New York Local Government Assistance Corporation

(A Component Unit of the State of New York)

Basic Financial Statements

for fiscal year ended March 31, 2014

NEW YORK
LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A Component Unit of the State of New York)
Basic Financial Statements
Year Ended March 31, 2014

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Independent Auditor's Report

Board of Directors
New York Local Government Assistance Corporation
Albany, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the New York Local Government Assistance Corporation (Corporation), as of and for the year ended March 31, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 New York Local Government Assistance Corporation, as of March 31, 2014, and the respective changes in financial position and, where applicable, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Corporation adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB No. 65). The provisions of GASB No. 65 are retroactive, and the Corporation has restated certain prior period amounts to conform to the presentation requirements.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis* on pages 4 to 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 13, 2014, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

SaxBST LLP

Albany, New York
June 13, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The following discussion and analysis of the New York Local Government Assistance Corporation's (the "Corporation" or "LGAC") financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2014.

FINANCIAL HIGHLIGHTS

- The Corporation's total bonds outstanding at year-end were $2.7 billion net of unamortized amounts, a decrease of $276.7 million from the prior year.
- The Corporation's variable interest rate bonds outstanding on March 31, 2014 comprised approximately 28 percent of all its outstanding bonds; however, the Corporation has hedged its exposure to nearly all of its variable interest rate debt through the use of interest rate exchange agreements.
- A portion of the Corporation's Senior Capital Reserve Fund is currently funded with a municipal bond debt service reserve fund policy. Pursuant to a reinsurance agreement between FGIC and National Public Finance Guarantee Corporation, a subsidiary of MBIA, Inc., National Public Finance Guarantee Corporation has reinsured certain obligations of FGIC, including the FGIC Municipal Bond Debt Service Reserve Insurance Policy on deposit in the Senior Capital Reserve Fund. As of March 31, 2014, National Public Finance Guarantee is rated Baa1 by Moody's and AA- by Standard and Poor's Rating Services.
- The Corporation's net position as of March 31, 2014 is a deficit of $2.3 billion. This represents an increase of $271 million from the Corporation's net position from the previous fiscal year-end, a deficit of $2.6 billion. This increase is primarily the result of repayment of bonds offset by a restatement of net position resulting from the implementation of an accounting standard which requires recognition of bond issuance costs in the current period.
- During the 2013-14 year, the Corporation had revenues of $379.8 million, which included $379.3 million in funds drawn from appropriations from New York State.
- Total expenses of the Corporation in 2013-14 on a full accrual basis were $108.9 million, which includes $104.8 million for interest on the Corporation's outstanding bonds.
- The Corporation's General Fund ended the year with an annual operating deficit of $53 thousand and a fund balance of $2.2 million.
- The Corporation's Debt Service Fund ended the year with an annual operating deficit of $8.5 million and a fund balance of $474.5 million. Assets in the Debt Service Fund included $160.7 million in investments, $313.7 million in cash, and $151 thousand in interest receivable. The Corporation's Trustee held the cash to pay debt service of $313.7 million that was payable on April 1, 2014. The annual operating deficit and related decrease in fund balance in the Debt Service Fund is attributable to the fact that the funds drawn from State appropriations were less than debt service paid.
- The Corporation's $317.1 million combined capital reserve requirements were satisfied on an amortized cost basis by holding cash and investments with an amortized cost of $147.1 million and owning a surety bond that will pay up to $170 million through April 1, 2021 to pay debt service, if needed.
- The bond ratings assigned to the Corporation as of March 31, 2014 were Aa2 by Moody's Investors Service, AAA by Standard and Poor's Ratings Services, and AA by Fitch Ratings, Inc.

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 Position on page 9. The final two financial statements are the Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities on page 10.

The Statement of Net Position and the Statement of Activities provide information about the activities of the Corporation as a whole, and present a longer term view of the Corporation's finances by focusing on total available resources and changes therein. The fund financial statements indicate how expenditures were financed in the short-term as well as reflecting amounts remaining as fund balance. Fund financial statements also report the Corporation's operations in more detail than the Corporation-wide statements by providing information about the Corporation's two separate funds: the General Fund and the Debt Service Fund.

The change in the focus between currently available resources and total available resources is identified in the Adjustments columns found on the financial statements (pages 9 and 10). To arrive at the Statement of Net Position, 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 Position. 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 position 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 Position and the Statement of Activities

These statements report the Corporation's net position and changes to the Corporation's net position. Annual changes in the Corporation's net position - assets and deferred outflows of resources less liabilities and deferred inflows of resources - is one way to measure the Corporation's financial health or financial position. Over time, increases or decreases in the Corporation's net position 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 (State) in evaluating the financial health of the Corporation, the reader will also need to consider the ability and likelihood of the State to continue to make appropriations to the Corporation to support the payments of debt service on the Corporation's bonds, as well as its other expenses.

Reporting the Corporation's Funds

Fund Financial Statements

The fund financial statements provide detailed information about the Corporation's two distinct funds - not the Corporation as a whole. The fund financial statements are prepared using a different approach than the Corporation-wide financial statements. The fund financial statements focus on how money flows into and out of those funds and the balances remaining at year-end. The Corporation's revenues and expenditures are reported in governmental funds. These funds are reported using the modified accrual basis of accounting, which reports revenues when they become both measurable and available to finance expenditures of the current period; expenditures are recorded in the period the liability is incurred and expected to be paid from current financial resources, with the exception of long-term liabilities which are recognized in the period they are payable. The governmental fund statements provide a detailed short-term view of the Corporation's general government operating requirements for the year ended March 31, 2014.

THE CORPORATION AS A WHOLE

The Corporation will annually report a deficit in its net position. The deficit in the Corporation's net position arose as it carried out its statutory purpose of eliminating the State's annual short-term borrowing. During the years 1991 through 1995, the Corporation issued long-term obligations to finance State local assistance payments, capital reserve requirements, and costs of debt issuance. This debt will be repaid from appropriations expected to be received from the State in subsequent years. This unrestricted deficit can be expected to continue for as long as the Corporation has debt outstanding.

The following table summarizes the net position for the current and prior years:

Table 1
Net Position as of March 31, 2014 and March 31, 2013
(Amounts in thousands)

	2014	2013
Assets and Deferred Outflows of Resources:		
Cash and investments	$ 477,361	$ 485,466
Interest receivable	151	143
Total assets	**477,512**	**485,609**
Deferred outflows of resources	81,165	34,705
Total assets and deferred outflows of resources	**558,677**	**520,314**
Liabilities:		
Liabilities due within one year	325,891	326,769
Liabilities due in more than one year	2,551,340	2,783,063
Total liabilities	**2,877,231**	**3,109,832**
Net Position:		
Restricted for debt service	474,373	482,911
Unrestricted (deficit)	(2,792,927)	(3,072,429)
Total net position (deficit)	**$ (2,318,554)**	**$ (2,589,518)**

The Corporation's combined net deficit decreased by $271 million from one year ago, from a deficit of $2.6 billion to a deficit of $2.3 billion. The decrease in the combined net deficit is the result of a reduction of bonds payable resulting from the repayment of Corporation debt, offset by a restatement of net position.

The following table summarizes the changes in net position for the current and prior years.

Table 2
Changes in Net Position for the fiscal years ended March 31, 2014 and March 31, 2013
(Amounts in thousands)

	2014	2013
General Revenues:		
Appropriations from New York State	$ 379,251	$ 392,812
Investment income	592	809
Total revenues	**379,843**	**393,621**
Expenses:		
General and administrative	4,051	4,083
Cost of issuance for refunding	-	934
Interest expense	104,828	117,717
Total expenses	**108,879**	**122,734**
Changes in net position	**270,964**	**270,887**
Net position (deficit) beginning of year, as restated	**(2,589,518)**	**(2,860,405)**
Net position (deficit), end of year	**$ (2,318,554)**	**$ (2,589,518)**

THE CORPORATION'S FUNDS

At the close of the 2013-14 fiscal year, the Corporation reported a combined fund balance in its governmental funds (as presented in the balance sheet on page 9) of $476.8 million, a decrease of $8.5 million or 1.8 percent less than the prior year's combined fund balance of $485.3 million. Included in this year's total changes in fund balances are an annual operating deficit of $53 thousand in the Corporation's General Fund and an annual deficit of $8.5 million in the Corporation's Debt Service Fund. The primary reason for the Debt Service Fund's annual deficit is that funds drawn from State appropriations were less than the debt service paid. As a result of a decline in the Corporation's Capital Reserve requirement, the Corporation released approximately $6.6 million from the Capital Reserve Fund in August 2013. The released monies and interest earned thereon were used for payment of principal for certain Corporation bonds that otherwise would have required a draw from State appropriations. Funds drawn from appropriations change annually based on interest rate and cash flow assumptions.

Corporation Revenues and Expenditures

During the year, the Corporation received nearly $4.0 million in its General Fund from State appropriations. These revenues were used to pay $4.1 million in general and administrative expenditures. This resulted in a decrease of $53 thousand in the General Fund balance. The Corporation also received $375.3 million in its Debt Service Fund from State appropriations for payment of debt service on its outstanding bonds and earned $591 thousand in investment income on its Capital Reserve Account and other Debt Service Accounts within the Debt Service Fund. The Corporation also paid and received $23 million and $900 thousand respectively, on its interest rate exchange agreements.

Debt

The Corporation is authorized to issue up to $4.7 billion of bonds or notes plus an amount necessary to fund capital reserve requirements, costs of issuance and a limited amount of capitalized interest. As of March 31, 1996, the Corporation had issued all the debt it was authorized to issue. Any future debt issuance is limited to refunding or portfolio management purposes. At year end, the Corporation had $2.7 billion in bonds outstanding, net of unamortized deferred amounts. This represents a $276.7 million decrease from the prior year.

As of March 31, 2014, the ratings assigned to the Corporation are as follows: Aa2 by Moody's Investors Service, AAA by Standard and Poor's Ratings Services, and AA by Fitch Ratings, Inc.

DEBT SERVICE COVERAGE RATIO

The Corporation is dependent upon receipts from the State 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 (LGATF), under the custody of the State Comptroller and the Commissioner of Taxation and Finance. The LGATF receives a portion of the receipts collected within the State from the imposition of sales and use taxes, including interest and penalties (sales tax) equivalent to a one percent rate of taxation. Sales tax receipts received by the LGATF during the State's 2013-14 fiscal year were approximately 7.8 times the maximum annual debt service at rates in effect at March 31, 2014. The calculation of maximum annual debt service assumes all variable rate bonds are unhedged, includes support costs and uses rates in effect on March 31, 2014.

CONTACTING THE CORPORATION'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Corporation's finances and to show the Corporation's accountability for the money it receives and spends. If you have any questions about this report or need additional financial information, contact the Corporation's Office of Public Information at 110 State Street, 15th Floor, Albany, New York 12236, by phone at (518) 474-4015 or by email at debtmanagement@osc.state.ny.us.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)
Governmental Funds Balance Sheet/Statement of Net Position

March 31, 2014
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 6)	Statement of Net Position
Assets:					
Cash and investments	$ 2,988	$ 474,373	$ 477,361	$ —	$ 477,361
Interest receivable	—	151	151	—	151
Total assets	**2,988**	**474,524**	**477,512**	**—**	**477,512**
Deferred Outflows of Resources:					
Derivative activities	—	—	—	19,560	19,560
Deferred losss on refunding	—	—	—	61,605	61,605
Total deferred outflows of resources	**—**	**—**	**—**	**81,165**	**81,165**
Total assets and deferred outflows of resources	**$ 2,988**	**$ 474,524**	**$ 477,512**	**81,165**	**558,677**
Liabilities:					
Accounts payable	$ 754	$ —	$ 754	—	754
Acccrued interest payable	—	—	—	58,017	58,017
Long-term liabilities:					
Due within one year	—	—	—	267,120	267,120
Due after one year:					
Bonds payable, net of amortized premiums and discounts	—	—	—	2,479,104	2,479,104
Derivative instruments-interest rate swaps	—	—	—	72,236	72,236
Total liabilities	**754**	**—**	**754**	**2,876,477**	**2,877,231**
Fund Balances:					
Restricted	—	474,373	474,373	(474,373)	—
Assigned	2,234	151	2,385	(2,385)	—
Total fund balances	**2,234**	**474,524**	**476,758**	**(476,758)**	**—**
Total liabilities and fund balances	**$ 2,988**	**$ 474,524**	**$ 477,512**		
Net position (deficit):					
Restricted for debt service				474,373	474,373
Unrestricted (deficit)				(2,792,927)	(2,792,927)
Total net position (deficit)				**$ (2,318,554)**	**$ (2,318,554)**

See accompanying notes to the basic financial statements

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION
(A COMPONENT UNIT OF THE STATE OF NEW YORK)
Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities

For the Year Ended March 31, 2014
(Amounts in thousands)

	General Fund	Debt Service Fund	Total	Adjustments (Note 7)	Statement of Activities
General Revenues:					
Appropriations from New York State	$ 3,997	$ 375,254	$ 379,251	$ —	$ 379,251
Investment income	1	591	592	—	592
Total revenues	**3,998**	**375,845**	**379,843**	**—**	**379,843**
Expenditures/Expenses:					
General and administrative	4,051	—	4,051	—	4,051
Debt service					
Principal	—	262,565	262,565	(262,565)	—
Interest	—	121,810	121,810	(16,982)	104,828
Total expenditures/expenses	**4,051**	**384,375**	**388,426**	**(279,547)**	**108,879**
Excess (deficiency) of revenues over expenditures	**(53)**	**(8,530)**	**(8,583)**	**279,547**	**—**
Net change in fund balance	**(53)**	**(8,530)**	**(8,583)**	**8,583**	**—**
Change in net position	**—**	**—**	**—**	**270,964**	**270,964**
Fund balances/net position (deficit):					
Beginning of year, as restated	2,287	483,054	485,341	(3,074,859)	(2,589,518)
End of year	**$ 2,234**	**$ 474,524**	**$ 476,758**	**$ (2,795,312)**	**$ (2,318,554)**

See accompanying notes to the basic financial statements

(1) Summary of Significant Accounting Policies

(a) Organization

The New York Local Government Assistance Corporation (Corporation) was established by Chapter 220, of the Laws of 1990 (as amended) to issue up to $4.7 billion in long-term debt, in order to finance certain local assistance payments appropriated by the State of New York (State), in addition to bonds necessary to fund a capital reserve account, costs of issuance and up to six months of capitalized interest. Issuance of these bonds eliminated the need for the State's annual "Spring Borrowing." Prior to the creation of the Corporation, certain large payments due to the State's local government units were made in the first quarter of the State's fiscal year, particularly in support of primary and secondary education, while revenues were received more evenly throughout the fiscal year. To meet these payments, the State issued short-term tax and revenue anticipation notes referred to as the annual "Spring Borrowing." Primarily as a result of bond issuances by the Corporation, there was no Spring Borrowing in the State's 1995 through 2014 fiscal years. The fiscal year ended March 31, 2014 was the twenty-third year of the Corporation's existence. The Corporation is a blended component unit of the State and its continued operations are almost entirely dependent upon the annual appropriations received from the State.

Payments of debt service on the Corporation's bonds will be made from appropriations received from the State. Pursuant to the Act establishing the Corporation, the State deposits one cent of the State's four cent sales and use tax into a special fund (the LGATF), which is used by the State to make payments to the Corporation. Amounts in excess of the Corporation's needs are transferred from the LGATF to the State's General Fund after the Corporation's and other 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 LGATF.

(b) Basis of Presentation

The accompanying basic financial statements of the Corporation have been prepared in conformance 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 Position" 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 Balances." The basic financial statements include both the Corporation-wide and the fund financial statements, which have been combined together and presented on the same pages.

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

(c) Basis of Accounting

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

Operating expenditures are direct costs incurred by the Corporation, such as legal fees, financial advisory fees, printing costs, trustee fees, letter of credit fees, remarketing agent fees, broker-dealer fees, arbitrage rebate payments, and other related costs. Operating expenditures are paid from monies received from the State and earnings from their investments. Staff support is provided by the State without cost 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 deferred outflows of resources 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 using the straight-line method. The Corporation also defers and amortizes deferred losses on refunding bond issuances using the straight-line method. Interest on capital appreciation bonds is accreted using the effective interest rate method.

(d) Municipal Assistance Corporation Refinancing Act

Chapters 62 and Chapter 63 of the Laws of 2003 enacted, among other provisions, the Municipal Assistance Refinancing Act (Act), effective July 1, 2003 and deemed repealed as of July 1, 2034. The Act created an incentive for the State to seek an appropriation to provide $170 million per year, from the LGATF 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 LGATF receives a portion of the receipts generated by the State's sales and use tax (equivalent to one quarter of the four percent tax - approximately $2.9 billion during 2014). The balance of the LGATF's receipts not needed by the Corporation for its purposes, are transferred from the LGATF 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, the Legislature enacts an appropriation to satisfy all Dedicated Highway and Bridge Trust Fund Cooperative Agreement payments as certified by the Chair of the New York State Thruway Authority and the Corporation receives the amount it has certified for its needs, no excess sales tax receipts can be transferred from the LGATF to the State's General Fund. During 2014, the Corporation certified the release of the tenth 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 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 clarify 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 Mellon, notified the Corporation's bondholders of these amendments.

(e) Adoption of New Accounting Pronouncements

During the fiscal year ended March 31, 2014, the Corporation adopted GASB Statement 65 (GASBS 65), *Items Previously Reported as Assets and Liabilities*. The objective of GASBS 65 is to either classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or recognize certain items that were previously reported as assets and laibilites as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The provisions of GASBS 65 require the write-off of the unamortized bond issuance costs that existed at the beginning of the earliest period presented; therefore, the Corporation's beginning net position for April 1, 2012 is restated. The following is a reconciliation of the total net position as previously reported as of March 31, 2012 to the beginning net position at April 1, 2012 (amounts in thousands):

Net Position at March 31, 2012	$	(2,851,111)
Adoption of GASBS 65		(9,294)
Total Net Position at April 1, 2012	$	(2,860,405)

(2) Cash and Investments

The following are authorized investments for the Corporation's Debt Service Accounts and Capital Reserve Accounts:

To the extent permitted by law, the following are the Authorized Investments for the Capital Reserve Fund:

1. Any bonds or other obligations which as to principal and interest constitute direct obligations of, or are unconditionally guaranteed by, the United States of America including inflation index securities and Treasury Strips issued by the Federal Reserve Bank;

2. Direct and general obligations of New York State, provided that the rating thereon shall not be less than the rating on the Corporation's Bonds, each as established by Fitch Ratings, Moody's Investors Service and Standard & Poor's, if and to the extent that such firms continue to maintain a rating on the Corporation's Bonds and on such obligations of the State;

3. Certificates of deposit, whether negotiable or non-negotiable, issued by any bank or trust company having a combined capital and surplus of at least $50 million organized under the laws of any state of the United States of America or any national banking association (including the Corporation's Trustee), which certificates of deposit are fully insured by the Federal Deposit Insurance Corporation or fully secured by such securities as are described in paragraph (1) above, but in any event collateralized to the level required by each of the rating agencies referred to in paragraph (2) if and to the extent such firms maintain a rating on the Corporation's Bonds;

4. Any purchase and sale of securities (simultaneous purchase of a permitted investment with an agreement to sell it back to the seller) with any bank or trust company organized under the laws of

5. any state of the United States of America and authorized to do business in the State of New York or any national banking association (including the Corporation's Trustee) or government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York with respect to any one or more of the securities described in paragraph (1) above;

6. General obligation bonds and notes of any state other than New York State and, to the extent permitted by law, general obligation bonds and notes of any political subdivision of the State or any state, provided that such bonds and notes receive the highest rating from each of Fitch Ratings, Moody's Investors Service and Standard and Poor's, if and to the extent that such firms continue to maintain a rating on the Corporation's Bonds and on such bonds and notes.

The following are Authorized Investments for the Debt Service Fund:

- To the extent permitted by law, and to the extent the securities are legal investments for the Corporation, the Authorized Investments for monies in the Debt Service Fund are as described in (1), (3), and (4) under Authorized Investments for the Capital Reserve Fund presented above.

Monies on deposit in any other fund or account not listed above may be invested pursuant to Section 98-a of the State Finance Law. 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, 2014 (amounts in thousands):

		Investment Maturities	
Investment Type	**Reported Amount**	**Less than 1 Year**	**1-5 Years**
Repurchase Agreements	$ 21,878	$ 21,878	$ -
U.S. Treasury Notes	141,764	60,368	81,396
Totals	**$ 163,642**	**$ 82,246**	**$ 81,396**

Reflecting market conditions, the Corporation experienced a net decrease in the fair value of its investments during the year of $184 thousand which is a component of the amount of investment income reported by the Corporation. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

The Corporation's repurchase agreements are collateralized by U.S. Treasury Notes with market values which are equal to or greater than the reported amount. Collateral in support of the investments is held by the Trustee in the name of the Corporation.

Included in the $474.4 million of total cash and investments in the Debt Service Fund is $313.7 million in cash and $160.7 million in investments. All of the cash in the fund was transferred by the Corporation's Trustee to a separate account on March 31, 2014 in order to meet the Corporation's April 1, 2014 debt service payment of $313.7 million. Pursuant to the Corporation's General Bond Resolution, the Corporation's Trustee must transfer required debt service funds to a separate account on the business day preceding a debt service payment date.

(3) Bonds Payable

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

As of March 31, 2014, the Corporation had approximately $721 million of variable interest rate debt in ten series of bonds outstanding as follows (rates include remarketing agent, broker-dealer and liquidity facility fees):

				Liquidity Support		
Series	**Outstanding (thousands)**	**Bond Insurer**	**Interest Rate at March 31, 2013**	**Current Interest Rate Mode**	**Type of Liquidity Support [1]**	**Expiration Date[5]**
2003A-4V	137,500	None [2]	.750%	Weekly	SBPA	11/16/2015
2003A-8V	40,885	None [3]	.725%	Weekly	SBPA	7/16/2014
2003A-9V	62,225	FSA [4]	.140%	Auction	N/A	N/A
2003A-10V	62,200	FSA [4]	.125%	Auction	N/A	N/A
2003A-11V	62,200	FSA [4]	.340%	Auction	N/A	N/A
2003A-12V	62,200	FSA [4]	.325%	Auction	N/A	N/A
2008B-AV	52,730	None	.735%	Weekly	SBPA	6/24/2014
2008B-BV.....	52,755	None	.735%	Weekly	SBPA	6/24/2014
2008B-3V	137,765	None	.740%	Weekly	SBPA	6/24/2014
2008B-7V	50,885	None	.740%	Weekly	SBPA	6/24/2014
Total	**$ 721,345**					

1. SBPA - Standby Bond Purchase Agreement
N/A - Not Applicable
2. These bonds were originally issued as FSA-insured bonds. On December 1, 2010, the bonds were remarketed as uninsured VRDBs after cancellation of the FSA municipal bond insurance policy.
3. These bonds were originally issued as FSA-insured bonds. On August 3, 2009, the bonds were remarketed as uninsured VRDBs after cancellation of the FSA municipal bond insurance policy.
4. Acquired by Assured Guaranty in 2009.
5. Agreements that expire on June 24, 2014 and July 16, 2014 were extended for additional five year terms on May 14, 2014.

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. Pursuant to each bond series' documents, the mode of interest of each of the variable rate bonds may be changed by the Corporation. The Trustee is authorized to draw on each of the Standby Bond Purchase Agreements (SBPA) for the entire principal amount of variable interest rate bonds outstanding of each series, plus up to 34 days interest at an annual rate of 12 percent. The Series 2003A-9V through Series 2003A-12V bonds are currently in the auction rate mode and 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 rate mode.

Certain of the Corporation's variable rate bonds are insured with a policy of municipal bond insurance. As of March 31, 2014, the only insured Series of variable rate bonds are the four Series of bonds in Auction Rate Mode, Series 2003A-9V through Series 2003A-12V.

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 Division 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 $384.4 million representing 2014 debt service payments is comprised of $262.6 million in principal and $121.8 million in interest.

The Corporation's general bond resolution requires that one or more capital reserve accounts be established and funded based on 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, 2014, the Senior Lien Capital Reserve Account requirement was met by a surety bond of $170 million, expiring on April 1, 2021 and investments with an amortized cost of $55.2 million and a fair market value of $55.3 million. At March 31, 2014, the Subordinate Lien Capital Reserve Account requirement was met with investments with an amortized cost of $91.9 million and a fair market value of $92.1 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 $720.7 million of the Corporation's $721.3 million in bonds that were issued as variable rate bonds in 2003 and 2008.

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

Fiscal Year	Principal	Interest	Net Swap Amount	Total
2015	$ 267,120	$ 92,320	$ 21,221	$ 380,661
2016	286,640	82,631	18,977	388,248
2017	300,225	71,433	16,544	388,202
2018	292,495	59,152	14,696	366,343
2019	224,395	47,301	13,899	285,595
2020-2024	1,155,115	76,333	34,361	1,265,809
2025-2026	86,170	2,379	395	88,944
Totals	**$ 2,612,160**	**$ 431,549**	**$ 120,093**	**$ 3,163,802**

Future debt service in the table above is calculated using rates in effect at March 31, 2014 (rates include remarketing agent, broker-dealer and liquidity facility fees) on 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). To the extent variable interest rates on the Corporation's bonds that are notionally related to the swaps fluctuates above or below 65 percent of the One-Month LIBOR rate, which is a rate that varies from time to time, the Corporation's net debt service will be more or less, respectively, than amounts shown above. Information regarding the terms of the swap agreements is outlined below in Note 4.

The Corporation believes it is in compliance with all significant limitations and restrictions related to bonds outstanding.

(4) Interest Rate Exchange Agreements (Swap Agreements)

Objective of the Swap Agreements

As a means to lower its borrowing costs, when compared against fixed rate bonds at the time of issuance in February 2003, the Corporation entered into four pay-fixed interest rate swap agreements in connection with its issuance of $1 billion of variable rate revenue bonds (Series 2003A-BV and Series 2003A-3V 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 hedge cash flows by changing the Corporation's interest rate on these 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.

In June 2008, without a change in the swap agreement rates, the Series 2003A-BV, Series 2003A-3V and Series 2003A-7V bonds were refunded with Series 2008B-BV2, Series 2008B-3V and Series 2008B-7V bonds to which the 2003 swaps now correspond. In addition, the Series 2004A-AV, Series 2004A-BV, Series 2004A-CV and Series 2004A-DV bonds were refunded with the Series 2008B-AV, Series 2008B-BV, Series 2008B-CV and Series 2008B-DV bonds.

In June 2009, the Corporation refunded the Series 2003A-5V, Series 2003A-6V, Series 2008B-CV, and Series 2008B-DV VRDBs and remarketed these bonds as fixed rate. As part of the refunding, the Corporation terminated the swaps to which the refunded bonds corresponded.

In September 2011, the Corporation refunded the Series 2008B-BV2 VRDBs with Series 2011A fixed rate bonds. As part of the refunding, the Corporation terminated the swaps to which the refunded bonds corresponded.

Terms of the Interest Rate Swap Agreements

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

Terms	2003 Swap	2004 Swap
Corresponding bond series	2003A-4V, 2003A-8V to 2003A-12V, 2008B-3V and 2008B-7V	2008B-AV and 2008B-BV
Final maturity of bonds	April 1, 2024	April 1, 2021
Inception of swap agreement	February 20, 2003	February 26, 2004
Final maturity of related swap agreements	April 1, 2024	April 1, 2021
Swaps' notional amount	$615.5 million	$105.2 million
Variable rate bonds	$615.8 million	$105.5 million
Fixed payment rates paid to counterparties	3.15% to 3.26%	3.19%
Variable payments received, computed as	65% of One-Month LIBOR (Weighted Average)	65% of One-Month LIBOR (As of a Specific Date)

The variable rates on the bonds are determined by remarketing agents for bonds in the weekly interest rate mode and by auction results for bonds in the auction rate mode, in accordance with auction rate procedures.

As of March 31, 2014, average rates were as follows:

	Terms	Synthetic Rates 2003 Swap	Synthetic Rates 2004 Swap
Interest rate swap agreement:			
Weighted average fixed payment to counterparty	Fixed	3.20%	3.19%
Less variable payment from counterparty	65% of One-Month LIBOR	(.10%)	(.10%)
Net interest rate swap payments		**3.10%**	**3.09%**
Weighted average variable rate bond coupon payments (includes support costs)		.54%	.74%
Approximate synthetic interest rate on Bonds		**3.64%**	**3.83%**

The fair value balances and notional amounts of derivative instruments outstanding at March 31 2014, classified by type and the changes in fair value of such derivative instruments for the year then ended as reported in the financial statements are as follows (amounts in millions):

	Change in Fair Value		Fair Value at March 31, 2014		
	Classification	Amount	Classification	Amount	Notional
Cash Flow Hedge:					
Pay Fixed Interest Rate Swap.....	Deferred outflow	$20	Derivative Instrument	($72.2)	$720.7

The interest rate swaps were evaluated to be effective hedges for accounting and financial reporting purposes at March 31, 2014. Accordingly, the fair value of the swaps at March 31, 2013 ($92.2) million and the increase in fair value of the swaps through fiscal year 2014 of $20 million are combined with unamortized deferred outflow of $52.6 million and reported as a deferred outflow of $19.6 million at March 31, 2014.

Fair Value of the Interest Rate Swap Agreements

Due to the fact that interest rates have changed since execution of the swaps, the swaps had an estimated fair value at March 31, 2014 equal to their termination cost which would have required the Corporation to pay $72.2 million to its swap counterparties at March 31, 2014 had it terminated the swaps at that date. The fair value of the swaps fluctuate with the change in the term structure of the LIBOR swap market. Because the interest the Corporation pays on variable rate bonds adjusts with changing market based interest rates, the bonds do not have a corresponding change in their fair value. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

Counterparty and Credit Risk of the Interest Rate Swap Agreements

In concert with the Corporation's statute and guidelines, the swap agreements require that each counterparty has 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.

At March 31, 2014, the credit ratings of the five counterparties with which the Corporation has entered into interest rate swap agreements are as follows: Morgan Stanley, Baa2/A-/A; JP Morgan Chase Bank N.A., Aa3/A+/A+; UBS AG, A2/A/A; Societe Generale, A2/A/A, and Goldman Sachs Mitsui Marine, Aa2/AAA/--.

At March 31, 2014, three of the five counterparties that the Corporation has entered into interest rate swap agreements with, Morgan Stanley (since October 13, 2008), Societe Generale (since December 9, 2011) and UBS AG (since June 21, 2012), had ratings (shown in preceeding paragraph) that do not meet the requirement of a rating from at least one agency within the two highest investment grade categories. Furthermore, Morgan Stanley (since June 21, 2012) had a rating that is not in one of the three highest investment grade categories. Therefore, if the swap valuation was such that a termination payment was due to the Corporation from Morgan Stanley, Societe Generale or UBS AG, the relevant counterparty would have to post collateral. The Corporation monitors the credit position of its counterparties daily in order to be prepared to take appropriate action.

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 effective 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. The average actual synthetic rate at March 31, 2014 is reflected in the table on page 20.

Termination Risk of the Interest Rate Swap Agreements

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

(5) Changes in Long-Term Liabilities

Long-term liability activity for the year ended March 31, 2014 was as follows (amounts in thousands):

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due Within One Year
Bonds payable	$ 2,874,725	$ -	$ 262,565	$ 2,612,160	$ 267,120
Unamortized premium	149,784	-	15,720	134,064	-
Unaccreted discount on bonds	(1,585)	-	(1,585)	-	-
Net bonds payable	**3,022,924**	-	**276,700**	**2,746,224**	**267,120**
Other Liability:					
Derivative instruments – interest rate swaps	92,247	-	20,011	72,236	-
Total long-term liabilities	**$ 3,115,171**	**$ -**	**$ 296,711**	**$ 2,818,460**	**$ 267,120**

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

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 Position. Fair value of swap derivatives and the related deferral are not recognized in the current period and, therefore, are not reported in the funds. The fair values of the swap derivatives and the related deferral are reported in the Statement of Net Position. The deferred loss on refunding bonds is not due and payable in the current period but is reported in the Statement of Net Position. Balances at March 31, 2014 were (amounts in thousands):

Bonds payable, net	$ 2,746,224
Accrued interest on bonds payable	58,017
Fair value of swap derivatives	72,236
Deferred outflows of resources related to derivative instruments	(19,560)
Deferred outflows of resources related to deferred loss on refunding	(61,605)
Net adjustment	**$ 2,795,312**

(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 Position, however, repaying bond principal decreases long-term liabilities. 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 position. Adjustments required to be made to the reported governmental funds expenditures in order to arrive at the Statement of Activities for March 31, 2014 are as follows (amounts in thousands):

Adjustments to expenditures:		
Repayment of bond principal:		
To bondholders for repayment of debt	$	(262,565)
Amortization of loss on refunding of bonds		7,938
Amortization of premium on refunding of bonds		(15,720)
Net adjustment to arrive at interest expense		(9,200)
Net adjustment to expenditures	**$**	**(279,547)**