NEW YORK STATE URBAN DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements
And Independent Auditors' Report

In Accordance with
OMB Circular A-133

March 31, 2015 and 2014

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Table of Contents

* * * * * *

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Directors
New York State Urban Development
Corporation:

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, as of and for the years ended March 31, 2015 and 2014, and the related notes to consolidated financial statements, which collectively comprise the Corporation's consolidated financial statements as listed in the table of contents.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Corporation's preparation and fair presentation of the consolidated 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 Corporation'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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the net position of New York State Urban Development Corporation and Subsidiaries as of March 31, 2015 and 2014, and the respective changes in net position and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 17 and the Schedule of Funding Progress - Other Postemployment Benefits on page 63 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated 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 consolidated 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 consolidated financial statements, and other knowledge we obtained during our audit of the basic consolidated 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 Information

Our audits were conducted for the purpose of forming opinions on the consolidated financial statements that collectively comprise the Corporation's basic consolidated financial statements. The accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic consolidated financial statements or to the basic consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic consolidated financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 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.

In accordance with Government Auditing Standards, we have also issued our report dated June 12, 2015 on the Corporation's compliance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York. The purpose of that report is to provide an opinion as to the Corporation's compliance with investment guidelines contained therein. 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.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 12, 2015

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Management's Discussion and Analysis

March 31, 2015 and 2014

Our discussion and analysis of New York State Urban Development Corporation and Subsidiaries' ("UDC" or the "Corporation"), doing business as Empire State Development ("ESD"), financial performance provides an overview of the Corporation's financial activities for the fiscal year ended March 31, 2015. Please read it in conjunction with the Corporation's consolidated financial statements.

Overview

Economic Development Programs and Initiatives

ESD continued its efforts to foster economic development throughout New York State during fiscal 2015. Its mission is to promote a vigorous and growing state economy, encourage business investment and job creation, and support diverse, prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development, marketing and other forms of assistance. To support the Corporation in carrying out its mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance, where appropriate, with certain local codes and laws.

To enhance ESD's business outreach and emphasize local priorities, New York's Regional Economic Development Council ("REDC") initiative was established in 2011, supported by funding via the Regional Council Capital Fund as part of the State's fiscal year budget. Over the past four years, the Regional Council Capital Fund, which is administered by ESD, has made available over $580 million of capital grant funding for the State's REDC initiative, which has, and will continue to, help drive regional and local economic development across New York State in cooperation with ten Regional Economic Development Councils ("Regional Councils"). Regional Council Capital Funds are allocated among the State's ten regions, each represented by a Regional Council, through a process that includes each Regional Council's development and implementation of a five-year strategic plan for its region that sets out a comprehensive vision for economic development and specific strategies to implement that vision. ESD's role in the State's REDC initiative is to administer the Regional Council Capital Fund and any other funding, allocated annually, that is awarded through a competitive Consolidated Funding Application review process.

During fiscal 2015, through the initiative above and other programs, such as the Buffalo Regional Innovation Cluster, the New York Works Program, the Empire State Economic Development Fund, the Economic Development Purposes Fund, the Upstate Regional Blueprint Fund and Restore NY Communities, which promote the economic development and health of New York State by facilitating the creation and/or retention of jobs or increased economic activity, the ESD Directors approved financial assistance for over 250 companies and organizations. During this period, the $526 million ESD investment approved by the Directors leveraged an additional $1.34 billion in total investment, resulting in the retention and creation of over 21,000 jobs.

Economic Development Programs and Initiatives, Continued

The Buffalo Regional Innovation Cluster, or Buffalo Billion initiative, was established in fiscal 2013 to attract private sector investment and promote the creation of sustainable jobs in Western New York (WNY). To move this initiative forward, the Buffalo Billion Investment Development Plan (BBIDP) was published and focused on three sector strategies (advanced manufacturing, health and life sciences and tourism) and three core strategies (entrepreneurship, workforce and smart growth). Within each of the strategies, signature initiatives would be developed that would leverage the region's assets and ultimately spur economic development in WNY. The majority of the Buffalo Billion projects are not direct investments in individual companies, but are strategic investments in state assets that will ultimately attract private investment. A few of the current projects are: Buffalo High Tech Manufacturing Innovation Hub at RiverBend; Buffalo Medical Innovation and Commercialization Hub at Buffalo Niagara Medical Campus; and Robert Moses Parkway Redevelopment.

Over the past four years New York State has helped small businesses secure over $1 billion in loan capital, facilitated access to over $150 million in equity investments, and provided mentorship, training, and technical assistance to tens of thousands of firms, resulting in the launch of over 10,000 small businesses. Much of that activity is conducted through programs administered by ESD. Initiatives launched over the past several years include the $45 million Innovate NY Seed Stage Equity Investment Fund, the Small Business Revolving Loan Fund, the Surety Bond Assistance Program, and the Bridge to Success working capital loan program. During fiscal 2015, ESD initiated Business Mentor NY, the State's first one-on-one pro bono mentoring program geared to help small businesses overcome challenges and spur growth. This program compliments services ESD provides to small businesses by connecting them, and emerging entrepreneurs, to volunteer mentors working in the private sector to help these businesses address specific challenges and realize their full economic potential. In less than a year, over 2,000 mentors and entrepreneurs have enrolled and over 500 engagements have been initiated. ESD also launched the NYS Innovation Venture Capital Fund which is currently funded at $100 million. This new fund provides critical seed and early-stage funding to incentivize new business formation and growth in New York State and facilitates the transition from ideas and research to marketable products. This program strengthens the university/industry connection and prepares New York businesses to compete for venture investment. The first investments have been made and many more are currently in due diligence. ESD also launched the MWBE Investment Fund, selecting an investment manager to make equity investments in minority and women-owned business enterprises.

During fiscal 2015, ESD continued to work closely and play a significant advisory role with New York State Homes and Community Renewal (HCR) and the Governor's Office of Storm Recovery to administer grant and low-interest loan programs for businesses that suffered eligible, uncompensated losses as a direct result of Super Storm Sandy, Hurricane Irene or Tropical Storm Lee ("Sandy, Irene and Lee"). Grants range from $50,000 to $250,000 to help businesses with replacement of inventory, machinery and equipment, repair of real estate, and provision of

Economic Development Programs and Initiatives, Continued

needed working capital. Higher grant amounts are available to businesses in the seasonal tourism and fisheries industries and to those businesses that invest in mitigation efforts to prepare for the impacts of future storms. Loans of up to $1 million at a two percent interest rate and seven-year maximum term will be provided to businesses that have a need beyond the grant programs.

ESD entered into an inter-agency agreement with HCR to administer the Business Mentor NY program (mentioned above), tourism marketing programs, and a "program marketing" campaign that promotes the availability of storm recovery programming for businesses in the areas affected by Sandy, Irene and Lee. The $40.5 million in total contracted services is comprised of: $3 million for Business Mentor NY; $30 million to oversee the work of an advertising agency to develop and implement an industry-wide advertising and marketing campaign in order to provide immediate support to the State's tourism industry and promote travel to communities; and $7.5 million to oversee the work of an advertising agency to undertake an industry-wide marketing campaign to launch and promote the Small Business Storm Recovery Program.

In addition to the funding highlighted above for advertising and marketing, ESD continues to administer and manage a robust communications, marketing and tourism campaign. The campaign is committed to grow the tourism industry, create jobs, increase the number of visitors to the State and demonstrate to businesses that New York is the place to invest and grow.

Economic Development Tax Incentives

ESD administers the Excelsior Jobs Program that provides job creation and investment incentives to firms in certain targeted industries, ranging from biotechnology to manufacturing. Businesses in these industries that create and maintain jobs or make significant financial investments are eligible to apply for up to four tax credits through the New York State Department of Taxation and Finance.

ESD is also the administrative agency for the New York State Film Tax Credit Program, which is designed to increase the film production and post-production industry presence in and overall economic benefits to New York State. Program tax credits of $420 million per year, which do not flow through ESD, can be allocated and used to encourage companies to produce film and television projects in the State and help create and maintain film industry jobs.

In fiscal 2015, ESD continued co-administering the START-UP NY (SUNY Tax-free Areas to Revitalize and Transform Upstate NY) initiative which will transform SUNY campuses and university communities across the state into tax-free communities, including no income tax for employees and no sales, property or business tax for ten years. START-UP NY has begun to attract start-ups, new business, business expansions and investments from across the nation and around the globe to New York by offering businesses the opportunity to operate completely tax-free while also partnering with the world-class higher education institutions in the SUNY system, in return for

Economic Development Tax Incentives, Continued

creating new jobs. Businesses participating in the program need to be aligned with or further the academic mission of the campus, college or university sponsoring the tax-free community, have positive community and economic benefits and create and maintain new jobs. At the end of fiscal 2015, more than sixty (60) campus plans have been approved and more than one hundred (100) businesses have been approved for participation in START-UP NY. These companies have committed to create over three thousand (3,000) jobs and invest over one hundred seventy million dollars ($170 million) over the next five (5) years.

Subsidiaries and Economic Development Projects

In addition to assisting businesses, the Corporation continues to support major development and redevelopment efforts throughout the State through its many subsidiaries and its involvement in significant economic development projects. Some of the more significant ones are highlighted below.

To further the mission of Moynihan Station Development Corporation ("MSDC"), ESD completed the purchase of the James A. Farley Post Office ("Farley") building in fiscal 2007 as a part of the redevelopment of Moynihan Station. $130.0 million of seller's financed debt was obtained directly from the U.S. Postal Service to assist in the acquisition. ESD financed $105.0 million in order to complete the transaction. Funding of $30.0 million was received from the Port Authority of New York and New Jersey (the "Port Authority") and a loan was secured from Citigroup Global Markets, Inc. for $75.0 million for a term of three years. The loan has been refinanced in fiscal 2010, 2013 and, again in fiscal year 2015, at $150 million for two years. Interest continues to be capitalized and ESD will make two principal payments of $250,000 each in fiscal 2016. The 2015 financing agreement expires in February 2017. Beside the repayment of the prior loan, current capitalized interest, and cost of issuance, ESD borrowed an additional $37.2 million to be used for early action construction for Phase 2 of the project. At March 31, 2015, the remaining combined balance of this debt is $221.7 million. The current project is a planned relocation of Amtrak's intercity rail operations from existing Pennsylvania Station to a redeveloped Farley building and is being advanced in two distinct phases. Phase I, which is currently underway, will construct the commuter concourse for the new station, install an emergency platform ventilation system and renovate the underground connection from the 8th Avenue subway. Funding for this construction comes from a combination of federal, Metropolitan Transit Authority and Port Authority grants, including an $83.0 million Transportation Investments Generating Economic Recovery (TIGER) grant from the U.S. Department of Transportation. Construction of Phase 2 will encompass the redevelopment of the Farley Building in order to accommodate the relocated Amtrak operations and need not await the completion of Phase I work. In fiscal 2015, the MSDC Directors authorized the start of Final Design on Phase 2. Final Design is expected to last until the autumn of 2015. In fiscal 2014, MSDC engaged the services of an events management firm and implemented a

Subsidiaries and Economic Development Projects, (Continued)

comprehensive events marketing strategy for the Farley building. Revenue generated from events held at the Farley building totaled $2.6 million and $3.0 million for the fiscal years ended March 31, 2015 and 2014, respectively.

The assets of New York Convention Center Development Corporation ("NYCCDC") were transferred to ESD in 2005 and NYCCDC issued $700.0 million in revenue bonds to fund the expansion and renovation of the Jacob K. Javits Convention Center. The bonds were secured by a hotel unit fee which generated $46.5 million and $42.1 million for the fiscal years ended March 31, 2015 and 2014, respectively. The construction related to the expansion and renovation of the Javits Center has been completed and the cumulative total cost is $735.2 million at March 31, 2015.

New York State designated ESD as the lead agency in providing assistance to businesses affected by the events of September 11, 2001. The United States Department of Housing and Urban Development ("HUD") gave ESD the ability to draw grant funds of up to $700.0 million to fund these efforts. In November 2001, the Board of Directors authorized the creation of the Lower Manhattan Development Corporation ("LMDC") to assist in the economic recovery and revitalization of lower Manhattan following the events of September 11, 2001. HUD provided LMDC the authority to draw grants up to $2.783 billion to fund these efforts. As of March 31, 2015, more than $3.101 billion of the total $3.483 billion in funding has been disbursed by both ESD and its subsidiary, LMDC, to qualified businesses and individuals.

ESD continues to be actively involved in the Atlantic Yards (AY) Project which consists of plans to redevelop twenty-two acres of underutilized land in downtown Brooklyn. The general project plan adopted in July 2006, and modified in June 2009, includes an arena for the Brooklyn Nets, a reconfigured Vanderbilt yard and subway facility, and sixteen buildings for residential, office, retail uses and potential for a hotel. The residential development will include an affordable component and eight acres of the site are planned for publicly-accessible open space. The developer, Forest City Ratner Companies ("FCR") has completed the arena and in December 2012, broke ground on the first residential tower. In October 2013, FCR entered into an agreement with Shanghai-based Greenland Group Co. to create a joint venture to acquire and develop the Atlantic Yards Development. At its June 27, 2014 meeting, the ESD Board of Directors affirmed the 2014 Modified General Project Plan ("MGPP") and authorized the creation of the Atlantic Yards Community Development Corporation ("AYCDC"), a subsidiary of ESD. The MGPP accelerates development and ensures the timely arrival of key project deliverables for the community and the creation of AYCDC is expected to facilitate continued progress of the project.

Erie Canal Harbor Development Corporation ("ECHDC") is guided by its mission to revitalize Western New York's waterfront and restore economic growth to Buffalo, based on the region's legacy of pride, urban significance and natural beauty. ECHDC has made significant advancements in terms of waterfront development and its goal of working to accomplish public/private

Subsidiaries and Economic Development Projects (Continued)

partnerships. Its strategic investment in infrastructure and programming has resulted in unprecedented private investment in Buffalo's waterfront. Noteworthy accomplishments during fiscal 2015 include: funding one thousand events and activities at Canalside bringing over one million visitors to Buffalo; continuing work with ESD and NYS Parks on the redevelopment of the outer Harbor lands; nearing completion of construction on the public canal system on the site of the former Memorial Auditorium, which will interpret the historic alignment of the original Erie Canal, as it terminated in downtown Buffalo; and furthering the construction of the lighting display at the Connecting Terminal and the Skyway relative to the grain elevator lighting project.

Also committed to Western New York, USA Niagara Development Corporation ("USAN") continues its mission of dedication to the support and promotion of economic development initiatives in downtown Niagara Falls by leveraging private investment through targeted public investments in start-up capital, key infrastructure improvements, and organizational assistance. The over-arching principle of the development strategy at USAN is simultaneously working on implementation of different types of projects (i.e., phases) with different development cycles, from short-term efforts to large construction projects. A few key items on the USAN agenda are: further development of the Rainbow Centre Mall; the Hamister Group Hotel Development Project; and construction and reconfiguration of the Robert Moses Parkway, regarded as a significant barrier which cuts the city of Niagara Falls off from the Niagara River Gorge.

Other examples of economic development and redevelopment include Harlem Community Development Corporation ("HCDC"), Queens West Development Corporation ("QWDC), Fort Schuyler Management-RiverBend Park, Richardson Center, Fort Schuyler Management-IBM, Buffalo Bills-Ralph Wilson Stadium, New York Genome Center, Columbia University Educational Mixed-Use Development Land-Use Improvement and Civic Project.

The following is a summary of the Corporation's financial information as of and for the years ended March 31, 2015 and 2014:

SUMMARY OF CONSOLIDATED STATEMENTS OF NET POSITION

	2015	2014
Assets	(In thousands)	
Current assets:		
Cash, equivalents and temporary investments	$ 366,955	298,644
Other current assets	3,145,087	3,437,028
Total current assets	3,512,042	3,735,672
Non-current assets:		
Investment securities - restricted	19,954	177,875
Loans and leases receivable	124,778	123,242
Due from State of New York	9,048,204	8,410,039
Due from Port Authority of New York and New Jersey	123,612	142,511
Due from New York Job Development Authority	26,233	26,230
Capital assets, net	1,841,827	1,741,981
Other assets	237,698	31,538
Total non-current assets	11,422,306	10,653,416
Total assets	14,934,348	14,389,088
Deferred outflows of resources	94,398	70,104
Liabilities		
Current liabilities	1,182,808	1,331,783
Non-current liabilities	11,317,915	10,845,772
Total liabilities	12,500,723	12,177,555
Deferred inflows of resources	408,001	217,649
Minority interest	166,471	164,692
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	135,824	133,824
Total restricted	333,378	331,378
Net investment in capital assets	1,620,173	1,567,918
Total net position	$ 1,953,551	1,899,296

SUMMARY OF CONSOLIDATED STATEMENTS OF REVENUE,
EXPENSES AND CHANGES IN NET POSITION

	2015	2014
Operating revenue:	(In thousands)	
Interest and finance income from:		
HUD subsidy	$ -	1,316
Housing companies	15	3,919
Nonresidential projects	11,015	7,793
Interest on revenue bonds	45,586	52,003
Hotel tax revenue	46,453	42,113
Reimbursed grants	141,010	271,976
Economic development grants	395,561	575,564
State appropriation for programs	13,475	5,764
Other revenue	95,273	2,969
Total operating revenue	748,388	963,417
Operating expenses:		
Interest related to:		
Corporate purpose bonds	1,206	1,924
Corporate loans	4,414	4,033
Interest on revenue bonds	45,586	52,003
Interest on subsidiary project bonds	17,346	-
Reimbursed grants	41,270	136,644
Economic development grants	397,955	580,962
General and administrative	126,428	89,854
Subsidiary program and administrative	31,067	35,001
Pollution remediation	(569)	4,103
Provision for recoveries on loans and leases receivable and investments in other assets	5,309	(55,971)
Depreciation	24,907	13,531
Total operating expenses	694,919	862,084
Minority interest	(1,779)	(9,860)
Operating income	51,690	91,473
Non-operating revenue	472,929	411,030
Non-operating expenses	(470,364)	(410,319)
Change in net position	54,255	92,184
Net position at beginning of year	1,899,296	1,807,112
Net position at end of year	$ 1,953,551	1,899,296

Liquidity

The Corporation's cash, cash equivalents and temporary investments totaled approximately $367.0 million and $298.6 million at March 31, 2015 and 2014, respectively. The increase is primarily due to the receipt of $65.0 million on the final day of fiscal 2015 for economic development projects which was transferred to grant recipients in the next fiscal year. In addition, the increase is attributed to the receipt of certain non-recurring payments related to various corporate and subsidiary programs and financing fees.

Capitalization

As of March 31, 2015, ESD had repaid all its outstanding corporate purpose bond debt obligations. No new corporate purpose debt was issued during fiscal 2015 and 2014. In addition, it had $11.1 billion in revenue bonds outstanding. These bonds are issued on behalf of the State to provide the Corporation with funds to enable it to engage in certain projects relating to financing of State Facilities, economic development activities, housing projects and other State supported financing activities. The revenue bonds debt service is provided by New York State.

In December of 2014, ESD issued $1,296.6 million in State Personal Income Tax Revenue Bonds (General Purpose): $925.8 million Series 2014A and $370.8 million Series 2014B (Federally Taxable). The Series 2014A and 2014B bonds (the "Series 2014 Bonds") were issued to finance or reimburse all or a portion of the costs of programs and projects throughout the State, including highway and bridge capital projects, correctional projects, housing projects, economic development projects, State Facilities projects, and to refund certain outstanding State Personal Income Tax Revenue Bonds. In addition, proceeds of the Series 2014A and 2014B Bonds were used to pay all or part of the cost of issuance of the Series 2014 Bonds.

In December of 2013, ESD issued $1,208.8 million in State Personal Income Tax Revenue Bonds (General Purpose); $812.8 million Series 2013E and $396.0 million Series 2013F (Federally Taxable). The Series 2013E and 2013F bonds were issued to finance or reimburse all or a portion of the cost of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing projects, economic development projects and State facilities projects. In addition, proceeds of the Series 2013E and 2013F Bonds were used to pay all or part of the cost of issuance of the Series 2013E and 2013F Bonds.

In September of 2013, ESD issued $1,230.8 million in State Personal Income Tax Revenue Bonds (General Purpose); $753.1 million Series 2013C and $477.7 million Series 2013D. The Series 2013C bonds were issued to enable the Corporation to fund certain projects relating to (1) reimbursing the State for certain expenditures made or to be made by the New York Department of Transportation in connection with the State's current multi-year highway and bridge capital program; and (2) the making of grants to reimburse municipalities and other project sponsors throughout the State for qualifying capital expenditures for highway, bridge and multi-modal

Capitalization, Continued

projects. Proceeds of the Series 2013 Bonds also may be used to finance other transportation projects as permitted under the Project Acts. The statutes pursuant under which these projects are being financed include: sections 380, 385 and 386-a of the Public Authorities Law, sections 10-c, 10-e, 10-f, 10-g and 80-b of the Highway Law, sections 14-j and 14-k of the Transportation Law, Chapters 329, 330 and 331 of the Laws of New York of 1991, section 89-b of the State Finance Law and other applicable New York statutes (the "Project Acts"). Additionally, the proceeds of the Series 2013C Bonds were used to pay all or part of the cost of issuance of the Series 2013C Bonds. The Series 2013 Bonds are not secured by the Projects or any interest therein. The Series 2013D were issued to refund $19.7 million ESD State Personal Income Tax Revenue Bonds (State-Facilities and Equipment), Series 2005B. The remaining bond proceeds were used to refund certain bonds issued by the following: the New York State Thruway Authority for $396.0 million, the New York State Environmental Facilities Corporation for $85.7 million, and the New York State Housing Finance Agency for $20.6 million. Additionally, the proceeds of the Series 2013D Bonds were used to pay all or part of the cost of issuance of the Series 2013D Bonds.

In fiscal 2015, ESD redeemed $45.1 million of Corporate Purpose Subordinate Lien Bonds Series 2004A with funds received primarily from repayments of the Corporation's housing mortgages which secure the corporate purpose bonds.

In fiscal 2014, ESD had no Corporate Purpose bond redemptions.

Also outstanding as of March 31, 2015 is $698.0 million in revenue bonds issued by the New York Convention Center Development Corporation in November 2005.

Interest Rate Transactions

During fiscal 2015, there was no new activity with regard to the interest rate swap agreements.

Certain segments of the $1.0 billion interest rate swap agreements in connection with Correctional and Youth Facilities Service Contract Revenue Series 2002B Bonds were terminated during fiscal year 2011. In May 2010, $175.0 million Citibank and $45.0 million Goldman Sachs swaps were terminated. In August 2008, $125.0 million Morgan Stanley swaps were terminated. In June 2008, $250.0 million Bear Stearns and $205.0 million Goldman Sachs swaps were also terminated. As of March 31, 2015, the total amount of swap terminations related to the original 2002B Bonds was $800 million. The remaining $200.0 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

Interest Rate Transactions, Continued

Under the swaps, the Corporation effectively converted terms of the underlying debt obligation from a variable to a fixed rate. Under the terms of the agreement, the Corporation pays a fixed rate of 3.578% to the related counter party and receives a variable rate equivalent to 65% of the 30 day USD-LIBOR rate. The maturities of the swaps are equal to the maturities of Series 2008A Bonds and amortizations begin in 2017 with a final maturity in 2030. Since the Corporation is fully reimbursed by the State for all payments related to the swaps, no gains or losses will be recognized.

The Corporation, in fiscal 2005, entered into additional interest rate swap agreements in connection with its $649.9 million State Personal Income Tax Revenue Bonds, Series 2004A-2, 2004A-3 and 2004A-4 (State Facilities and Equipment) and the $30.5 million State Personal Income Tax Revenue Bonds Series 2004B-2 (Economic Development and Housing). In September 2008, the swap agreement in connection with the State Personal Income Tax Revenue Bonds was partially terminated as follows: $74.6 million Lehman Brothers Derivative Products of Series 2004A-3, $1.1 million Lehman Brothers Derivative Products of Series 2004A-4, $3.9 million Lehman Brothers Derivative Products of Series 2004B-2 and $75.1 million Lehman Brothers Derivative Products of Series 2004A-2. In September 2010, the remaining swaps for 2004A-2 and 2004B-2 were terminated.

The remaining $224.0 million interest rate swap agreements are in connection with the State Personal Income Tax Revenue Bonds, Series 2004A-3, with amortization ranging from 2025 to 2033. The Corporation receives a variable rate equivalent to 65% of the 30 day USD-LIBOR rate and pays a fixed rate to the related counterparties of 3.490%. Since the Corporation is fully reimbursed by the State for all payments related to the swaps, no gains or losses will be recognized.

The fair value of the swaps is recorded as a deferred inflow of resources and the related deferred loss is recorded as a deferred outflow of resources.

Investment Ratings

As of March 31, 2015, the Corporation's outstanding debt had the following ratings from the three major rating agencies:

	Underlying Ratings		
Issue	Moody's	S&P	Fitch
Correctional Facility Service Contract - Refunding 2010B	N/A	AA	AA
Personal Income Tax Revenue Bonds Series 2009 B1	N/A	AAA	AA+
NY Convention Center Revenue Bonds Series 2005	A1	N/A	N/A

Change in Net Position

The change in net position for the year ended March 31, 2015 was $54.3 million compared with $92.2 million in the prior year. The decrease is primarily due to reductions in funding for several subsidiaries, including MSDC and ECHDC.

Revenue

Operating revenue in the 2015 fiscal year approximated $748.4 million compared with $963.4 million in fiscal 2014. The net decrease of $215.0 million is primarily the result of changes in the following categories:

Decreases in operating revenue primarily occurred in the following categories:

- Interest and finance income from HUD subsidy and housing companies decreased by approximately $5.2 million due to a decrease in housing receipts as a result of the transfer of ESD's housing portfolio to the New York State Housing Finance Agency in fiscal 2014.
- Interest on revenue bonds decreased by approximately $6.4 million due to the repayment and refunding of certain bonds.
- Reimbursed grants revenue decreased by approximately $131.0 million due primarily to a decrease of $68.0 million in HUD grant funding to LMDC and ESD as a result of decreased activity in existing programs and a decrease of $27.4 million received in the prior year in Community Development Block Grant Disaster Recovery funds from HUD (administered through New York State Homes and Community Renewal) for disaster relief to businesses that sustained losses as a result of Super Storm Sandy, Hurricane Irene and Tropical Storm Lee. In addition, grant funding to subsidiaries, including MSDC and ECHDC, decreased by approximately $35.6 million due to reduced activity under federal and other funding agreements.
- Economic development grants funding decreased by $180.0 million due to a decrease in activity within existing grant programs, including the following projects: SUNY Research Foundation -Nanotech, Fort Schuyler Management Quad C-Phase II, City of Niagara Falls and City of Salamanca.

Increases in operating revenue primarily occurred in the following categories:

- Interest and finance income from nonresidential projects increased by approximately $3.2 million due to an increase in tax revenue related to a project on Roosevelt Island.
- Hotel tax revenue increased by approximately $4.4 million as a result of continued increased tourism to New York City.
- State appropriation for programs increased by $7.7 million due to an increase in economic development loan program activity.

Revenue, Continued

- Other revenue increased by approximately $92.3 million due primarily to an increase of $38.1 million in funding for the worldwide communications and marketing promotion program, NY Open for Business and an increase of $62.6 million due to an adjustment in the prior fiscal year to close out ESD's housing portfolio upon its transfer to HFA. These were offset by a reduction of $8.4 million related to non-recurring revenue received in the prior fiscal year.

Non-operating revenue for fiscal year ended March 31, 2015 approximated $472.9 million compared to $411.0 million in fiscal year 2014. The increase of $61.9 million is due primarily to the increase in revenue from the State for debt service obligations related to the issuance of new bonds, offset by the repayment of certain existing bonds.

Expenses

Operating expenses in the fiscal year ended March 31, 2015 approximated $694.9 million in comparison to $862.1 million in fiscal 2014. The net decrease of $167.2 million is primarily the result of changes in the following categories:

Decreases in operating expenses primarily occurred in the following categories:

- Interest expenses decreased for corporate purpose bonds and loans for a combined total of approximately $0.3 million primarily due to the early principal repayment of certain bonds.
- Interest on revenue bonds decreased by approximately $6.4 million due to the repayment and refunding of certain bonds.
- Reimbursed grants expense decreased by approximately $95.4 million due primarily to a decrease of $68.0 million in HUD grants to LMDC and ESD as a result of decreased activity in existing programs and a decrease of $27.4 million received in the prior fiscal year from HUD (administered through New York State Homes and Community Renewal) for disaster relief to businesses that sustained losses as a result of Super Storm Sandy, Hurricane Irene and Tropical Storm Lee.
- Economic development grants decreased by $183.0 million due to a decrease in activity within existing grant programs, including the following projects: SUNY Research Foundation -Nanotech, Fort Schuyler Management Quad C-Phase II, City of Niagara Falls and City of Salamanca.
- Subsidiary program and administrative expenses decreased by approximately $4.0 million due primarily to a reduction in personal services and decreases in consultant and legal expenses at certain subsidiaries, primarily LMDC.
- Pollution remediation expense decreased by approximately $4.7 million due primarily to a decrease in remediation activity and an adjustment required to reflect current contractual commitments.

Expenses, Continued

Increases in operating expenses primarily occurred in the following categories:

- Interest on subsidiary project bonds increased by approximately $17.3 million due to the completion of the Javits Convention Center expansion and the discontinued capitalization of bond interest expense.
- General and administrative expenses increased by $36.6 million due primarily to an increase in billing activity related to the worldwide communication and marketing promotion program, NY Open for Business.
- Provision for recoveries on loans and leases receivable and investment in other assets increased by approximately $61.3 million due to the transfer of ESD's Housing Portfolio in fiscal 2014 and the required reversal of loan reserves associated with the portfolio in the prior fiscal year.
- Depreciation expense increased by approximately $11.4 million due to the reclassification of various capitalized accounts to fixed assets related to the completion of the renovation and expansion of the Jacob Javits Convention Center.

Non-operating expenses increased approximated $470.3 million compared to $410.3 million in fiscal 2014. The increase of $60.0 million is due primarily to an increase in new bonds issued and the related debt service.

Anticipated Future Transactions and Information

The following are anticipated to effect the Corporation subsequent to March 31, 2015:

- In August 2015, ESD's subsidiary, New York Convention Center Development Corporation, may refund its $697.5 million in revenue bonds in order to take advantage of the current interest rate climate and realize a substantial savings in debt service. It is anticipated that the refunding will be through the issuance of a 30-year fixed-rate bond, not extend the original bond term, not include additional debt and be structured for level debt service instead of current ascending structure.

Request for Information

This financial report is designed to provide a general overview of ESD's finances for all those with an interest in the Corporation's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the Chief Financial Officer, New York State Urban Development Corporation d/b/a Empire State Development, 633 Third Avenue, New York, New York 10017.

CONSOLIDATED FINANCIAL STATEMENTS

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Net Position
March 31, 2015 and 2014

	2015	2014
Assets	(In thousands)	
Current assets:		
Cash and equivalents	$ 166,935	90,218
Temporary investments	200,020	208,426
	366,955	298,644
Cash and investment securities restricted or designated for:		
Corporate purpose bonds	-	4,705
Revenue bonds	1,897,761	2,058,901
Economic development	297,246	354,837
Subsidiary and other purposes	630,967	650,571
	2,825,974	3,069,014
Loans and leases receivable:		
Non-residential, principally leases	4,200	3,225
Economic development loans	832	911
	5,032	4,136
Due from State of New York	229,276	307,396
Due from Port Authority of New York and New Jersey	25,604	25,607
Other current assets	59,201	30,875
Total current assets	3,512,042	3,735,672
Investment securities restricted or designated for:		
Corporate purpose bonds	-	40,970
Revenue bonds	19,954	20,226
Subsidiary and other purposes	-	116,679
	19,954	177,875
Loans and leases receivable:		
Non-residential, principally leases	22,369	27,554
Economic development loans	102,409	95,688
	124,778	123,242
Due from State of New York	9,048,204	8,410,039
Due from Port Authority of New York and New Jersey	123,612	142,511
Due from New York Job Development Authority	26,233	26,230
Real property and office equipment, net	1,841,827	1,741,981
Other assets	237,698	31,538
Total non-current assets	11,422,306	10,653,416
Total assets	14,934,348	14,389,088
Deferred outflows of resources - deferred loss on derivative	94,398	70,104

(Continued)

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Net Position, Continued

	2015	2014
	(In thousands)	
Liabilities		
Current liabilities:		
Current portion of bonds, notes and mortgages payable:		
Corporate purpose bonds	$ -	4,705
Revenue bonds	795,595	728,475
Project revenue bonds - New York Convention Center Development Corporation	1,770	1,115
Other project revenue bonds	293	329
Other financing	72,154	172,283
	869,812	906,907
Accounts payable and accrued expenses	117,003	234,361
Interest payable	74,692	80,439
Repayable to U.S. Department of Housing and Urban Development	40,000	-
Other current liabilities	81,301	110,076
Total current liabilities	1,182,808	1,331,783
Non-current liabilities:		
Bonds, notes and mortgages payable:		
Corporate purpose bonds	-	40,970
Revenue bonds	10,310,319	9,972,796
Project revenue bonds - New York Convention Center Development Corporation	704,642	706,977
Other project revenue bonds	-	293
Other financing	155,500	6,000
	11,170,461	10,727,036
Repayable to related governmental entities	3,949	3,581
Pollution remediation liability	19,309	20,228
Other liabilities	124,196	94,927
Total non-current liabilities	11,317,915	10,845,772
Total liabilities	12,500,723	12,177,555
Commitments and contingencies (note 20)		
Deferred inflows of resources		
Fair market value of derivatives	94,398	70,104
Grants payable	220,543	118,523
Other	93,060	29,022
	408,001	217,649
Minority interest	166,471	164,692
Net position:		
Restricted:		
Appropriations repayable under prescribed conditions	197,554	197,554
Other restricted for specific purposes	135,824	133,824
Total restricted	333,378	331,378
Net investment in capital assets	1,620,173	1,567,918
Total net position	$1,953,551	1,899,296

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Revenue, Expenses
and Changes in Net Position
Years ended March 31, 2015 and 2014

	2015	2014
Operating revenue:	(In thousands)	
Interest and finance income from:		
HUD subsidy	$ -	1,316
Housing companies	15	3,919
Nonresidential projects	11,015	7,793
Interest on revenue bonds	45,586	52,003
Hotel tax revenue	46,453	42,113
Reimbursed grants	141,010	271,976
Economic development grants	395,561	575,564
State appropriation for programs	13,475	5,764
Other revenue	95,273	2,969
Total operating revenue	748,388	963,417
Operating expenses:		
Interest related to:		
Corporate purpose bonds	1,206	1,924
Corporate loans	4,414	4,033
Interest on revenue bonds	45,586	52,003
Subsidiary project revenue bonds	17,346	-
Reimbursed grants	41,270	136,644
Economic development grants	397,955	580,962
General and administrative	126,428	89,854
Subsidiary program and administrative	31,067	35,001
Pollution remediation	(569)	4,103
Provision for payment (recoveries) on loans and leases receivable and investments in other assets	5,309	(55,971)
Depreciation	24,907	13,531
Total operating expenses	694,919	862,084
Minority interest	(1,779)	(9,860)
Operating income	51,690	91,473

(Continued)

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Revenue, Expenses
and Changes in Net Position, Continued

	2015	2014
	(In thousands)	
Non-operating revenue:		
State appropriations for interest on revenue bonds	$ 470,978	409,993
Interest and finance income earned on investment of revenue bond proceeds	699	349
Other investment income, including change in fair value	1,252	688
Total non-operating revenue	472,929	411,030
Non-operating expenses - interest and other costs on revenue bonds	470,364	(410,319)
Non-operating income	2,565	711
Change in net position	54,255	92,184
Net position at beginning of year	1,899,296	1,807,112
Net position at end of year	$ 1,953,551	1,899,296

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended March 31, 2015 and 2014

		2015	2014
		(In thousands)	
Cash flows from operating activities:			
Interest and finance income received	$	11,030	13,028
State appropriation received for interest on debt		45,586	52,003
Other operating receipts		95,273	2,969
Cash received from hotel tax revenue		45,544	41,908
Grants received		366,393	887,544
Interest payments on corporate purpose bonds		(1,381)	(2,465)
Interest payments on revenue bonds		(62,932)	(52,003)
Payments for general and administrative expenses		(268,844)	(42,537)
Grant payments		(338,653)	(704,434)
Payments for pollution remediation		(350)	(478)
Net cash provided by (used in) operating activities		(108,334)	195,535
Cash flows from non-capital financing activities:			
Retirement of corporate purpose bonds		(45,675)	(4,665)
Retirement of other project revenue bonds		(329)	(305)
Increase in other liabilities		64,532	16,955
Net cash provided by non-capital financing activities		18,528	11,985
Cash flows from capital financing activities:			
Bond proceeds - revenue bonds		1,296,655	2,439,545
Retirement of revenue bonds		(892,012)	(703,960)
Accrued interest payable on revenue bonds		(5,555)	(1,619)
Bond payments - New York Convention Center Development Corporation, net of issuing costs		(1,697)	(1,078)
Advances on behalf of State of New York for special projects		(560,045)	(661,190)
Proceeds from other financing		3	-
Net cash provided by (used in) capital financing activities		(162,651)	1,071,698
Cash flows from investing activities:			
Proceeds from sale/maturities of investment securities		21,915,912	19,711,260
Purchase of investment securities		(21,506,545)	(20,866,669)
Investment income, net		2,565	711

(Continued)

See accompanying notes to consolidated financial statements.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows, Continued

	2015	2014
	(In thousands)	
Cash flows from investing activities, continued:		
Cash payments on behalf of the New York Job Development Authority	$ (3)	(59)
Payments received from projects financed by corporate revenue bonds	4,210	49,616
Collections (payments) on economic development loans	(11,583)	58,805
Net activity on economic development projects	49,371	16,243
Investment in real property and office equipment	(124,753)	(193,741)
Net cash provided by (used in) investing activities	329,174	(1,223,834)
Net increase in cash and equivalents	76,717	55,384
Cash and equivalents at beginning of year	90,218	34,834
Cash and equivalents at end of year	$ 166,935	90,218
Reconciliation of operating income to net cash provided by (used in) operating activities:		
Operating income	51,690	91,473
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation expense	24,907	13,531
Minority interest	1,779	9,860
Provision for payment (recoveries) on loans and leases receivable and investments in other assets	5,309	(55,971)
Changes in:		
Due from Port Authority of New York and New Jersey	18,899	24,021
Other current assets	(28,326)	7,195
Other assets	(206,160)	(2,511)
Accounts payable and accrued expenses	(117,358)	87,823
Grants payable	102,020	17,030
Interest payable	(175)	(541)
Repayable to related governmental agencies	40,000	-
Pollution remediation liability	(919)	3,625
Net cash provided by (used in) operating activities	$ (108,334)	195,535

See accompanying notes to consolidated financial statements.

Note 1 - Corporate Background and Activities

The New York State Urban Development Corporation ("ESD" or the "Corporation"), which together with its subsidiaries does business as Empire State Development ("ESD"), is a corporate governmental agency of the State of New York (the "State"), constituting a political subdivision and a public benefit corporation. Accordingly, for financial reporting purposes, the accompanying consolidated financial statements are combined as a component unit enterprise fund in the State's annual financial report. Created by legislation in 1968, ESD has broad powers, which can be utilized for civic, industrial, commercial or residential development purposes.

The consolidated financial statements include the accounts of the New York Convention Center Development Corporation ("CCDC") which owns the New York Convention Center ("Javits Center") and leases the facility to the State. In February 2004, ESD took control of CCDC.

ESD holds 67% of the common stock of CCDC and substantially controls its operations. Under Governmental Accounting Standards Board ("GASB") Statement No. 39 - "The Financial Reporting Entity," CCDC is considered a blended component unit of ESD and the assets, liabilities and results of operations are consolidated with the operations of ESD for financial reporting purposes.

ESD is engaged in various activities for the State, three of which are highlighted below:

(a) Economic Development and Job Creation

ESD is the State's primary agent for economic development with co-headquarters in Albany, Buffalo and New York City that are supported by a network of additional locations throughout the State. ESD works in partnership with the public and private sectors to create an environment that spurs innovation and economic development while enhancing New York State's competitive advantage as the world capital for many industries, ranging from finance and media to technology and agriculture. ESD's mission is to promote a vigorous and growing state economy, encourage business investment and job creation and support diverse prosperous local economies across New York State through the efficient use of loans, grants, tax credits, real estate development marketing and other forms of assistance. To support the Corporation in carrying out its mission, the State Legislature has provided the Corporation with various statutory powers, including the power to issue bonds, offer tax benefits to developers, condemn real property and waive compliance where appropriate, with certain local codes and laws. Earlier projects were financed through the issuance of non-recourse revenue bonds and mortgages (see note 13). The financial assistance is provided primarily through State appropriated funds received by the Corporation and State supported bonds issued by the Corporation which are disbursed to projects. Federal funding is also received through various programs to provide assistance to small businesses, businesses who have sustained losses as a result of natural disasters and other purposes that spur economic development.

Note 1 - Corporate Background and Activities, Continued

(a) Economic Development and Job Creation, Continued

The economic development activities of ESD also include special projects, often of considerable magnitude, which it carries out through various consolidated subsidiaries including Harlem Community Development Corporation, New York Convention Center Development Corporation, Moynihan Station Development Corporation, Erie Canal Harbor Development, New York Empowerment Zone Corporation and other subsidiaries with development activities throughout the State.

Lower Manhattan Development Corporation ("LMDC") was created as an ESD subsidiary. The purpose of the subsidiary is to assist in the economic recovery and revitalization of lower Manhattan. In 2001, LMDC received a direct grant of up to $2.783 billion from the United States Department of Housing and Urban Development ("HUD") and Federal Transportation Administration. Approximately $45.0 million and $114.9 million were received and disbursed during the years ended March 31, 2015 and 2014, respectively.

Additionally in 2001, ESD was directly appropriated $700.0 million by HUD to assist with the recovery and revitalization of lower Manhattan. Approximately $0.1 million and $2.1 million was received and disbursed during the years ended March 31, 2015 and 2014, respectively. As of March 31, 2015, $0.1 million was returned to HUD from Grantee repayments.

Additionally, ESD administers the economic development activities of the New York Job Development Authority ("JDA"). JDA is not a component unit of ESD for financial reporting purposes.

(b) State Special Projects

ESD issues revenue bonds, the proceeds of which are used primarily for construction and renovation of State correctional facilities, to refinance State office facilities or construct technology facilities for universities located in New York, to finance youth facilities, to finance the acquisition of certain lands, to construct/improve various civic and community facilities, and for economic development and preservation of natural resources located throughout the State. Under related agreements, ESD receives periodic State appropriations in amounts sufficient to pay the debt service on the bonds.

(c) Marketing

ESD markets New York, not only as a great place to do business, but as the perfect vacation destination. The Division of Marketing, Advertising and Tourism produces creative marketing strategies and programs that promote New York State as the ideal get-away spot. The Division of Motion Picture and Television Development markets the State to the film industry, providing production and business support for projects and companies while serving as a liaison between the industry, State agencies and regional governments.

Note 2 - Summary of Significant Accounting Policies

(a) Basis of Accounting and Principles of Consolidation

ESD is an enterprise fund that follows the economic resource measurement focus and the accrual basis of accounting. The Corporation complies with all applicable pronouncements of GASB as well as with authoritative pronouncements applicable to nongovernmental entities (e.g., Financial Accounting Standards Board Statements) that do not conflict with GASB pronouncements.

The consolidated financial statements of ESD include the accounts of all wholly-owned subsidiaries, as well as those of CCDC, its 67% owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

(b) New Accounting Pronouncement

For the year ended March 31, 2014, the Corporation adopted the provisions of the following GASB Statement:

- GASB Statement No. 65 - "Items Previously Reported as Assets and Liabilities" establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources such as changes in the determination of the major fund calculations and limiting the use of the term deferred in the financial statement presentations.

(c) Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(d) Cash and Equivalents

Cash and equivalents include cash deposits with banks and highly liquid temporary investments with original maturities of 90 days or less.

(e) Investment Securities

Investment securities are reported at fair value in the consolidated statements of net position, and investment income, including changes in fair value, are reported as revenue in the consolidated statements of revenue, expenses and changes in net position.

Note 2 - Summary of Significant Accounting Policies, Continued

(e) Investment Securities, Continued

The fair value of investment securities, which include United States Government and Federal agency obligations and obligations of State and local governments, is generally based on quoted market prices. Commercial paper and mutual funds, including time deposits and repurchase agreements with maturities of one year or less, are reported at amortized cost. If required, collateral for these investments is held in the Corporation's name by financial institutions as custodians. Investment income also includes realized gains and losses from the disposition of investments on a specific identification basis.

(f) Loans and Leases Receivable

Nonresidential loans are recorded at cost, net of amortization of principal. It is the intent of ESD to hold these loans for the foreseeable future or until maturity.

Nonresidential projects, including long-term non-cancelable leases, are accounted for as financing transactions. The present value of aggregate future rentals (which is equivalent to the project development cost) is recorded as the net investment in the receivable at the inception of each lease and rentals are recognized as income over the lease term so as to produce a constant periodic rate of return on the net investment.

Economic development project receivables consist of loans financed by ESD primarily with appropriations received from the State. Revenue is recognized when economic development project receivables are collected, principal is amortized and interest income is recorded.

(g) Delinquent Interest

Delinquent interest on nonresidential mortgages is recognized as income upon the receipt of cash.

(h) Revenue Bonds

Revenue bonds, consisting of many programs, including Correctional Facilities, Youth Facilities, University Facilities, State Office Facilities, and Community Enhancement Facilities, are issued by ESD at the direction of the State. Most revenue bonds are issued under the Personal Income Tax Resolution for General Purpose. ESD expects to receive funds from the State under leases, financings, service contracts or through interest earned on available cash and investments related to such bonds, in amounts sufficient to cover bond debt service and expenses such as bond issuance costs, discounts and advance refunding costs. During fiscal 2015 and 2014, ESD received from the State $1.228 billion and $1.118 billion, respectively.

Amounts received from the State were used to meet principal payments of $709.2 million and $639.1 million in fiscal 2015 and 2014, respectively, which were recorded as reductions of the amounts due from the State. In addition, during fiscal 2015 and 2014 ESD applied $20.5 million and $48.5 million, respectively, of revenue bonds investment earnings to meet principal and interest payments.

Note 2 - Summary of Significant Accounting Policies, Continued

(h) Revenue Bonds, Continued

During fiscal 2015, at the direction of the New York State Division of the Budget, ESD received \$450.6 million in advances for debt service obligations due throughout fiscal 2016 related to certain State supported debt. These funds are currently held with the Trustees and their investment earnings will be applied to future debt service obligations.

(i) Bond Defeasances and Refundings

ESD accounts for bond defeasances and refundings under the provisions of GASB Statement No. 23 - "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities." Accordingly, gains or losses representing the difference between the reacquisition price required to repay previously issued debt, and the net carrying amount of the retired debt, are deferred as an addition to or a deduction from the new bonded liability, and subsequently amortized as a component of interest expense over the shorter of the remaining life of the old debt or the life of the new debt.

In fiscal 2015, ESD redeemed \$45.1 million of the Corporate Purpose Subordinate Lien Bond Series 2004A with funds received primarily from repayment of the Corporation's housing mortgages which secured the corporate purpose bonds. With this repayment ESD has eliminated all outstanding Corporate Purpose bond debt.

In-substance defeasances of revenue bond issues do not result in any net gain or loss to ESD since it is fully reimbursed by the State for all expenses related to revenue bonds, including debt service requirements.

All adjustments related to these transactions result in a change to the amount due from New York State.

(j) Real Property and Office Equipment

Real property, leasehold improvements and office equipment are recorded at cost. Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets or the related lease terms, which range from 2 to 40 years. Planning, development and construction costs for various projects which will ultimately be owned by the Corporation are capitalized when incurred and depreciated when placed in service.

As of March 31, 2015 and 2014, construction costs incurred in the amount of approximately \$123.0 million and \$193.7 million, respectively were capitalized and included as part of building and improvements. Costs associated with CCDC include interest costs of \$17.0 million, net of \$0.4 million of interest income.

Note 2 - Summary of Significant Accounting Policies, Continued

(k) Revenue and Expense Classification

The Corporation distinguishes operating revenue and expenses from non-operating items in the preparation of its consolidated financial statements. Operating revenue and expenses generally result from providing services in connection with the Corporation's principal ongoing operations. The principal operating revenues are earnings from economic development grants and loans, hotel tax collections, State appropriations for interest on revenue bonds where the Corporation's Board of Directors approves the disbursement of the funds, and grants from Federal, State and City agencies. The Corporation's operating expenses include project and program costs, related administrative expenses, interest related to corporate purpose and revenue bonds, depreciation and pollution remediation costs. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

(l) State Appropriations

State appropriations are subject to approval by the State Legislature. ESD has no assurance that required appropriations will be made beyond the current year to meet certain debt service obligations. Appropriations and available funds are anticipated to be sufficient to meet ESD's obligations for fiscal 2016.

(m) Grants

ESD administers certain reimbursement grant funds from Federal, State and City agencies. Reimbursement grants are awarded for a specifically defined program/project fund and are generally administered such that ESD is reimbursed for any qualified expenditures made in relation to such programs/projects. ESD records reimbursement grants as revenue when the related program/project costs are incurred. Differences between the costs incurred on specific programs/projects and the related approved grants are reflected as a receivable or as a deferred inflow in the accompanying consolidated statements of net position.

(n) Derivative Instruments

The Corporation uses interest rate swap agreements to manage the impact of interest rates on its Service Contract Revenue Refunding 2008A bonds and its State Personal Income Tax Revenue Bonds, Series 2004A-3 bonds. Accounting standards require that an entity recognize the fair value of all derivative instruments as either deferred outflows of resources or deferred inflows of resources in the consolidated statements of net position, with appropriate offsets to either operations or net position. ESD is fully reimbursed by the State for all expenses related to revenue bonds. The fair value of the instruments is recorded either as deferred outflows of resources or deferred inflows of resources.

Note 2 - Summary of Significant Accounting Policies, Continued

(o) Pollution Remediation Costs

Pollution remediation obligations are being charged in accordance with the provisions of GASB Statement No. 49 (see note 15) and occur when any one of the following obligating events takes place: the Corporation is in violation of a pollution prevention-related permit or license; an imminent threat to public health due to pollution exists; the Corporation is named by a regulator as a responsible or potentially responsible party to participate in remediation; the Corporation voluntarily commences or legally obligates itself to commence remediation efforts; or the Corporation is named or there is evidence that the Corporation will be named in a lawsuit that compels participation in remediation activities.

(p) Subsequent Events

The Corporation has evaluated subsequent events through the date of the report which is the date the financial statements were available to be issued.

(q) Reclassifications

Reclassifications have been made to certain 2014 balances in order to conform them to the 2015 presentation. The reclassification was made to reflect the additional options available to the Corporation for use of funds provided by the Port Authority.

Note 3 - Cash and Equivalents

Demand deposits are secured by letters of credit and collateral held by a bank or trust company as custodians. Securities are either delivered or registered by book entry in ESD's name with bond trustees or custodian banks.

At March 31, 2015 and 2014, cash held in demand and custodial deposits, as well as cash equivalents were collateralized by the depository, generally with obligations of the United States, its agencies, or New York State obligations with a remaining maturity when purchased of 90 days or less, as follows (in thousands):

	2015		2014	
	Carrying Amount	Bank balance	Carrying amount	Bank balance
Insured (FDIC)	$ 1,619	1,619	1,615	1,615
Uninsured - collateral held by custodian in ESD's name	447,650	447,752	488,960	489,192
Deposits held in trust for the Corporation's benefit	18,285	18,285	17,907	17,907
Total cash and cash equivalents	$ 467,554	467,656	508,482	508,714

Note 4 - Fair Value of Financial Instruments

Authorization for investment in securities is governed by written internal guidelines, statutes, State guidelines and bond resolutions. Permitted investments include:

- Obligations of the United States Treasury, agencies and authorities;
- Direct obligations of the State of New York, its political subdivisions and public authorities;
- Bonds and other obligations of governmental authorities, political subdivisions, Federal Agencies, Government Sponsored Enterprises ("GSE's") or public authorities of the State or of the United States of America, which are securities in which the Corporation lawfully may invest pursuant to applicable statutes, regulations and bond resolutions including, but not limited to, Federal National Mortgage Association ("FNMA") Federal Farm Credit Bank ("FFCB"), Federal Home Loan Bank ("FHLB"), Federal Home Loan Mortgage Corporation ("FHLMC - Freddie Mac"), and Student Loan Marketing Association ("SLMA - Sallie Mae");
- Repurchase agreements with financial institutions doing business in New York State which are listed as primary government securities dealers by New York's Federal Reserve Bank, and which are collateralized by U.S. Government securities;
- Commercial paper issued by domestic banks, corporations and financial companies rated "A-1" or better by Standard & Poor's Corporation or "P-1" or better by Moody's Investors Service, Inc.;
- Restricted cash held for subsidiaries and for other purposes insured by the FDIC or fully collateralized in ESD's name;
- Certificates of deposit; and
- Units, shares or interest in a mutual fund or money market fund of regulated investment companies that meet specified criteria.

Investment securities cost and fair value at March 31, 2015 and 2014 consisted of the following (in thousands):

	2015		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 2,763,233	2,756,113	(7,120)
Restricted cash	289,835	289,835	-
Total	$ 3,053,068	3,045,948	(7,120)

	2014		
	Cost	Fair value	Unrealized loss
U.S. Government and Federal agency obligations	$ 3,053,422	3,045,565	(7,857)
Restricted cash	409,750	409,750	-
Total	$ 3,463,172	3,455,315	(7,857)

Note 4 - Fair Value of Financial Instruments, Continued

Restricted or designated investment securities held by ESD include cash and equivalents and investment securities amounting to $631.0 million and $767.3 million at March 31, 2015 and 2014, respectively. These amounts at March 31, 2015 and 2014 are restricted for special projects on behalf of the following subsidiaries/programs/purposes (in thousands):

	2015	2014
Subsidiary/Programs/Purposes:		
42nd Street Development Project	$ 10,517	10,417
New York Empowerment Zone Corporation	11,496	12,667
Queens West Development Corporation	9,379	10,355
Harlem Community Development Corporation	4,950	5,114
Enterprise Community	34	134
USA Niagara Development Corp	14,190	12,892
Lower Manhattan Development Corporation	439	623
New York Convention Center Development Corporation	251,969	290,387
ESD Moynihan Station (James A. Farley Post Office Building)	15,614	25,863
ESD One Bryant Park	7,739	7,501
ESD Columbia SAC	11,504	12,735
ESD Erie Canal Harbor Development Corporation	25,706	28,172
ESD Privatization Program	818	718
Empire State New Market Corporation	1,449	1,365
ESD OPEB Liability Account	31,173	26,850
ESD Brooklyn Arena Project, ESD Atlantic Yard Project -Phase 1	63,646	927
ESD 125 Maiden Lane	413	63,728
ESD New York	3,066	3,066
ESD Project Repair Program	15,352	15,340
ESD Farley	55,672	9,231
ESD Marriot Marquis Purchase Option Fund	1,398	1,398
ESD TRAIL Remaining Fund	3,491	3,881
ESD Section 32 Remaining Fund	1,336	1,334
ESD Stadium Improvement Project	9,193	44,757
ESD Erie County Stadium Corporation Capital Improvement	2	2,967
ESD 550 Washington Street Project Improvement	731	750
ESD Arthur Kill Development Project	917	950
ESD Bronx Psychiatric Center Development Project	1,629	-
ESD Venture Atlantic Yard Project – Phase 2	1,916	-
Port Authority Control Board Authorized	70,361	171,959
Other Purposes	4,867	1,169
Totals	$ 630,967	767,250

Note 5 - Loans and Leases Receivable

Nonresidential lease receivables, mortgage loans and real estate investments and economic development loans at March 31, 2015 and 2014 consist of the following (in thousands):

	2015		2014	
	Number	Balance	Number	Balance
Non-residential lease receivables, mortgage loans and real estate investments:				
Lease receivables (a)	7	$ 17,581	7	$ 20,956
Commercial leases (b)	4	7,572	4	8,479
Real estate investments (c)	10	1,416	4	1,344
	21	26,569	15	30,779
Economic development loans (d)	106	103,241	104	96,599
Total	127	129,810	119	127,378
Less current portion		(5,032)		(4,136)
Non-current portion		$ 124,778		$ 123,242

(a) Non-residential Lease Receivables

Non-residential lease receivables consist of 7 projects outstanding in both 2015 and 2014 which were owned by ESD and leased to others. ESD recovers a 7% to 8.25% return, plus the original investment of funds. At March 31, 2015, the remaining lease terms ranged from 1 to 10 years. There are 6 leases with the City of New York ($16.7 million) and 1 is with a bank ($.9 million). At March 31, 2015, minimum lease payments to be received within the next 5 fiscal years total $14.0 million.

(b) Commercial Leases

Commercial leases consist of ground rent and commercial Tax Equivalency Payments ("TEP") due to the Corporation pursuant to ground leases on four Roosevelt Island housing projects, which include two non-subsidized, one subsidized, and one cooperative, totaling 2,141 units. Based on the existing TEP agreements, payments continue to the Corporation. The various ground lease terms range from one to fifteen years. The receivable balance of $7.6 million is amortized at an average annual interest rate of 7.5%.

(c) Real Estate Investments

Real estate investments consist of approximately 401 acres of land (comprised of 10 sites) in the Towns of Lysander and Amherst for residential, commercial and industrial development in the planned communities of Radisson and Audubon.

Note 5 - Loans and Leases Receivable, Continued

(d) Economic Development Loans

Economic development loans consist of secured, low interest loans made to companies in the State to retain and create jobs. The terms range from 1 to 19 years. The funds to make the loans come from State appropriations which are not repayable. The loans are net of allowance for possible losses of approximately $49.3 million at March 31, 2015 and 2014.

Note 6 - Due From Port Authority of New York and New Jersey

ESD expects to receive $395.0 million over 15.5 years from the Port Authority of New York and New Jersey ("Port Authority"). The revenue stream was assigned to ESD in fiscal 2005 by the State of New York. The net present value of the future cash flows in the amount of approximately $280.0 million was recorded in the consolidated financial statements in fiscal 2005 as a receivable from the Port Authority and revenue (included with State appropriation for programs). At March 31, 2015, annual minimum payments to be received in each of the next five years is approximately $26.3 million per year. The net present value of the receivable balance at March 31, 2015 and 2014 amounted to $148.7 million and $167.6 million, respectively.

Pursuant to an October 19, 2010 agreement between Moynihan Station Development Corporation ("MSDC") and the Port Authority, MSDC is to receive up to $10.0 million from the Port Authority to extend the West End Concourse at New York Penn Station. In fiscal 2015, the Port Authority made no payments to MSDC. In fiscal 2014, the Port Authority made three payments to MSDC totaling $5.8 million. The receivable balance at March 31, 2015 and 2014 amounted to $0.5 million.

Note 7 - Real Property and Office Equipment

Real property and office equipment at March 31, 2015 and 2014 consists of the following (in thousands):

	2015			
	Balance at March 31, 2014	Additions	Disposals	Balance at March 31, 2015
Land	$ 372,425	-	-	372,425
Buildings, improvements and construction in progress (incl. Farley)	1,509,189	55,934	(1,477)	1,563,646
Moynihan Station	174,843	68,581	-	243,424
Furniture and equipment	24,187	238	(310)	24,115
	2,080,644	124,753	(1,787)	2,203,610
Less accumulated depreciation	(338,663)	(24,907)	1,787	(361,783)
Totals	$ 1,741,981	99,846	-	1,841,827

Note 7 - Real Property and Office Equipment, Continued

	2014			
	Balance at March 31, 2013	Additions	Disposals	Balance at March 31, 2014
Land	$ 367,693	4,732	-	372,425
Buildings, improvements and construction in progress (incl. Farley)	1,395,823	113,371	(5)	1,509,189
Moynihan Station	99,380	75,463	-	174,843
Furniture and equipment	24,012	175	-	24,187
	1,886,908	193,741	(5)	2,080,644
Less accumulated depreciation	(325,137)	(13,531)	5	(338,663)
Totals	$ 1,561,771	180,210	-	1,741,981

(a) Buildings, Improvements and Construction In Progress

Major components of buildings, improvements and construction in progress at March 31, 2015 and 2014 are as follows (in thousands):

	2013	Net increase (decrease)	2014	Net increase (decrease)	2015
New York Convention Center Development Corporation	$ 1,056,365	99,914	1,156,279	48,484	1,204,763
USA Niagara	17,473	47	17,520	288	17,808
James A. Farley Post Office Building and other ESD property	316,355	13,405	329,760	6,316	336,076
Other Subsidiaries	5,630	-	5,630	(631)	4,999
Total	$ 1,395,823	113,366	1,509,189	54,457	1,563,646

(b) James A. Farley Post Office Building

On March 30, 2007, ESD completed the purchase of the James A. Farley Post Office Building for $230.0 million plus additional charges for interim operating and maintenance costs incurred prior to closing. The acquisition was financed as follows (in thousands):

Note 7 - Real Property and Office Equipment, Continued

(b) James A. Farley Post Office Building, Continued

Initial deposits	$ 50,000	
At closing	50,000	plus certain Consumer Price Index Adjustments
At June 30, 2007	45,000	plus certain Consumer Price Index Adjustments
At June 30, 2008	30,000	plus certain Consumer Price Index Adjustments
	175,000	
Deferred purchase price	55,000	plus certain Consumer Price Index Adjustments
Total	$ 230,000	

ESD borrowed $75.0 million from a bank and incurred seller financed debt of $130.0 million (see note 14) to complete the acquisition.

The Port Authority of New York and New Jersey committed $140.0 million that was used for the purchase of the James A. Farley Post Office Building. As the funds were received, they were recorded as revenue in the corresponding fiscal year. The deferred purchase price is payable from tenants' project revenue as described more fully in the funding agreements.

In February 2010, ESD refinanced the $75.0 million borrowed from the bank for an additional term of three years for a total of $91.8 million (including capitalized interest) for the purpose of prepaying the loan to fund capitalized interest, pay costs of issuance, and pay the premium for the commercial property insurance policy covering the James A. Farley Post Office Building.

In fiscal 2013, the $91.8 million loan was refinanced for an additional term of two years for a total of $101.0 million (including capitalized interest).

In fiscal 2015, the $101.0 million loan was refinanced for an additional term of two years for a total of $150.0 million (including capitalized interest). The $150.0 million loan included new money proceeds of $37.2 million to fund a portion of the costs of the on-going Farley construction project. Interest will continue to be capitalized and ESD will make three principal payments of $250,000 each over the two-year term.

(c) Yale Building

In August 2006, the Corporation entered into an agreement to purchase the Yale Building site from New York Convention Center Operating Corporation ("CCOC"). The agreement provided that CCDC defease certain outstanding bonds of CCOC in the amount of $66.2 million, subsequently reduced to $62.4 million. In addition to the defeasance amount, CCDC has agreed to make an additional $15.0 million payment to CCOC upon the sale or lease of certain property (as defined in the Purchase and Sale Agreement). This amount is not being recorded on the financial statements since it is contingent on the sale of a parcel of land owned by CCDC. All amounts incurred in connection with this purchase will be recorded as land.

Note 7 - Real Property and Office Equipment, Continued

(d) Depreciation

Depreciation expense for the years ended March 31, 2015 and 2014 amounted to $24.9 million and $13.5 million, respectively.

Note 8 - Other Assets

Other assets at March 31, 2015 and 2014 consist of the following (in thousands):

	2015	2014
Interest receivable	$ (3,876)	(3,325)
Receivable from municipalities, other authorities and others	157,729	18,691
Receivable from HUD - LMDC grant	6,775	18,649
Hotel tax receivable	11,386	10,477
Prepaid insurance	590	2,241
Reserve for commercial real estate projects	111,178	908
Other	13,117	14,772
	296,899	62,413
Less current portion	(59,201)	(30,875)
Non-current portion	$ 237,698	31,538

Note 9 - Postemployment Benefits Other Than Pensions

The Corporation follows the accounting and disclosure requirements of GASB Statement No. 45, - "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions."

Plan Description - The Corporation provides continuation of insured medical coverage through the Empire Plan for employees that retire with at least five years of credited service with the Corporation. The Corporation will also provide coverage in the event of early retirement if the employee qualifies for a State disability pension. The Corporation contributes 90% of costs for non-medicare eligible individual participants and 81.5% of costs for non-medicare eligible family participants. The Corporation contributes the full cost of coverage for medicare eligible individual participants and at least 90% of costs for Medicare eligible family participants. The Corporation also reimburses covered retirees 100% of the Medicare Part B premium rate applicable to a given year. Surviving dependents of retired employees with at least ten years of service, employees in vested status or active employees with ten years of service and within ten years of retirement are also eligible for continued health insurance coverage at the same contribution requirement as active employees.

Note 9 - Postemployment Benefits Other Than Pensions, Continued

As indicated above, the Corporation provides certain health care benefits for retired employees. Substantially all of the Corporation's employees may become eligible for these benefits if they reach the normal retirement age of the respective tier of the New York State Employees' Retirement System, while working for the Corporation. The Corporation, on an annual basis, accrues the cost which represents the present value of these benefits to be paid over the estimated lives of the retirees. Total expenditures charged to operations for the years ended March 31, 2015 and 2014 amounted to $6.4 million and $6.1 million, respectively, of which the Corporation paid $2.1 million and $2.0 million, respectively. At March 31, 2015 and 2014, the liability for postemployment benefits other than pensions amounted to $29.8 million and $25.5 million, respectively.

The number of participants as of March 31, 2015 and 2014 was as follows:

	2015	2014
Active employees	281	252
Retired employees	187	169
Total	468	421

Funding Policy - For the years ended March 31, 2015 and 2014, the Corporation paid for postemployment health care benefits on a pay-as-you-go basis. The Corporation established a plan and began funding the liability during the fiscal year ended March 31, 2009.

Annual Other Postemployment Benefit Cost ("OPEB") - For each of the years ended March 31, 2015 and 2014, the Corporation's annual OPEB cost amounted to $6.4 million and $6.1 million, respectively.

Benefit Obligations and Normal Cost (in Thousands)	2015	2014
Actuarial accrued liability ("AAL"):		
Active employees	$ 35,140	33,131
Retired employees	39,090	36,856
Total	$ 74,230	69,987
Underfunded actuarial accrued liability ("UAAL")	$ 74,230	69,987
Normal cost at beginning of year	$ 3,129	3,003

Level Dollar Amortization

Calculation of ARC under projected Unit Credit Method:

	2015	2014
Amortization of UAAL over 30 years with interest to end of year	$ 3,229	3,044
Normal costs with interest to end of year	3,167	3,035
Annual required contribution ("ARC")	$ 6,396	6,079

Note 9 - Postemployment Benefits Other Than Pensions, Continued

	2015	2014
Annual OPEB Cost Contribution		
Contribution for the year	$ 2,093	2,001
Contribution as a percentage of required contribution	32.7%	32.9%
Annual OPEB Cost and Net OPEB Obligation		
Annual required contribution	$ 6,396	6,079
Contribution made on a pay-as-you-go basis	(2,093)	(2,001)
Increase in net OPEB obligation	4,303	4,078
Net OPEB obligation at beginning of year	25,454	21,376
Net OPEB obligation at end of year	$ 29,757	25,454

Actuarial methods and assumptions:

Funding interest rate	4.5%
2013/2014 trend rate (medical and drugs)	4.8%
2014/2015 trend rate (medical and drugs)	4.8%
Ultimate trend rate (medical and drugs)	4.2%
Year ultimate trend rate rendered	2016
Annual payroll growth rate	2.5%
Actuarial cost method	Projected Unit Credit Method
The remaining amortization period at March 31, 2015	22 years

Note 10 - Corporate Purpose Bonds

The Corporation issued 2004A Subordinate Lien Corporate Purpose Bonds in the amount of $81.5 million in April 2004. The bonds were issued to fund economic development projects or programs of the Corporation. These bonds are supported with cash flows from the Port Authority of New York and New Jersey assigned by the State of New York to the Corporation (see note 6). The net present value of the assigned payments amounted to approximately $148.7 million and $167.6 million at March 31, 2015 and 2014, respectively.

No new corporate purpose debt was issued during fiscal 2015 and 2014.

In fiscal 2015, ESD redeemed $45.1 million of the Corporate Purpose Subordinate Lien Bonds Series 2004A with funds received primarily from repayment of the Corporate's housing mortgages which secured the corporate purpose bonds. With this repayment ESD has eliminated all outstanding Corporate Purpose bond debt.

In fiscal 2014, ESD had no Corporate Purpose bond redemptions.

Note 11 - Revenue Bonds

At March 31, 2015 and 2014, ESD's outstanding revenue bonds were as follows (in thousands):

	Balances		Coupon	Maturity
(a) Personal Income Tax Revenue Bonds (P.I.T.)	2015	2014	rates (%)	dates
State Facilities and Equipment				
2004 Series A-1	$ 270	760	5.00	2016
2004 Series A-2	300,285	300,385	5.50	2025
2004 Series A-3	298,550	298,550	Variable Note	2033
2005 Series B	-	92,065	4.45 - 5.00	2015
2007 Series B	227,935	234,630	5.00	2037
2007 Series C	231,570	238,380	4.00 - 5.00	2037
2009 Series B-1	369,010	385,885	4.00 - 5.25	2038
2009 Series B-2 (Taxable)	42,350	54,790	6.45	2018
Economic Development and Housing				
2004 Series B-1	-	4,240	5.00	2015
2004 Series B-2	-	960	3.5	2015
2005 Series A-1	6,230	79,690	3.50 - 5.00	2016
2005 Series A-2 (Taxable)	8,435	16,495	4.73	2016
2007 Series A	7,145	21,205	3.75 - 4.00	2017
2008 Series A-1	325,150	343,855	4.00 - 5.00	2028
2008 Series A-2 (Taxable)	11,830	15,430	4.64 - 4.86	2018
2009 Series A-1	213,670	237,225	3.00 - 5.00	2029
2009 Series A-2 (Taxable)	62,035	75,255	6.50	2019
General Purpose				
2009 Series C	522,710	595,245	3.00 - 5.00	2023
2009 Series E (Taxable Build America)	576,080	576,080	5.77	2039
2010 Series A	349,495	351,950	2.00 - 5.00	2020
2010 Series B (Taxable)	-	70,770	2.03 - 2.63	2015
2010 Series C (Taxable Build America)	413,760	413,760	4.61 - 5.84	2040
2011 Series A	469,265	487,450	3.50 - 5.00	2041
2011 Series B (Taxable)	103,580	119,935	1.33 - 2.79	2021
2013 Series A-1	572,390	572,390	3.50 - 5.00	2043
2013 Series A-2	66,205	67,585	2.00 - 5.00	2026
2013 Series B (Taxable)	132,460	166,485	0.55 - 1.75	2019

(Continued)

Note 11 - Revenue Bonds, Continued

(a) Personal Income Tax Revenue Bonds (P.I.T.)	Balances		Coupon	Maturity
General Purpose	2015	2014	rates (%)	dates
2013 Series C	$ 728,395	753,055	5.00	2033
2013 Series D	470,330	477,695	5.00	2025
2013 Series E	789,385	812,835	5.00	2043
2013 Series F (Taxable)	354,160	395,960	0.58 - 3.45	2023
2014 Series A	925,835	-	4.00 - 5.00	2044
2014 Series B (Taxable)	370,820	-	0.63 - 3.08	2024
Total Personal Income Tax Revenue Bonds	8,949,335	8,260,995		
(b) University Facilities				
Columbia University 1989 Series (Taxable)	21,474	25,298	zero coupon	2020
Cornell University 1989 Series (Taxable)	2,875	3,388	zero coupon	2020
Clarkson University - Loan 1995 Series	4,370	5,110	5.50	2020
Syracuse University - Loan 1995 Series	4,890	7,150	5.50	2017
University Facilities Grants 1995 Series	7,820	9,075	5.50 - 5.88	2021
Total University Facilities Issues	41,429	50,021		
(c) State Office Facilities				
State Office Facilities 1995 Refunding Series	102,325	116,335	5.60 - 5.70	2021
(d) Service Contract Refunding				
2005 Series A	79,145	104,565	3.75 - 5.00	2019
2005 Series B	17,540	20,575	4.00 - 5.00	2020
2007 Series A	206,110	220,945	4.00 - 5.25	2029
2008 Series A	200,000	200,000	Variable note	2030
2008 Series B	439,425	439,425	4.00 - 5.25	2030
2008 Series C	121,235	121,235	3.75 - 5.00	2030
2008 Series D	501,520	573,725	5.00 - 5.63	2028
2010 Series A	354,080	391,395	4.00 - 5.00	2022

(Continued)

Note 11 - Revenue Bonds, Continued

(d) Service Contract Refunding	Balances 2015	Balances 2014	Coupon rates (%)	Maturity dates
2010 Series B	$ 85,605	192,455	4.00 - 5.00	2017
2011 Series A	8,165	9,600	2.00 - 4.00	2020
Total Service Contract Refunding	2,012,825	2,273,920		
Total all issues	11,105,914	10,701,271		
Less current portion	(795,595)	(728,475)		
Total non-current revenue bonds	$ 10,310,319	9,972,796		

A summary of changes in outstanding revenue bonds at March 31, 2015 and 2014 is as follows:

	2014	Increases	Decreases	2015
Personal Income Tax Revenue Bonds	$ 8,260,995	1,296,655	(608,315)	8,949,335
University Facilities	50,021	-	(8,592)	41,429
State Office Facilities	116,335	-	(14,010)	102,325
Service Contract Refunding	2,273,920	-	(261,095)	2,012,825
Total	$ 10,701,271	1,296,655	(892,012)	11,105,914

Revenue bonds issued by ESD on behalf of the State rely on financing and service contracts, leases and subleases with the State. State appropriations are provided to ESD to make payments for debt service (principal and interest) on the bonds and related expenses. Therefore, the financing of all revenue bonds is not expected to result in any net revenue or expense to ESD, since any debt service not covered by available assets is recovered by State appropriation. ESD assets related to these financings as of March 31, 2015 and 2014 are as follows (in thousands):

	2015	2014
Due from State of New York	$ 9,277,480	8,717,435
Debt service reserve	19,954	20,226
Cash and investments	1,897,761	2,058,901
Less accrued interest payable	(60,523)	(66,078)
Less other	(28,758)	(29,213)
Bonds payable	$ 11,105,914	10,701,271

Note 11 - Revenue Bonds, Continued

New York State Special Project Revenue Bonds - Defeasance

As of March 31, 2015 and 2014, $92.4 million and $94.3 million, respectively, remained outstanding and are considered to be defeased.

State Personal Income Tax Bonds (General Purpose) Series 2013C & 2013D

In September of 2013, ESD issued $1,230.8 million in State Personal Income Tax Revenue Bonds (General Purpose); $753.1 million Series 2013C and $477.7 million Series 2013D. The Series 2013C bonds were issued to enable the Corporation to fund certain projects relating to (1) reimbursing the State for certain expenditures made or to be made by the New York Department of Transportation in connection with the State's current multi-year highway and bridge capital program; and (2) the making of grants to reimburse municipalities and other project sponsors throughout the State for qualifying capital expenditures for highway, bridge and multi-modal projects. Proceeds of the Series 2013 Bonds also may be used to finance other transportation projects as permitted under the Project Acts. The statutes pursuant under which these projects are being financed include: sections 380, 385 and 386-a of the Public Authorities Law, sections 10-C, 10-e, 10-f, 10-g and 80-b of the Highway Law, sections 14-j and 14-k of the Transportation Law, Chapters 329, 330 and 331 of the Laws of New York of 1991, section 89-b of the State Finance Law and other applicable New York statutes (the "Project Acts"). Additionally, the proceeds of the Series 2013C Bonds were used to pay all or part of the cost of issuance of the Series 2013C Bonds. The Series 2013 Bonds are not secured by the Projects or any interest therein.

The Series 2013D were issued to refund $19.7 million ESD State Personal Income Tax Revenue Bonds (State-Facilities and Equipment), Series 2005B. The remaining bond proceeds were used to refund certain bonds issued by the following: the New York State Thruway Authority for $396.0 million, the New York State Environmental Facilities Corporation for $85.7 million, and the New York State Housing Finance Agency for $20.6 million. Additionally, the proceeds of the Series 2013D Bonds were used to pay all or part of the cost of issuance of the Series 2013D Bonds.

State Personal Income Tax Revenue Bonds (General Purpose) Series 2013E & 2013F (Federally Taxable)

In December of 2013, ESD issued $1,208.8 million in State Personal Income Tax Revenue Bonds (General Purpose); $812.8 million Series 2013E and $396.0 million Series 2013F (Federally Taxable). The Series 2013E and 2013F bonds were issued to finance or reimburse all or a portion of the cost of programs and projects throughout the State, including highway and bridge capital projects, correctional and youth facilities projects, housing projects, economic development projects and State facilities projects. In addition, proceeds of the Series 2013E and 2013F Bonds were used to pay all or part of the cost of issuance of the Series 2013E and 2013F Bonds.

Note 11 - Revenue Bonds, Continued

State Personal Income Tax Revenue Bonds (General Purpose) Series 2014A & 2014B (Federally Taxable)

In December of 2014, ESD issued $1,296.6 million in State Personal Income Tax Revenue Bonds (General Purpose): $925.8 million Series 2014A and $370.8 million Series 2014B (Federally Taxable). The Series 2014A and 2014B bonds (the "Series 2014 Bonds") were issued to finance or reimburse all or a portion of the costs of programs and projects throughout the State, including highway and bridge capital projects, correctional projects, housing projects, economic development projects, State Facilities projects, and to refund certain outstanding State Personal Income Tax Revenue Bonds. In addition, proceeds of the Series 2014A and 2014B Bonds were used to pay all or part of the cost of issuance of the Series 2014 Bonds.

All Revenue Bonds

Annual maturities and interest obligations on Revenue Bonds for the five years following March 31, 2015 are as follows (in thousands):

	Principal	Interest (a)	Total
2016	$ 795,595	505,481	1,301,076
2017	813,080	472,334	1,285,414
2018	825,040	438,006	1,263,046
2019	805,255	402,752	1,208,007
2020	832,940	366,964	1,199,904
	$ 4,071,910	2,185,537	6,257,447

(a) Excludes variable interest rate.

Aggregate principal maturities subsequent to 2020 are approximately $7.0 billion.

Interest Rate Transactions

During fiscal 2015 and 2014, there was no new activity related to the interest rate swap agreements.

Note 11 - Revenue Bonds, Continued

Certain segments of the $1.0 billion interest rate swap agreements in connection with Correctional and Youth Facilities Service Contract Revenue Series 2002B Bonds were terminated during fiscal year 2011. In May 2010, $175.0 million Citibank and $45.0 million Goldman Sachs swaps were terminated. In August 2008, $125.0 million Morgan Stanley swaps were terminated. In June 2008, $250.0 million Bear Stearns and $205.0 million Goldman Sachs swaps were also terminated. As of March 31, 2015, the total amount of swap terminations related to the original 2002B Bonds was $800.0 million. The remaining $200.0 million interest rate swap agreements are in connection with the Service Contract Revenue Refunding Series 2008A Bonds (Variable Rate Demand Notes) which also partially funded the 2002B Bonds.

Under the swaps, the Corporation effectively converted terms of the underlying debt obligation from a variable to a fixed rate. Under the terms of the agreement, the Corporation pays a fixed rate of 3.578% to the related counter party and receives a variable rate equivalent to 65% of the 30 day USD-LIBOR rate. The maturities of the swaps are equal to the maturities of Series 2008A Bonds and amortizations begin in 2017 with a final maturity in 2030. Since the Corporation is fully reimbursed by the State for all payments related to the swaps, no gains or losses will be recognized.

The Corporation, in fiscal 2005, entered into additional interest swap agreements in connection with its $649.9 million State Personal Income Tax Revenue Bonds, Series 2004A-2, 2004A-3 and 2004A-4 (State Facilities and Equipment) and the $30.5 million State Personal Income Tax Revenue Bonds Series 2004B-2 (Economic Development and Housing). In September 2008, the swap agreement in connection with State Personal Income Tax Revenue Bonds was partially terminated as follows: $74.6 million Lehman Brothers Derivative Products of Series 2004A-3, $1.1 million Lehman Brothers Derivative Products of Series 2004A-4, $3.9 million Lehman Brothers Derivative Products of Series 2004B-2 and $75.1 million Lehman Brothers Derivative Products of Series 2004A-2. In September 2010, the remaining swaps for 2004A-2 and 2004B-2 were terminated.

The remaining $224.0 million interest rate swap agreements are in connection with the State Personal Income Tax Revenue Bonds, Series 2004A-3, with amortization ranging from 2025 to 2033. The Corporation receives a variable rate equivalent to 65% of the 30 day USD-LIBOR rate and pays a fixed rate to the related counterparties of 3.490%. Since the Corporation is fully reimbursed by the State for all payments related to the swaps, no gains or losses will be recognized.

The fair value of the swaps is recorded as deferred inflows of resources and the related deferred loss as deferred outflows of resources.

Note 12 - New York Convention Center Development Corporation Revenue Bonds

In November 2005, CCDC a subsidiary of ESD, issued its $700.0 million Series 2005 Revenue Bonds (Hotel Unit Fee secured) for the purpose of (a) financing the capital expansion project, which consists of expanding and renovating the Jacob K. Javits Convention Center located in New York City; (b) prepaying a loan made to the New York Convention Center Operating Corporation used to acquire a property for eventual use in the project; (c) funding certain reserves; and (d) paying for the cost of issuance. The bonds are/will be repaid from revenues already received and to be received by CCDC from hotel unit fees imposed on certain rentals of hotel rooms located within all five boroughs of New York City.

CCDC maintains debt service reserve funds in accordance with the terms of the individual bond resolutions and enabling legislation.

As of March 31, 2015 and 2014, CCDC's outstanding Revenue Bonds were as follows (in thousands):

	Balances		Coupon	Remaining payments
2005 Revenue Bonds	2015	2014	rates (%)	to
Serial (a)	$ 93,795	94,910	4.00-5.00	2027
Term	50,930	50,930	5.00	2030
Term	121,000	121,000	5.00	2035
Term	357,270	357,270	5.00	2044
Term	75,000	75,000	4.75	2045
	697,995	699,110		
Unamortized bond premium	8,417	8,982		
	$ 706,412	708,092		

Interest is payable semiannually on November 15th and May 15th of each year.

(a) Early redemption options may commence in 2016 at 100%.

Note 12 - New York Convention Center Development Corporation Revenue Bonds, Continued

Annual principal maturities and interest obligations for the next five years following March 31, 2015 are as follows (in thousands):

	Principal	Interest	Total
2016	$ 1,770	34,681	36,451
2017	2,465	34,610	37,075
2018	3,210	34,499	37,709
2019	4,015	34,339	38,354
2020	4,875	34,138	39,013
	$ 16,335	172,266	188,601

Aggregate principal maturities subsequent to 2020 are approximately $681.6 million.

Note 13 - Other Project Revenue Bonds

Other project revenue bonds have been issued and secured loans originated in connection with specific economic development projects. The balances on these bonds at March 31, 2015 and 2014 is as follows (in thousands):

	2015	2014
Non-recourse bonds bearing interest at 7.5% and 10.75% payable to lending institutions in equal monthly installments, including interest, through January 2016 (two collateralized by industrial properties and a hotel)	$ 293	622
Less current portion	(293)	(329)
Non-current portion	$ 0	293

Note 14 - Other Financing

On March 30, 2007, ESD completed the purchase of the James A. Farley Post Office Building and entered into two financing agreements totaling $205.0 million. The first note of $75.0 million was issued to a bank and required semi-annual payments of interest only at the rate of 5.375% per annum. Principal together with all accrued but unpaid interest was originally due in April 2010. The second note was issued to the United States Postal Service for $130.0 million. Payments on the note were/are due on the following dates: (a) On June 30, 2007, $45.0 million as adjusted by the March 30, 2007 Consumer Price Index ("CPI"); (b) On June 30, 2008, $30.0 million as adjusted by the March 30, 2007 CPI; (c) the remaining balance of $55.0 million before adjustment by CPI is being deferred and payable from tenants' project revenues as described more fully in the funding agreement.

Note 14 - Other Financing, Continued

In February 2010, the first note of $75.0 million was repaid by the issuance of a second note for $91.8 million, which required semi-annual payments of interest at the rate of 5.875% per annum. Principal, together with all accrued but unpaid interest was due February 2013.

In January 2013, the second note of $91.8 million was repaid by the issuance of a third note for $101.0 million, which required semi-annual payments of interest at the rate of 4.0% per annum and three principal payments of $250,000 over the two-year term that commenced in August 2013. The remaining principal, together with all accrued but unpaid interest was due February 2015.

In February 2015, the third note of $101.0 million was repaid by the issuance of a fourth note for $150.0 million, which requires semi-annual payments of interest at a rate of 4.2% per annum and three principal payments of $250,000 over the two-year term commencing August 2015. The remaining principal, together with all accrued but unpaid interest is due February 2017.

Pursuant to a June 18, 2010 agreement between the Moynihan Station Development Corporation ("MSDC") and the Port Authority of New York and New Jersey ("Port Authority"), MSDC received $6.0 million from the Port Authority to advance the Moynihan Station project. Under this agreement, the Port Authority can provide up to a maximum of $6.7 million in funding and MSDC shall reimburse the Port Authority no later than April 1, 2015 from eligible monies as described more fully in the funding agreement. There is currently an extension of this agreement being coordinated with the Port Authority to extend the reimbursement date to April 1, 2018.

Note 15 - Pollution Remediation Obligations

In the years ended March 31, 2015 and 2014, the Corporation recognized pollution remediation expense provisions (recoveries) of ($0.6) million and $4.1 million, respectively, and the corresponding liability was adjusted in the statements of net position. The expense provision (recovery) was measured at its current value utilizing the prescribed expected cash flow method.

As of March 31, 2015 and 2014, the pollution remediation liability totaled $19.3 million and $20.2 million, respectively, primarily consisting of future remediation activities associated with asbestos removal, removal of other hazardous materials and soil contamination.

Note 16 - Other Liabilities

Other liabilities at March 31, 2015 and 2014 consist of the following (in thousands):

	2014	Increases	Decreases	2015
Advances from Port Authority Regional Economic Development Fund - revolving loan program	$ 457	-	(457)	-
Restricted funds for grants, economic development programs and special projects/bonds	89,677	36,662	-	126,339
Other loan and revolving loan programs - advances from State	408	5	-	413
Postemployment benefits other than pensions	25,454	4,303	-	29,757
Other accruals	89,007	-	(40,019)	48,988
Totals	205,003	40,970	(40,476)	205,497
Less current portion	(110,076)			(81,301)
Non-current portion	$ 94,927			124,196

Note 17 - Deferred Inflows of Resources - Other

Deferred inflows of resources - other at March 31, 2015 and March 31, 2014 consist of the following (in thousands):

	2014	Increases	Decreases	2015
Restricted funds for grants, economic development programs and special projects/bonds	$ 10,748	-	(13)	10,735
Deferred gain on ground lease deposit (a)	1,000	-	-	1,000
Other loan and revolving loan programs - advances from State	1,754	-	-	1,754
Other accruals (b)	15,520	64,051	-	79,571
Totals	$ 29,022	64,051	(13)	93,060

(a) On November 26, 2007 the Harlem Community Development Corporation ("HCDC") entered into a memorandum of understanding ("MOU") with Danforth Development Partners, LLC ("Danforth") for the redevelopment of the Victoria Theater property. At completion of redevelopment HCDC will enter a ground lease with Danforth, giving Danforth all rights in the property for the term of the lease. To execute the MOU, Danforth made a $1,000,000 non-refundable deposit on the ground lease of the Victoria Theater. Revenue from the deposit will remain deferred until the ground lease is executed.

Note 17 - Deferred Inflows of Resources - Other, Continued

(b) The Corporation, through its subsidiary, Erie Canal Harbor Development Corporation ("ECHDC"), entered in a re-licensing agreement ("the agreement") with New York Power Authority ("NYPA"), under which the Corporation will receive annual $4,700,000 payments through the year 2029. The remaining stream of payments as of March 31, 2015 is $65,800,000. The agreement requires ECHDC to submit an annual report to NYPA to show that this stream of payments is being expended in accordance with the agreement. The balance of this payment stream is deferred for specific performance by ECHDC.

Note 18 - Appropriations Repayable Under Prescribed Conditions

A recapitalization of ESD, involving the State and New York State Project Finance Agency ("PFA"), a corporate governmental agency constituting a public benefit corporation, took place during the years 1975 through 1978. PFA was created to provide funds to ESD to complete its outstanding development projects.

The appropriations repayable under prescribed conditions originated from the recapitalization of ESD. The State advanced $162.6 million to ESD and $198.1 million to PFA. The PFA obligation was assigned to ESD creating a total amount repayable of $360.7 million. Since 1978, ESD has repaid $163.1 million to the State. The remaining balance of the obligation at March 31, 2015 and 2014 amounted to $197.6 million.

The "prescribed conditions" for repayment require that at no time shall the Director of the Budget of the State of New York ("Director") request repayment of an amount greater than the excess of ESD's aggregate revenues and receipts from operations (excluding borrowings, proceeds of sales of assets and appropriations) during its preceding fiscal year over the aggregate amount payable by ESD during the preceding fiscal year for expenses (including reasonable reserves for contingencies as approved by the Director) and debt service (without regard to any refunding of debt).

The prescribed conditions for repayment were modified in 1997 by the provisions of Chapter 309 of the Laws of 1996 which require that resources provided by ESD's corporate purpose bonds, issued in connection with a 1996 refunding of ESD's original bonds (the "1996 Refunding") be made available to assist the New York Job Development Authority ("JDA") in meeting its lawfully incurred debts and obligations through the year 2012, and to provide up to $10 million over four years for ESD's Housing Repairs and Modernization Fund.

As of March 31, 2015, ESD may be required, if and when notified by the State, to provide JDA, through 2015, with annual amounts ranging from $10.0 million to $10.7 million, depending on anticipated annual cash flow savings from the 1996 Refunding. No payments were made to JDA in 2015 and 2014. No payments are anticipated during 2016.

Note 18 - Appropriations Repayable Under Prescribed Conditions, Continued

It is also anticipated that the $26.2 million due from JDA for reimbursement to ESD for administrative expenses incurred on behalf of JDA as of March 31, 2015 ($26.2 million as of March 31, 2014), may also be credited against appropriations repayable under prescribed conditions. ESD has accrued interest on the amount due from JDA since 1997. The interest rate used is the annualized average weighted yield earned by ESD on its investment portfolio. The cumulative interest earned, which covers the last twenty fiscal years, is $7.4 million.

Note 19 - Retirement Plans

(a) Deferred Compensation and Postemployment Benefits

Some employees of ESD have elected to participate in the State's deferred compensation plan in accordance with Internal Revenue Code section 457. ESD has no liability related to this plan.

Continued health insurance coverage is the only postemployment benefit provided to ESD employees. The coverage is provided to former employees at a shared rate. It is administered through the New York State Department of Civil Service Employee Benefits Division. Full-time employees who are vested and choose to terminate employment or who retire and draw a pension from the New York State Employees Retirement System are eligible for this benefit.

(b) State Employees' Retirement System

ESD participates in the New York State and Local Employees' Retirement System (the "System") which is a multiple public employer cost-sharing system. The System offers a wide range of plans and benefits, which are related to years of service and final average salary, and provides for death and disability benefits and for optional methods of benefit payments. Depending on the date of the commencement of employment, all benefits generally vest after five to ten years of credited service.

The Comptroller of the State of New York serves as sole trustee and administrative head of the System. Plan benefits are provided under the provisions of the New York State Retirement and Social Security Law ("NYSRSSL") and are guaranteed by the State Constitution. Once a public employer elects to participate in the System, the election is irrevocable. The plan cannot be terminated and plan benefits cannot be diminished or impaired. Benefits can be reduced for future members only by an act of the State Legislature. The System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Retirement Systems, 110 State Street Albany, New York 12244-0001.

Note 19 - Retirement Plans, Continued

(b) State Employees' Retirement System, Continued

Participating employers are required under the NYSRSSL to contribute annually to the System. The funding of the System is accomplished through member and employer contributions and the investment earnings on these contributions, according to the NYSRSSL. The aggregate actuarial funding method is used by the System. Generally, participating employers that have adopted the same benefit plans contribute at the same rate of pay. Generally, all employees, except certain part-time employees, participate in the System. The Systems Tiers I through IV are noncontributory except for employees with less than 10 years of service who contribute 3% of their salary, and Tier V employees who contribute 3% of their salary. Tier VI employees contributed 3% of their salary for the period from their hire date until March 31, 2013, and then contribute at rates from 3% to 6%, dependent on annual salary, for all future periods. The total payroll for all ESD employees for the years ended March 31, 2015 and 2014 amounted to $26.1 million and $23.1 million, respectively. ESD is billed annually for retirement contributions. The required contributions for the current year and two preceding years were (in thousands):

2015	$ 4,473
2014	5,217
2013	4,328

(c) New York State Voluntary Defined Contribution Program

In March 2012, Chapter 18 of the Laws of 2012 was signed into law and allows ESD employees, that meet certain requirements, to participate in the State University of New York (SUNY) optional retirement plan called the NYS Voluntary Defined Contribution Plan (VDC Program).

Beginning July 1, 2013, employees who earn $75,000 or more were given the option of joining the VDC program or the NYS Employees Employee's Retirement System. The VDC program provides benefits that are based on contributions made by both ESD and the participant. Employee contribution rates range from 4.5% to 6%, dependent upon annual salary. The employer contribution rate is 8% of gross income. All contributions and any subsequent earnings are held by ESD in a segregated account and credited to individual accounts for each plan participant. Employees vest after one year of service, at which time their entire account balance is transferred to an investment firm of their choosing within the VDC program. ESD's involvement with their account ends at that time. The amount owed to participants upon retirement is based solely on the account balance at the time of withdrawal.

As of March 31, 2015 and 2014, there were twenty and seven ESD employees enrolled in the VDC program, respectively.

Note 20 - Commitments and Contingencies

Commitments and contingencies at March 31, 2015 consist of the following:

(a) Legal Actions

General

ESD and its subsidiaries have been named as defendants in legal actions arising in the normal course of its economic development operations, including matters regarding employment, alleged breach of contract and condemnation proceedings. In addition, defendants in mortgage loan foreclosure proceedings initiated by ESD have asserted defenses and counterclaims for damages. ESD believes that the ultimate outcome of the legal actions arising in the normal course of operations will not have a material adverse effect on its financial condition.

ESD and/or its subsidiaries are named as defendants in many personal injury actions allegedly arising out of accidents occurring on land or buildings owned by ESD and/or its subsidiaries. In all such cases, the potential liability of ESD and/or its subsidiaries is minimal inasmuch as the claims are covered either by ESD's own liability insurance or by indemnity insurance required by ESD from the tenants and/or developers of the sites of the alleged accidents or by contractors.

In April 2012, Erie Canal Harbor Development Corporation ("ECHDC"), a subsidiary of ESD, entered into the Inner Harbor Phase 3A-Canalside Public Canal Environment Contract. The total contract price, as that term is defined in the contract, is not to exceed $19,784,000. ECHDC received numerous Notices of Claim from the contractor under this contract, related to various aspects of the contract scope and performance requirements. Effective in July of 2013, ECHDC terminated the contractor due to the contractor's failure to properly perform under the terms of the contract. The work is currently being completed by the bonding company. The contractor has brought an action in the NYS Supreme Court for wrongful termination seeking an undisclosed amount of monetary relief as a result of the termination and its claims for additional work under the terms of the contract. Since the original lawsuit was commenced, the bonding company has intervened in the lawsuit and raised additional claims for work completed after termination of the contractor. The action is currently in the discovery phase with a trial date set for May of 2016. The parties have scheduled a mediation for late July in an attempt to settle the matter. No determination can be made at this time as to the likelihood of settlement.

Of note is exposure arising from a lawsuit filed in Nassau County against a number of entities, including ESD. In Nassau County v. Richard Dattner Architect P.C., Dormitory Authority of the State of New York, Empire State Development Corporation, Tishman Construction Corporation of New York, et al., Index No. 04/002750 (Sup. Ct. N.Y. Nassau County, Hon. Vito M. DeStefano, JSC), commenced on or about June 17, 2004, plaintiff Nassau County ("the County") seeks to recover damages of approximately $20 million for the alleged negligent

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

design, engineering and construction of the Nassau County Aquatic Center located within Eisenhower Park, East Meadow, New York. The County asserts causes of action against ESD, the Dormitory Authority of the State of New York ("DASNY"), Richard Dattner Architect, Tishman Construction and various other project contractors for negligence, breach of contract, negligent misrepresentation and/or fraud. Pursuant to applicable project agreements, ESD agreed to indemnify DASNY from project-related liabilities. ESD and DASNY are being defended in this lawsuit by the Office of the New York State Attorney General. ESD and DASNY have denied the allegations of the complaint, raised numerous defenses and asserted cross-claims against various co-defendants. Discovery proceedings are continuing. To date, settlement discussions and mediation efforts have resolved four of the six causes of action against ESD. Two of the four resolved causes of action relate to the return of unspent county funds, which ESD has released to the County; the other two are tort claims, which the County has agreed to discontinue with prejudice.

ESD has moved to dismiss the remaining two causes of action, for breach of contract, on legal grounds. By decision and order dated March 30, 2015, Justice DeStefano issued a Decision and Order dismissing the County's claim against ESD. However, the Judge declined to dismiss plaintiff's breach of contract claim against DASNY. Under its agreement with DASNY, ESD is bound to indemnify DASNY against all liability and costs, so effectively the action could still result in payment by ESD. DASNY and ESD have appealed the decision on DASNY's potential liability, and will seek to have that decision overturned in the Appellate Division, Second Department. In the meantime, discovery in the trial court continues. The appeal could take a year or more to resolve. As a consequence, no assessment of the likelihood of an unfavorable outcome or estimate of the amount or range of potential loss can be made.

On May 27, 2015, a tentative settlement agreement was reached in Vinson v. HCDC, 14-CV-4068, an employment case pending in the Southern District of NY. The case involves four former employees of the New York State Urban Development Corporation d/b/a Empire State Development ("ESD"), parent of Harlem Community Development Corporation ("HCDC"). Plaintiffs allege that they were discriminated against by HCDC, where they worked, on the basis of their national origin. All four plaintiffs had previously filed EEOC charges in March 2013, all of which were dismissed. The proposed settlement, which is not an admission of liability in the case, provides for a total payment of $325,000 for all four plaintiffs, inclusive of legal fees, subject to approval by ESD's directors. The settlement will be presented for consideration by the ESD Board in June 2015. If approved, the settlement amount will be covered by insurance maintained by ESD, subject to a $100,000 deductible. Therefore, if the proposed settlement is approved by ESD, the total exposure will be $100,000. If the settlement is not approved, outside counsel estimates potential exposure (including legal fees) to be approximately $1 million.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

General, Continued

Canrock Innovate NY Fund L.P. is a limited partnership that made equity investments in five early stage tech companies. Innovate NY Fund L.P. is a limited partnership in which ESD is a limited partner. Innovate NY Fund L.P. is the sole limited partner in Canrock Innovate NY Fund L.P. ESD funded Innovate NY Fund L.P. with Federal State Small Business Credit Initiative ("SSBCI") funds that were used to fund the investments made in the five companies by Canrock Innovate NY Fund L.P. It appears that in four of those companies, the CVC Partners Innovate IV NY LLC, the General Partner in Canrock Innovate NY Fund L.P., had conflicts of interest with respect to the investments in four of the five companies due to prior interest of affiliates and principals of CVC Partners Innovate IV NY LLC in those companies. CVC Partners Innovate IV NY LLC, failed to disclose to Innovate NY Fund L.P these conflicts of interest and to seek the prior authorization (of Innovate NY Fund L.P., the limited partner) to invest in those companies as required by the limited partnership agreement. United State Treasury, the SSBCI program administrator, may assert misuse of the SSBCI funds by ESD in connection these four investments. If Treasury determines that misuse was recklessness on ESD's part, ESD could be required to return to Treasury the amount of SSBCI funds invested in those companies, which is approximately [$1.6 million].

ESD subsidiary Brooklyn Bridge Park Development Corporation ("BBPDC") is one of a number of respondents in a lawsuit seeking judicial review of City and State approval of the building of a hotel and condominium at Pier 1, Brooklyn Bridge Park. BBPDC owns the land, which is rented under a 99-year ground lease to a NYC not-for-profit corporation that manages the Park. Local residents complain that the City and State entities allowed the hotel developer to build a taller structure than was allowed, blocking their views. By Decision and Order dated June 12, Supreme Court, Kings County (Justice Knipel) dismissed the Article 78 proceeding case and vacated all interim injunctions, finding that: (i) petitioners had delayed commencing the litigation well beyond the 4-month statute of limitation for an Article 78 proceeding; and (ii) that, even if the action was timely, the buildings in question complied with the height limits set out in ESD's Modified General Project Plan. Petitioners may seek to appeal this well-reasoned decision, but as a practical matter the case is probably over, since the Appellate Division would likely not grant a pre-appeal temporary injunction barring further construction.

Atlantic Yards Project

A number of proceedings have been commenced with respect to the Atlantic Yards Land Use Improvement and Civic Project (the "Project"), located in Brooklyn, New York, including two in which ESD exercised its powers under the New York State Eminent Domain (condemnation) Procedure Law.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Atlantic Yards Project, Continued

ESD filed its first condemnation petition in December 2009 to obtain title to certain private Phase I properties needed for the Project; ESD took title to such properties pursuant to Court order in March 2010; and ESD obtained vacant possession of such properties in May 2010. The remaining issue before the Court in this proceeding is valuation of the condemned properties.

Valuation trials for five of the condemned fee parcels have concluded; two of those matters have voluntarily settled. The Court issued its first decision on April 15, 2013 in connection with a small self-storage facility. While the Court found that some upzoning was probable, it rejected claimant's proposed upzoning valuation and adopted, and modified, ESD's sales comparison valuation approach. A fixture claim involving the same property has been settled. The Court issued a decision in a second case on June 21, 2013. The property was a gas station. The Court rejected the claimant's appraisal that proposed a rezoning and new residential development because it failed to consider a Long Island Railroad easement that restricted development at the property. The Court adopted with modification ESD's income capitalization approach to the existing use. The Court decided a third valuation case on May 7, 2014, where the Court held that there was a reasonable probability that the property, vacant land on Atlantic Avenue, would be upzoned and redeveloped with a hotel. The Court valued the property using the sales comparison approach and adjusted four of the claimant's land sales to arrive at a value. The Court's decision on this matter has been appealed. The trial of a former four-story building has been schedule for September 2015. The final Phase I valuation fee trial is yet to be scheduled; settlement discussions concerning such parcel continue.

ESD filed its second condemnation petition in August 2014 to obtain title to seven private Phase II properties needed for the Project; ESD took title to such properties pursuant to Court order in September 2014; and ESD obtained vacant possession of such properties in May 2015. The remaining issue before the Court in this proceeding is valuation of the condemned properties. ESD is in the process of preparing Vesting Date (9/19/14) appraisals for the properties taken.

Pursuant to contract, all condemnation awards are to be paid by the Project developer, not ESD, and therefore these litigations are not expected to have a material adverse effect on ESD's financial position.

All litigations challenging Project approvals – including the two proceedings discussed in last year's audit response, Develop Don't Destroy (Brooklyn), Inc. et al. v. Empire State Development, et al., Index No. 1143631/2009 (Sup. Ct. N.Y., N.Y. County) and Prospect Heights Neighborhood Development Council, Inc., et al. v. Empire State Development, et al., Index No. 116323/2009 (Sup. Ct. N.Y., N.Y. County) – have been dismissed or otherwise concluded. There are currently no pending litigations challenging Project approvals.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Columbia University Manhattanville Project

In January 2012, ESD commenced proceedings under the New York State Eminent Domain (condemnation) Procedure Law to acquire property necessary for Phase I of this Project. In cooperation with The City of New York, ESD condemned various street interests and conveyed same to Columbia. In March 2012, ESD took title, by condemnation, to five private fee parcels (two gas stations and three self-storage facilities). All such parcels were vacated and transferred to Columbia for use in the Project by November 2012. Compensation due the two gas stations has been settled and paid. The remaining issue before the Court in this proceeding is valuation of the three self-storage facilities. ESD and each condemnee have finalized and exchanged vesting date (3/12/12) and rebuttal fee appraisals. Absent settlement, valuation trials are expected to occur in fall 2015. Pursuant to contract, all condemnation awards are paid by Columbia, not ESD, and therefore this litigation is not expected to have a material adverse effect on ESD's financial position.

Lower Manhattan Development Corporation

On August 31, 2004, the Corporation took ownership of the parcel at 130 Liberty Street, which was an entire block that included a building formerly owned by Deutsche Bank. The building was badly damaged on September 11, 2001, and the Corporation undertook the acquisition, decontamination, and deconstruction of the building (the "Project") as a necessary step to the accomplishment of the objectives of the World Trade Center Memorial and Redevelopment Plan (the "Plan"). Decontamination and deconstruction were completed in February 2011. Soon thereafter, access to the parcel was granted to The Port Authority of New York and New Jersey ("Port Authority") for construction of subgrade components of the Vehicular Security Center and construction of a temporary public plaza, consistent with the Plan. The Corporation has received approval from HUD to allocate $300 million of federal Community Development Block Grant funds to the acquisition, abatement, deconstruction, and related efforts. In addition, pursuant to various settlement agreements, the Corporation has received funding for this Project from Deutsche Bank's insurance carriers in the amount of $102.4 million, and from Deutsche Bank in the amount of $3.8 million.

The costs of the Project include general and trade contractors, the Corporation's owner's representative, integrity monitoring, environmental review and testing, certain insurance policies, legal fees for transactions and litigation, and land use and environmental compliance. At March 31, 2015, the Corporation had expended on the Project approximately $ 296.5 million of the allocated HUD funds, and approximately $ 106 million of the funds received pursuant to the settlements with Deutsche Bank and its insurance carriers.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

During the course of the Project various disputes arose between the Corporation and its general contractor, Bovis Lend Lease LMB, Inc. ("Bovis"). Without being exhaustive, these disputes related to: (i) demands by Bovis for compensation in addition to that provided for in the lump sum payment specified for work under the Deconstruction Contract, dated as of October 20, 2005, which ultimately resulted in a Supplemental Agreement, dated as of February 2007, in which the Corporation agreed to pay certain additional compensation and make advances of certain costs subject to recovery in subsequent litigation; (ii) accidents and safety incidents occurring on the site under Bovis's management; (iii) overall site management; (iv) integrity of invoicing; (v) staffing; and (vi) schedule adherence. In August 2007, a major fire occurred at the site, resulting in the deaths of two New York City firefighters, injuries to numerous other firefighters, substantial damage to the structure, and substantial delays in Project progress.

In October 2009, Bovis sued the Corporation in New York State Supreme Court, New York County, seeking damages of more than $80 million. Bovis alleged, in substance, that the Corporation was required to compensate it for higher than expected costs incurred in connection with the Project. In March 2011, the Corporation asserted counterclaims against Bovis, seeking more than $100 million in damages resulting from Bovis's breach of its obligations to the Corporation and Bovis' gross negligence in supervising the Project.

On May 8, 2015 LMDC and Bovis executed a final settlement agreement and release in this matter. The terms of the settlement require Bovis to pay LMDC a total of $40 million in three installments between now and June 2016. In addition, Bovis has agreed to release over $10 million in outstanding payments LMDC had not yet made in connection with Bovis's work on the project. Management strongly believes this settlement was in the best interest of the Corporation as litigation would have been protracted and expensive and was not guaranteed to end favorably for LMDC. Following the execution of the settlement LMDC's and Bovis jointly filed a motion for voluntary discontinuance with prejudice to dismiss LMDC from the action.

Various subcontractors on the Project have also asserted claims against the Corporation. After the August 2007 fire, Bovis terminated for cause The John Galt Corporation ("Galt"), one of its subcontractors on the Project. On December 26, 2007, Galt filed *The John Galt Corp. v. Bovis Lend Lease LMB, Inc. and Lower Manhattan Development Corp.*, No. SU-2007-08324 (Sup. Ct. Rockland County) *("Galt I")*, an action alleging breach of contract and various business torts, in the New York Supreme Court, Rockland County. The action was transferred and consolidated with a related action, *The John Galt Corp. v. Travelers Casualty and Surety Co., et al.*, No. 603295/07 ("*Galt II*"), pending in the New York Supreme Court, New York County. By Order dated April 26, 2009, the Court dismissed Galt's claims against LMDC in their entirety. Other

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

defendants, including Bovis and Bovis' sureties ("Sureties"), asserted cross-claims against LMDC. By Order dated January 22, 2010, the Court dismissed in part the Sureties' cross-claims against LMDC. The Sureties' inchoate claim for subrogation is still outstanding, but the *Galt II* action was stayed pending the resolution of the Galt bankruptcy, which was initially filed on July 12, 2012 and finalized on September 12, 2014. After the court rules on its motion to dismiss LMDC from the main Bovis action, LMDC plans to file a stipulation of discontinuance to formally dismiss the Galt Actions as well.

In May 2012, Eddington Security, Inc. ("Eddington"), a subcontractor providing security services for the Project, sued the Corporation, Bovis, and various insurance companies seeking approximately $3 million in payments allegedly owed as a result of services provided at the Project. Bovis, in turn, asserted cross-claims against LMDC in the Eddington litigation. The court dismissed Eddington's claims against LMDC. Bovis and Eddington subsequently reached a settlement, and on October 25, 2013, Bovis agreed to voluntarily dismiss its cross–claims against LMDC with prejudice.

Various other contractors have asserted liens against the Corporation as a result of the Project. (Each of those liens have been bonded, withdrawn, or expired.)

The Corporation has been served with numerous lawsuits or notices of claims for alleged personal injuries suffered in connection with the August 2007 fire at the Project, other construction accidents at the Project, and accidents at other sites and projects in Lower Manhattan, including sites under the control of other public entities. Management believes that such claims are covered by indemnity obligations of, and/or insurance policies held by the contractors or owners directly responsible for those sites, and/or, if necessary, by the Corporation's own insurance policies, subject to any applicable deductibles. All such claims are being vigorously defended by the Corporation or for the Corporation by the indemnifying parties. It has been reported to the Corporation that several personal injury claims have been settled conditionally without contribution by the Corporation. Management believes that the ultimate outcome of these legal actions will not have a material adverse effect on the financial condition of the Corporation.

From time to time in the ordinary course of the Corporation's business, various actions or notices are asserted alleging the Corporation's liability for a variety of matters in Lower Manhattan. The Corporation defends itself against these claims (to the extent asserted in litigation) either through private outside counsel, the New York State Attorney General's Office, or third parties with indemnification obligations. Management believes that no such matters pending on March 31, 2015 will have a material adverse impact on the Corporation's financial condition.

Note 20 - Commitments and Contingencies, Continued

(a) Legal Actions, Continued

Lower Manhattan Development Corporation, Continued

Contingencies related to Lower Manhattan Development Corporation at March 31, 2015 consist of the following:

(1) Grants

The Corporation's activities are funded by HUD, and are governed by various federal rules and regulations. Costs charged to the HUD grants are subject to audit and adjustment by HUD; therefore, to the extent that HUD determines that the Corporation or its subrecipients have not complied with the rules and regulations governing the grants, the Corporation may be required to reimburse HUD for any noncompliant disbursements. If such reimbursement resulted from the failure of a subrecipient to comply with its obligations, the Corporation would seek to recover such funds from such subrecipient either through an actual payment, or by reducing future disbursements. There is no assurance that in such circumstances the Corporation would succeed in effecting such recovery. In the opinion of the Corporation's management, there are no material contingent liabilities relating to compliance with the rules and regulations governing the HUD grants, therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

(2) Investigations

The acquisition, decontamination, and deconstruction of 130 Liberty Street resulted in a number of government investigations and enforcement actions, relating both to safety conditions on the site and the integrity of invoices submitted to the Corporation. Bovis entered into a deferred prosecution agreement with the New York County District Attorney's Office relating to the causes of the fire, and entered into a deferred prosecution agreement with the United States Attorney's Office for the Eastern District of New York relating to fraudulent billing at the Project and other New York construction sites. Although these investigations have imposed on the Corporation significant legal costs, management does not expect these investigations and actions to have a material adverse impact on the Corporation's financial position as of March 31, 2015.

(b) Letters of Credit and Credit Guarantees

ESD maintains two irrevocable letters of credit each of $101.1 million, with two banks. The letters of credit support variable rate demand notes issued in 2008. The transactions had no impact on the financial position of ESD.

(c) Construction

The Corporation has contracts in place for construction at several sites, which are in varying states of completion. The total value of contracts outstanding at March 2015 is approximately $371.2 million.

Note 20 - Commitments and Contingencies, Continued

(d) Lease Commitments

In June 2013, ESD entered into a lease with 633 Third TEI Equities LLC for five units consisting of the entire 33rd through 37th floors at 633 Third Avenue, New York, NY. The lease term commenced on July 1, 2013 and terminates on June 30, 2023. There is also a renewal provision of five years commencing July 1, 2023 and terminating June 30, 2028. Escalation provisions exist for both operating expenses and taxes (real estate, water consumption, sewer rents, rates and charges, county, transit or any other governmental charge of a similar nature).

Minimum lease payments to be paid under the lease agreement for each of the next five fiscal years and thereafter as of March 31, 2015 are as follows (excluding escalations and option period):

2016	$ 6,500,125
2017	6,656,121
2018	6,708,120
2019	6,942,129
2020	7,020,135
Thereafter	23,127,443
TOTAL	$ 56,954,073

Note 21 - Accounting Standards Issued But Not Yet Implemented

GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions - an Amendment of GASB Statement No. 27" replaces existing standards of accounting and financial reporting for pension plans that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or equivalent arrangements. The requirements of this statement are effective for periods beginning after June 15, 2014, which is the fiscal year beginning April 1, 2015 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this statement on the consolidated financial statements of the Corporation.

GASB Statement No. 71 - "Pension Transition for Contributions Made Subsequent to the Measurement Date" addresses an issue regarding application of the transition provisions of GASB Statement No. 68 - "Accounting and Financial Reporting for Pensions." This Statement amends paragraph 137 of GASB Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflows of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The requirements of this statement are effective for the same period that the entity implements GASB Statement No. 68. Management is in the process of evaluating the potential impact due to the implementation of this statement on the consolidated financial statements of the Corporation.

Note 21 - Accounting Standards Issued But Not Yet Implemented, Continued

GASB Statement No. 72 - "Fair Value Measurement and Application" provides guidance regarding accounting and financial reporting relate to fair value measures of certain investments. The requirements of this statement are effective for periods beginning after June 15, 2015, which is the fiscal year beginning April 1, 2016 for the Corporation. Management is in the process of evaluating the potential impact due to the implementation of this statement on the consolidated financial statements of the Corporation.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES
Required Supplementary Information - Schedule of Funding Progress
Other Postemployment Benefits
Last Three Fiscal Years

	Actuarial					
Valuation Date	Value of Assets	Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	Unfunded Liability as a Percentage of Covered Payroll
April 1, 2012	$ -	56,957,313	56,957,313	-	22,944,541	248.2%
April 1, 2013	-	69,987,175	69,987,175	-	22,474,730	311.4%
April 1, 2014	-	74,230,439	74,230,439	-	23,667,902	313.6%

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Board of Directors
New York State Urban Development
Corporation:

We have audited, in accordance with the 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, the consolidated financial statements of New York State Urban Development Corporation and Subsidiaries (the "Corporation"), a component unit of the State of New York, which comprise the consolidated statement of net position as of March 31, 2015, and the related consolidated statements of revenue, expenses and changes in net position and cash flows for the year then ended, and the related notes to consolidated financial statements, and have issued our report thereon dated June 12, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Corporation's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

6390 Main Street, Suite 200 | Williamsville, New York 14221 | P 716.634.0700 | TF 800.546.7556 | F 716.634.0764 | ToskiCPA.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 12, 2015

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON INVESTMENT COMPLIANCE

The Board of Directors
New York State Urban Development
Corporation:

Report on Investment Program Compliance

We have audited the New York State Urban Development Corporation and Subsidiaries' (the "Corporation"), a component unit of the State of New York, compliance with the types of compliance requirements described in the Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program during the year ended March 31, 2015.

Management's Responsibility

Management is responsible for compliance with the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York related to its investment program.

Auditor's Responsibility

Our responsibility is to express an opinion on the compliance of the Corporation's investment program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on the investment program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the investment program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Investment Program

In our opinion, the New York State Urban Development Corporation and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its investment program for the year ended March 31, 2015.

6390 Main Street, Suite 200 | Williamsville, New York 14221 | P 716.634.0700 | TF 800.546.7556 | F 716.634.0764 | ToskiCPA.com

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirement that could have a direct and material effect on the investment program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the investment program and to test and report on internal control over compliance in accordance with Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Section 201.3 of Title Two of the Official Compilation of Codes, Rules, and Regulations of the State of New York. Accordingly, this report is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 12, 2015

TOSKI & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

The Board of Directors
New York State Urban Development
Corporation:

Report on Compliance for Each Major Federal Program

We have audited New York State Urban Development Corporation and Subsidiaries' (the Corporation) compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of the Corporation's major federal programs for the year ended March 31, 2015. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

As discussed in note 3 to the schedule of expenditures of federal awards, the Corporation's basic financial statements include the operation of Lower Manhattan Development Corporation, whose federal awards are not included in the schedule of expenditures of federal awards for the year ended March 31, 2015. Our audit did not include the federal awards of Lower Manhattan Development Corporation.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

6390 Main Street, Suite 200 | Williamsville, New York 14221 | P 716.634.0700 | TF 800.546.7556 | F 716.634.0764 | ToskiCPA.com

Opinion on Each Major Federal Program

In our opinion, New York State Urban Development Corporation and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2015.

Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Toski & Co., CPAs, P.C.

Williamsville, New York
June 12, 2015

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Schedule of Expenditures of Federal Awards

Year ended March 31, 2015

Federal Grantor/Program Title	CFDA Number	Federal Expenditures
U.S. Department of Housing and Urban Development:		
Community Development Block Grants - Brownfields Economic Development Initiative	14.246	$ 47,585
Hurricane Sandy Community Development Block Grant - Disaster Recovery Grants	14.269	5,812,359
Total U.S. Department of Housing and Urban Development		5,859,944
U.S. Department of Health and Human Services:		
Pass through New York State Division of Housing and Community Renewal - Low-Income Home Energy Assistance	93.568	398,120
Social Services Block Grant	93.667	64,278
Total U.S. Department of Health and Human Services		462,398
U.S. Department of Energy - pass through New York State Homes and Community Renewal - Weatherization Assistance for Low-Income Persons	81.042	521,947
U.S. Department of Transportation:		
Railroad Development - Consolidated Appropriation Act	20.314	6,022,403
Railroad Development - Safe, Accountable, Flexible, Efficient Transportation Equity Act	20.314	2,771,599
Railroad Development - Congestion Mitigation and Air Quality Improvement	20.314	7,841,099
Federal Transit - Capital Investment Grants - Transportation Equity Act for the 21st Century	20.500	1,093,157
Transportation Equity Act for the 21st Century	20.540	5,479,048
Metropolitan Transportation Planning	20.505	78,498
Highway Planning and Construction Cluster:		
Pass through New York State Department of Transportation - Highway Planning and Construction	20.205	115,085
ARRA - National Infrastructure Investments	20.933	32,911,727
Total Highway Planning and Construction Cluster		33,026,812
Total U.S. Department of Transportation		56,312,616
U.S. Department of Treasury - State Small Business Credit	21.XXX	186,974
Total federal programs		$ 63,343,879

See accompanying notes to schedule of expenditures of federal awards.

Note 1 - Subsidiaries

Subsidiaries receiving federal awards which are included in the schedule of expenditures of federal awards are as follows:

- Harlem Community Development Corporation
- New York Empowerment Zone Corporation
- Moynihan Station Development Corporation

Note 2 - Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of New York State Urban Development Corporation and Subsidiaries and is presented on the accrual basis. The information in this schedule is presented in accordance with requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose consolidated financial statements.

Note 3 - Lower Manhattan Development Corporation

The schedule of expenditures of federal awards does not include $44,972,268 in federal expenditures of LMDC, a subsidiary of New York State Urban Development Corporation. LMDC has elected to have a separate audit performed in accordance with the requirements of OMB Circular A-133.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Schedule of Findings and Questioned Costs

Year ended March 31, 2015

SECTION I. - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued	Unmodified
Internal control over financial reporting:	
• Material weakness identified?	____ Yes _x_ No
• Significant deficiencies identified not considered to be material weakness?	____ Yes _x_ None reported
Noncompliance material to financial statements noted?	____ Yes _x_ No

Federal Awards:

Internal control over major programs:	
• Material weakness identified?	____ Yes _x_ No
• Significant deficiencies identified not considered to be material weakness?	____ Yes _x_ None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	____ Yes _x_ No

Identification of major programs:

Name of Federal Programs	CDFA Number
Railroad Development	20.314
Highway Planning and Construction Cluster	20.205, 20.933
Transportation Equity Act for the 21st Century	20.540

Dollar threshold used to distinguish between Type A and Type B programs?	$1,900,316
Auditee qualified as low-risk auditee?	_x_ Yes ____ No

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no findings.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no findings or questioned costs.

NEW YORK STATE URBAN DEVELOPMENT
CORPORATION AND SUBSIDIARIES

Status of Prior Audit Findings

Year ended March 31, 2015

There were no audit findings in the prior year financial statements (March 31, 2014).