

**FY05 SC** *Fiscal Year 2005 Securitization Corporation*



# **FISCAL YEAR 2005 SECURITIZATION CORPORATION**

## **A COMPONENT UNIT OF THE CITY OF NEW YORK**

Financial Statements  
(Together with Independent Auditors' Report)

Years Ended June 30, 2017 and 2016

**M A R K S P A N E T H**

ACCOUNTANTS & ADVISORS

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

**FINANCIAL STATEMENTS  
(Together with Independent Auditors' Report)**

**YEARS ENDED JUNE 30, 2017 AND 2016**

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## INDEPENDENT AUDITORS' REPORT

To the Members of the Board of Directors of the  
Fiscal Year 2005 Securitization Corporation

We have audited the accompanying financial statements of the governmental activities of the Fiscal Year 2005 Securitization Corporation (the "Corporation"), a component unit of The City of New York, as of and for the years ended June 30, 2017 and 2016, which collectively comprise the Corporation's basic financial statements as listed in the table of contents, and the related notes to the financial statements.

### *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.

### *Auditors' Responsibility*

Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit 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 opinion.

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Fiscal Year 2005 Securitization Corporation as of June 30, 2017 and 2016, and the respective changes in financial position thereof 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.

*Marka Paneth LLP*

New York, NY  
September 18, 2017

## **FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

(Amounts in thousands, except as noted)

The following is a narrative overview and analysis of the financial activities of Fiscal Year 2005 Securitization Corporation ("FSC" or the "Corporation") as of June 30, 2017 and 2016, 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 governmental funds 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 the operations 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") (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 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").

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(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, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Revenue:					
Investment income	\$ 117	\$ 4,156	\$ 3,587	\$ (4,039)	\$ 569
Total revenue	<u>117</u>	<u>4,156</u>	<u>3,587</u>	<u>(4,039)</u>	<u>569</u>
Expenses:					
Bond interest	7,546	8,793	10,087	(1,247)	(1,294)
Other	93	97	100	(4)	(3)
Total expenses	<u>7,639</u>	<u>8,890</u>	<u>10,187</u>	<u>(1,251)</u>	<u>(1,297)</u>
Change in net position	(7,522)	(4,734)	(6,600)	(2,788)	1,866
Net Position - beginning of year	<u>13,587</u>	<u>18,321</u>	<u>24,921</u>	<u>(4,734)</u>	<u>(6,600)</u>
Net Position - end of year	<u>\$ 6,065</u>	<u>\$ 13,587</u>	<u>\$ 18,321</u>	<u>\$ (7,522)</u>	<u>\$ (4,734)</u>

For the fiscal year ended June 30, 2017, FSC recognized approximately \$117 thousand of investment income, compared to \$4.2 million in fiscal year 2016 and \$3.6 million in fiscal year 2015. 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 and due to declining investments holdings as it is used for debt service payments during each fiscal year. 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 2017, FSC incurred approximately \$7.6 million in expenses, compared to \$8.9 million in fiscal year 2016 and \$10.2 million in fiscal year 2015. Expenses decrease each year as the declining bond principal outstanding results in reduced bond interest costs.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

(Amounts in thousands, except as noted)

### Financial Highlights and Overall Analysis – Government-Wide Financial Statements, continued

The following summarizes FSC's assets, liabilities, and net position as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Assets:					
Non-capital	\$ 139,527	\$ 190,892	\$ 218,163	\$ (51,365)	\$ (27,271)
Total assets	<u>139,527</u>	<u>190,892</u>	<u>218,163</u>	<u>(51,365)</u>	<u>(27,271)</u>
Liabilities:					
Current liabilities	47,336	45,640	24,739	1,696	20,901
Long-term liabilities	<u>86,126</u>	<u>131,665</u>	<u>175,103</u>	<u>(45,539)</u>	<u>(43,438)</u>
Total liabilities	<u>133,462</u>	<u>177,305</u>	<u>199,842</u>	<u>(43,843)</u>	<u>(22,537)</u>
Net Position:					
Restricted for debt service	5,657	13,186	17,923	(7,529)	(4,737)
Unrestricted	<u>408</u>	<u>401</u>	<u>398</u>	<u>7</u>	<u>3</u>
Total net position	<u>\$ 6,065</u>	<u>\$ 13,587</u>	<u>\$ 18,321</u>	<u>\$ (7,522)</u>	<u>\$ (4,734)</u>

As of June 30, 2017, 2016 and 2015, FSC's assets consisted mainly of investments restricted to pay bondholders. The declining asset value resulted from investments being used for debt service payments during each fiscal year.

The Corporation's year-end liabilities of approximately \$133 million, \$177 million and \$200 million for fiscal years 2017, 2016, and 2015, respectively; 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 each fiscal year.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

(Amounts in thousands, except as noted)

**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”).

The following summarizes the changes in the GF balances for the years ended June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Expenditures:					
General and administrative	\$ 93	\$ 97	\$ 100	\$ (4)	\$ (3)
Total expenditures	<u>93</u>	<u>97</u>	<u>100</u>	<u>(4)</u>	<u>(3)</u>
Other financing sources:					
Transfers from the debt service fund to general fund	<u>100</u>	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>
Total other financing sources	<u>100</u>	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>
Net change in fund balances	7	3	-	4	3
Fund balances - beginning of year	<u>401</u>	<u>398</u>	<u>398</u>	<u>3</u>	<u>-</u>
Fund balances - end of year	<u>\$ 408</u>	<u>\$ 401</u>	<u>\$ 398</u>	<u>\$ 7</u>	<u>\$ 3</u>

General and administrative expenditures fluctuate each year based on allocated costs associated with management's time spent on conducting FSC's operations.



**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

(Amounts in thousands, except as noted)

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

The following summarizes the changes in the fund balances of FSC's DSF for the years ended June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Revenue:					
Investment income	\$ 117	\$ 4,156	\$ 3,587	\$ (4,039)	\$ 569
Total revenue	<u>117</u>	<u>4,156</u>	<u>3,587</u>	<u>(4,039)</u>	<u>569</u>
Expenditures:					
Bond interest	7,925	9,121	10,537	(1,196)	(1,416)
Principal amount of bonds retired	<u>43,465</u>	<u>22,205</u>	<u>33,415</u>	<u>21,260</u>	<u>(11,210)</u>
Total expenditures	<u>51,390</u>	<u>31,326</u>	<u>43,952</u>	<u>20,064</u>	<u>(12,626)</u>
Other financing (uses):					
Transfers from the debt service fund to general fund	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>-</u>	<u>-</u>
Total other financing (uses)	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(51,373)	(27,270)	(40,465)	(24,103)	13,195
Fund balances - beginning of year	<u>190,478</u>	<u>217,748</u>	<u>258,213</u>	<u>(27,270)</u>	<u>(40,465)</u>
Fund balances - end of year	<u>\$ 139,105</u>	<u>\$ 190,478</u>	<u>\$ 217,748</u>	<u>\$ (51,373)</u>	<u>\$ (27,270)</u>

For the fiscal year ended June 30, 2017, the DSF reported approximately \$117 thousand of investment income, compared to \$4.2 million for 2016 and \$3.6 million for 2015. The variance is due to the market valuation of the long-term, fixed income securities and due to declining investments holdings as it is used for debt service payments during each fiscal year, as discussed previously.

The DSF, during fiscal year 2017, had expenditures of approximately \$51.4 million, \$31.3 million in fiscal year 2016 and \$44.0 million in fiscal year 2015. 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.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

(Amounts in thousands, except as noted)

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

The following summarizes the GF assets, liabilities and fund balances as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Assets:					
Cash equivalents	\$ 422	\$ 414	\$ 415	\$ 8	\$ (1)
Total assets	<u>\$ 422</u>	<u>\$ 414</u>	<u>\$ 415</u>	<u>\$ 8</u>	<u>\$ (1)</u>
Liabilities:					
Accrued expenditures	\$ 14	\$ 13	\$ 17	\$ 1	\$ (4)
Total liabilities	<u>14</u>	<u>13</u>	<u>17</u>	<u>1</u>	<u>(4)</u>
Fund balances:					
Unassigned	<u>408</u>	<u>401</u>	<u>398</u>	<u>7</u>	<u>3</u>
Total fund balances	<u>408</u>	<u>401</u>	<u>398</u>	<u>7</u>	<u>3</u>
Total liabilities and fund balances	<u>\$ 422</u>	<u>\$ 414</u>	<u>\$ 415</u>	<u>\$ 8</u>	<u>\$ (1)</u>

The GF assets at June 30, 2017, 2016, and 2015 totaled approximately \$422 thousand, \$414 thousand and \$415 thousand, respectively. They are composed of unrestricted cash and cash equivalents used to pay operating expenditures.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Management's Discussion and Analysis

June 30, 2017 and 2016

(Unaudited)

(Amounts in thousands, except as noted)

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

The following summarizes the DSF assets, liabilities and fund balances as of June 30, 2017, 2016 and 2015:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2017 v 2016</u> <u>Change</u>	<u>2016 v 2015</u> <u>Change</u>
Assets:					
Cash and investments	<u>\$ 139,105</u>	<u>\$ 190,478</u>	<u>\$ 217,748</u>	<u>\$ (51,373)</u>	<u>\$ (27,270)</u>
Total assets	<u>\$ 139,105</u>	<u>\$ 190,478</u>	<u>\$ 217,748</u>	<u>\$ (51,373)</u>	<u>\$ (27,270)</u>
Fund balance:					
Restricted for debt service	<u>\$ 139,105</u>	<u>\$ 190,478</u>	<u>\$ 217,748</u>	<u>\$ (51,373)</u>	<u>\$ (27,270)</u>
Total fund balances	<u>\$ 139,105</u>	<u>\$ 190,478</u>	<u>\$ 217,748</u>	<u>\$ (51,373)</u>	<u>\$ (27,270)</u>

The DSF assets at June 30, 2017, 2016 and 2015 totaled approximately \$139 million, \$190 million and \$218 million, respectively. They are composed of investments restricted to pay bondholders. The decline in fiscal years 2017 and 2016 resulted primarily from debt service payments.

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, NY 10007.

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**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Statements of Net Position

June 30, 2017 and 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
<b>ASSETS:</b>		
Unrestricted cash equivalents	\$ 422	\$ 414
Restricted cash	13	5
Restricted investments	<u>139,092</u>	<u>190,473</u>
Total assets	<u>139,527</u>	<u>190,892</u>
<b>LIABILITIES:</b>		
Accrued expenses	14	13
Accrued interest payable	1,762	2,162
Bonds payable:		
Portion due within one year	45,560	43,465
Portion due after one year	<u>86,126</u>	<u>131,665</u>
Total liabilities	<u>133,462</u>	<u>177,305</u>
<b>NET POSITION:</b>		
Restricted for debt service	5,657	13,186
Unrestricted	<u>408</u>	<u>401</u>
TOTAL NET POSITION	<u>\$ 6,065</u>	<u>\$ 13,587</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Statements of Activities

Years ended June 30, 2017 and 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
REVENUE:		
Investment income	\$ 117	\$ 4,156
Total revenue	<u>117</u>	<u>4,156</u>
EXPENSES:		
Bond interest	7,546	8,793
General and administrative	<u>93</u>	<u>97</u>
Total expenses	<u>7,639</u>	<u>8,890</u>
CHANGE IN NET POSITION	(7,522)	(4,734)
NET POSITION - Beginning of year	<u>13,587</u>	<u>18,321</u>
NET POSITION - End of year	<u>\$ 6,065</u>	<u>\$ 13,587</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Governmental Funds Balance Sheet

June 30, 2017

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Unrestricted cash equivalents	\$ 422	\$ -	\$ 422
Restricted cash	-	13	13
Restricted investments	-	139,092	139,092
Total assets	<u>\$ 422</u>	<u>\$ 139,105</u>	<u>\$ 139,527</u>
<b>LIABILITIES:</b>			
Accrued expenditures	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 14</u>
Total liabilities	<u>14</u>	<u>-</u>	<u>14</u>
<b>FUND BALANCES:</b>			
Restricted for debt service	-	139,105	139,105
Unassigned	<u>408</u>	<u>-</u>	<u>408</u>
Total fund balances	<u>408</u>	<u>139,105</u>	<u>139,513</u>
Total liabilities and fund balances	<u>\$ 422</u>	<u>\$ 139,105</u>	<u>\$ 139,527</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Governmental Funds Balance Sheet

June 30, 2016

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS:</b>			
Unrestricted cash equivalents	\$ 414	\$ -	\$ 414
Restricted cash	-	5	5
Restricted investments	-	190,473	190,473
Total assets	<u>\$ 414</u>	<u>\$ 190,478</u>	<u>\$ 190,892</u>
<b>LIABILITIES:</b>			
Accrued expenditures	\$ 13	\$ -	\$ 13
Total liabilities	<u>13</u>	<u>-</u>	<u>13</u>
<b>FUND BALANCES:</b>			
Restricted for debt service	-	190,478	190,478
Unassigned	401	-	401
Total fund balances	<u>401</u>	<u>190,478</u>	<u>190,879</u>
Total liabilities and fund balances	<u>\$ 414</u>	<u>\$ 190,478</u>	<u>\$ 190,892</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

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

June 30, 2017 and 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Total fund balances - governmental funds	\$ 139,513	\$ 190,879
Amounts reported in the statements of net position are different because:		
Bond discounts are reported as other financing uses in the governmental funds financial statements upon issuance. However, in the statements of net position, bond discounts are reported as a component of bonds payable and amortized over the life of the bonds.	19	40
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	(131,705)	(175,170)
Accrued interest payable	(1,762)	(2,162)
Net position of governmental activities	<u>\$ 6,065</u>	<u>\$ 13,587</u>

See accompanying notes to financial statements.



**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Governmental Funds Statement of Revenues, Expenditures, and

Changes in Fund Balances

Year ended June 30, 2017

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUE:			
Investment income	\$ -	\$ 117	\$ 117
Total revenue	<u>-</u>	<u>117</u>	<u>117</u>
EXPENDITURES:			
Bond interest	-	7,925	7,925
Principal amount of bonds retired	-	43,465	43,465
General and administrative	93	-	93
Total expenditures	<u>93</u>	<u>51,390</u>	<u>51,483</u>
OTHER FINANCING SOURCES (USES):			
Transfers from the debt service fund to general fund	<u>100</u>	<u>(100)</u>	<u>-</u>
Total other financing sources (uses)	<u>100</u>	<u>(100)</u>	<u>-</u>
Net change in fund balances	7	(51,373)	(51,366)
FUND BALANCES - Beginning of year	<u>401</u>	<u>190,478</u>	<u>190,879</u>
FUND BALANCES - End of year	<u>\$ 408</u>	<u>\$ 139,105</u>	<u>\$ 139,513</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Governmental Funds Statement of Revenues, Expenditures, and

Changes in Fund Balances

Year ended June 30, 2016

(Amounts in thousands)

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total Governmental Funds</u>
REVENUE:			
Investment income	\$ -	\$ 4,156	\$ 4,156
Total revenue	<u>-</u>	<u>4,156</u>	<u>4,156</u>
EXPENDITURES:			
Bond interest	-	9,121	9,121
Principal amount of bonds retired	-	22,205	22,205
General and administrative	97	-	97
Total expenditures	<u>97</u>	<u>31,326</u>	<u>31,423</u>
OTHER FINANCING SOURCES (USES):			
Transfers from the debt service fund to general fund	<u>100</u>	<u>(100)</u>	<u>-</u>
Total other financing sources (uses)	<u>100</u>	<u>(100)</u>	<u>-</u>
Net change in fund balances	3	(27,270)	(27,267)
FUND BALANCES - Beginning of year	<u>398</u>	<u>217,748</u>	<u>218,146</u>
FUND BALANCES - End of year	<u>\$ 401</u>	<u>\$ 190,478</u>	<u>\$ 190,879</u>

See accompanying notes to financial statements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

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

Years ended June 30, 2017 and 2016

(Amounts in thousands)

	<u>2017</u>	<u>2016</u>
Net change in fund balances - governmental funds	\$ (51,366)	\$ (27,267)
Amount reported for governmental activities in the statements of activities are different because:		
Payment of bond principal is an expenditure in the governmental funds financial statements, but the payment reduces bonds payable on the statements of net position.	43,465	22,205
The governmental funds report bond discounts as other financing uses upon issuance. However, on the statements of activities, bond discounts are amortized and recognized as interest expense over the life of the bond.	(21)	(27)
Interest is reported on the statements of activities on the accrual basis. However, interest is reported as an expenditure in the governmental funds financial statements when the outlay of financial resources is due.	<u>400</u>	<u>355</u>
Change in net position - governmental activities	<u>\$ (7,522)</u>	<u>\$ (4,734)</u>

See accompanying notes to financial statements.

# FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(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 investments, 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 costs based on its allocated share of personnel and overhead.

## (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.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

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

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.

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 statement 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 amount of unamortized bond discounts at June 30, 2017 and 2016, were \$19 thousand and \$40 thousand, respectively; which were net of accumulated amortization of \$505 thousand and \$484 thousand, respectively.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

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

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

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, 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, 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 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 for state and local governmental other postemployment benefit ("OPEB") plans. The requirements of GASB 74 are effective for fiscal years beginning after June 15, 2016. The adoption of GASB 74 did not have an impact on FSC's financial statements, as FSC is not an OPEB plan.
- 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 employees. The requirements of GASB 75 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 75 did not have an impact on FSC's financial statements, as it has no employees.
- In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, ("GASB 83"). GASB 83 addresses accounting and financial reporting for certain asset retirement obligations. This statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for asset retirement obligations. The requirements of GASB 83 are effective for fiscal years beginning after June 15, 2018. FSC has not completed the process of evaluating GASB 83, but does not expect it to have an impact on FSC's financial statements.

## FISCAL YEAR 2005 SECURITIZATION CORPORATION

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

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

- In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*, (“GASB 84”). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of GASB 84 are effective for fiscal years beginning after December 15, 2018. FSC has not completed the process of evaluating GASB 84, but does not expect it to have an impact on FSC’s financial statements, as it does not enter in fiduciary activities.
- In March 2017, GASB issued Statement No. 85, *Omnibus 2017*, (“GASB 85”). The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB statements. The requirements of GASB 85 are effective for fiscal years beginning after June 15, 2017. The adoption of GASB 85 did not have an impact on FSC’s financial statements.
- In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, (“GASB 86”). The primary objective of GASB 86 is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets are acquired with only existing resources – resources other than the proceeds of refunding debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished. The requirements of GASB 86 are effective for fiscal years beginning after June 15, 2017. FSC has not completed the process of evaluating GASB 86, but does not expect it to have an impact on FSC’s financial statements.
- In June 2017, GASB issued Statement No. 87, *Leases*, (“GASB 87”). The objective of GASB 87 is to improve accounting and financial reporting for leases by governments. This statement increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The requirements of GASB 87 are effective for fiscal years beginning after December 15, 2019. FSC has not completed the process of evaluating GASB 87, but does not expect it to have an impact on FSC’s financial statements, as it does not enter into any lease agreements.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

**(3) Bonds Payable**

FSC issued \$499 million of bonds of which it had \$132 million outstanding as of June 30, 2017. 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, 2017, is as follows:

	Balance June 30, 2016	Year Ended June 30, 2017		Balance June 30, 2017
		Bonds Issued	Bonds Retired	
Series A	\$ 50,315	\$ -	\$ 7,800	\$ 42,515
Series B	93,685	-	14,660	79,025
Series C	31,170	-	21,005	10,165
Total before discounts (net)	<u>175,170</u>	<u>-</u>	<u>43,465</u>	<u>131,705</u>
Less discounts (net)	(40)	-	21	(19)
Total Bonds Payable	<u>\$ 175,130</u>	<u>\$ -</u>	<u>\$ 43,444</u>	<u>\$ 131,686</u>
Due within one year				<u>\$ 45,560</u>

A summary of changes in outstanding bonds during the fiscal year ended June 30, 2016, is as follows:

	Balance June 30, 2015	Year Ended June 30, 2016		Balance June 30, 2016
		Bonds Issued	Bonds Retired	
Series A	\$ 66,165	\$ -	\$ 15,850	\$ 50,315
Series B	99,410	-	5,725	93,685
Series C	31,800	-	630	31,170
Total before discounts (net)	<u>197,375</u>	<u>-</u>	<u>22,205</u>	<u>175,170</u>
Less discounts (net)	(67)	-	27	(40)
Total Bonds Payable	<u>\$ 197,308</u>	<u>\$ -</u>	<u>\$ 22,178</u>	<u>\$ 175,130</u>
Due within one year				<u>\$ 43,465</u>



**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

**(3) Bonds Payable, continued**

Debt service requirements, including principal and interest at June 30, 2017, are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 45,560	\$ 5,639	\$ 51,199
2019	64,360	3,392	67,752
2020	<u>21,785</u>	<u>540</u>	<u>22,325</u>
Total	<u>\$ 131,705</u>	<u>\$ 9,571</u>	<u>\$ 141,276</u>

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

**(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, 2017 and 2016. Cash equivalents were unrestricted and comprised of a Money Market Fund (see Note 5).

Cash and cash equivalents consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Cash:		
Uninsured and uncollateralized	\$ 13	\$ 5
Cash equivalents (see Note 5)	<u>422</u>	<u>414</u>
Total cash and cash equivalents	<u>\$ 435</u>	<u>\$ 419</u>

*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, 2017 and 2016, \$13 thousand and \$5 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.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

**(5) Investments**

Investments consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Unrestricted:		
Money Market Funds	\$ 422	\$ 414
Total - Unrestricted	<u>422</u>	<u>414</u>
Restricted for Debt Service:		
U.S. Treasury obligations (maturing within one year)*	51,176	51,384
U.S. Treasury obligations (maturing after one year)*	87,916	139,089
Total - Restricted	<u>139,092</u>	<u>190,473</u>
Total Investments including cash equivalents	139,514	190,887
Less amounts reported as cash equivalents (see Note 4)	(422)	(414)
Total - Investments	<u>\$ 139,092</u>	<u>\$ 190,473</u>

\* Net of market value adjustment for Forward Supply Contract

FSC categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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 had the following recurring fair measurement as of June 30, 2017 and 2016:

- 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 based 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.

**FISCAL YEAR 2005 SECURITIZATION CORPORATION**

(A Component Unit of The City of New York)

Notes to Financial Statements

June 30, 2017 and 2016

(Amounts in thousands, except as noted)

**(5) Investments, continued**

*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, 2017 and 2016 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 susceptible to changes in market interest rates, the changes in market value pose no risk 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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