

**NEW YORK
LOCAL
GOVERNMENT
ASSISTANCE
CORPORATION**

(A Component Unit of the State of New York)



Basic Financial Statements

2006

NEW YORK
LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A Component Unit of the State of New York)
Basic Financial Statements
Year Ended March 31, 2006

T A B L E O F C O N T E N T S

SECTION	PAGE
Independent Auditors' Report	2
Management's Discussion and Analysis	3
Basic Financial Statements:	
Governmental Funds Balance Sheet/Statement of Net Assets (Deficit).....	8
Statement of Revenues, Expenditures and Changes in Fund Balances/ Statement of Activities.....	9
Notes to the Financial Statements.....	10



KPMG LLP
515 Broadway
Albany, NY 12207

Independent Auditors' Report

Board of Directors
New York Local Government Assistance Corporation:

We have audited the accompanying financial statements of the governmental activities (Statement of Net Assets (Deficit) and Statement of Activities) and each major fund of the New York Local Government Assistance Corporation (Corporation), a blended component unit of the State of New York, as of and for the year ended March 31, 2006, which collectively comprise the Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of March 31, 2006, and the respective changes in financial position, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 2, 2006 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing, of internal control over financial reporting and compliance and the results of that testing, and not provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-7 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

June 2, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the New York Local Government Assistance Corporation's (Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

- The Corporation's total bonds outstanding at year-end was \$4.4 billion net of unamortized amounts, a decrease of \$127 million from the prior year.
- The Corporation's outstanding variable interest rate bonds on March 31, 2006 comprised 46 percent of all its outstanding bonds; however, the Corporation has effectively reduced this amount to 19 percent through the use of interest rate exchange agreements.
- The Corporation's net asset deficit decreased by \$130 million as a result of this year's operations. The decrease in the net asset deficit is primarily a result of the repayment of bonds from State appropriations.
- During the year, the Corporation had revenues of \$328.7 million, which included \$321.3 million in appropriations from New York State.
- Total expenses of the Corporation on a full accrual basis were \$198.7 million, which includes \$191.1 million for interest on the Corporation's outstanding bonds.
- The Corporation's General Fund ended the year with an operating surplus and an accumulated surplus of \$451 thousand and \$2.9 million, respectively.
- The Corporation's Debt Service Fund ended the year with an operating surplus of \$1.6 million and a fund balance of \$471.5 million. Assets of the Fund included \$220.5 million in cash held by the Corporation's trustee that was used to pay debt service that was due and paid on April 3, 2006, \$250 million in investments, and \$1.0 million in interest receivable. Both the operating surplus and fund balance increase reported in the Debt Service Fund are attributable to the increase in State appropriations recorded in March 2006, which were necessary to make the April 3, 2006 debt service payment.
- The Corporation's \$418.8 million combined capital reserve requirement was met on an amortized cost basis by holding cash and investments with an amortized cost of \$248.9 million and owning a surety bond that will pay up to \$170 million through 2021 if needed to pay debt service.
- LGAC's bond ratings were upgraded by two of the three major rating agencies during its 2005-06 fiscal year. On February 16, 2006, Standard & Poor's upgraded the Corporation's bonds to AAA with a stable outlook from the previous rating of AA with a stable outlook. With this upgrade, Standard & Poor's has designated its highest bond rating to LGAC's outstanding bonds. On December 14, 2005, Moody's Investors Service upgraded the Corporation's bonds to Aa3 with a stable outlook from the previous rating of A1.

USING THIS FINANCIAL REPORT

This financial report consists of four financial statements presented on two pages. The first two financial statements are the Governmental Funds Balance Sheet/Statement of Net Assets (Deficit) found on page 8. The final two financial statements are the Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities found on page 9.

The Statement of Net Assets (Deficit) and the Statement of Activities provide information about the activities of the Corporation as a whole, and present a longer term view of the Corporation's finances by focusing on total available resources and changes therein. The fund financial statements indicate how services were financed in the short-term as well as amounts remaining for future spending. Fund financial statements also

report the Corporation's operations in more detail than the corporation-wide statements by providing information about the Corporation's two separate funds: the General Fund and the Debt Service Fund.

The change in the focus between currently available resources and total available resources is identified in the adjustment columns found on the financial statements (pages 8 and 9). To arrive at the Statement of Net Assets (Deficit), the accrued interest expense on the Corporation's bonds, the outstanding balance of bonds and certain other adjustments are added to the total column on the Governmental Funds Balance Sheet. This is displayed in the Adjustments column to the left of the Statement of Net Assets (Deficit). To arrive at the Statement of Activities, transactions relating to long-term liabilities and expenditures that were deferred and amortized are added to or eliminated from the Statement of Revenues, Expenditures and Changes in Fund Balances. For the Corporation, transactions not affecting its reported net assets are payments of debt principal, the advance repayment of debt, and expenditures incurred in prior periods. Amounts relating to the aforementioned transactions are displayed in the Adjustments column to the left of the Statement of Activities.

Reporting the Corporation as a Whole

The Statement of Net Assets (Deficit) and the Statement of Activities

These statements report the Corporation's net assets (deficit) and changes to the Corporation's net assets (deficit). Annual changes in the Corporation's net assets (deficit) - the difference between assets and liabilities - is one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net assets (deficit) are indicators of whether its financial health is improving or deteriorating. As the Corporation is entirely dependent on appropriations from the State of New York, in evaluating the financial health of the Corporation, the reader will also need to consider the ability and likelihood of the State to continue to make appropriations to the Corporation to support the payments of debt service on the Corporation's bonds as well as its other expenses.

Reporting the Corporation's Funds

Fund Financial Statements

The fund financial statements provide detailed information about its two distinct funds—not the Corporation as a whole. The fund financial statements are prepared using a different approach than the corporation-wide financial statements. The fund financial statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The Corporation's revenues and expenditures are reported in governmental funds. These funds are reported using the modified accrual method of accounting, which reports revenues as they become both measurable and available and are expected to be collected within the next fiscal year; expenditures are recorded in the period the liability is incurred and expected to be paid within the next fiscal year. The governmental fund statements provide a detailed short-term view of the Corporation's general government operating requirements for the year ended March 31, 2006.

THE CORPORATION AS A WHOLE

The Corporation will report annually a deficit in its net assets. The deficit in the Corporation's net assets arose as it carried out its statutory purpose of eliminating the State's annual short-term borrowing. During the years 1991 through 1995, the Corporation issued long-term obligations to finance State local

assistance payments, capital reserve requirements, and costs of debt issuance. This debt will be repaid from appropriations expected to be received from the State in subsequent years. This unrestricted deficit can be expected to continue for as long as the Corporation remains in existence.

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

Table 1
Net Assets (Deficit) as of March 31, 2006
(Amounts in thousands)

	2006	2005
Assets:		
Cash and investments	\$ 475,055	\$ 473,564
Interest receivable	1,030	697
Unamortized bond issuance costs	14,317	16,494
Total assets	490,402	490,755
Liabilities:		
Liabilities due within one year	222,220	222,816
Liabilities due in more than one year	4,244,121	4,373,827
Total liabilities	4,466,341	4,596,643
Net Assets:		
Restricted for debt service	470,466	469,204
Unrestricted (deficit)	(4,446,405)	(4,575,092)
Total net assets (deficit)	\$ (3,975,939)	\$ (4,105,888)

The Corporation's combined net deficit decreased by \$130 million from one year ago - from a deficit of \$4.106 billion to a deficit of \$3.976 billion. The decrease in the combined net deficit is primarily the result of repayment of Corporation debt.

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

Table 2
Changes in Net Assets for the fiscal year ended March 31, 2006
(Amounts in thousands)

	<u>2006</u>	<u>2005</u>
General Revenues:		
Appropriations from New York State	\$ 321,265	\$ 312,024
Investment income	7,412	1,104
Total revenues.....	<u>328,677</u>	<u>313,128</u>
Expenses:		
General and administrative.....	7,609	8,278
Rebate of investment earnings to the Federal government.....	-	48
Interest expense	191,119	185,018
Total expenses.....	<u>198,728</u>	<u>193,344</u>
Changes in net assets.....	129,949	119,784
Net assets (deficit), beginning of year	<u>(4,105,888)</u>	<u>(4,225,672)</u>
Net assets (deficit), end of year.....	\$ <u>(3,975,939)</u>	\$ <u>(4,105,888)</u>

THE CORPORATION'S FUNDS

At the close of the 2005-06 fiscal year, the Corporation reported a combined fund balance in its governmental funds (as presented in the balance sheet on page 8) of \$474.3 million, an increase of \$2 million or 0.4 percent over the prior year's combined fund balance of \$472.3 million. Included in this year's total change in fund balance is an operating surplus of \$451 thousand in the Corporation's General Fund and an operating surplus of \$1.6 million in the Corporation's Debt Service Fund. The primary reason for the Debt Service Fund's surplus was the increase in State appropriations recorded in March 2006 which were necessary to make the April 3, 2006 debt service payment.

Corporation Revenues and Expenditures

During the year, the Corporation received \$8 million in its General Fund from State appropriations. Additionally, the Corporation earned \$78 thousand in investment income. These revenues were used to fund \$7.6 million in general and administrative expenditures. The Corporation also received \$313.3 million in its Debt Service Fund from State appropriations for payment of debt service on its outstanding bonds and earned \$7.3 million in investment income on its Capital Reserve and Debt Service Funds.

Debt

The Corporation is authorized to issue up to \$4.7 billion of bond or notes plus an amount necessary to fund capital reserve requirements, costs of issuance and a limited amount of capitalized interest. As of March 31, 1996, the Corporation had issued all the debt it was authorized to issue. Any future debt issuance would be for refunding purposes. At year end, the Corporation had \$4.4 billion in bonds outstanding, net of

unamortized deferred amounts. This represents a \$127 million decrease from the prior year.

In addition to the debt noted above, the Corporation has \$1.2 million in other long-term obligations which represents investment earnings payable for rebate of investment earnings to the Federal government.

As of March 31, 2006, the ratings assigned to the Corporation are as follows: Aa3 by Moody's Investors Services, AAA by Standard and Poor's Ratings Services, and A+ by Fitch Ratings.

DEBT SERVICE COVERAGE RATIO

The Corporation is dependent upon receipts from the State of New York for payment of debt service on its bonds and for its operating costs. The State makes its payments from the Local Government Assistance Tax Fund (the Fund), under the custody of the State Comptroller and the Commissioner of Taxation and Finance. The Fund receives receipts collected within the State from the imposition of sales and use taxes, including interest and penalties (sales tax) at a 1 percent rate of taxation. Sales tax receipts received during the State's 2005-06 fiscal year were 6.8 times the maximum annual debt service and net payments under interest rate exchange agreements on the Corporation's outstanding bonds, including remarketing agent and broker-dealer costs and letter of credit fees at rates in effect at March 31, 2006.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Corporation's Office of Public Information at 110 State Street, 15th Floor, Albany, New York 12236.

NEW YORK
LOCAL GOVERNMENT ASSISTANCE CORPORATION
Governmental Funds Balance Sheet/Statement of Net Assets (Deficit)

March 31, 2006
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Assets (deficit)
Assets:					
Cash and investments.....	\$ 4,589	\$ 470,466	\$ 475,055	\$ —	\$ 475,055
Interest receivable.....	9	1,021	1,030	—	1,030
Unamortized bond issuance costs.....	—	—	—	14,317	14,317
Total assets.....	\$ 4,598	\$ 471,487	\$ 476,085	14,317	490,402
Liabilities:					
Accounts payable.....	\$ 1,742	\$ —	\$ 1,742	—	1,742
Accrued interest payable.....	—	—	—	76,963	76,963
Long-term liabilities:					
Due within one year.....	—	—	—	143,515	143,515
Due after one year :					
Bonds payable, net of amortized premiums and discounts.....	—	—	—	4,317,734	4,317,734
Rebate of investment earnings to the Federal government.....	—	—	—	1,243	1,243
Deferred loss on refunded bonds.....	—	—	—	(74,856)	(74,856)
Total liabilities.....	1,742	—	1,742	4,464,599	4,466,341
Fund Balances:					
Reserved for debt service.....	—	470,466	470,466	(470,466)	—
Unreserved.....	2,856	1,021	3,877	(3,877)	—
Total fund balances.....	2,856	471,487	474,343	(474,343)	—
Total liabilities and fund balances.....	\$ 4,598	\$ 471,487	\$ 476,085		
Net assets (deficit):					
Restricted for debt service.....				470,466	470,466
Unrestricted (deficit).....				(4,446,405)	(4,446,405)
Total net assets (deficit).....				\$ (3,975,939)	\$ (3,975,939)

See accompanying notes to the basic financial statements.

NEW YORK
LOCAL GOVERNMENT ASSISTANCE CORPORATION
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

Year Ended March 31, 2006
(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments (Note 7)</u>	<u>Statement of Activities</u>
General Revenues:					
Appropriations from New York State.....	\$ 8,000	\$ 313,265	\$ 321,265	\$ —	\$ 321,265
Investment income.....	78	7,334	7,412	—	7,412
Total revenues.....	<u>8,078</u>	<u>320,599</u>	<u>328,677</u>	<u>—</u>	<u>328,677</u>
Expenditures/Expenses:					
General and administrative.....	7,627	—	7,627	(18)	7,609
Rebate of investment earnings to the Federal government.....	—	836	836	(836)	—
Debt service					
Principal.....	—	140,085	140,085	(140,085)	—
Interest.....	—	178,087	178,087	13,032	191,119
Total expenditures/expenses.....	<u>7,627</u>	<u>319,008</u>	<u>326,635</u>	<u>(127,907)</u>	<u>198,728</u>
Excess (deficiency) of revenues over expenditures.....	<u>451</u>	<u>1,591</u>	<u>2,042</u>	<u>127,907</u>	<u>—</u>
Net change in fund balance.....	<u>451</u>	<u>1,591</u>	<u>2,042</u>	<u>(2,042)</u>	<u>—</u>
Change in net assets	<u>—</u>	<u>—</u>	<u>—</u>	<u>129,949</u>	<u>129,949</u>
Fund balances/net assets (deficit):					
Beginning of year.....	2,405	469,896	472,301	(4,578,189)	(4,105,888)
End of year.....	<u>\$ 2,856</u>	<u>\$ 471,487</u>	<u>\$ 474,343</u>	<u>\$ (4,450,282)</u>	<u>\$ (3,975,939)</u>

See accompanying notes to the basic financial statements.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

(1) Summary of Significant Accounting Policies

(a) Organization

The New York Local Government Assistance Corporation (Corporation) was established by Chapter 220, of the Laws of 1990 (as amended) to issue up to \$4.7 billion in long-term debt, in order to finance certain local assistance payments appropriated by the State of New York (State), in addition to bonds necessary to fund a capital reserve account, costs of issuance and up to six months of capitalized interest. Issuance of these bonds eliminated the need for the State's annual "Spring Borrowing." Prior to the creation of the Corporation, certain large payments due to the State's local government units were made in the first quarter of the State's fiscal year, particularly in support of primary and secondary education, while revenues were received more evenly throughout the fiscal year. To meet these payments, the State issued short-term tax and revenue anticipation notes referred to as the annual Spring Borrowing. Primarily as a result of bond issuances by the Corporation, there was no Spring Borrowing in the State's 1995 through 2006 fiscal years and the State does not project the need for a Spring Borrowing in its 2007 fiscal year. The fiscal year ended March 31, 2006 was the fifteenth year of the Corporation's existence. The Corporation is a blended component unit of the State and its continued operations are entirely dependent upon the annual appropriations received from the State.

Payments of debt service on the Corporation's bonds will be made from appropriations received from the State. Pursuant to the Act establishing the Corporation, the State deposits 1 cent of the State's sales and use tax into a special fund (the Local Government Assistance Tax Fund), which is used by the State to make payments to the Corporation. Amounts in excess of the Corporation's needs are transferred from the Local Government Assistance Tax Fund to the State's General Fund after the Corporation's requirements have been met as provided by statute. State payments to the Corporation are subject to annual appropriations by the State Legislature. The Corporation's bondholders do not have a lien on monies deposited in the Local Government Assistance Tax Fund.

(b) Basis of Presentation

The accompanying basic financial statements of the Corporation have been prepared in conformity with generally accepted accounting principles (GAAP) for governments. Such principles are prescribed by the Governmental Accounting Standards Board (GASB), which is the standard-setting body for establishing governmental accounting and financial reporting principles in the United States of America. The Corporation has prepared corporation-wide financial statements titled "Statement of Net Assets (Deficit)" and "Statement of Activities" as well as the required supplementary information titled "Management's Discussion and Analysis" which precedes the financial statements. The Corporation also prepares fund financial statements, which are the "Governmental Funds Balance Sheet", and "Statement of Revenues, Expenditures and Changes in Fund Balance." The basic financial statements include both the corporation-wide and the fund financial statements, which have been combined together and presented on the same pages.

The Corporation follows the principles of fund accounting in that each segment of operations is represented under a discrete fund presentation in the fund financial statements. The Corporation

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

uses funds to report its financial position and results of operations. The General Fund consists of the Operating Account, Cost of Issuance Accounts for new bond issuances, and the Local Assistance Payment Account. The Debt Service Fund consists of the Debt Service Accounts, the Capital Reserve Accounts, the Rebate Accounts, and the Cost of Issuance Accounts for refunding bond issuances. The General Fund is used to account for all financial transactions of the Corporation except for debt service related transactions which are accounted for in the Debt Service Fund. The Rebate Account within the Debt Service Fund is used to remit investment earnings to the United States Department of the Treasury, when necessary, in accordance with the Internal Revenue Code (arbitrage rebate payment).

(c) ***Basis of Accounting***

The Corporation utilizes the modified accrual basis of accounting, which focuses on changes in current financial resources, in the preparation of the fund financial statements. Under the modified accrual basis of accounting, revenues and related receivables are recorded in the accounting period that they become both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures and related liabilities are recorded in the accounting period the liability is incurred and payment is due, except for principal and interest on long-term debt and estimated other long-term liabilities which are recorded only when payment is due and payable.

Operating expenditures are direct costs incurred by the Corporation, such as legal fees, financial advisory fees, printing costs, trustee fees, letter of credit fees, remarketing agent fees, arbitrage rebate payments, and other related costs. Operating expenditures are paid from either bond proceeds or monies received from the State. Administrative staff support is provided by the State at no charge to the Corporation.

The Corporation utilizes the full accrual basis of accounting, which focuses on changes in total economic resources, in the preparation of the corporation-wide financial statements. Under the full accrual basis of accounting, changes in long-term assets and liabilities are incorporated into the financial statements. Since the fund financial statements are prepared using a different method of measuring revenues and expenditures and a different basis of accounting than the corporation-wide financial statements, an Adjustments column is presented to convert the fund basis financial statements into the corporation-wide financial statements.

Amortization of bond premiums has been computed by using the straight-line method in 2006. Amortization of bond discounts and premiums in prior years, beginning in 2003, was computed by the bonds outstanding method. The straight-line method of amortization was adopted to conform to current accepted practice. The effect of the change in 2006 was not material to the financial statements taken as a whole. In addition, the Corporation defers and amortizes issuance costs and deferred losses on refunding bond issuances using the straight-line method. Interest on capital appreciation bonds is accreted using the effective interest rate method.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

(d) Municipal Assistance Corporation Refinancing Act

Chapters 62 and Chapter 63 of the Laws of 2003 enacted, among other provisions, the Municipal Assistance Refinancing Act (Act), effective July 1, 2003 and deemed repealed July 1, 2034. The Act created an incentive for the State to seek an appropriation to provide \$170 million per year, from the Local Government Assistance Tax Fund (Fund) to the City of New York (City) for each of the City's fiscal years beginning July 1, 2003 and ending June 30, 2034. The Act requires the Corporation to annually certify \$170 million so that the State, subject to annual State appropriation by the Legislature, can provide for a series of payments to the City or the Mayor's assignee in each City fiscal year beginning July 1, 2003 and ending June 30, 2034 totaling \$5.27 billion.

The Act was established with the expectation that the City, acting through the Mayor, would assign the annual payments from the State to a newly created not-for-profit corporation that would issue bonds and use those proceeds to refinance all existing debt of the Municipal Assistance Corporation for the City of New York (MAC) due in the near term (approximating \$2.5 billion at the time of the Act). Subsequent to the Act, the City created the Sales Tax Asset Receivable Corporation (STARC) to securitize the annual payments and refinance the existing MAC bonds with the proceeds, as intended. The expected annual State payments of \$170 million would be used by STARC to pay the debt service on the refinanced debt. By law, the Fund receives one cent of the State's sales and use tax receipts (approximately \$2.6 billion during 2006). The balance of the Fund's receipts not needed by the Corporation for its purposes, are transferred from the Fund to the State's General Fund. Based on current law, until the Legislature enacts an appropriation of \$170 million, the Corporation certifies the release of the funds, and the \$170 million State payment is made, and the Corporation receives the amount it has certified for its needs, no excess sales tax receipts can be transferred from the Fund to the State's General Fund. During 2006, the Corporation certified the release of the second State payment of \$170 million to the City.

The Corporation filed a complaint in New York State Supreme Court in August 2003 seeking a court determination that the statute requiring a certification and possible payment by the Corporation to the City of New York or its assignee was invalid. Ultimately, the New York State Court of Appeals found the statute to be valid but determined that it does require an annual State appropriation to make any payments. The court further found that any annual payment required by the State could not interfere with the Corporation bondholders' rights.

In May 2004, the Corporation amended its General Bond Resolution and General Subordinate Lien Bond Resolution ("the Resolutions") to make clear that any failure to certify or assure that the State's payments are made to the City or its assignee has no impact on the Corporation's own bondholders; and that if any such act or omission were to occur with respect to any potential STARC bonds, that act or omission would not constitute an Event of Default with respect to the Corporation bonds. In June 2004, the Corporation's Trustee, The Bank of New York, notified the Corporation's bondholders of these amendments.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

(2) Cash and Investments

The Corporation's trustee holds investments for each of the funds included in the financial statements. The following are authorized investments for the Corporation's funds: direct bond obligations of the United States, direct and general obligations of New York State, bank certificates of deposit insured by the FDIC, any bank or trust company repurchase agreement secured by one or more of the above securities and general obligation bonds and notes of any state maintaining the highest rating from the major rating services. All investments are insured, registered, or held by the Corporation's trustee in the Corporation's name. The following table represents investments of the Corporation by investment type with related reported amounts which are equal to fair values (excluding accrued interest) at March 31, 2006 (amounts in thousands):

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Investment Maturities</u>	
		<u>Less than 1 Year</u>	<u>1-5 Years</u>
Repurchase agreements	\$ 71,232	\$ 71,232	\$ -
U.S. Treasury Notes	183,012	65,165	117,847
Totals	\$ 254,244	\$ 136,397	\$ 117,847

The Corporation reports its investments with an original maturity of greater than one year at quoted market price (fair value) and reports investments with an original maturity of one year or less at cost. The Corporation experienced a net decrease in the fair value of its investments during the year of \$3.6 million which has been reflected in the amount of investment income reported by the Corporation. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

The Corporation's repurchase agreements are collateralized by U.S. Treasury Notes with market values which are equal to or greater than the reported amount. Collateral in support of the investments is held by the trustee in the name of the Corporation. Pursuant to the Corporation's General Bond Resolution, the Corporation's trustee is required to transfer available debt service funds to a separate account on the business day preceding a debt service payment date. This transfer occurred on March 31, 2006 and the resulting transfer of \$220.5 million is included in cash and investments.

(3) Bonds Payable

The Corporation is authorized to issue up to \$4.7 billion in bonds plus an amount necessary to fund a capital reserve, costs of issuance, and a limited amount of capitalized interest. As of March 31, 1996 the Corporation had issued bonds equal to its authorized amount. Under existing statutes, any issuance of bonds by the Corporation in the future will be for refunding purposes only.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

As of March 31, 2006 the Corporation had \$2.0 billion of variable interest rate debt in twenty-three series of bonds outstanding as follows (rates include remarketing agent, broker-dealer and letter of credit fees):

Series	Outstanding (thousands)	Interest Rate at March 31, 2006	Current Interest Rate Mode	Liquidity Support		
				Type of Liquidity Support *	Expiration Date	Bank Optional Termination Date
1993A	\$ 223,900	3.540%	Weekly	LOC	12/31/2015	12/31/2010
1994B.....	124,600	3.490%	Weekly	LOC	12/31/2015	12/31/2010
1995B.....	82,000	3.480%	Weekly	LOC	7/1/2010	N/A
1995C.....	81,700	3.480%	Weekly	LOC	12/31/2015	7/1/2010
1995D	81,600	3.500%	Weekly	LOC	7/1/2010	N/A
1995E.....	81,700	3.530%	Weekly	LOC	12/31/2015	7/1/2010
1995F.....	81,700	3.470%	Weekly	LOC	7/1/2010	N/A
1995G	81,900	3.480%	Weekly	LOC	7/1/2010	N/A
2003A-BV ...	188,320	3.275%	Weekly	SBPA	2/20/2009	N/A
2003A-3V ...	137,500	3.460%	Weekly	SBPA	12/1/2015	2/1/2010
2003A-4V ...	137,500	3.480%	Weekly	SBPA	12/31/2015	12/31/2010
2003A-5V ...	91,665	3.275%	Weekly	SBPA	2/20/2009	N/A
2003A-6V ...	100,000	3.280%	Weekly	SBPA	2/20/2009	N/A
2003A-7V ...	50,780	3.265%	Weekly	SBPA	2/20/2009	N/A
2003A-8V ...	40,885	3.305%	Weekly	SBPA	2/20/2009	N/A
2003A-9V ...	63,350	3.150%	Auction	None	N/A	N/A
2003A-10V ..	63,325	3.150%	Auction	None	N/A	N/A
2003A-11V ..	63,350	3.050%	Auction	None	N/A	N/A
2003A-12V ..	63,325	3.000%	Auction	None	N/A	N/A
2004A-AV ...	52,600	3.100%	Auction	None	N/A	N/A
2004A-BV ...	52,625	3.150%	Auction	None	N/A	N/A
2004A-CV ...	52,600	3.150%	Auction	None	N/A	N/A
2004A-DV ...	52,625	3.150%	Auction	None	N/A	N/A
Total	\$ 2,049,550					

* LOC Letter of Credit
SBPA Standby Bond Purchase Agreement
N/A Not Applicable

The interest rates on variable interest rate bonds in the weekly interest rate mode are reset at rates determined by the Corporation's remarketing agents. The interest rates on variable interest rate bonds in the auction rate mode are determined by the Corporation's auction agent in accordance with the auction rate procedures established by Corporate resolution. The mode of interest of each of the variable-rate bonds may be changed by the Corporation from or to the daily rate mode, weekly rate mode, long-term rate mode and also to fixed-rate mode. The banks securing the Series 1993A and Series 1994B variable interest rate bonds have joint and several interest in the letters of credit issued to the trustee. The Series 1995B through Series 1995G variable interest rate bonds are individually secured by letters of credit with

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

three banks (each bank holds a letter of credit for two separately secured series). The trustee is authorized to draw on each of the credit facility banks for the entire principal amount of variable interest rate bonds outstanding of each series, plus 70 days of interest calculated at a rate of 12 percent. The letters of credit are subject to early termination at the option of the bank at dates shown above. The amount available under the Standby Bond Purchase Agreement supporting the Series 2003A-BV through Series 2003A-8V is equal to the bond purchase price and up to 35 days interest at an annual rate of 12 percent. The Series 2003A-9V through Series 2003A-12V bonds and the Series 2004A-AV through Series 2004A-DV bonds, currently in the auction rate mode, do not require liquidity support because investors do not have the right to “demand or put” the bonds back to the Corporation as is the case with all the variable-rate bonds in the weekly interest mode.

The State dedicated a portion of its sales and use tax revenues to make payments to the Corporation pursuant to a payment agreement between the State Director of the Budget and the Corporation for the purpose of funding the Corporation's debt service. Subject to appropriation, the State will make these payments to the Corporation five days prior to the debt service due date. The \$318.2 million representing 2006 debt service payments is comprised of \$140.1 million in principal and \$178.1 million in interest.

The Corporation's general bond resolution requires that one or more capital reserve accounts be established and funded in an amount equal on an amortized cost basis to the maximum annual amount on Senior Lien Bonds and half the maximum annual amount on Subordinate Lien Bonds of principal, sinking fund installments or redemption price of and interest on all bonds outstanding or on any related reimbursement obligations, coming due during the then current or any succeeding fiscal year. The Corporation may also fund a capital reserve account with a surety bond or other similar instrument. The Corporation has established two separate capital reserve accounts to support bonds based upon the priority of their lien against funds of the Corporation—bonds holding a first lien (Senior Lien) and bonds holding a subordinate lien (Subordinate Lien). At March 31, 2006, the Senior Lien Capital Reserve Account requirement was met by a surety bond of \$170.0 million, expiring on April 1, 2021 and investments with an amortized cost of \$199.0 million and a fair value of \$196.6 million. At March 31, 2006, the Subordinate Lien Capital Reserve Account requirement was met with investments with an amortized cost of \$49.9 million and a fair value of \$49.0 million. The investments of both the Senior Lien and Subordinate Lien Capital Reserve Accounts are reported as a part of cash and investments in the Debt Service Fund with a corresponding reservation of fund balance.

The Corporation has entered into interest rate exchange agreements (swap agreements), as disclosed under Note 4 “Interest Rate Exchange Agreements”. The effect of these swap agreements is to provide for a synthetic fixed-rate of interest on \$1.21 billion of the Corporation's \$1.573 billion in bonds that were issued as variable-rate bonds in 2003 and 2004. The remainder of the bonds issued in 2003 and 2004 were issued as fixed-rate bonds.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Net Swap Amount</u>	<u>Total</u>
2007	\$ 143,515	\$ 179,474	\$ 702	\$ 323,691
2008	182,080	173,723	366	356,169
2009	200,045	166,951	784	367,780
2010	211,095	158,899	713	370,707
2011	220,770	149,547	627	370,944
2012-2016.....	1,271,255	581,372	7,129	1,859,756
2017-2021.....	1,618,255	279,566	12,684	1,910,505
2022-2026.....	639,540	35,565	4,720	679,825
Totals.....	\$ <u>4,486,555</u>	\$ <u>1,725,097</u>	\$ <u>27,725</u>	\$ <u>6,239,377</u>

Future debt service is calculated using rates in effect at March 31, 2006 for variable-rate bonds. The net swap payment amounts were calculated by subtracting the future variable-rate interest payments subject to swap agreements from the synthetic fixed-rate amount intended to be achieved by the swap agreements.

The actual amount of net swap payments is affected by changes in a published index—the London Interbank Offered Rate (LIBOR). At March 31, 2006 this index was in a favorable range for the Corporation, but subject to fluctuations. To the extent the index fluctuates above or below the 65 percent of LIBOR, the Corporation's net debt service will be more or less, respectively, than amounts shown above.

The Corporation is in compliance with all significant limitations and restrictions related to bonds payable.

(4) Interest Rate Exchange Agreements (Swap Agreements)

Objective of the Swap Agreements

As a means to lowering its borrowing costs, when compared against fixed-rate bonds at the time of issuance in February 2003, the Corporation entered into four swap agreements in connection with its issuance of \$1 billion of variable-rate revenue bonds (Series 2003A-BV through Series 2003A-12V). In February 2004, the Corporation entered into two additional swap agreements in connection with its issuance of \$210 million of variable-rate revenue bonds (Series 2004A-AV through Series 2004A-DV).

The intention of the swap agreements was to effectively change the Corporation's interest rate on the bonds to a synthetic fixed-rate of approximately 3.57 percent for the 2003 bond issue and 3.46 percent for the 2004 bond issue, including support costs and bond insurance fees.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

Terms of the Interest Rate Swap Agreements

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

<u>Terms</u>	<u>2003 Bond Series</u>	<u>2004 Bond Series</u>
Corresponding bond series.....	2003A-BV to 2003A-12V	2004A-AV to 2004A-DV
Final maturity of bonds	April 1, 2024	April 1, 2021
Final maturity of related swap agreements	April 1, 2024	April 1, 2021
Swaps' notional amount.....	\$1 billion	\$210 million
Variable-rate bonds	\$1 billion	\$210 million
Fixed payment rates paid to counterparties.....	3.15% to 3.26%	3.19% to 3.22%
Variable payments received computed as	65% of one month LIBOR	65% of one month LIBOR

The variable-rates on the bonds are determined by remarketing agents for bonds in the weekly interest rate mode and by auction agents for bonds in the auction rate mode.

As of March 31, 2006 average rates were as follows:

	<u>Terms</u>	<u>Rates</u>	
		<u>2003</u>	<u>2004</u>
Interest rate swap agreement:			
Effective fixed payment to counterparty	Fixed	3.57%	3.46%
Less variable payment from counterparty	65% of LIBOR	(3.38%)	(3.30%)
Net interest rate swap payments19%	.16%
Average variable-rate bond coupon payments	Remarketing/Auction Agent	3.28%	3.14%
Approximate synthetic interest rate on Bonds		3.47%	3.30%

Fair Value of the Interest Rate Swap Agreements

Due to the fact that interest rates have changed since execution of the swaps, the swaps have an estimated fair value equal to their termination cost of \$31.9 million at March 31, 2006. The swaps estimated fair value was countered by an increase in total interest payments required under the variable-rate bonds. Because the interest the Corporation pays on variable-rate bonds adjusts with changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Credit Risk of the Interest Rate Swap Agreements

The swap agreements require each counterparty to have credit ratings from at least one nationally recognized statistical rating agency that is within the two highest investment grade categories. Ratings which are obtained from any other nationally recognized statistical rating agencies for such counterparty shall be within the three highest investment grade categories, or the payment obligations of the counterparty must be unconditionally guaranteed by an entity with such credit ratings. The swap agreements also require that, should the credit rating of a counterparty fall below the rating required, the obligations of such counterparty shall be fully and continuously collateralized by direct obligations of, or obligations the principal and interest on which are guaranteed by, the United States of America, with a net market value of at least 102 percent of the net market value of the contract to the Corporation, and such collateral shall be deposited with the Corporation or its agent.

As of March 31, 2006, the Corporation was exposed to credit risk equal to the fair value of the swap because the swaps had a positive fair value. The lowest ratings of the six swap counterparties were AA- by Fitch Ratings, AA- by Standard & Poor's, and Aa3 by Moody's Investors Service as of March 31, 2006.

Basis Risk of the Interest Rate Swap Agreements

The swap agreements expose the Corporation to basis risk should the relationship between the LIBOR and actual variable-rate payments converge, changing the synthetic rate on the bonds. The effect of this difference in basis is indicated by the difference between the intended synthetic rate (approximately 3.57 percent for the 2003 notional amount and 3.46 percent for the 2004 notional amount) and the actual synthetic rate.

Termination Risk of the Interest Rate Swap Agreements

The swap contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The schedule to the Master Agreement includes "additional termination events", providing that the swaps may be terminated if either the Corporation's or a counterparty's credit quality rating falls below certain levels. Either the Corporation or the counterparties may terminate the swap agreements if the other party fails to perform under the terms of the contract. If one or more of the swap agreements is terminated, the related variable-rate bonds would no longer be hedged and the Corporation would no longer effectively be paying a synthetic fixed-rate with respect to those bonds. Also, if at the time of termination the swap has a negative fair value, the Corporation would be liable to the counterparty for a payment equal to the swap agreement's fair value.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

(5) Changes in Long-Term Liabilities

Long-term liability activity for the year ended March 31, 2006 was as follows (amounts in thousands):

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due within</u> <u>One Year</u>
Bonds payable	\$ 4,626,640	\$ -	\$ 140,085	\$ 4,486,555	\$ 143,515
Unamortized premium	26,410	-	3,599	22,811	-
Unaccreted discount on bonds.....	(53,264)	5,147	-	(48,117)	-
Deferred loss on advance refunding of bonds	(86,376)	-	(11,520)	(74,856)	-
Net bonds payable	4,513,410	5,147	132,164	4,386,393	143,515
Other Liability:					
Rebate of investment earnings to the Federal government	2,097	-	854	1,243	-
Long-term liability activity	\$ 4,515,507	\$ 5,147	\$ 133,018	\$ 4,387,636	\$ 143,515

(6) Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Statement of Net Assets (Deficit).

Long-term liabilities of the Corporation's activities are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets (Deficit). Balances at March 31, 2006 were (amounts in thousands):

Bonds payable, net	\$ 4,386,393
Accrued Interest on bonds payable.....	76,963
Unamortized bond issuance costs	(14,317)
Rebate of investment earnings to the Federal government not due and payable at year-end.....	1,243
Net adjustment.....	\$ 4,450,282

(7) Explanation of Certain Differences between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Statement of Activities.

Repayment of bond principal and payment of bond issuance costs are reported as an expenditure in the governmental funds and therefore contribute to the change in fund balance. In the Statement of Net Assets (Deficit), however, repaying bond principal decreases long-term liabilities and payment of bond issuance costs becomes an asset to be deferred over the life of the bonds and does not affect the statement of

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)

Notes to the Financial Statements
Year Ended March 31, 2006

activities. Similarly, recognition of revenues and expenditures not expected to be received or paid in the current year will not affect the fund balance reported for the governmental funds. In the Statement of Activities prepared on the full accrual basis, however, all revenues and expenses are recognized in the year they are earned or incurred regardless of when they are paid and will therefore be reflected in the Statement of Activities. These differences in measurement recognition affect both the reported fund balance and reported net assets. Adjustments required to be made to the reported governmental funds expenditures to arrive at the statement of activities are as follows (amounts in thousands):

Adjustment to expenditures

Repayment of bond principal:	
To bondholders for repayment of debt	\$ (140,085)
Adjustment for expense not due at year-end	(854)
Amortization of loss on refunding of bonds	11,520
Amortization of premium on refunding of bonds	(3,599)
Amortization of issue costs on refunding of bonds	2,177
Net adjustment to arrive at interest expense	<u>2,934</u>
Net adjustment to expenditures	<u><u>\$ (127,907)</u></u>



KPMG LLP
515 Broadway
Albany, NY 11207

June 2, 2006

Board of Directors
New York Local Government Assistance Corporation:

We have audited the basic financial statements of the New York Local Government Assistance Corporation (the "Corporation") as of and for the fiscal year ended March 31, 2006, and have issued our report thereon dated June 2, 2006. In planning and performing our audit of the financial statements of the Corporation, we considered internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements. An audit does not include examining the effectiveness of internal control and does not provide assurance on internal control. We have not considered internal control since the date of our report.

Our audit procedures are designed primarily to enable us to form an opinion on the financial statements, and therefore may not bring to light all weaknesses in policies or procedures that may exist. We aim, however, to use our knowledge of the Corporation's organization gained during our audit to make comments and suggestions that we hope will be useful to you.

During our audit, we noted certain matters involving internal control and other operational matters that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal control or result in other operating efficiencies and are summarized on the attached schedule of observations.

We would be pleased to discuss these comments and recommendations with you at your convenience.

This report is intended solely for the information and use of the Corporation's Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

KPMG LLP

Public Authorities Accountability Act of 2005

On January 13, 2006, the Governor signed the Public Authorities Accountability Act of 2005 (the "Act") which makes changes regarding the operation and governance of New York State public authorities, which includes the New York Local Government Assistance Corporation (the "Corporation"). In recent years, there has been an emphasis on increased transparency within the financial reporting environment for entities within all industries, including the various agencies and public authorities within the State of New York. The goal of the Act is to promote transparency in reporting financial results, by having certain public authorities make additional public disclosures and improving governance standards. Provisions of the Act which significantly impact the Corporation are as follows:

- The Act increased the number of Board members from three to seven, with the additional four board members being appointed by the Governor and whose terms expire at the end of the term of the Governor.
- An annual report or reports must be submitted within ninety days of fiscal year end to the Governor, the Chairman and Ranking Minority member of the Senate Finance Committee, the Chairman and Ranking Minority member of the Assembly Ways and Means Committee and the State Comptroller. The report or reports must set forth its operations and accomplishments, revenues and expenses or receipts and disbursements during the Corporation's fiscal year and the assets and liabilities at the end of its fiscal year, information related to the Corporation's outstanding and defeased debt, the Corporation's code of ethics and an assessment of the effectiveness of its internal control structure and procedures.
- To the extent practicable, the Corporation shall make accessible to the public via its official web site documentation pertaining to its mission, current activities, most recent annual financial reports, current year budget and most recent independent audits.
- Each financial report required to be submitted pursuant to Section 2800 of the Public Authorities Law must be approved by the board and shall certify in writing by the Executive Director and Chief Financial Officer (Treasurer) of the Corporation that based on their knowledge the information is accurate and complete, does not contain untrue statements or omits any material fact, and fairly presents in all material respects the financial condition and results of operations of the Corporation.
- The Corporation is required to submit not less than ninety days before the commencement of its fiscal year to the Governor, the Chairman and Ranking Minority member of the Senate Finance Committee, the Chairman and Ranking Minority member of the Assembly Ways and Means Committee and the State Comptroller in the form submitted to the Corporation Board budget information on operations setting forth the estimated receipts and expenditures for the next fiscal year and the current fiscal year and the actual receipts and expenditures for the last completed fiscal year
- The Corporation is required to submit to the Governor, the Chairman and Ranking Minority member of the Senate Finance Committee, the Chairman and Ranking Minority member of the Assembly Ways and Means Committee and the State Comptroller within thirty days after receipt of the independent audit report, management letter and any other external examination of the books and records of the Corporation except those made by the Office of the State Comptroller.
- The Board of Directors of the Corporation is now required to adopt a code of ethics, adopt a defense and indemnification policy, as well as conduct other duties expected of a governing board. In addition, individuals appointed to the Board of the Corporation are required to participate in State approved training regarding their legal, fiduciary, financial and ethical responsibilities as directors of the Corporation within one year of appointment to the Board.

- The Corporation's board is now required to establish an audit committee comprised of independent members who to the extent practicable are familiar with corporate financial and accounting practices. The audit committee will recommend to the Board the hiring of the Corporation's independent auditing firm as well as establish the compensation paid to the firm and provide direct oversight of the performance of the firm.
- The Corporation's board is also now required to establish a governance committee to be comprised of independent members whose responsibilities will be to keep the members of the Board informed of current best governance practices, review corporate governance trends, update the Corporation's governance principals and to advise appointing authorities on the skills and experiences required of potential board members.

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

We noted during our audit that at June 2, 2006, the Governor has yet to appoint the additional four members of the Board of Directors. As a result, the Corporation's current Board of Directors is currently unable to create independent audit or governance committees as required by the Act.

In addition, we noted the following as of June 2, 2006 despite the Corporation's stated commitment to comply with the provisions of the Act:

- The Board of Directors of the Corporation has not adopted a code of ethics nor set policies and procedures for providing Board members with required training.
- The Corporation does not have an annual report that outlines its code of ethics and an assessment of the effectiveness of its internal control structure and procedures.
- The Corporation does not currently certify in writing by the Executive Director and Chief Financial Officer (Treasurer) of the Corporation that based on their knowledge the financial report information is accurate and complete, does not contain untrue statements, omit any material fact, and fairly presents in all material respects the financial condition and results of operations of the Corporation.

Recommendation

We recommend the appointment of four additional Board members as soon as practical and the implementation of items noted above that the Corporation must undertake in order to be in compliance with the Act for the Corporation's year ended March 31, 2007.

Management's Response

Members of the Corporation's Board of Directors are appointed by a legally separate appointing authority not under the Corporation's control. The appointing authority is aware that the Corporation has four vacancies on its Board of Directors. The Corporation's management has reviewed the requirements of the Public Authority Accountability Act (the Act). Management of the Corporation is in the process of preparing necessary policies and procedures to comply with requirements of the Act for the Corporation's fiscal year ending March 31, 2007, as required by the Act.

Public Authority Regulations Issued by the Office of the State Comptroller

On March 29, 2006, the Office of the State Comptroller issued revised and/or new regulations under statutory authority granted under the State Constitution, Public Authorities Law and State Finance Law. The requirements are codified under Part 201, 203 and 204 of the Official Compilation of Codes, Rules and Regulations of the State of New York (NYCRR). NYCRR Part 201 sets forth the reporting and accounting requirements, investment guidelines and submission requirements of required documents and reports of covered public authorities. NYCRR Part 203 sets forth the specific requirements in connection with the submission and format of, the preparation and supporting documentation for, and the monitoring of the annual budgets and financial plans for covered public authorities. NYCRR Part 204 sets forth the requirements in connection with the preparation, submission, and formatting of data relating to the accounting and reporting of State supported debt for State financial reporting purposes. The regulations were effective on March 29, 2006.

The Office of the State Comptroller is implementing the collection of data required under Part 203 in stages. The Office sent formal notification of the need to comply with the new regulation on May 18, 2006 for entities with fiscal years ending on June 30. On July 21, 2006, similar notification was sent to entities with fiscal years ending on October 31, 2006. Since LGAC has a fiscal year ending on March 31, it will be expected to comply with the provisions of Part 203 for its fiscal year beginning on April 1, 2007.

Unless provided a waiver for a specific regulation by the Office of the State Comptroller the Corporation is a covered Public Authority under Parts 201 and 203 and has State supported debt outstanding that requires reporting under Part 204.

During our audit we noted that at June 2, 2006:

- The Corporation needs to modify certain aspects of its existing investment guidelines to conform to the Comptroller's requirements set forth in Part 201.
- Although the Corporation has created an annual budget, additional policies and procedures related to Part 203 are needed to fully conform to the regulatory specifications for preparation, submission and monitoring of an annual budget in order to be in compliance for the Corporation's fiscal year beginning April 2007.
 - The Corporation must create a three year financial plan.
 - The annual budget must be approved by the Corporation's Board.
 - The proposed budget must be made available for public inspection.
 - All the requirements for budget presentation outlined in Part 203.6 need to be implemented.
 - All requirements for reporting outlined in Part 203.8 need to be implemented.
 - All requirements for certification outlined in Part 203.9 need to be implemented.

Recommendation

We recommend that the Corporation either revise its existing investment guidelines to conform to the Comptroller's requirements set forth in Part 201 or request a waiver for specific provisions of the regulation.

We also recommend that the Corporation review the adequacy of existing policies and procedures and create new policies and procedures, where necessary to ensure compliance with the provisions of Part 203 or request a waiver.

Management's Response

Management of the Corporation has reviewed the requirements of the new and revised regulations and is in the process of preparing policies and procedures or other documents that will facilitate its compliance with Part 201 and 203 for its fiscal year to begin April 1, 2007.