

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Consolidated Financial Statements  
And Independent Auditors' Report

In Accordance with  
OMB Circular A-133

March 31, 2011 and 2010

# TOSKI, SCHAEFER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

300 ESSJAY ROAD  
WILLIAMSVILLE, NY 14221  
(716) 634-0700

14 CORPORATE WOODS BLVD.  
ALBANY, NY 12211  
(518) 935-1069

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Directors  
New York State Urban Development  
Corporation and Subsidiaries:

### Compliance

We have audited the compliance of the New York State Urban Development Corporation and Subsidiaries with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the Corporation's major federal programs for the year ended March 31, 2011. The Corporation's major federal programs are identified in the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal programs are the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

The Corporation's consolidated financial statements include the operations of Lower Manhattan Development Corporation ("LMDC"), which expended \$164,794,734 in federal awards, \$45,789,116 of which is not included in the accompanying schedule of expenditures of federal awards for the year ended March 31, 2010. Our audit, described below, did not include the operations of LMDC because a separate audit report will be issued on those federal awards in accordance with OMB Circular A-133.

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. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, New York State Urban Development Corporation and Subsidiaries complied, in all material respects, with the 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, 2011.

#### Internal Control Over Compliance

The management of New York State Urban Development Corporation and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, the New York State Legislature, the New York State Office of the State Comptroller, the New York State Senate, the New York State Division of the Budget, and the New York State Authorities Budget Office and is not intended to be and should not be used by anyone other than those specified parties.

*Toski, Schaefer & Co., P.C.*

Williamsville, New York  
June 3, 2011

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Schedule of Expenditures of Federal Awards  
Year ended March 31, 2011

<u>Federal Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
U.S. Department of Housing and Urban Development:		
Interest Reduction Payments - Rental and Cooperative Housing for Lower Income Families	14.103	\$ 30,692,629
Community Development Block Grants - State's Programs	14.228	119,005,618
Community Development Block Grants - Brownfields Economic Development Initiative	14.246	<u>3,201,303</u>
Total U.S. Department of Housing and Urban Development		<u>152,899,550</u>
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	826,441
Social Services Block Grant	93.667	<u>22,094,772</u>
Total U.S. Department of Health and Human Services		<u>22,921,213</u>
U.S. Department of Energy - pass through New York State Division of Housing and Community Renewal:		
Weatherization Assistance for Low-Income Persons	81.042	490,991
ARRA - Weatherization Assistance for Low-Income Persons	81.042	<u>578,442</u>
Total U.S. Department of Energy		<u>1,069,433</u>
U.S. Department of Transportation - pass through New York State Department of Transportation:		
Highway Planning and Construction	20.205	494,527
Intermodal Surface Transportation Efficiency Act of 1990 - ISTEA	20.XXX	5,167,062
Transportation Equity Act for the 21st Century (TEA-21)	20.XXX	<u>5,927,111</u>
Total U.S. Department of Transportation		<u>11,588,700</u>
Total federal programs		<u>\$ 188,478,896</u>

See accompanying notes to schedule of expenditures of federal awards.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES

Notes to Schedule of Expenditures of Federal Awards

March 31, 2011

**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 financial statements.

**Note 3 - U.S. Department of Housing and Urban Development**

The U.S. Department of Housing and Urban Development (HUD) has agreed to provide up to \$100 million during a fifteen year period (through 2011) as long as it is matched by the governments of both the State of New York and the City of New York (Grant No. 5-G995522). In addition, HUD will provide a grant of \$11,789,472 for the same period for up to four State designated enterprise communities outside the City of New York (Grant No. 5-995521) which requires only a State government match.

**Note 4 - Lower Manhattan Development Corporation**

The schedule of expenditures of federal awards does not include \$45,789,116 in federal expenditures of Lower Manhattan Development Corporation ("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.

**Note 5 - Subrecipients**

The Social Services Block Grant Program, CFDA Number 93.667 provided \$22,015,287 of Federal Awards to subrecipients.

NEW YORK STATE URBAN DEVELOPMENT  
CORPORATION AND SUBSIDIARIES  
Schedule of Findings and Questioned Costs  
Year ended March 31, 2011

SECTION I. - SUMMARY OF AUDITORS' RESULTS

Financial Statements:

Type of auditors' report issued Unqualified

Internal control over financial reporting:

- Material weakness identified? \_\_\_ Yes  No
- Significant deficiencies identified not considered to be material weakness? \_\_\_ Yes  None reported

Noncompliance material to financial statements noted? \_\_\_ Yes  No

Federal Awards:

Internal control over major programs:

- Material weakness identified? \_\_\_ Yes  No
- Significant deficiencies identified not considered to be material weakness? \_\_\_ Yes  None reported

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? \_\_\_ Yes  No

Identification of major programs:

<u>Name of Federal Program</u>	<u>CDFA Number</u>
Community Development Block Grants - State's Programs	14.228
Community Development Block Grants - Brownfields Economic Development Initiative	14.246
Intermodal Surface Transportation Efficiency Act of 1990 - ISTEA	20.XXX
Transportation Equity Act for the 21 <sup>st</sup> Century (TEA-21)	20.XXX
Social Services Block Grant	93.667

Dollar threshold used to distinguish between Type A and Type B programs? \$ 3,000,000

Auditee qualified as low-risk auditee?  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, 2011

Finding 2010-01

During fiscal year 2010, the Corporation accepted the U.S. Department of Housing and Urban Development (HUD) determination of individuals as low-income without performing an independent verification of the individual's income eligibility for the Weatherization program. During fiscal year 2011, the Corporation revised policies to include independent eligibility verification of all Weatherization participants, therefore, this finding has been resolved.