



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

Financial Statements

June 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

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

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis (Unaudited)	3 – 9
Basic Financial Statements:	
Government-wide Financial Statements:	
Statements of Net Assets	10
Statements of Activities	11
Governmental Funds Financial Statements:	
Governmental Funds Balance Sheets	12-13
Reconciliations of the Governmental Funds Balance Sheets to the Statements of Net Assets	14
Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances	15-16
Reconciliations of the Governmental Funds Statements of Revenues, Expenditures, and Changes in Fund Balances to the Statements of Activities	17
Notes to Financial Statements	18 – 24



KPMG LLP  
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## 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 each major fund 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, 2011 and 2010, 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 audits.

We conducted our audits 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 audits provide 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 June 30, 2011 and 2010, and the respective changes in financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in note 2, the Corporation adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2011 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 9 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

September 27, 2011

## **FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(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, 2011 and 2010, and for the years then ended. It should be read in conjunction with FSC's government-wide financial statements, governmental funds 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 governmental funds 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 governmental funds balance sheets to the statements of net assets and the reconciliations of the governmental funds statements of revenues, expenditures, and changes in fund balances to the statements of activities 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 investments, which are held by the trustee for FSC, as they mature are expected to 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 The City's 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 (Indenture) and transferred to The City in November 2005.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(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, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Revenue:					
Investment income	\$ 13,122	\$ 28,672	\$ 19,772	\$ (15,550)	\$ 8,900
Total revenue	<u>13,122</u>	<u>28,672</u>	<u>19,772</u>	<u>(15,550)</u>	<u>8,900</u>
Expenses:					
Bond interest	13,899	14,350	14,691	(451)	(341)
Other	<u>409</u>	<u>440</u>	<u>421</u>	<u>(31)</u>	<u>19</u>
Total expenses	<u>14,308</u>	<u>14,790</u>	<u>15,112</u>	<u>(482)</u>	<u>(322)</u>
Change in net assets	(1,186)	13,882	4,660	(15,068)	9,222
Net assets – beginning of year	<u>37,270</u>	<u>23,388</u>	<u>18,728</u>	<u>13,882</u>	<u>4,660</u>
Net assets – end of year	<u>\$ 36,084</u>	<u>\$ 37,270</u>	<u>\$ 23,388</u>	<u>\$ (1,186)</u>	<u>\$ 13,882</u>

For the fiscal year ended June 30, 2011, FSC recognized approximately \$13 million of investment earnings, compared to \$29 million in fiscal year 2010 and \$20 million for fiscal year 2009. 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 are expected to generate sufficient cash flow to fully fund debt service and operational costs of FSC as they mature, market value fluctuations pose low risk to FSC or its bondholders. During fiscal year 2011, FSC incurred approximately \$14 million in expenses, compared to \$15 million in fiscal years 2010 and 2009. Expenses decrease slightly each year as the declining bond principal outstanding results in reduced bond interest costs.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(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, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Assets:					
Non-capital	\$ 322,029	\$ 335,181	\$ 331,267	\$ (13,152)	\$ 3,914
Total assets	<u>322,029</u>	<u>335,181</u>	<u>331,267</u>	<u>(13,152)</u>	<u>3,914</u>
Liabilities:					
Current liabilities	15,923	15,781	13,933	142	1,848
Long-term liabilities	<u>270,022</u>	<u>282,130</u>	<u>293,946</u>	<u>(12,108)</u>	<u>(11,816)</u>
Total liabilities	<u>285,945</u>	<u>297,911</u>	<u>307,879</u>	<u>(11,966)</u>	<u>(9,968)</u>
Net assets:					
Restricted for debt service	34,255	35,239	21,020	(984)	14,219
Unrestricted	<u>1,829</u>	<u>2,031</u>	<u>2,368</u>	<u>(202)</u>	<u>(337)</u>
Total net assets	<u>\$ 36,084</u>	<u>\$ 37,270</u>	<u>\$ 23,388</u>	<u>\$ (1,186)</u>	<u>\$ 13,882</u>

FSC's assets at June 30, 2011, 2010 and 2009, totaled approximately \$322 million, \$335 million and \$331 million, respectively. They are composed primarily of the investments restricted to pay bondholders. The decrease in asset value during fiscal year 2011 resulted from debt service payments which were not fully offset by investment appreciation during that year. The increase in asset value during fiscal year 2010 are attributable to the investment income during the year, which reflected an appreciation of investment values above the amount of debt service payments made during the year.

The Corporation's period-end liabilities of approximately \$286 million, \$298 million and \$308 million were primarily composed of bonds outstanding and accrued interest thereon and the decline each year in the liabilities resulted primarily from bond principal payments made during fiscal years 2011, 2010 and 2009, respectively.

**Financial Highlights and Overall Analysis – Governmental Funds Financial Statements**

FSC reports governmental activity using two funds: (1) a general fund (GF) and (2) a debt service fund (DSF). In fiscal year 2011, FSC implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). GASB 54 resulted in the creation of that general fund and the restatement of those activities that were formerly presented in the debt service fund that are now reported in the general fund. As such, FSC now reports in the GF administrative and operating expenditures and the transfer of funds from the DSF to the GF to pay for those expenditures, in accordance with the Indenture.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

**Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued**

The following summarizes the changes in the GF balances for the years ended June 30, 2011, 2010, and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Revenue:					
Investment income	\$ —	\$ 3	\$ 8	\$ (3)	\$ (5)
Total revenue	<u>—</u>	<u>3</u>	<u>8</u>	<u>(3)</u>	<u>(5)</u>
Expenditures:					
General and administrative	<u>130</u>	<u>151</u>	<u>123</u>	<u>(21)</u>	<u>28</u>
Total expenditures	<u>130</u>	<u>151</u>	<u>123</u>	<u>(21)</u>	<u>28</u>
Other financing sources:					
Transfers from debt service fund to general fund	<u>206</u>	<u>100</u>	<u>100</u>	<u>106</u>	<u>—</u>
Total other financing sources	<u>206</u>	<u>100</u>	<u>100</u>	<u>106</u>	<u>—</u>
Net change in fund balances	76	(48)	(15)	124	(33)
Fund balances – beginning of year	<u>365</u>	<u>413</u>	<u>428</u>	<u>(48)</u>	<u>(15)</u>
Fund balances – end of year	<u><u>\$ 441</u></u>	<u><u>\$ 365</u></u>	<u><u>\$ 413</u></u>	<u><u>\$ 76</u></u>	<u><u>\$ (48)</u></u>

FSC interest income decreased by \$3 thousand between fiscal years 2011 and 2010, and decreased by \$5 thousand between fiscal years 2010 and 2009 as interest rates have significantly declined. General and administrative expenditures between fiscal years 2011 and 2010 decreased by \$21 thousand, and increased by \$28 thousand between fiscal year 2010 and 2009, as retroactive management fee adjustments were paid in fiscal year 2010. Other financing sources increased between fiscal years 2011 and 2010 by \$106 thousand, as a one-time additional transfer of funds not needed for debt service was made.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

**Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued**

The following summarizes the changes in the fund balance of FSC's DSF for the years ended June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Revenue:					
Investment income	\$ 13,122	\$ 28,669	\$ 19,764	\$ (15,547)	\$ 8,905
Total revenue	<u>13,122</u>	<u>28,669</u>	<u>19,764</u>	<u>(15,547)</u>	<u>8,905</u>
Expenditures:					
Bond interest	14,006	14,403	14,851	(397)	(448)
Principal amount of bonds retired	<u>11,860</u>	<u>9,915</u>	<u>16,850</u>	<u>1,945</u>	<u>(6,935)</u>
Total expenditures	<u>25,866</u>	<u>24,318</u>	<u>31,701</u>	<u>1,548</u>	<u>(7,383)</u>
Other Financing Uses:					
Transfers from debt service fund to general fund	<u>(206)</u>	<u>(100)</u>	<u>(100)</u>	<u>(106)</u>	<u>—</u>
Total other financing uses	<u>(206)</u>	<u>(100)</u>	<u>(100)</u>	<u>(106)</u>	<u>—</u>
Net change in fund balances	(12,950)	4,251	(12,037)	(17,201)	16,288
Fund balances – beginning of year	<u>333,132</u>	<u>328,881</u>	<u>340,918</u>	<u>4,251</u>	<u>(12,037)</u>
Fund balances – end of year	<u><u>\$ 320,182</u></u>	<u><u>\$ 333,132</u></u>	<u><u>\$ 328,881</u></u>	<u><u>\$ (12,950)</u></u>	<u><u>\$ 4,251</u></u>

For the fiscal year ended June 30, 2011, the debt service fund reported approximately \$13 million of investment earnings, compared to \$29 million for 2010 and \$20 million for 2009 due to the decline of interest rates, as discussed previously.

The debt service fund during fiscal year 2011 had expenditures of approximately \$26 million, approximately \$24 million in fiscal years 2010 and \$32 million in fiscal year 2009. Interest expenditures on the outstanding bonds during fiscal year 2011 and fiscal 2010 were approximately \$14 million; compared to approximately \$15 million in 2009, when a larger principal amount of bonds was outstanding. Principal payments on bonds fluctuate between fiscal years in accordance with a fixed maturity schedule, which resulted in an increase between fiscal years 2011 and 2010 and a decrease between fiscal years 2010 and 2009.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

**Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued**

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Assets:					
Cash and investments	\$ 459	\$ 383	\$ 431	\$ 76	\$ (48)
Total assets	<u>\$ 459</u>	<u>\$ 383</u>	<u>\$ 431</u>	<u>\$ 76</u>	<u>\$ (48)</u>
Liabilities:					
Accrued expenditures	\$ 18	\$ 18	\$ 18	\$ —	\$ —
Total liabilities	<u>18</u>	<u>18</u>	<u>18</u>	<u>—</u>	<u>—</u>
Fund Balances:					
Restricted for debt service	—	—	—	—	—
Unassigned	<u>441</u>	<u>365</u>	<u>413</u>	<u>76</u>	<u>(48)</u>
Total fund balances	<u>441</u>	<u>365</u>	<u>413</u>	<u>76</u>	<u>(48)</u>
Total liabilities and fund balances	<u>\$ 459</u>	<u>\$ 383</u>	<u>\$ 431</u>	<u>\$ 76</u>	<u>\$ (48)</u>

The GF assets at June 30, 2011, 2010 and 2009 totaled approximately \$459 thousand, \$383 thousand and \$431 thousand, respectively. They are composed of unrestricted investments used to pay operating expenditures. The increase in asset value in fiscal year 2011 was due to the one-time additional transfer from the DSF collection account, as previously discussed.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Management's Discussion and Analysis

June 30, 2011 and 2010

(Unaudited)

(Amounts in thousands, except as noted)

**Financial Highlights and Overall Analysis – Governmental Funds Financial Statements, continued**

The following summarizes the DSF assets, liabilities and fund balances as of June 30, 2011, 2010 and 2009:

	2011	2010	2009	2011 v 2010 Change	2010 v 2009 Change
Assets:					
Cash, investments and other	\$ 320,182	\$ 333,132	\$ 328,881	\$ (12,950)	\$ 4,251
Total assets	<u>\$ 320,182</u>	<u>\$ 333,132</u>	<u>\$ 328,881</u>	<u>\$ (12,950)</u>	<u>\$ 4,251</u>
Liabilities	\$ —	\$ —	\$ —	\$ —	\$ —
Fund Balances:					
Restricted for debt service	<u>320,182</u>	<u>333,132</u>	<u>328,881</u>	<u>(12,950)</u>	<u>4,251</u>
Total fund balances	<u>320,182</u>	<u>333,132</u>	<u>328,881</u>	<u>(12,950)</u>	<u>4,251</u>
Total liabilities and fund balances	<u>\$ 320,182</u>	<u>\$ 333,132</u>	<u>\$ 328,881</u>	<u>\$ (12,950)</u>	<u>\$ 4,251</u>

The DSF assets at June 30, 2011, 2010 and 2009 totaled approximately \$320 million, \$333 million and \$329 million, respectively. They are composed of investments restricted to pay bondholders. The decline during fiscal year 2011 resulted primarily from debt service payments which were not fully offset by investment appreciation during the year. The increase in asset value during fiscal year 2010 is attributable to the investment income during the year, which reflected an appreciation of investment values, above the amount of debt service payments made during the year.

On August 5, 2011, Standard & Poor's Ratings Services (S&P) lowered its long-term rating on the sovereign debt of the United States of America to 'AA+' with a negative outlook. Correspondingly, S&P lowered the ratings on defeased bonds because they are secured by U.S. Treasury and U.S. agency securities. As FSC's debt is being paid from maturity of such securities, S&P lowered the rating on FSC debt in connection with its downgrade of the United States.

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**  
(A Component Unit of The City of New York)

Statements of Net Assets

June 30, 2011 and 2010

(Amounts in thousands)

	<b>2011</b>	<b>2010</b>
Assets:		
Unrestricted cash and cash equivalents	\$ 459	\$ 283
Restricted cash and cash equivalents	10	1
Unrestricted investments	—	100
Restricted investments	320,172	333,131
Unamortized bond issuance costs	1,388	1,666
Total assets	322,029	335,181
Liabilities:		
Accrued expenses	18	18
Accrued interest payable	3,755	3,903
Bonds payable:		
Portion due within one year	12,150	11,860
Portion due after one year	270,235	282,385
Unamortized bond discount	(213)	(255)
Total liabilities	285,945	297,911
Net assets:		
Restricted for debt service	34,255	35,239
Unrestricted	1,829	2,031
Total net assets	\$ 36,084	\$ 37,270

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**  
(A Component Unit of The City of New York)

Statements of Activities

For the years ended June 30, 2011 and 2010

(Amounts in thousands)

	<b>2011</b>	<b>2010</b>
Revenue:		
Investment income	\$ 13,122	\$ 28,672
Total revenue	13,122	28,672
Expenses:		
Bond interest	13,899	14,350
Amortization of costs of bond issuance	279	289
General and administrative	130	151
Total expenses	14,308	14,790
Change in net assets	(1,186)	13,882
Net assets – beginning of year	37,270	23,388
Net assets – end of year	\$ 36,084	\$ 37,270

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**  
(A Component Unit of The City of New York)

Governmental Funds Balance Sheets

June 30, 2011

(Amounts in thousands)

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
Assets:			
Unrestricted cash and cash equivalents	\$ 459	\$ —	\$ 459
Restricted cash and cash equivalents	—	10	10
Restricted investments	—	320,172	320,172
Total assets	\$ 459	\$ 320,182	\$ 320,641
Liabilities:			
Accrued expenditures	\$ 18	\$ —	\$ 18
Total liabilities	18	—	18
Fund balances:			
Restricted for debt service	—	320,182	320,182
Unassigned	441	—	441
Total fund balances	441	320,182	320,623
Total liabilities and fund balances	\$ 459	\$ 320,182	\$ 320,641

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**  
(A Component Unit of The City of New York)

Governmental Funds Balance Sheets

June 30, 2010

(Amounts in thousands)

	<b>General Fund</b>	<b>Debt Service Fund</b>	<b>Total Governmental Funds</b>
<b>Assets:</b>			
Unrestricted cash and cash equivalents	\$ 283	\$ —	\$ 283
Restricted cash and cash equivalents	—	1	1
Unrestricted investments	100	—	100
Restricted investments	—	333,131	333,131
Total assets	\$ 383	\$ 333,132	\$ 333,515
<b>Liabilities:</b>			
Accrued expenditures	\$ 18	\$ —	\$ 18
Total liabilities	18	—	18
<b>Fund balances:</b>			
Restricted for debt service	—	333,132	333,132
Unassigned	365	—	365
Total fund balances	365	333,132	333,497
Total liabilities and fund balances	\$ 383	\$ 333,132	\$ 333,515

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**  
(A Component Unit of The City of New York)

Reconciliations of Governmental Funds Balance Sheets to the  
Statements of Net Assets

June 30, 2011 and 2010

(Amounts in thousands)

	<b>2011</b>	<b>2010</b>
Total fund balance – governmental funds	\$ 320,623	\$ 333,497
Amounts reported in the statements of net assets are different because:		
Costs of debt issuance are reported as expenditures in the governmental funds 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.	1,388	1,666
Bond discounts are reported as other financing uses in the governmental funds financial statements upon issuance. 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.	213	255
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 governmental funds financial statements, but are reported in the statements of net assets. Those liabilities consist of:		
Bonds payable	(282,385)	(294,245)
Accrued interest payable	(3,755)	(3,903)
Net assets of governmental activities	\$ 36,084	\$ 37,270

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**  
(A Component Unit of The City of New York)

Governmental Funds Statements of Revenues, Expenditures, and  
Changes in Fund Balances

For the year ended June 30, 2011

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenue:			
Investment income	\$ —	\$ 13,122	\$ 13,122
Total revenue	<u>—</u>	<u>13,122</u>	<u>13,122</u>
Expenditures:			
Bond interest	—	14,006	14,006
Principal amount of bonds retired	—	11,860	11,860
General and administrative	130	—	130
Total expenditures	<u>130</u>	<u>25,866</u>	<u>25,996</u>
Other financing sources (uses):			
Transfers from the debt service fund to general fund	<u>206</u>	<u>(206)</u>	<u>—</u>
Total other financing sources (uses)	<u>206</u>	<u>(206)</u>	<u>—</u>
Net change in fund balances	76	(12,950)	(12,874)
Fund balances – beginning of year	<u>365</u>	<u>333,132</u>	<u>333,497</u>
Fund balances – end of year	<u><u>\$ 441</u></u>	<u><u>\$ 320,182</u></u>	<u><u>\$ 320,623</u></u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**  
(A Component Unit of The City of New York)

Governmental Funds Statements of Revenues, Expenditures, and  
Changes in Fund Balances

For the year ended June 30, 2010

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
Revenue:			
Investment income	\$ 3	\$ 28,669	\$ 28,672
Total revenue	<u>3</u>	<u>28,669</u>	<u>28,672</u>
Expenditures:			
Bond interest	—	14,403	14,403
Principal amount of bonds retired	—	9,915	9,915
General and administrative	151	—	151
Total expenditures	<u>151</u>	<u>24,318</u>	<u>24,469</u>
Other financing sources (uses):			
Transfers from the debt service fund to general fund	<u>100</u>	<u>(100)</u>	<u>—</u>
Total other financing sources (uses)	<u>100</u>	<u>(100)</u>	<u>—</u>
Net change in fund balances	(48)	4,251	4,203
Fund balances – beginning of year	<u>413</u>	<u>328,881</u>	<u>329,294</u>
Fund balances – end of year	<u>\$ 365</u>	<u>\$ 333,132</u>	<u>\$ 333,497</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Reconciliations of Governmental Funds Statements of Revenues, Expenditures, and  
Changes in Fund Balances to the Statements of Activities

For the years ended June 30, 2011 and 2010

(Amounts in thousands)

	<u>2011</u>	<u>2010</u>
Net change in fund balances – governmental funds	\$ (12,874)	\$ 4,203
Amount reported for activities in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the governmental funds financial statements, but the repayment reduces bond payable on the statements of net assets.	11,860	9,915
The governmental funds report 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.	(279)	(289)
The governmental funds report 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.	(43)	(44)
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds financial statements when the outlay of financial resources is due.	<u>150</u>	<u>97</u>
Change in net assets – governmental activities	\$ <u>(1,186)</u>	\$ <u>13,882</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, 2011 and 2010

(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 The City general obligation bonds. FSC's securities, which are held by the trustee for FSC, as they mature are expected to 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 The 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 (the 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 governmental funds 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.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

### (2) Summary of Significant Accounting Policies, continued

FSC uses two governmental funds for reporting its activities: a debt service fund (DSF), and a general fund (GF). The DSF is used to account for the accumulation of resources for payment of principal and interest on debt and the GF is used to account for all financial resources and activities not accounted for in the DSF, which relates to FSC's administrative and operating expenditures.

Under GASB 54, fund balances are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned or 5) unassigned.

Resources constrained for debt service or redemption in accordance with FSC's Indenture are classified as restricted on the statements of net assets and the governmental funds balance sheets.

The Board of Directors (the Board) of FSC constitutes FSC's highest level of decision-making authority. When resolutions are adopted by the Board that constrain fund balances for a specific purpose such resources are accounted for and reported as committed for such purpose unless and until a subsequent resolution altering the commitment is adopted by the Board.

Fund balances which are constrained for use for a specific purpose based on the direction of any officer of FSC who is duly authorized under FSC's bond indenture to direct the movement of such funds, are accounted for and reported as assigned for such purpose unless or until a subsequent authorized action by the same, or another duly authorized officer, or by the Board, is taken which removes or changes the assignment.

Resources that are not constrained are reported as unrestricted in the statement of net assets and unassigned in the governmental fund balance sheets.

When both restricted and unrestricted resources are available for use for a specific purpose, it is FSC's policy to use restricted resources first then unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use for a specific purpose, it is FSC's policy to use committed resources first, then assigned resources, and then unassigned resources as they are needed.

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

Bond discounts and issuance costs are deferred and amortized over the life of the related debt using the interest method in the government-wide financial statements. The amount of unamortized bond discount at June 30, 2011 and 2010 were \$213 and \$255, respectively, which were net of accumulated amortization of \$312 and \$270, respectively. The amount of unamortized issuance costs at June 30, 2011 and 2010 were \$1,388 and \$1,666, respectively, which were net of accumulated amortization of \$2,043 and \$1,765, respectively.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

**(2) Summary of Significant Accounting Policies, continued**

The governmental funds 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 governmental funds 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.

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 February 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), effective for periods beginning after June 15, 2010. In fiscal year 2011, FSC implemented GASB 54. GASB 54 changed the terminology and classification of fund balances to reflect spending constraints on the reported resources. It also changed the definitions of governmental fund types. The Statement changes the display of fund balances in the governmental fund financial statements and requires that governments disclose certain fund balance classifications and policies in the notes to the financial statements. As a result of FSC implementing GASB 54, it established a general fund to report its administrative expenses and restated prior period financial statements in accordance with the Statement. The impact of the implementation of GASB 54 reduced the beginning fiscal year 2010 DSF fund balance by \$413 thousand and increased the GF fund balance by the same amount. GASB 54 did not have any impact on FSC's reported level of total governmental fund balances.
- In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus* (GASB 59). The Statement clarifies the accounting for a number of financial instruments including allocated and unallocated insurance contracts. The Statement is effective for the financial statements for periods beginning after June 15, 2010. GASB 59 does not have an impact on FSC's financial statements.
- In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Agreements* (GASB 60). The Statement establishes the financial reporting for service concession agreements. The Statement is effective for financial statement periods beginning after December 15, 2011, but is not expected to have an impact on FSC.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

### (2) Summary of Significant Accounting Policies, continued

- In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – An Amendment of GASB Statement No. 14 and No. 34* (GASB 61). The Statement amends existing standards relating to the composition and reporting of the governmental financial reporting entity. The Statement is effective for financial statement periods beginning after June 15, 2012, but is not expected to have an impact on FSC or its status as a blended component unit of The City.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 GASB and AICPA Pronouncements* (GASB 62). The Statement incorporates a large volume of FASB and AICPA accounting pronouncements into the GASB hierarchy of generally accepted accounting principles for governments. The Statement is effective for financial statement periods beginning after December 15, 2011. FSC has not completed the process of evaluating GASB 62, but does not expect it to have an impact on its financial statements.

- In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The Statement establishes new reporting requirements of two elements (deferred outflows of resources and deferred inflows of resources) and renames the Statement of Net Assets to Statement of Net Position, as well as reported Net Assets, and components thereof, to Net Position. The Statement is effective for financial statements for periods beginning after December 15, 2011. FSC has not completed the process of evaluating GASB 63, but it is expected to change only the formatting and naming of FSC's statement of position and components thereof, with no overall financial impact.
- In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provision* (GASB 64). The Statement clarifies the existing requirements for the termination of hedge accounting upon default or termination of a swap counterparty or swap counterparty's credit support provider. The Statement is effective for financial statements for periods beginning after June 15, 2011. FSC has not completed the process of evaluating GASB 64, but does not expect it to have an impact on its financial statements.

Prior year amounts have been reclassified to conform with the current year presentation.

### (3) Bonds Payable

FSC has issued \$499 million of bonds and has \$282 million outstanding as of June 30, 2011. Outstanding bonds payable bear interest at fixed rates ranging from 3.51% to 4.93%.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(Amounts in thousands, except as noted)

**(3) Bonds Payable, continued**

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2011, is as follows:

	<b>Balance June 30, 2010</b>	<b>Period Ended June 30, 2011</b>	<b>Balance June 30, 2011</b>
		<b>Bonds Issued</b>	<b>Bonds Retired</b>
Series A	\$ 120,015	\$ —	\$ 5,220
Series B	134,630	—	6,065
Series C	39,600	—	575
<b>Totals</b>	<b>\$ 294,245</b>	<b>\$ —</b>	<b>\$ 11,860</b>

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

	<b>Balance June 30, 2009</b>	<b>Period Ended June 30, 2010</b>	<b>Balance June 30, 2010</b>
		<b>Bonds Issued</b>	<b>Bonds Retired</b>
Series A	\$ 121,530	\$ —	\$ 1,515
Series B	142,485	—	7,855
Series C	40,145	—	545
<b>Totals</b>	<b>\$ 304,160</b>	<b>\$ —</b>	<b>\$ 9,915</b>

Debt service requirements, including principal and interest at June 30, 2011, are as follows:

<b>Year ended June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
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	22,205	9,121	31,326
2017 to 2020	175,170	17,495	192,665
<b>Totals</b>	<b>\$ 282,385</b>	<b>\$ 75,583</b>	<b>\$ 357,968</b>

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, are held in trust for bondholders and reported as restricted assets on the debt service fund balance sheets and statements of net assets.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(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, 2011 and 2010. Cash equivalents were unrestricted and comprised of a Money Market Treasury Fund (see note 5). Cash and cash equivalents consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>
Cash:			
Uninsured and uncollateralized	\$ 10	\$	1
Cash equivalents (see note 5)	<u>459</u>		<u>283</u>
Total cash and cash equivalents	<u>\$ 469</u>	\$	<u>284</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 investments at fair value as of the statement of net assets date.

*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, 2011 and 2010, \$10 thousand and \$1 thousand of uncollateralized deposits were exposed to custodial credit risk, respectively.

**(5) Investments**

Investments consisted of the following at June 30, 2011 and 2010:

	<u>2011</u>		<u>2010</u>
Unrestricted:			
Money Market Funds	\$ 459	\$	283
Federal Home Loan Mortgage Corporation discount notes (maturing within one year)	<u>—</u>		<u>100</u>
Total – unrestricted	<u>459</u>		<u>383</u>
Restricted for debt service:			
U.S. Treasury bills (maturing within one year)	—		95
U.S. Treasury obligations (maturing within one year)	25,651		25,940
U.S. Treasury obligations (maturing after one year)	<u>294,521</u>		<u>307,096</u>
Total – restricted	<u>320,172</u>		<u>333,131</u>
Total investments including cash equivalents	320,631		333,514
Less amounts reported as cash equivalents (see note 4)	<u>(459)</u>		<u>(283)</u>
Total – investments	<u>\$ 320,172</u>	\$	<u>333,231</u>

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

A Component Unit of The City of New York

Notes to Financial Statements

June 30, 2011 and 2010

(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 at June 30, 2011 and 2010 are 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.