



FISCAL YEAR 2005 SECURITIZATION CORPORATION
A Component Unit of the City of New York

Financial Statements

June 30, 2010 and 2009

(With Independent Auditors' Report Thereon)

FISCAL YEAR 2005 SECURITIZATION CORPORATION
A Component Unit of the City of New York

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KPMG LLP
515 Broadway
Albany, NY 12207-2974

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities and the debt service fund of Fiscal Year 2005 Securitization Corporation (the Corporation), a component unit of the City of New York, as of and for the year ended June 30, 2010 and 2009, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express 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 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 debt service fund of the Corporation, as of June 30, 2010 and 2009 and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2010 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 to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



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

September 22, 2010

FISCAL YEAR 2005 SECURITIZATION CORPORATION

A Component Unit of the City of New York

Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

(Amounts in thousands, except as noted)

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, 2010 and 2009 and for the years then ended. It should be read in conjunction with FSC's government-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 government-wide financial statements; and (3) the governmental funds financial statements.

The government-wide financial statements, which include the statements of net assets and the statements of activities, are presented to display information about the Corporation as a whole, in accordance with Governmental Accounting Standards Board (GASB) standards. This is to provide the reader with a broad overview of FSC's finances. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Accordingly, revenue is recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

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 principal and interest on bonds payable, which are 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 are presented to assist the reader in understanding the differences between government-wide and fund financial statements.

Financial Highlights and Overall Analysis – Government-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 certain issues of The City of New York (the City) general obligation bonds. FSC's securities, which are held by the trustee for FSC, as they mature will generate sufficient cash flow to 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 Fund or the Fund) (which the City used to purchase securities adequate to generate sufficient cash flow 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 dated as of December 1, 2004 and transferred to the City in November 2005.

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Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Government-Wide Financial Statements – (Continued)

The following summarizes the activities of FSC for the years ended June 30, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 v 2009</u> <u>Change</u>	<u>2009 v 2008</u> <u>Change</u>
Revenue:					
Investment income	\$ 28,672	\$ 19,772	\$ 38,416	\$ 8,900	\$ (18,644)
Total revenue	<u>28,672</u>	<u>19,772</u>	<u>38,416</u>	<u>8,900</u>	<u>(18,644)</u>
Expenses:					
Bond interest	14,350	14,691	15,340	(341)	(649)
Other	440	421	428	19	(7)
Total expenses	<u>14,790</u>	<u>15,112</u>	<u>15,768</u>	<u>(322)</u>	<u>(656)</u>
Change in net assets	13,882	4,660	22,648	9,222	(17,988)
Net assets (deficit) – beginning of year	<u>23,388</u>	<u>18,728</u>	<u>(3,920)</u>	<u>4,660</u>	<u>22,648</u>
Net assets – end of year	<u>\$ 37,270</u>	<u>\$ 23,388</u>	<u>\$ 18,728</u>	<u>\$ 13,882</u>	<u>\$ 4,660</u>

For the fiscal year ended June 30, 2010, FSC recognized approximately \$29 million of investment earnings, compared to \$20 million in fiscal year 2009 and \$38 million for fiscal year 2008. The investment income resulted primarily from the change in the market value of the long-term, fixed-return securities held during the year. As the investments will generate sufficient cash flow to 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 2010 and 2009, FSC incurred approximately \$15 million in expenses, compared to \$16 million in fiscal year 2008. Expenses decrease slightly each year as the declining bond principal outstanding results in reduced bond interest costs.

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A Component Unit of the City of New York

Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

(Amounts in thousands, except as noted)

Financial Highlights and Overall Analysis – Government-Wide Financial Statements – (Continued)

The following summarizes FSC's assets, liabilities, and net assets as of June 30, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 v 2009 Change</u>	<u>2009 v 2008 Change</u>
Assets:					
Noncapital	\$ 335,181	\$ 331,267	\$ 343,620	\$ 3,914	\$ (12,353)
Total assets	<u>335,181</u>	<u>331,267</u>	<u>343,620</u>	<u>3,914</u>	<u>(12,353)</u>
Liabilities:					
Current liabilities	15,781	13,933	21,077	1,848	(7,144)
Long-term liabilities	<u>282,130</u>	<u>293,946</u>	<u>303,815</u>	<u>(11,816)</u>	<u>(9,869)</u>
Total liabilities	<u>297,911</u>	<u>307,879</u>	<u>324,892</u>	<u>(9,968)</u>	<u>(17,013)</u>
Net assets:					
Restricted	36,905	22,975	18,299	13,930	4,676
Unrestricted	<u>365</u>	<u>413</u>	<u>429</u>	<u>(48)</u>	<u>(16)</u>
Total net assets	<u>\$ 37,270</u>	<u>\$ 23,388</u>	<u>\$ 18,728</u>	<u>\$ 13,882</u>	<u>\$ 4,660</u>

FSC's assets at June 30, 2010, 2009 and 2008 totaled approximately \$335 million, \$331 million and \$344 million, respectively. They are composed primarily of the investments restricted to pay bondholders. The increase in asset value during fiscal year 2010 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 fiscal year 2009 resulted primarily from debt service payments which were not fully offset by investment appreciation during that year. The Corporation's period-end liabilities of approximately \$298 million, \$308 million and \$325 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 fiscal years 2010, 2009 and 2008.

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Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

(Amounts in thousands, except as noted)

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, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 v 2009</u> <u>Change</u>	<u>2009 v 2008</u> <u>Change</u>
Revenue:					
Investment income	\$ 28,672	\$ 19,772	\$ 38,416	\$ 8,900	\$ (18,644)
Total revenue	<u>28,672</u>	<u>19,772</u>	<u>38,416</u>	<u>8,900</u>	<u>(18,644)</u>
Expenditures:					
Bond interest	14,403	14,851	15,417	(448)	(566)
Principal amount of bonds retired	9,915	16,850	16,110	(6,935)	740
General and administrative	151	123	115	28	8
Total expenditures	<u>24,469</u>	<u>31,824</u>	<u>31,642</u>	<u>(7,355)</u>	<u>182</u>
Net change in fund balances	4,203	(12,052)	6,774	16,255	(18,826)
Fund balances – beginning of year	<u>329,294</u>	<u>341,346</u>	<u>334,572</u>	<u>(12,052)</u>	<u>6,774</u>
Fund balances – end of year	<u>\$ 333,497</u>	<u>\$ 329,294</u>	<u>\$ 341,346</u>	<u>\$ 4,203</u>	<u>\$ (12,052)</u>

For the fiscal year ended June 30, 2010, the debt service fund reported approximately \$29 million of investment earnings, compared to \$20 million for 2009 and \$38 million for 2008, as discussed previously.

During fiscal year 2010 the debt service fund had approximately \$24 million in expenditures, which had totaled approximately \$32 in fiscal years 2009 and 2008. Interest expenditures on the outstanding bonds during fiscal year 2010 was approximately \$14 million; compared to approximately \$15 million in 2009 and 2008, when larger principal amounts of bonds were outstanding. Principal payments on bonds fluctuate between fiscal years in accordance with a fixed maturity schedule, which resulted in a decrease between 2010 and 2009, and an increase between fiscal years 2009 and 2008.

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Management's Discussion and Analysis

June 30, 2010 and 2009

(Unaudited)

(Amounts in thousands, except as noted)

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, 2010, 2009 and 2008:

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2010 v 2009 Change</u>	<u>2009 v 2008 Change</u>
Assets:					
Cash, investments and other	\$ 333,515	\$ 329,312	\$ 341,367	\$ 4,203	\$ (12,055)
Total assets	<u>\$ 333,515</u>	<u>\$ 329,312</u>	<u>\$ 341,367</u>	<u>\$ 4,203</u>	<u>\$ (12,055)</u>
Liabilities:					
Accrued expenses	\$ 18	\$ 18	\$ 21	\$ —	\$ (3)
Total liabilities	<u>18</u>	<u>18</u>	<u>21</u>	<u>—</u>	<u>(3)</u>
Fund balances:					
Reserved for debt service	333,132	328,881	340,917	4,251	(12,036)
Unreserved	<u>365</u>	<u>413</u>	<u>429</u>	<u>(48)</u>	<u>(16)</u>
Total fund balances	<u>333,497</u>	<u>329,294</u>	<u>341,346</u>	<u>4,203</u>	<u>(12,052)</u>
Total liabilities and fund balances	<u>\$ 333,515</u>	<u>\$ 329,312</u>	<u>\$ 341,367</u>	<u>\$ 4,203</u>	<u>\$ (12,055)</u>

The debt service fund assets at June 30, 2010, 2009 and 2008 totaled approximately \$334 million, \$329 million and \$341 million, respectively. They are composed primarily of the investments restricted to pay bondholders. The increase in asset value during fiscal year 2010 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 fiscal year 2009 resulted primarily from debt service payments which were not fully offset by investment appreciation during that year. The debt service fund reported approximately \$333 million, \$329 million and \$341 million fund balances at June 30, 2010, 2009 and 2008 and are mostly reserved for making future payments of principal and interest on FSC's outstanding bonds.

This financial report is designed to provide a general overview of FSC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Raymond Orlando, Manager of Investor Relations, Fiscal Year 2005 Securitization Corporation, 75 Park Place, New York, NY 10007.

FISCAL YEAR 2005 SECURITIZATION CORPORATION
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Statements of Net Assets

June 30, 2010 and 2009

(Amounts in thousands)

	2010	2009
Assets:		
Unrestricted cash and cash equivalents	\$ 283	\$ 83
Restricted cash and cash equivalents	1	24
Unrestricted investments	100	348
Restricted investments	333,131	328,857
Unamortized bond issuance costs	1,666	1,955
Total assets	335,181	331,267
Liabilities:		
Accrued expenses	18	18
Accrued interest payable	3,903	4,000
Bonds payable:		
Portion due within one year	11,860	9,915
Portion due after one year	282,385	294,245
Unamortized bond discount	(255)	(299)
Total liabilities	297,911	307,879
Net assets:		
Restricted for debt service	36,905	22,975
Unrestricted	365	413
Total net assets	\$ 37,270	\$ 23,388

See accompanying notes to financial statements.

FISCAL YEAR 2005 SECURITIZATION CORPORATION
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Statements of Activities

June 30, 2010 and 2009

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Revenue:		
Investment income	\$ 28,672	\$ 19,772
Total revenue	<u>28,672</u>	<u>19,772</u>
Expenses:		
Bond interest	14,350	14,691
Amortization of costs of bond issuance	289	298
General and administrative	151	123
Total expenses	<u>14,790</u>	<u>15,112</u>
Change in net assets	13,882	4,660
Net assets – beginning of year	<u>23,388</u>	<u>18,728</u>
Net assets – end of year	<u>\$ 37,270</u>	<u>\$ 23,388</u>

See accompanying notes to financial statements.

FISCAL YEAR 2005 SECURITIZATION CORPORATION
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Debt Service Fund Balance Sheets

June 30, 2010 and 2009

(Amounts in thousands)

	<u>2010</u>		<u>2009</u>
Assets:			
Unrestricted cash and cash equivalents	\$ 283	\$	83
Restricted cash and cash equivalents	1		24
Unrestricted investments	100		348
Restricted investments	<u>333,131</u>		<u>328,857</u>
Total assets	\$ <u>333,515</u>	\$	<u>329,312</u>
Liabilities:			
Accrued expenses	\$ 18	\$	18
Total liabilities	<u>18</u>		<u>18</u>
Fund balances:			
Reserved for debt service	333,132		328,881
Unreserved	<u>365</u>		<u>413</u>
Total fund balances	<u>333,497</u>		<u>329,294</u>
Total liabilities and fund balances	\$ <u>333,515</u>	\$	<u>329,312</u>

See accompanying notes to financial statements.

FISCAL YEAR 2005 SECURITIZATION CORPORATION

A Component Unit of the City of New York

Reconciliations of Debt Service Fund Balance Sheet to
Statements of Net Assets

June 30, 2010 and 2009

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Fund balance – debt service fund	\$ 333,497	\$ 329,294
Amounts reported in the statements of net assets are different because:		
Costs of debt issuance are reported as expenditures in the debt service fund financial statements upon issuance. However, in the statements of net assets the costs of bond issuance are reported as capitalized assets and amortized over the life of the bond.	1,666	1,955
Bond discounts are reported as other financing uses in the debt service fund financial statements. However, in the statements of net assets bond discounts are reported as a component of bonds payable and amortized over the life of the bond.	255	299
Some liabilities are not due and payable in the current period from financial resources available currently at year-end and are therefore not reported in the debt service fund financial statements, but are reported in the statements of net assets. Those liabilities consist of:		
Bonds payable	(294,245)	(304,160)
Accrued interest payable	(3,903)	(4,000)
Net assets – governmental activities	<u>\$ 37,270</u>	<u>\$ 23,388</u>

See accompanying notes to financial statements.

FISCAL YEAR 2005 SECURITIZATION CORPORATION
A Component Unit of the City of New York

Debt Service Fund Statements of Revenues, Expenditures, and
Changes in Fund Balances

June 30, 2010 and 2009

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Revenue:		
Investment income	\$ 28,672	\$ 19,772
Total revenue	<u>28,672</u>	<u>19,772</u>
Expenditures:		
Bond interest	14,403	14,851
Principal amount of bonds retired	9,915	16,850
General and administrative	151	123
Total expenditures	<u>24,469</u>	<u>31,824</u>
Net change in fund balances	4,203	(12,052)
Fund balances – beginning of year	<u>329,294</u>	<u>341,346</u>
Fund balances – end of year	<u>\$ 333,497</u>	<u>\$ 329,294</u>

See accompanying notes to financial statements.

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Reconciliations of Debt Service Fund Statements of Revenues, Expenditures, and
Changes in Fund Balances to the Statements of Activities

June 30, 2010 and 2009

(Amounts in thousands)

	<u>2010</u>	<u>2009</u>
Net change in fund balances – debt service fund	\$ 4,203	\$ (12,052)
Amount reported for activities in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the debt service fund financial statements, but the repayment reduces bond payable on the statements of net assets.	9,915	16,850
The debt service fund reports costs of debt issuance as expenditures upon issuance. However, on the statements of activities, the cost of debt issuance is amortized over the life of the bond.	(289)	(298)
The debt service fund reports bond discounts as other financing uses upon issuance. However, on the statements of activities, bond discounts are amortized to interest expense over the life of the bond.	(44)	(46)
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in the debt service fund financial statements when the outlay of financial resources is due.	97	206
Change in net assets – governmental activities	<u>\$ 13,882</u>	<u>\$ 4,660</u>

See accompanying notes to financial statements.

FISCAL YEAR 2005 SECURITIZATION CORPORATION

A Component Unit of the City of New York

Notes to Financial Statements

June 30, 2010 and 2009

(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 governed by a Board of Directors elected by its three Members, all of whom are officials of The City of New York (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) standards.

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 generate sufficient cash flow to 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 generate sufficient cash flow 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 dated as of December 1, 2004 (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 and overhead based on its allocated share of personnel and overhead costs.

(2) Summary of Significant Accounting Policies

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

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. Revenues are 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 principal and 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.

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(Amounts in thousands, except as noted)

Investments are reported at fair value as of the reporting date.

Bond discounts and issuance costs are deferred and amortized over the lives of the related debt using the interest method in the government-wide financial statements. The amount of unamortized bond discount at June 30, 2010 and 2009 is \$255 and \$299, respectively, which are net of accumulated amortization of \$270 and \$226, respectively. The amount of unamortized issuance costs at June 30, 2010 and 2009 is \$1,666 and \$1,955, respectively, which are net of accumulated amortization of \$1,765 and \$1,476, 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 premiums on debt issuances. Discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Interest expense is recognized as it is incurred on the accrual basis in the government-wide financial statements. Interest expenditures are recognized when due in the debt service fund financial statements.

The preparation of financial statements in accordance with US generally accepted accounting principles requires FSC's management to make estimates and assumptions in determining the reported amounts of 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 Indenture are classified as restricted on the statements of net assets. 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.

As a component unit of the City, FSC implements new GASB standards in the same fiscal year as they are implemented by the City. The following are discussions of the standards requiring implementation in the current year and standards which will or may impact FSC in future years.

- In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The Statement requires all intangible assets not specifically excluded by its scope provisions to be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. The requirements for GASB 51 are effective for financial statements for periods beginning after June 15, 2009, and thus was implemented by the City for its fiscal year ended June 30, 2010. There was no impact on FSC's financial statements as a result of the implementation of GASB 51.
- In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement establishes guidance on the recognition, measurement and disclosures related to derivative instruments entered into by governmental entities. GASB 53 requires that most derivative instruments be reported at fair value, and requires governmental entities to determine if derivatives are effective hedges of risks associated with related hedgeable items. Generally, for

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derivatives that are effective hedges, changes in fair values are deferred whereas for others the changes in fair value are recognized in the current period. The requirements for GASB 53 are effective for financial statements for periods beginning after June 15, 2009, and thus was implemented by the City for its fiscal year ended June 30, 2010. There was no impact on FSC's financial statements as a result of the implementation of GASB 53.

- In February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The Statement affects the display of fund balances in the governmental fund financial statements and requires that governments disclose their fund balance classifications, policies and procedures in the notes to the financial statements. Fund balances will be classified as nonspendable, restricted, committed, assigned, and/or unassigned, as defined in the Statement. Additionally, GASB 54 refines the definitions of each of the governmental fund types, such as debt service and capital projects funds. The requirements for GASB 54 are effective for periods beginning after June 15, 2010. GASB 54 will not have any financial impact on FSC but is expected to change FSC's governmental fund financial statement presentation.

(3) Bonds Payable

FSC has issued \$499 million of bonds and has \$294 million outstanding as of June 30, 2010. Outstanding bonds payable bear interest at fixed rates ranging from 3.51% to 4.93%.

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2010, is as follows:

	Balance June 30, 2009	Period ended June 30, 2010		Balances June 30, 2010
		Bonds issued	Bonds retired	
Series A	\$ 121,530	\$ —	\$ 1,515	\$ 120,015
Series B	142,485	—	7,855	134,630
Series C	40,145	—	545	39,600
Totals	<u>\$ 304,160</u>	<u>\$ —</u>	<u>\$ 9,915</u>	<u>\$ 294,245</u>

FISCAL YEAR 2005 SECURITIZATION CORPORATION

A Component Unit of the City of New York

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June 30, 2010 and 2009

(Amounts in thousands, except as noted)

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2009, is as follows:

	Balance June 30, 2008	Period ended June 30, 2009		Balances June 30, 2009
		Bonds issued	Bonds retired	
Series A	\$ 135,685	\$ —	\$ 14,155	\$ 121,530
Series B	144,655	—	2,170	142,485
Series C	40,670	—	525	40,145
Totals	<u>\$ 321,010</u>	<u>\$ —</u>	<u>\$ 16,850</u>	<u>\$ 304,160</u>

Debt service requirements, including principal and interest at June 30, 2010, are as follows:

	Principal	Interest	Total
Year ended June 30:			
2011	\$ 11,860	\$ 14,006	\$ 25,866
2012	12,150	13,437	25,587
2013	10,385	12,968	23,353
2014	29,060	12,025	41,085
2015	33,415	10,537	43,952
2016 to 2020	197,375	26,617	223,992
Totals	<u>\$ 294,245</u>	<u>\$ 89,590</u>	<u>\$ 383,835</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, as follows, are held in trust for bondholders and reported as reserved and restricted assets on the debt service fund balance sheets and statement of net assets, respectively.

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(Amounts in thousands, except as noted)

(4) Cash and Cash Equivalents

Cash was comprised of bank deposits restricted for debt service; there was no difference between the carrying amounts and bank balances as of June 30, 2010 and 2009. Cash equivalents were unrestricted and comprised of a Treasury Money Market Fund (see note 5). Cash and cash equivalents consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cash:		
Uninsured and uncollateralized	\$ 1	\$ 24
Cash equivalents (see note 5)	<u>283</u>	<u>83</u>
Total cash and cash equivalents	<u>\$ 284</u>	<u>\$ 107</u>

FSC's investments classified as cash equivalents have an original maturity date of three months or less from the date of purchase. FSC values those investments at cost plus accrued interest, which approximates market.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of a depository financial institution FSC may not be able to recover its deposits that are in possession of an outside party. As of June 30, 2010 and 2009, \$1 and \$24 of uncollateralized deposits was exposed to custodial credit risk, respectively.

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June 30, 2010 and 2009

(Amounts in thousands, except as noted)

(5) Investments

Investments consisted of the following at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Unrestricted:		
Money Market Funds	\$ 283	\$ 83
Federal Home Loan Mortgage Corp. discount notes (within one year)	100	348
Total – unrestricted	<u>383</u>	<u>431</u>
Restricted for debt service:		
U.S. Treasury Bills (maturing within one year)	95	96
U.S. Treasury Obligations (maturing within one year)	25,940	24,370
U.S. Treasury Obligations (maturing after one year)	307,096	304,391
Total – restricted	<u>333,131</u>	<u>328,857</u>
Total investments including cash equivalents	333,514	329,288
Less amounts reported as cash equivalents (see note 4)	<u>(283)</u>	<u>(83)</u>
Total – investments	<u>\$ 333,231</u>	<u>\$ 329,205</u>

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 – FSC limits all investments to obligations of, or guaranteed by, the United States of America, or obligations that 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 generate sufficient cash flow to fully fund the debt service and operational expenditures of FSC when due for the life of FSC's bonds.