

Fiscal Year 2005 Securitization Corporation
(a component unit of The City of New York)

Financial Statements
(With Independent Auditor's Report Thereon)

June 30, 2015 and 2014

Fiscal Year 2005 Securitization Corporation
(a component unit of the City of New York)

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(With Independent Auditor's Report Thereon)

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Independent Auditor's Report

The Members of the Audit Committee
and Board of Directors
Fiscal Year 2005 Securitization Corporation
New York, New York

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fiscal Year 2005 Securitization Corporation (Corporation), a component unit of The City of New York, as of and for the years ended June 30, 2015 and 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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.

Opinion

In our opinion, the 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 June 30, 2015 and 2014, and the respective changes in financial position for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

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 3 through 9 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 audits 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 September 14, 2015, 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

New York, New York
September 14, 2015



Fiscal Year 2005 Securitization Corporation **(a component unit of The City of New York)**

Management's Discussion and Analysis
June 30, 2015 and 2014
(unaudited)
(amounts in thousands, except as noted)

The following is a narrative overview and analysis of the financial activities of the Fiscal Year 2005 Securitization Corporation ("FSC" or the "Corporation") as of June 30, 2015 and 2014, and for the years then ended. It should be read in conjunction with FSC's government-wide financial statements, governmental funds financial statements, and the notes to the financial statements.

The financial statements consist of four parts: (1) management's discussion and analysis (this section); (2) the government-wide financial statements; (3) the governmental funds financial statements, and (4) the notes to the financial statements.

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

FSC's governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenue is recognized when it becomes susceptible to accrual; that is, when it becomes both measurable and available to finance expenditures in the current fiscal period. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which are recognized when due.

The reconciliations of the governmental funds balance sheets to the statements of net position and the reconciliations of the governmental funds statements of revenues, expenditures, and changes in fund balances to the statements of activities are presented to assist the reader in understanding the differences between government-wide and fund financial statements.

Financial Highlights and Overall Analysis - Government-Wide Financial Statements

FSC was incorporated for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing certain issues of The City of New York (the "City") general obligation bonds. FSC's investments, which are held by the Trustee for FSC as they mature, are expected to generate sufficient cash flow to fully fund the debt service and operational expenditures of FSC for the life of FSC bonds.

On December 2, 2004, FSC issued \$499 million of bonds, the proceeds of which were (1) exchanged for securities held in an escrow account securing certain general obligation bonds of the City (Refunded Bonds Escrow Fund or the Fund) (which the City used to purchase securities adequate to generate sufficient cash flow to fully pay debt service on those previously refunded bonds by redeeming them at their first call date), (2) used to pay costs of issuance and fund a reserve to pay FSC's debt service and operating costs, and (3) transferred to the City in November 2005, in accordance with the bond indenture dated as of December 1, 2004 ("Indenture").

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(unaudited)
(amounts in thousands, except as noted)

Financial Highlights and Overall Analysis - Government-Wide Financial Statements - Continued

The following summarizes the activities of FSC for the years ended June 30, 2015, 2014, and 2013:

	<u>Years Ended June 30,</u>			<u>2015 v 2014</u> <u>Change</u>	<u>2014 v 2013</u> <u>Change</u>
	<u>2015</u>	<u>2014</u>	<u>2013</u>		
REVENUE:					
Investment income	\$ 3,587	\$ 4,547	\$ 710	\$ (960)	\$ 3,837
Total revenue	3,587	4,547	710	(960)	3,837
EXPENSES:					
Bond interest	10,087	11,618	12,873	(1,531)	(1,255)
Other	100	99	120	1	(21)
Total expenses	10,187	11,717	12,993	(1,530)	(1,276)
CHANGE IN NET POSITION	(6,600)	(7,170)	(12,283)	570	5,113
NET POSITION, <i>beginning of year</i>	<u>24,921</u>	<u>32,091</u>	<u>44,374</u>	<u>(7,170)</u>	<u>(12,283)</u>
NET POSITION, <i>end of year</i>	<u>\$ 18,321</u>	<u>\$ 24,921</u>	<u>\$ 32,091</u>	<u>\$ (6,600)</u>	<u>\$ (7,170)</u>

For the fiscal year ended June 30, 2015, FSC recognized approximately \$3.6 million of investment income, compared to \$4.5 million in fiscal year 2014 and \$710 thousand in fiscal year 2013. The variance in investment income from one year to another resulted primarily from the change in the market value of the long-term, fixed-return securities held during the year under the Corporation's Forward Supply Contract. As the investments are expected to generate sufficient cash flow to fully fund debt service and to pay operating costs of FSC as they mature, market value fluctuations pose low risk to FSC or its bondholders because these investments are restricted to pay debt service when due.

During fiscal year 2015, FSC incurred approximately \$10.2 million in expenses, compared to \$11.7 million in fiscal year 2014 and \$13 million in fiscal year 2013. Expenses decrease each year as the declining bond principal outstanding results in reduced bond interest costs.

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Management's Discussion and Analysis
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(amounts in thousands, except as noted)

Financial Highlights and Overall Analysis - Government-Wide Financial Statements - Continued

The following summarizes FSC's assets, liabilities, and net position as of June 30, 2015, 2014, and 2013:

	June 30,			2015 v 2014 Change	2014 v 2013 Change
	2015	2014	2013		
ASSETS:					
Non-capital	\$ 218,163	\$ 258,627	\$ 295,264	\$ (40,464)	\$ (36,637)
Total assets	<u>218,163</u>	<u>258,627</u>	<u>295,264</u>	<u>(40,464)</u>	<u>(36,637)</u>
LIABILITIES:					
Current liabilities	24,739	36,428	32,516	(11,689)	3,912
Long-term liabilities	<u>175,103</u>	<u>197,278</u>	<u>230,657</u>	<u>(22,175)</u>	<u>(33,379)</u>
Total liabilities	<u>199,842</u>	<u>233,706</u>	<u>263,173</u>	<u>(33,864)</u>	<u>(29,467)</u>
NET POSITION:					
Restricted for debt service	17,923	24,523	31,694	(6,600)	(7,171)
Unrestricted	<u>398</u>	<u>398</u>	<u>397</u>	<u>-</u>	<u>1</u>
Total net position	<u>\$ 18,321</u>	<u>\$ 24,921</u>	<u>\$ 32,091</u>	<u>\$ (6,600)</u>	<u>\$ (7,170)</u>

As of June 30, 2015, 2014, and 2013, FSC's assets consisted mainly of investments restricted to pay bondholders. The declining asset value resulted from investments used for debt service payments during fiscal year 2015, 2014, and 2013.

The Corporation's period-end liabilities of approximately \$200 million, \$234 million, and \$263 million were primarily composed of bonds outstanding and accrued interest thereon. The decline each year in the liabilities resulted primarily from bond principal payments made during fiscal years 2015, 2014, and 2013, respectively.

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements

FSC reports governmental activity using two funds: (1) a general fund ("GF") and (2) a debt service fund ("DSF").

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Management's Discussion and Analysis
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Financial Highlights and Overall Analysis - Governmental Funds Financial Statements - Continued

The following summarizes the changes in the GF balances for the years ended June 30, 2015, 2014, and 2013:

	Years Ended June 30,			2015 v 2014 Change	2014 v 2013 Change
	2015	2014	2013		
EXPENDITURES:					
General and administrative	\$ 100	\$ 99	\$ 120	\$ 1	\$ (21)
Total expenditures	100	99	120	1	(21)
OTHER FINANCING SOURCES:					
Transfers from the debt service fund to general fund	100	100	100	-	-
Total other financing sources	100	100	100	-	-
NET CHANGE IN FUND BALANCES	-	1	(20)	(1)	21
FUND BALANCES, <i>beginning of year</i>	398	397	417	1	(20)
FUND BALANCES, <i>end of year</i>	\$ 398	\$ 398	\$ 397	\$ -	\$ 1

General and administrative expenditures decreased by \$21 thousand in fiscal year 2014 due to a decrease in allocated costs associated with management's time spent on conducting FSC's operations.

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Financial Highlights and Overall Analysis - Governmental Funds Financial Statements - Continued

The following summarizes the changes in the fund balance of FSC's DSF for the years ended June 30, 2015, 2014, and 2013:

	Years Ended June 30,			2015 v 2014 Change	2014 v 2013 Change
	2015	2014	2013		
REVENUE:					
Investment income	\$ 3,587	\$ 4,547	\$ 710	\$ (960)	\$ 3,837
Total revenue	3,587	4,547	710	(960)	3,837
EXPENDITURES:					
Bond interest	10,537	12,025	12,968	(1,488)	(943)
Principal amount of bonds retired	33,415	29,060	10,385	4,355	18,675
Total expenditures	43,952	41,085	23,353	2,867	17,732
OTHER FINANCING USES:					
Transfers from the debt service fund to general fund	(100)	(100)	(100)	-	-
Total other financing uses	(100)	(100)	(100)	-	-
NET CHANGE IN FUND BALANCES	(40,465)	(36,638)	(22,743)	(3,827)	(13,895)
FUND BALANCES, <i>beginning of year</i>	258,213	294,851	317,594	(36,638)	(22,743)
FUND BALANCES, <i>end of year</i>	\$ 217,748	\$ 258,213	\$ 294,851	\$ (40,465)	\$ (36,638)

For the fiscal year ended June 30, 2015, DSF reported approximately \$3.6 million of investment income, compared to \$4.5 million for 2014 and \$710 thousand for 2013. The variance is due to the market valuation of the long-term, fixed income securities, as discussed previously.

The DSF, during fiscal year 2015, had expenditures of approximately \$44 million, approximately \$41.1 million in fiscal year 2014, and \$23.4 million in fiscal year 2013. Principal payments on bonds fluctuate between fiscal years in accordance with a fixed maturity schedule. Interest expenditures decrease each year as the bond principal outstanding declines each year.

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Financial Highlights and Overall Analysis - Governmental Funds Financial Statements - Continued

The following summarizes the GF's assets, liabilities, and fund balances as of June 30, 2015, 2014, and 2013:

	June 30,			2015 v 2014 Change	2014 v 2013 Change
	2015	2014	2013		
ASSETS:					
Cash and cash equivalents	\$ 415	\$ 414	\$ 413	\$ 1	\$ 1
Total assets	<u>\$ 415</u>	<u>\$ 414</u>	<u>\$ 413</u>	<u>\$ 1</u>	<u>\$ 1</u>
LIABILITIES:					
Accrued expenditures	\$ 17	\$ 16	\$ 16	\$ 1	\$ -
Total liabilities	<u>17</u>	<u>16</u>	<u>16</u>	<u>1</u>	<u>-</u>
FUND BALANCES:					
Unassigned	<u>398</u>	<u>398</u>	<u>397</u>	<u>-</u>	<u>1</u>
Total fund balances	<u>398</u>	<u>398</u>	<u>397</u>	<u>-</u>	<u>1</u>
Total liabilities and fund balances	<u>\$ 415</u>	<u>\$ 414</u>	<u>\$ 413</u>	<u>\$ 1</u>	<u>\$ 1</u>

The GF's assets at June 30, 2015, 2014, and 2013, totaled approximately \$415 thousand, \$414 thousand, and \$413 thousand, respectively. They are composed of unrestricted cash and cash equivalents used to pay operating expenditures.

The following summarizes the DSF's assets, liabilities, and fund balances as of June 30, 2015, 2014, and 2013:

	June 30,			2015 v 2014 Change	2014 v 2013 Change
	2015	2014	2013		
ASSETS:					
Cash and investments	\$ 217,748	\$ 258,213	\$ 294,851	\$ (40,465)	\$ (36,638)
Total assets	<u>\$ 217,748</u>	<u>\$ 258,213</u>	<u>\$ 294,851</u>	<u>\$ (40,465)</u>	<u>\$ (36,638)</u>
FUND BALANCES:					
Restricted for debt service	<u>217,748</u>	<u>258,213</u>	<u>294,851</u>	<u>(40,465)</u>	<u>(36,638)</u>
Total fund balances	<u>\$ 217,748</u>	<u>\$ 258,213</u>	<u>\$ 294,851</u>	<u>\$ (40,465)</u>	<u>\$ (36,638)</u>

The DSF's assets at June 30, 2015, 2014, and 2013, totaled approximately \$218 million, \$258 million, and \$295 million, respectively. They are composed of investments restricted to pay bondholders. The decline in fiscal year 2015 and fiscal year 2014 resulted primarily from debt service payments.

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(unaudited)
(amounts in thousands, except as noted)

Financial Highlights and Overall Analysis - Governmental Funds Financial Statements - Continued

This financial report is designed to provide a general overview of FSC's finances. Questions concerning any of the information in this report or requests for additional financial information should be directed to Investor Relations, Fiscal Year 2005 Securitization Corporation, 255 Greenwich Street, New York, New York 10007.

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Fiscal Year 2005 Securitization Corporation
(a component unit of The City of New York)

Statements of Net Position
(amounts in thousands)

	June 30,	
	2015	2014
ASSETS:		
Unrestricted cash equivalents	\$ 415	\$ 414
Restricted cash	4	10
Restricted investments	217,744	258,203
Total assets	218,163	258,627
LIABILITIES:		
Accrued expenses	17	16
Accrued interest payable	2,517	2,997
Bonds payable		
Portion due within one year	22,205	33,415
Portion due after one year	175,103	197,278
Total liabilities	199,842	233,706
NET POSITION:		
Restricted for debt service	17,923	24,523
Unrestricted	398	398
TOTAL NET POSITION	\$ 18,321	\$ 24,921

Fiscal Year 2005 Securitization Corporation
(a component unit of The City of New York)

Statements of Activities
(amounts in thousands)

	Years Ended June 30,	
	2015	2014
REVENUE:		
Investment income	\$ 3,587	\$ 4,547
Total revenue	3,587	4,547
EXPENSES:		
Bond interest	10,087	11,618
General and administrative	100	99
Total expenses	10,187	11,717
CHANGE IN NET POSITION	(6,600)	(7,170)
NET POSITION, <i>beginning of year</i>	24,921	32,091
NET POSITION, <i>end of year</i>	\$ 18,321	\$ 24,921

Fiscal Year 2005 Securitization Corporation
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Governmental Funds Balance Sheet
(amounts in thousands)

	June 30, 2015		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash equivalents	\$ 415	\$ -	\$ 415
Restricted cash	-	4	4
Restricted investments	-	217,744	217,744
Total assets	\$ 415	\$ 217,748	\$ 218,163
LIABILITIES:			
Accrued expenditures	\$ 17	\$ -	\$ 17
Total liabilities	17	-	17
FUND BALANCES:			
Restricted for debt service	-	217,748	217,748
Unassigned	398	-	398
Total fund balances	398	217,748	218,146
Total liabilities and fund balances	\$ 415	\$ 217,748	\$ 218,163

Fiscal Year 2005 Securitization Corporation
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Governmental Funds Balance Sheet
(amounts in thousands)

	June 30, 2014		
	General Fund	Debt Service Fund	Total Governmental Funds
ASSETS:			
Unrestricted cash equivalents	\$ 414	\$ -	\$ 414
Restricted cash	-	10	10
Restricted investments	-	258,203	258,203
Total assets	\$ 414	\$ 258,213	\$ 258,627
LIABILITIES:			
Accrued expenditures	\$ 16	\$ -	\$ 16
Total liabilities	16	-	16
FUND BALANCES:			
Restricted for debt service	-	258,213	258,213
Unassigned	398	-	398
Total fund balances	398	258,213	258,611
Total liabilities and fund balances	\$ 414	\$ 258,213	\$ 258,627

Fiscal Year 2005 Securitization Corporation
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Reconciliations of the Governmental Funds Balance Sheets to the
Statements of Net Position
(amounts in thousands)

	June 30,	
	2015	2014
Total fund balances - governmental funds	\$ 218,146	\$ 258,611
Amounts reported in the statements of net position are different because:		
Bond discounts are reported as other financial uses in the governmental funds financial statements upon issuance. However, in the statements of net net position, bond discounts are reported as a component of bonds payable and amortized over the life of the bonds.	67	97
Some liabilities are not due and payable in the current period from financial resources available currently at year-end and are, therefore, not reported in the governmental funds financial statements, but are reported in the statements of net position. Those liabilities consist of:		
Bonds payable	(197,375)	(230,790)
Accrued interest payable	(2,517)	(2,997)
Net position of governmental activities	\$ 18,321	\$ 24,921

Fiscal Year 2005 Securitization Corporation
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Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances
(amounts in thousands)

	Year Ended June 30, 2015		
	General Fund	Debt Service Fund	Total Governmental Funds
REVENUE:			
Investment income	\$ -	\$ 3,587	\$ 3,587
Total revenue	-	3,587	3,587
EXPENDITURES:			
Bond interest	-	10,537	10,537
Principal amount of bonds retired	-	33,415	33,415
General and administrative	100	-	100
Total expenditures	100	43,952	44,052
OTHER FINANCING SOURCES (USES):			
Transfers from the debt service fund to general fund	100	(100)	-
Total other financing sources (uses)	100	(100)	-
NET CHANGE IN FUND BALANCES	-	(40,465)	(40,465)
FUND BALANCES, <i>beginning of year</i>	398	258,213	258,611
FUND BALANCES, <i>end of year</i>	\$ 398	\$ 217,748	\$ 218,146

Fiscal Year 2005 Securitization Corporation
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Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances
(amounts in thousands)

	Year Ended June 30, 2014		
	General Fund	Debt Service Fund	Total Governmental Funds
REVENUE:			
Investment income	\$ -	\$ 4,547	\$ 4,547
Total revenue	-	4,547	4,547
EXPENDITURES:			
Bond interest	-	12,025	12,025
Principal amount of bonds retired	-	29,060	29,060
General and administrative	99	-	99
Total expenditures	99	41,085	41,184
OTHER FINANCING SOURCES (USES):			
Transfers from the debt service fund to general fund	100	(100)	-
Total other financing sources (uses)	100	(100)	-
NET CHANGE IN FUND BALANCES	1	(36,638)	(36,637)
FUND BALANCES, <i>beginning of year</i>	397	294,851	295,248
FUND BALANCES, <i>end of year</i>	\$ 398	\$ 258,213	\$ 258,611

Fiscal Year 2005 Securitization Corporation
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Reconciliations of the Governmental Funds Statements
of Revenues, Expenditures, and Changes in Fund
Balances to the Statements of Activities
(amounts in thousands)

	Years Ended June 30,	
	2015	2014
Net change in fund balances - governmental funds	\$ (40,465)	\$ (36,637)
Amounts reported for governmental activities in the statements of activities are different because:		
Repayment of bond principal is an expenditure in the governmental funds financial statements, but the repayment reduces bonds payable on the statements of net position.	33,415	29,060
The governmental funds report bond discounts as other financing uses upon issuance. However, on the statements of activities, bond discounts are amortized to interest expense over the life of the bond.	(30)	(36)
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds financial statements when the outlay of financial resources is due.	480	443
Change in net position - governmental activities	\$ (6,600)	\$ (7,170)

Fiscal Year 2005 Securitization Corporation (a component unit of The City of New York)

Notes to Financial Statements
June 30, 2015 and 2014
(amounts in thousands, except as noted)

(1) Organization

Fiscal Year 2005 Securitization Corporation (“FSC” or the “Corporation”) is a special purpose, bankruptcy-remote, local development corporation organized under the Not-For-Profit Corporation Law of the State of New York (the “State”). FSC is governed by a Board of Directors elected by its three Members, all of whom are officials of The City of New York (the “City”). FSC’s Certificate of Incorporation requires the vote of an independent director as a condition to taking certain actions; the independent director would be appointed by the Mayor of the City prior to any such actions. Although legally separate from the City, FSC is a financing instrumentality of the City and, accordingly, is included in the City’s financial statements as a blended component unit in accordance with Governmental Accounting Standards Board (“GASB”) standards.

FSC was incorporated for the purpose of issuing bonds, a major portion of the proceeds of which were used to acquire securities held in an escrow account securing certain general obligation bonds of the City. FSC’s securities, which are held by the trustee for FSC as they mature, are expected to generate sufficient cash flow to fund the debt service and operational expenditures of FSC for the life of FSC’s bonds.

On December 2, 2004, FSC issued \$499 million of bonds, the proceeds of which were: (1) exchanged for securities held in an escrow account securing certain general obligation bonds of the City (Refunded Bonds Escrow Fund) (which the City used to purchase securities adequate to generate sufficient cash flow to fully pay debt service on those previously refunded bonds by redeeming them at their first call date), (2) used to pay costs of issuance and fund a reserve to pay FSC’s debt service and operating costs, and (3) transferred to the City in November 2005, in accordance with the bond indenture dated as of December 1, 2004 (“Indenture”).

FSC does not have any employees; its affairs are administered by employees of the City and another component unit of the City, for which FSC pays a management fee and overhead based on its allocated share of personnel and overhead costs.

(2) Summary of Significant Accounting Policies

The government-wide financial statements of FSC, which include the statements of net position and the statements of activities, are presented to display information about the reporting entity as a whole, in accordance with GASB standards. The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

FSC’s governmental funds financial statements are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it becomes susceptible to accrual, which is when it becomes both measurable and available to finance expenditures in the current fiscal period. Revenues are generally considered available if expected to be received within one year after period-end. Expenditures are recognized when the related liability is incurred, except for principal and interest on bonds payable, which is recognized when due.

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(amounts in thousands, except as noted)

(2) Summary of Significant Accounting Policies - Continued

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

Fund balances of the governmental funds are classified as either: 1) nonspendable, 2) restricted, 3) committed, 4) assigned, or 5) unassigned.

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

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

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

Resources that are not constrained are reported as unrestricted in the statements of net position and unassigned in the governmental funds balance sheets.

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

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

Bond discounts are deferred and amortized over the life of the related debt using the interest method in the government-wide financial statements. The amounts of unamortized bond discount at June 30, 2015 and 2014, were \$67 and \$97, respectively, which were net of accumulated amortization of \$457 and \$427, respectively.

The governmental funds financial statements recognize bond premiums and discounts, as well as bond issuance costs, during the period of receipt or payment. The face amount of debt issued is reported as other financing sources, as are premiums on debt issuances. Discounts on debt issuances are reported as other financing uses.

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(2) Summary of Significant Accounting Policies - Continued

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

The preparation of financial statements in accordance with generally accepted accounting principles in the United States of America (U.S. GAAP) requires FSC's management to make estimates and assumptions in determining the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflow of resources as of the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

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

- In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* ("GASB 72"). GASB 72 defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information should be disclosed in the notes to the financial statements. The provisions of GASB 72 are effective for fiscal years beginning after June 15, 2015; however, FSC has early adopted the standard during fiscal year 2015. Pursuant to the standard, FSC has disclosed the hierarchy of valuation inputs and valuation techniques in its notes the financial statements.
- In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB 68, and Amendments to Certain Provision of GASB 67 and GASB 68* ("GASB 73"). GASB 73 provides guidance on assets accumulated for pension plans that are not administered through a trust and provides clarity on certain provision of GASB 67 and GASB 68. The requirements for GASB 73 are effective for fiscal years beginning after June 15, 2015. FSC has not completed the process of evaluating GASB 73, but does not expect it to have an impact on FSC's financial statements as it has no employees or pension system.
- In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* ("GASB 74"). GASB 74 establishes financial reporting standards to state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. FSC has not completed the process of evaluating GASB 74, but does not expect it to have an impact on FSC's financial statements as it has no employees or.

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(2) Summary of Significant Accounting Policies - Continued

- In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* ("GASB 75"). GASB 75 establishes accounting and financial reporting standards for OPEB that is provided to employees of state and local governmental employers. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. FSC has not completed the process of evaluating GASB 75, but does not expect it to have an impact on FSC's financial statements as it has no employees.
- In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* ("GASB 76"). GASB 76 reduces the U.S. GAAP hierarchy to two categories of authoritative U.S. GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction of other event is not specified within the source of authoritative U.S. GAAP. The requirements of GASB 76 are effective for fiscal years beginning after June 15, 2015. FSC has not completed the process of evaluating GASB 76, but does not expect it to have an impact on FSC's financial statements.

(3) Bonds Payable

FSC issued \$499 million of bonds, of which it has \$197 million outstanding as of June 30, 2015. Outstanding bonds payable bear interest at fixed rates ranging from 4.76% to 4.93%.

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2015, is as follows:

	Balance	Period Ended June 30, 2015		Balance
	June 30, 2014	Bonds Issued	Bonds Retired	June 30, 2015
Series A	\$ 82,060	\$ -	\$ 15,895	\$ 66,165
Series B	114,815	-	15,405	99,410
Series C	<u>33,915</u>	-	<u>2,115</u>	<u>31,800</u>
Total before discounts (net)	230,790	-	33,415	197,375
Less discounts (net)	<u>(97)</u>	-	<u>30</u>	<u>(67)</u>
Total bonds payable	<u>\$ 230,693</u>	<u>\$ -</u>	<u>\$ 33,385</u>	<u>\$ 197,308</u>
Due within one year				<u>\$ 22,205</u>

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(3) Bonds Payable - Continued

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2014, is as follows:

	Balance	Period Ended June 30, 2014		Balance
	June 30, 2013	Bonds Issued	Bonds Retired	June 30, 2014
Series A	\$ 100,740	\$ -	\$ 18,680	\$ 82,060
Series B	123,070	-	8,255	114,815
Series C	36,040	-	2,125	33,915
Total before discounts (net)	259,850	-	29,060	230,790
Less discounts (net)	(133)	-	36	(97)
Total bonds payable	<u>\$ 259,717</u>	<u>\$ -</u>	<u>\$ 29,024</u>	<u>\$ 230,693</u>
Due within one year				<u>\$ 33,415</u>

Debt service requirements, including principal and interest at June 30, 2015, are as follows:

	Principal	Interest	Total
Year ending June 30,			
2016	\$ 22,205	\$ 9,121	\$ 31,326
2017	43,465	7,925	51,390
2018	45,560	5,639	51,199
2019	64,360	3,392	67,752
2020	21,785	540	22,325
Total	<u>\$ 197,375</u>	<u>\$ 26,617</u>	<u>\$ 223,992</u>

FSC has fully funded its debt service account with investments that will provide cash flows and in amounts sufficient to pay principal and interest on the FSC bonds as they become due. These investments, discussed further in Note 5, are held in trust for bondholders and reported as restricted assets on the debt service fund balance sheets and statements of net position.

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(4) Cash and Cash Equivalents

Cash was comprised of bank deposits restricted for debt service; there was no difference between the carrying amounts and bank balances as of June 30, 2015 and 2014. Cash equivalents were unrestricted and comprised of a Treasury Money Market Fund (Note 5).

Cash and cash equivalents consisted of the following:

	June 30,	
	2015	2014
Cash		
Uninsured and uncollateralized	\$ 4	\$ 10
Cash equivalents (Note 5)	415	414
Total cash and cash equivalents	\$ 419	\$ 424

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of a depository financial institution, FSC may not be able to recover its deposits that are in possession of an outside party. As of June 30, 2015 and 2014, \$4 thousand and \$10 thousand of uninsured and uncollateralized deposits were exposed to custodial credit risk, respectively. FSC's deposit policy, which is not otherwise subject to limitations under its Indenture, is that deposits shall be held in a bank located in the state or national banking association having a capital surplus aggregating at least \$50 million.

(5) Investments

Investments consisted of the following:

	June 30,	
	2015	2014
Unrestricted		
Money Market Funds	\$ 415	\$ 414
Total - Unrestricted	415	414
Restricted for Debt Service		
U.S. Treasury obligations (maturing within one year)*	31,409	44,025
U.S. Treasury obligations (maturing after one year)*	186,335	214,178
Total - Restricted	217,744	258,203
Total investments including cash equivalents	218,159	258,617
Less amounts reported as cash equivalents (Note 4)	(415)	(414)
Total - Investments	\$ 217,744	\$ 258,203

* Net market value adjustment includes Forward Supply Contract

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(5) Investments - Continued

FSC categorizes its fair value measurements within the fair value hierarchy established by U.S. GAAP. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. FSC has the following recurring fair measurement as of June 30, 2015 and 2014:

- U.S. Treasury Securities under a Forward Supply Contract that is valued using present value and option pricing model techniques (Level 2 inputs).
- Money Market Funds are valued on various market and industry inputs (Level 2 inputs).

Each account of FSC is held pursuant to the Indenture and may be invested in securities or categories of investments that are specifically enumerated as permitted investments for such account pursuant to the Indenture.

Custodial Credit Risk - Is the risk that, in the event of the failure of the custodian, FSC may not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments are held by FSC's agent in FSC's name.

Credit Risk - All investments held by FSC at June 30, 2015 and 2014, are obligations of, or guaranteed by the United States of America.

Interest Rate Risk - While the long-term nature of fixed-rate securities makes the market values of the investments with maturity greater than one year highly susceptible to changes in market interest rates, the changes in market value pose no risk to bondholders or to FSC because the investments mature at times and in amounts that are adequate to generate sufficient cash flow to fully fund the debt service and pay operational expenditures of FSC as provided for by the Indenture.

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