expected to be received within one year after period-end. Expenditures are recognized when the related liability is incurred, except for interest on bonds payable, which is recognized when due. The debt service fund accounts for the accumulation of resources for payment of principal and interest on debt and supports the operations of FSC. Investments, including accrued interest, are reported at fair value as of the reporting date.

Bond discounts and issuance costs are capitalized and amortized over the lives of the related debt using the interest method in the entity-wide financial statements. The amount of unamortized bond discount at June 30, 2008 and 2007 is \$345 and \$392, respectively, which are net of accumulated amortization of \$179 and \$132, respectively. The amount of unamortized issuance costs at June 30, 2008 and 2007 is \$2,253 and \$2,567, respectively, which are net of accumulated amortization of \$1,178 and \$864, respectively.

The governmental fund financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the period of receipt or payment. The face amount of debt issued is reported as other financing sources, as are discounts on debt issuances. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest expense is recognized on the accrual basis in the entity-wide financial statements. Interest expenditures are recognized when paid in the debt service fund financial statements.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires FSC's management to make estimates and assumptions in determining the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Resources set aside for debt service or redemption in accordance with FSC's bond indenture are classified as restricted on the balance sheet. When both restricted and unrestricted resources are available for use, it is FSC's policy to use restricted resources first, then unrestricted resources if they are needed.

FSC has adopted Statement of Governmental Accounting Standards No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-entity Transfers of Assets and Future Revenue* ("GASB No. 48"). FSC has neither sales nor pledges of receivables and future revenues nor extra-entity transfer of assets and future revenues. GASB No. 48 does not have an impact on FSC's financial statements.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FSC has not completed the process of evaluating the impact that will result from adopting Statement of Governmental Accounting Standards No. 53, *Accounting and Financial Reporting for Derivative Instruments* ("GASB No. 53"). FSC is therefore unable to disclose the impact that adopting GASB No. 53 will have on the financial statements. This statement is effective for fiscal periods beginning after June 15, 2009, which will be for the Corporation's fiscal year ending June 30, 2010.

#### 3. BONDS PAYABLE

FSC has issued \$499 million of bonds as of June 30, 2008. Outstanding bonds payable bear interest at fixed rates ranging from 3.40% to 4.93%.

A Summary of changes in outstanding bonds during the fiscal year ended June 30, 2008, is as follows:

	<b>Balance June 30, 2007</b>	<b>Period Ended June 30, 2008</b>		<b>Balance June 30, 2008</b>
		<b>Bonds Issued</b>	<b>Bonds Retired</b>	
Series A	\$142,580	-	\$ 6,895	\$135,685
Series B	146,755	-	2,100	144,655
Series C	<u>47,785</u>	<u>-</u>	<u>7,115</u>	<u>40,670</u>
Totals	<u>\$ 337,120</u>	<u>-</u>	<u>\$ 16,110</u>	<u>\$ 321,010</u>

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2007, is as follows:

	<b>Balance June 30, 2006</b>	<b>Period Ended June 30, 2007</b>		<b>Balance June 30, 2007</b>
		<b>Bonds Issued</b>	<b>Bonds Retired</b>	
Series A	\$156,810	-	\$14,230	\$142,580
Series B	162,855	-	16,100	146,755
Series C	<u>66,895</u>	<u>-</u>	<u>19,110</u>	<u>47,785</u>
Totals	<u>\$ 386,560</u>	<u>-</u>	<u>\$ 49,440</u>	<u>\$ 337,120</u>

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

**NOTES TO FINANCIAL STATEMENTS (continued)**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**  
**(Amounts in thousands, except as noted)**

---

### 3. BONDS PAYABLE (CONTINUED)

Debt service requirements, including principal and interest at June 30, 2008, are as follows:

<b>Year Ended June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2009	\$ 16,850	\$ 14,851	\$ 31,701
2010	9,915	14,403	24,318
2011	11,860	14,006	25,866
2012	12,150	13,437	25,587
2013	10,385	12,968	23,353
2014 to 2018	173,705	45,247	218,952
2019 to 2020	<u>86,145</u>	<u>3,932</u>	<u>90,077</u>
Totals	<u>\$ 321,010</u>	<u>\$ 118,844</u>	<u>\$ 439,854</u>

FSC has fully funded its debt service account with investments that will provide money at times and in amounts sufficient to pay principal and interest on the FSC bonds. These investments, discussed further in Note 5, below, are held in trust for bondholders and reported as reserved and restricted assets on the debt service fund balance sheets and statements of net assets, respectively.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

### NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

#### 4. DEPOSITS

FSC's deposits consisted of the following at June 30, 2008 and 2007:

	June 30, 2008		June 30, 2007	
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Restricted for Debt Service:				
FDIC insured deposits	\$ -	\$ -	\$ -	\$ -
Uninsured and not collateralized	<u>22</u>	<u>22</u>	<u>119</u>	<u>119</u>
Total restricted	<u>22</u>	<u>22</u>	<u>119</u>	<u>119</u>
Total Deposits	<u>\$ 22</u>	<u>\$ 22</u>	<u>\$ 119</u>	<u>\$ 119</u>

#### 5. INVESTMENTS

Investments consisted of the following at June 30, 2008 and 2007:

	June 30, 2008	June 30, 2007
Unrestricted:		
Money Market Funds	\$ 95	\$ 50
Federal Home Loan Bank discount notes (maturing within 120 days)	<u>351</u>	<u>398</u>
Total unrestricted	<u>446</u>	<u>448</u>
Restricted for Debt Service:		
Federal Home Loan Bank discount notes (maturing within 120 days)	99	-
U.S. Government guaranteed securities (maturing in less than one year)	31,659	31,197
U.S. Government guaranteed securities (maturing after one year)	<u>309,137</u>	<u>302,829</u>
Total restricted	<u>340,895</u>	<u>334,026</u>
Total investments	<u>\$ 341,341</u>	<u>\$ 334,474</u>

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

## NOTES TO FINANCIAL STATEMENTS (continued) FOR THE YEARS ENDED JUNE 30, 2008 AND 2007 (Amounts in thousands, except as noted)

---

### 5. INVESTMENTS (CONTINUED)

Each account of FSC is held pursuant to the Indenture and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture. All investments are registered and are held by FSC's agent in FSC's name.

#### *Credit Risk*

All investments held by FSC are obligations of, or guaranteed by, the United States of America, or are rated "AAA" by S&P and "Aaa" by Moody's.

#### *Interest Rate Risk*

While the long-term nature of fixed-rate securities makes the market values of the investments with maturity greater than one year highly susceptible to changes in market interest rates, the changes in market value pose no risk to bondholders or to FSC because the investments mature at times and in amounts that are adequate to fully fund the debt service and operational expenditures of FSC when due for the life of FSC's bonds.

\* \* \* \* \*