NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

for the year ended March 31, 2002

Financial Statements

2002

NEW YORK
LOCAL GOVERNMENT ASSISTANCE CORPORATION

Basic Financial Statements and Supplementary Information

Year Ended March 31, 2002

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

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) as of and for the year ended March 31, 2002, which collectively comprise the Corporation's basic financial statements, as listed in the accompanying table of contents. These basic financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund, of the Corporation as of March 31, 2002, and the respective changes in financial position, for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2-5, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 24, 2002 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

KPMG LLP

June 24, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the New York Local Government Assistance Corporation's (the Corporation) financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2002.

FINANCIAL HIGHLIGHTS

- The Corporation's net asset deficit decreased by $82 million as a result of this year's operations.
- During the year, the Corporation had revenues of $307 million, which included $294 million in appropriations from New York State and $13 million in income earned on investments.
- The total cost of all the Corporation's operations was $225 million, which includes $221 million for interest on the Corporation's outstanding bonds, $1 million for arbitrage rebate expense to the United States Treasury, and $3 million for other expenses incurred by the Corporation. The $3 million in contractual services provided to the Corporation included fees for trustee services, financial advisory services, remarketing agents, legal services, and letters of credit.
- The Corporation's General Fund reported a surplus this year of $1 million and an accumulated surplus of $5 million.
- The Corporation's Debt Service Fund reported an operating deficit this year of $19 million, principally reflecting the use of prior year fund balance to pay current year debt service. The Debt Service Fund reported a fund balance of $456 million, which included $191 million in cash held by a trustee that will be used to pay debt service that is due on April 1, 2002, $263 million in investments and other cash, and $2 million in interest receivable. Both the operating deficit and decline in fund balance reported in the Debt Service Fund is attributable to a decline in the Corporation's debt service requirement for its next fiscal year (ending March 31, 2003).
- The Corporation's $429 million capital reserve requirement was met on an amortized cost basis by holding cash and investments with an amortized cost of $259 million and owning a surety bond that will pay up to $170 million through 2021 if needed to pay debt service.
- The Corporation's total debt outstanding at year-end was $4,707 million, a decrease of $96 million from the prior year.

USING THIS ANNUAL REPORT

This annual 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 6. The final two financial statements are the Statement of Revenues, Expenditures and Changes in Fund Balances/Statement of Activities found on page 7.

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 tell how services were financed in the short term as well as what remains 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.

For the Corporation, the change in the focus between currently spendable resources and total available resources can be identified in the adjustment columns found on each of the financial statements. 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 that have no affect on the Corporation's net assets are 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 two statements report the Corporation's net assets (deficit) and changes in them. 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 one indicator 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 debt service on the Corporation's bonds as well as operating 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 Corporation's expenditures are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view (less than one year) of the Corporation's general government operations.

THE CORPORATION AS A WHOLE

The Corporation will annually report 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 Corporation's combined net asset deficit decreased by $82 million from a year ago—decreasing from a deficit of $4,429 million to a deficit of $4,347 million, primarily as a result of the April 1, 2001 principal payment on the Corporation's bonds, which was funded by State appropriations. In comparison the 2001 net asset deficit decreased by $95 million from the 2000 net asset deficit.

THE CORPORATION'S FUNDS

As the Corporation completed the year, its governmental funds (as presented in the balance sheet on page 6) reported a combined fund balance of $462 million, which was 3.8 percent lower than the prior year's total of $480 million. Included in this year's total change in fund balance is a surplus of $1 million in the Corporation's General Fund and an operating deficit of $19 million in the Corporation's Debt Service Fund. The primary reason for the Debt Service Fund's deficit was the use of a portion of the prior year's fund balance for the redemption of outstanding Corporation bonds including interest earned thereon.

Corporation Revenues and Expenditures

During the year, the Corporation received State appropriations of $4 million to its General Fund for its administrative costs. Additionally, the Corporation earned $136 thousand in investment income, which was collectively used to fund $3.149 million in administrative operating costs. The Corporation also received $290 million in State appropriations to its Debt Service Fund for payment of debt service on its outstanding bonds and additionally earned $12.8 million in investment income on its reserve funds.

Debt

The Corporation was authorized to issue up to $4.7 billion of debt plus an amount necessary to fund capital reserve requirements, costs of issuance and, in certain cases, capitalized interest. As of March 31, 1996 the Corporation issued all the debt it was authorized to issue. Any future debt issuance would be for refunding purposes. At year end the Corporation had $4,707 million in bonds outstanding. This represents a $96 million decrease from the prior year.

In addition to the debt noted above, the Corporation has $4.2 million in other long-term obligations which represents investment earnings payable to the United States Treasury for arbitrage rebate liabilities which are not expected to be paid within the next year.

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 its operating costs. The State makes its payments from the Local Government Assistance Tax Fund, under the custody of the State Comptroller and the Commissioner of Taxation and Finance, which receives the proceeds of one cent of the State's four cent Sales and Use Tax (Sales Tax). If Sales Tax receipts continue at the same level received during the State's 2001-2002 fiscal year, debt service coverage for the maximum annual debt service on the Corporation's outstanding bonds (including debt service on variable interest rate bonds at the rate in effect at March 31, 2002, remarketing agent costs and Letter-of-Credit fees) would be 5.23 times.

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, 2002
Amounts in thousands

	General Fund	Debt Service Fund	Total	Adjustments (Note 4)	Statement of Net Assets (deficit)
Assets					
Cash and investments	$ 6,015	$ 454,539	$ 460,554	$ —	$ 460,554
Interest receivable	1	1,839	1,840	—	1,840
Total assets	$ 6,016	$ 456,378	$ 462,394	—	462,394
Liabilities					
Accounts payable	$ 798	$ —	$ 798	—	798
Accrued interest payable	—	—	—	97,123	97,123
Long-term liabilities:					
Due within one year	—	—	—	93,555	93,555
Due after one year	—	—	—	4,617,768	4,617,768
Total liabilities	798	—	798	4,808,446	4,809,244
Fund Balances/Net Assets (deficit)					
Reserved for debt service	—	454,539	454,539	(454,539)	—
Unreserved	5,218	1,839	7,057	(7,057)	—
Total fund balances	5,218	456,378	461,596	(461,596)	—
Total liabilities and fund balances	$ 6,016	$ 456,378	$ 462,394		
Net assets (deficit):					
Restricted for debt service				454,539	454,539
Unrestricted (deficit)				(4,801,389)	(4,801,389)
Total net assets (deficit)				$ (4,346,850)	$ (4,346,850)

See accompanying notes to financial statements.

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

Year Ended March 31, 2002
Amounts in thousands

	General Fund	Debt Service Fund	Total	Adjustments (Note 5)	Statement of Activities
General Revenues:					
Appropriation from New York State	$ 4,000	$ 290,125	$ 294,125	$ —	$ 294,125
Investment income	136	12,751	12,887	—	12,887
Total revenues	4,136	302,876	307,012	—	307,012
Expenditures/Expenses:					
Operations	3,149	—	3,149	1,091	4,240
Debt service					
Principal	—	107,320	107,320	(107,320)	—
Interest	—	214,421	214,421	6,623	221,044
Total expenditures/expenses	3,149	321,741	324,890	(99,606)	225,284
Excess (deficiency) of revenues over expenditures	987	(18,865)	(17,878)	99,606	—
Change in net assets (defcit)					81,728
Fund balances/net assets (deficit):					
Beginning of year	4,231	475,243	479,474	(4,908,052)	(4,428,578)
End of year	$ 5,218	$ 456,378	$ 461,596	$ (4,808,446)	$ (4,346,850)

See accompanying notes to financial statements.

(1) Summary of Significant Accounting Policies

(a) Organization

The New York Local Government Assistance Corporation (the "Corporation") was established by Chapter 220, of the Laws of 1990 (as amended by Chapter 2, Laws of 1991) to issue up to $4.7 billion in long-term debt, subject to annual authorization by the State Legislature, in order to finance certain local assistance payments, and amounts necessary to fund a capital reserve account, costs of issuance and up to six months of capitalized interest. Issuance of the $4.7 billion bond authorization eliminated the need for New York State's (the “State”) 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 issuances by the Corporation, there was no Spring Borrowing in the State's 1995 through 2002 fiscal years and the State does not project the need for a Spring borrowing in its 2003 fiscal year. The fiscal year ended March 31, 2002 was the twelfth year of the Corporation's existence. The Corporation is a component unit of 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 4 cent (i.e., 25% of the total State portion collected) Sales and Use Tax into a special fund (the “Local Government Assistance Tax Fund”) which is to be 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 Corporation has prepared its financial statements in accordance with accounting principles generally accepted in the United States of America. The Corporation has implemented the Governmental Accounting Standards Board’s Statement Number 38 – “Certain Financial Statement Note Disclosures.” 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 the 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 uses funds to report its financial position and results of operations. The General Fund consists of the Operating Account, Cost of Issuance Account and the Local Assistance Payment Account while the Debt Service Fund consists of the Debt Service Account, the Capital Reserve Account and the Rebate Account. 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 will be used to remit arbitrage earnings to the United States Department of the Treasury, when necessary, in accordance with the Internal Revenue Code.

(c) Basis of Accounting

The Corporation utilizes the modified accrual basis of accounting, which focuses on changes in available 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.

Operations 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.

Operations 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 on a different measurement focus and 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.

(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 fund balances: 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, 2002 (amounts in thousands):

	Reported Amount
Repurchase agreements	$ 68,577
U.S. Treasury Notes	199,755
	$ 268,332

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 $1.2 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 29, 2002 and the resulting transfer of $190.7 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 in certain cases, capitalized interest. As of March 31, 1996 the Corporation had issued all of its authorization. Under existing statutes any issuance of bonds by the Corporation in the future will be for refunding purposes only.

As of March 31, 2002 the Corporation had eight series of variable interest rate bonds outstanding, all in the weekly interest rate mode:

Series	Outstanding (thousands)	Interest Rate at 3/31/2002
1993A	$ 246,400	1.38%
1994B	138,600	1.40%
1995B	87,600	1.30%
1995C	89,500	1.30%
1995D	87,400	1.40%
1995E	87,500	1.35%
1995F	87,200	1.40%
1995G	89,500	1.30%

The interest rates on variable interest rate bonds are reset at rates determined by the Corporation's remarketing agents and are convertible by the Corporation to a fixed rate at any time during the life of the issue.

The banks securing the Series 1993A and Series 1994B variable interest rate bonds have a joint and several interest in the letter of credit issued to the trustee. The Series 1995B through Series 1995G variable interest rate bonds are individually secured by letters-of-credit with five banks (one 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%. The letter of credit securing the Series 1993A variable interest rate bonds and the Series 1994B variable interest rate bonds expires on July 1, 2007. The letter of credit securing the Series 1995B through Series 1995G variable interest rate bonds expires on July 6, 2003.

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Notes to Financial Statements

Year Ended March 31, 2002

The State has dedicated a portion of its sales and use tax revenues which will be used by the State 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 $321.7 million representing 2002 debt service payments is comprised of $107.3 million in principal and $214.4 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 amount 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 capital reserve fund requirement is met by a surety bond of $170 million, expiring on April 1, 2021, and cash and investments with an amortized cost of $259 million. The Capital Reserve Account had investments which have been reported in the financial statements at their fair value of $262 million. These investments are reported as a part of cash and investments in the Debt Service Fund with a corresponding reservation of fund balance.

Annual Debt Service requirements to maturity for the Corporation's bonds are as follows (amounts in thousands):

Fiscal Year	Principal	Interest	Total
2003	$ 93,555	$ 202,763	$ 296,318
2004	99,140	198,632	297,772
2005	135,260	193,227	328,487
2006	151,595	186,894	338,489
2007	163,695	181,147	344,842
2008-2012	979,580	806,137	1,785,717
2013-2017	1,261,950	563,530	1,825,480
2018-2022	1,574,900	234,169	1,809,069
2023-2026	339,065	14,555	353,620
	$ 4,798,740	$ 2,581,054	$ 7,379,794

As a result of GASBS 38, future debt service on variable rate bonds is calculated using rates in effect at March 31, 2002. In the prior years financial statement future debt service was calculated using an assumed rate of 6% on variable rate bonds. The effect of using actual rates in effect at March 31, 2002 was to lower reported future interest costs by $718 million.

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

NEW YORK LOCAL GOVERNMENT ASSISTANCE CORPORATION

Notes to Financial Statements

Year Ended March 31, 2002

Long-term liability activity for the year ended March 31, 2002 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance	Amounts Due within One Year
Bonds payable	$ 4,906,060	$ -	$ 107,320	$ 4,798,740	$ 93,555
Unaccreted Discount on Bonds	(102,784)	11,136	-	(91,648)	-
Net bonds payable	4,803,276	11,136	107,320	4,707,092	93,555
Other liabilities:					
Arbitrage rebate liability	3,140	1,091	-	4,231	-
Long-term liabilities activities	$ 4,806,416	$ 12,227	$ 107,320	$ 4,711,323	$ 93,555

(4) Explanation of Certain Differences between the Governmental Fund 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, 2002, were:

Bonds Payable, net	$ 4,707,092
Interest on Bonds Payable	97,123
Arbitrage Rebate due in more than one year	4,231
Net Adjustment	$ 4,808,446

(5) 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 is reported as an expenditure in the governmental funds and therefore contributes to the change in fund balance. In the Statement of Net Assets (Deficit), however, repaying bond principal decreases long-term liabilities and does not affect the statement of 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. The adjustments required to be made to the reported governmental funds expenditures to arrive at the statement of activities are as follows:

Adjustment to expenditures	
Repayment of bond principal:	
To bondholders for repayment of debt	(107,320)
Expense for arbitrage rebate expense not payable in the next year	1,091
Net adjustment to arrive at interest expense	6,623
Net adjustment to expenditures	$ (99,606)